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**Our third quarter interim
financial report 2000**



HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2000	1999	2000	1999
Revenues				
Transmission	307	314	948	919
Distribution (including retail)	408	429	1,274	1,349
Other	–	18	–	73
	715	761	2,222	2,341
Costs				
Operation, maintenance and administration	182	190	565	564
Purchased power	203	223	639	707
Depreciation and amortization	81	87	244	248
Transitional cost adjustment	–	–	–	55
Provincial debt guarantee fee	–	–	–	8
	466	500	1,448	1,582
Other income				
Gain on sale of investment <i>(Note 6)</i>	–	32	–	32
Income before financing charges and provision for payments in lieu of corporate income taxes	249	293	774	791
Financing charges	88	83	254	300
Income before provision for payments in lieu of corporate income taxes	161	210	520	491
Provision for payments in lieu of corporate income taxes	60	92	175	172
Net income	101	118	345	319

See accompanying notes to the consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

(Canadian dollars in millions)	September 30, 2000 (unaudited)	December 31, 1999
Assets		
Current assets		
Cash and temporary investments	2	468
Accounts receivable (net)	485	536
Materials and supplies	73	81
	560	1,085
Fixed assets		
Fixed assets in service	12,120	11,907
Less: accumulated depreciation	4,039	3,848
	8,081	8,059
Construction in progress	423	300
	8,504	8,359
Other long-term assets		
Deferred pension asset (<i>Note 3</i>)	452	241
Other post-retirement and post-employment benefits asset	346	377
Long-term accounts receivable and other assets	42	28
Deferred debt cost	16	—
	856	646
Total assets	9,920	10,090

See accompanying notes to the consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

(Canadian dollars in millions)	September 30, 2000 (unaudited)	December 31, 1999
Liabilities		
Current liabilities		
Accounts payable and accrued charges	257	403
Accrued interest	123	72
Short-term notes payable <i>(Note 4)</i>	75	—
Long-term debt payable within one year <i>(Note 4)</i>	260	1,399
	715	1,874
Long-term debt <i>(Note 4)</i>	4,186	3,446
Other long-term liabilities		
Other post-retirement and post-employment benefits	477	453
Long-term accounts payable and accrued charges	56	52
Regulatory liability <i>(Note 3)</i>	452	241
	985	746
Total liabilities	5,886	6,066
Shareholder's equity <i>(Note 2)</i>	4,034	4,024
Total liabilities and shareholder's equity	9,920	10,090

See accompanying notes to the consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (unaudited)

(Canadian dollars in millions)	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 <i>(Note 2)</i>	(171)
Shareholder's equity, March 31	3,979
Net income, three months ended June 30	118
Dividends <i>(Note 2)</i>	(84)
Shareholder's equity, June 30	4,013
Net income, three months ended September 30	101
Dividends <i>(Note 2)</i>	(80)
Shareholder's equity, September 30	4,034

(Canadian dollars in millions)	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 annexation by municipalities	(25)
Net excess of assets over liabilities of the Acquired Businesses, March 31	2,516
Capitalization of Hydro One Inc., April 1 <i>(Note 2)</i>	
Shares to be issued:	
Preferred shares, 5.5% cumulative (authorized: unlimited; to be issued: 12,920,000 shares)	323
Common shares (authorized: unlimited; to be issued: 100,000 shares)	3,436
	3,759
Net income, three months ended June 30	91
Shareholder's equity, June 30	3,850
Net income, three months ended September 30	118
Shareholder's equity, September 30	3,968

See accompanying notes to the consolidated financial statements

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2000	1999	2000	1999
Operating activities				
Net income	101	118	345	319
Adjustments for non-cash items:				
Depreciation and amortization (net of removal costs)	78	81	234	233
Gain on sale of investment <i>(Note 6)</i>	–	(32)	–	(32)
Transitional cost adjustment	–	–	–	55
	179	167	579	575
Changes in non-cash balances related to operations	75	28	(16)	165
Net cash generated from operations	254	195	563	740
Financing activities				
Debt for long-term financing:				
Issued	–	–	1,000	194
Retired	(445)	–	(1,399)	(362)
Debt for short-term financing:				
Issued	75	–	75	–
Deferred debt costs	(4)	–	(16)	–
Dividends paid	(75)	–	(330)	–
Net cash used in financing activities	(449)	–	(670)	(168)
Investing activities				
Fixed assets	(103)	(152)	(345)	(356)
Proceeds on disposal of fixed assets and investment	–	142	–	219
Other assets	(5)	13	(14)	4
Net cash used in investing activities	(108)	3	(359)	(133)
Net change in cash and cash equivalents	(303)	198	(466)	439
Cash and cash equivalents at beginning of period	305	280	468	39
Cash and cash equivalents at end of period	2	478	2	478

See accompanying notes to the consolidated financial statements

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 except as described in Note 3, 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 redemption value of \$25.00 per share, and 99,990 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, including accrued interest from April 1, 1999, under the \$3.76 billion promissory note effective as of March 31, 2000 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 March 31, 2000 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 which it owns to the public such that the Province's holdings are reduced to less than 50% of the Corporation's common shares. Hydro One may elect to pay 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 ability to adjust the dividend yield on the preferred shares to a yield that is .50% less than the then current dividend market yields 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 relevant 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 approximately \$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.

