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**Our first quarter interim
financial report 2000**



HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Canadian dollars in millions)

	Acquired Businesses	
	Three Months Ended	
	March 31,	
	<u>2000</u>	<u>1999</u>
Revenues		
Transmission	322	305
Distribution (including retail)	506	518
Other	-	27
	828	850
Costs		
Operation, maintenance and administration	204	194
Purchased power	261	277
Depreciation and amortization	82	75
Transitional cost adjustment	-	55
Provincial debt guarantee fee	-	8
	547	609
Income before financing charges and provision for payments in lieu of corporate income taxes	281	241
Financing charges	82	131
Income before provision for payments in lieu of corporate income taxes	199	110
Provision for payments in lieu of corporate income taxes	73	-
Net Income	126	110

See accompanying notes to consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Canadian dollars in millions)

	Acquired Businesses	
	As at March 31,	
	<u>2000</u>	<u>1999</u>
Assets		
Current assets		
Cash and temporary investments	369	56
Accounts receivable (net)	568	412
Materials and supplies	88	67
	1,025	535
Fixed assets		
Fixed assets in service	11,949	11,838
Less: accumulated depreciation	3,901	3,848
	8,048	7,990
Construction in progress	347	300
	8,395	8,290
Other long-term assets		
Other post-retirement and post-employment benefits asset	367	-
Long-term accounts receivable and other assets	27	62
Deferred debt costs	-	228
Deferred pension asset <i>(Note 3)</i>	452	222
	846	512
Total assets	10,266	9,337

See accompanying notes to consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED) (continued)
(Canadian dollars in millions)

	As at March 31,	
	<u>2000</u>	<u>1999</u>
Liabilities		
Current liabilities		Acquired Businesses
Bank indebtedness	-	4
Accounts payable and accrued charges	358	338
Short-term notes payable	-	533
Accrued interest	110	143
Long-term debt payable within one year	1,433	305
	1,901	1,323
Long-term debt	3,412	5,077
Other long-term liabilities		
Other post-retirement and post-employment benefits	464	311
Long-term accounts payable and accrued charges	58	110
Regulatory liability <i>(Note 3)</i>	452	-
	974	421
Total liabilities	6,287	6,821
Total shareholder's equity <i>(Note 2)</i>	3,979	2,516
Total liabilities and shareholder's equity	10,266	9,337

See accompanying notes to consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (UNAUDITED)
(Canadian dollars in millions)

Shareholder's equity

1999

Excess of assets over liabilities of the Acquired Businesses, January 1	2,431
Net income, three months ended March 31	110
Net refunds on annexations by municipalities	(25)
Net excess of assets over liabilities of the Acquired Businesses, as at March 31	2,516

2000

Shareholder's equity, January 1	4,024
Net income, three months ended March 31	126
Issuance of share capital, March 31 <i>(Note 2)</i>	
Preferred shares, 5.5% cumulative (authorized: unlimited; issued: 12,920,000 shares)	323
Common shares (authorized: unlimited; issued: 100,000 shares)	3,436
Shares to be issued	(3,759)
Dividends paid <i>(Note 2)</i>	(171)
Total shareholder's equity, as at March 31	3,979

See accompanying notes to consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Canadian dollars in millions)

	Acquired Businesses	
	Three Months Ended	
	March 31,	
	<u>2000</u>	<u>1999</u>
Operating activities		
Net income	126	110
Adjustments for non-cash items:		
Depreciation and amortization (net of removal costs)	77	71
Transitional cost adjustment	-	55
Other	16	9
	219	245
Changes in non-cash balances related to operations	(14)	38
Cash provided by operating activities	205	283
Financing activities		
Net change in debt for long-term financing	-	(168)
Dividends paid	(171)	-
Cash used in financing activities	(171)	(168)
Investing activities		
Fixed assets	(133)	(94)
Other assets	-	(8)
Cash used in investing activities	(133)	(102)
Net change in cash and cash equivalents	(99)	13
Cash and cash equivalents at beginning of period	468	39
Cash and cash equivalents at end of period	369	52

See accompanying notes to consolidated financial statements

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Canadian dollars in millions, unless otherwise stated)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements presented herein have been prepared in accordance with the accounting policies described in the consolidated financial statements for the years ended December 31, 1999 and December 31, 1998, and should be read in conjunction with those financial statements.

2. CAPITALIZATION

On March 31, 2000, the Corporation issued to the Province of Ontario (the Province) 12,920,000 5.5% cumulative preferred shares with a par value of \$25.00 per share, and 99,990 no par value common shares bringing the total number of outstanding common shares to 100,000. The Corporation is authorized to issue an unlimited number of preferred and common shares.

In consideration of the Corporation's issuance to the Province of preferred shares and common shares, the Province assumed the Corporation's obligations under the \$3.76 billion promissory note effective as of April 1, 1999 and, in connection with the assumption of the Corporation's obligations by the Province, the Ontario Electricity Financial Corporation has released the Corporation effective as of April 1, 1999 from its obligations under the promissory note.

The preferred shares are entitled to an annual aggregate cumulative dividend of \$18 million which is payable on a quarterly basis. The preferred shares are redeemable at the option of the Province at a price of \$25.00 per share plus any accrued unpaid dividends if the Province sells the Corporation's common shares to the public with the result that the Province would then hold less than 50% of the Corporation's common shares. The Corporation has the ability to satisfy all or part of this redemption price by issuing common shares to the Province. If the Province does not exercise its redemption right, the Corporation would have the right to adjust the dividend yield of the preferred shares to a yield that is 50 basis points less than the then current market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority to the common shares upon liquidation.

The common dividends are declared at the sole discretion of the Hydro One Board of Directors, and recommended by management based on results of operations, financial condition, cash requirements and other pertinent factors such as industry practice and shareholder expectations. In accordance with resolutions made by the Board of Directors, in respect of the nine months ended December 31, 1999, approximately \$13.3 million in preferred dividends and \$158 million in common dividends were paid to the Province, for a total of \$171.3 million, on March 31, 2000.

On April 4, 2000, preferred dividends were declared in the amount of approximately \$4.4 million, which were paid on April 17, 2000. On May 9, 2000, common dividends were declared in the amount of \$79 million, which were paid on May 15, 2000. These dividends were paid in respect of the three months ended March 31, 2000.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Canadian dollars in millions, unless otherwise stated)

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2000, Hydro One adopted the Canadian Institute of Chartered Accountants (CICA) new accounting recommendations with respect to *Employees' Future Benefits*. As a result of adopting this new accounting standard, Hydro One recorded \$211 million to both the deferred pension asset and liability, representing the immediate recognition of the transition amount.

4. SUBSEQUENT EVENT

On May 25, 2000, Hydro One offered and sold its inaugural bond issue for par value of \$1 billion, issued in three series of \$200 million 5-year bonds at a coupon rate of 6.94%, \$400 million 10-year bonds at a coupon rate of 7.15% and \$400 million 30-year bonds at a coupon rate of 7.35%. The issue of the bonds will close on June 1, 2000. The impact of refinancing maturing debt will be an increase in annual interest costs of about \$12 million.

5. SEGMENTED REPORTING

Hydro One has three reportable segments:

- (i) the transmission business, which comprises the core business of providing transportation and connection services, as well as various services such as telecommunications and secondary land use, is responsible for transmitting electricity throughout the Ontario electricity grid;
- (ii) the distribution (including retail) business, which comprises the core business of delivering and selling electricity to customers, as well as energy services; and
- (iii) an "other" segment primarily consisting of the results of Ontario Hydro international Inc. for 1999.

The designation of segments has been based on a combination of regulatory status and the nature of the products and services provided. Segment information on the above basis is as follows:

For the three months ended March 31, 2000

	<u>Transmission</u>	<u>Distribution (including retail)</u>	<u>Other</u>	<u>Total</u>
Revenues	322	506	-	828
Operation, maintenance and administration	112	92	-	204
Purchased power	-	261	-	261
Depreciation and amortization	47	35	-	82
Segment profit before financing charges	163	118	-	281

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Canadian dollars in millions, unless otherwise stated)

For the three months ended March 31, 1999

	<u>Acquired Businesses</u>			
	Distribution			
	<u>Transmission</u>	<u>(including retail)</u>	<u>Other</u>	<u>Total</u>
Revenues	305	518	27	850
Operation, maintenance and administration	93	90	11	194
Purchased power	-	264	13	277
Depreciation and amortization	42	31	2	75
Segment profit before transitional cost adjustment, provincial debt guarantee fee and financing charges	170	133	1	304

Total assets as at March 31,

	Distribution			
	<u>Transmission</u>	<u>(including retail)</u>	<u>Other</u>	<u>Total</u>
2000	6,699	3,563	4	10,266
1999 (Acquired Businesses)	6,004	3,163	170	9,337

Capital expenditures for the three months ended March 31,

	Distribution			
	<u>Transmission</u>	<u>(including retail)</u>	<u>Other</u>	<u>Total</u>
2000	82	31	-	113
1999 (Acquired Businesses)	66	33	5	104

All consolidated revenues, costs and assets, as the case may be, are earned, incurred or held in Canada, except for the operations of Ontario Hydro International Inc.