On July 11, 2000, preferred dividends were declared in the amount of approximately \$4.4 million, and common dividends were declared in the amount of \$71 million. The preferred dividends were paid on July 17, 2000, and the common dividends were paid on August 15, 2000. These dividends were paid in respect of the three months ended June 30, 2000.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

On September 12, 2000, preferred dividends were declared in the amount of approximately \$4.4 million, which were paid on October 2, 2000. On November 14, 2000, common dividends in the amount of \$63 million were declared. The preferred and common dividends were declared in respect of the three months ended September 30, 2000.

3. CHANGE IN ACCOUNTING POLICY

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

4. DEBT

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 closed on June 1, 2000. The proceeds were used to repay debt owing to the Ontario Electricity Financial Corporation. The impact of refinancing maturing debt will be an increase in annual interest costs of about \$12 million.

On September 6, 2000, Hydro One launched a commercial paper program to manage working capital needs and to bridge cash requirements between long-term debt issues. The outstanding promissory notes as at September 30, 2000 in the amount of \$75 million are denominated in Canadian dollars with varying maturities not exceeding 365 days, and bear interest at a weighted-average rate of 5.76%. The commercial paper program is supported by committed revolving credit agreements with a syndicate of banks in the amount of \$500 million, which matures in 2001, and \$250 million, which matures in 2005. If used, interest on the lines of credit would be charged at the prevailing bankers' acceptance rates or at the prime rate.

5. ACQUISITIONS OF MUNICIPAL ELECTRIC UTILITIES

Hydro One has agreed to purchase all of the issued and outstanding shares of Brampton Hydro Corporation for cash consideration of approximately \$260 million. In addition, Hydro One has agreed to purchase the outstanding shares or assets of numerous smaller municipal electric utilities for cash consideration of approximately \$275 million. The acquisitions are subject to regulatory approval. While many of the acquisitions are expected to be completed during the last quarter of 2000, any remaining at December 31, 2000 will be completed during 2001. The transactions will be accounted for by the purchase method with the results of operations being included in the Consolidated Statement of Operations from the date of acquisition.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

6. SALE OF INTEREST IN ONTARIO QUINTA A.V.V.

On September 15, 1999, Hydro One's subsidiary, Ontario Hydro International Inc., sold its 25% equity interest in Ontario Quinta A.V.V. ("Ontario Quinta"), resulting in a gain before income taxes of \$32 million. At the time of sale, Ontario Quinta held a 60% interest in Luz del Sur S.A.A., an electricity distribution company serving southern Lima, Peru, and a 64% interest in Tecsur S.A.A., a utility maintenance and construction company also operating in Peru. Prior to the sale, the results of operations, and the assets and liabilities of Ontario Quinta had been proportionately consolidated within Hydro One's financial statements.

7. SEGMENTED INFORMATION

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 the nature of the products and services provided.

Segment information on the above basis is as follows:

(Canadian dollars in millions)	Three months ended		Nine months ended	
	September 30		September 30	
	2000	1999	2000	1999
Transmission				
Revenues	307	314	948	919
Operation, maintenance and administration	92	106	296	279
Depreciation and amortization	47	50	137	137
Segment profit before transitional cost adjustment, provincial debt guarantee fee and financing charges	168	158	515	503

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

(Canadian dollars in millions)	Three months ended September 30		Nine months ended September 30	
	2000	1999	2000	1999
Distribution (including retail)				
Revenues	408	429	1,274	1,349
Operation, maintenance and administration	90	78	269	256
Purchased power	203	213	639	670
Depreciation and amortization	34	36	107	107
Segment profit before transitional cost adjustment, provincial debt guarantee fee and financing charges	81	102	259	316
Other				
Revenues	–	18	–	73
Operation, maintenance and administration	–	6	–	29
Purchased power	–	10	–	37
Depreciation and amortization	–	1	–	4
Segment profit before transitional cost adjustment, provincial debt guarantee fee and financing charges	–	1	–	3
Capital expenditures				
Transmission	65	94	228	207
Distribution (including retail)	52	61	131	147
Other	–	1	–	6
	117	156	359	360

(Canadian dollars in millions)	September 30, 2000	December 31, 1999
Total assets		
Transmission	6,521	6,658
Distribution (including retail)	3,399	3,431
Other	–	1
	9,920	10,090

All consolidated revenues, costs and assets are earned, incurred or held in Canada, except for the 1999 operations of Ontario Hydro International Inc.

HYDRO ONE INC.
MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL RESULTS

Net income was \$101 million for the three months ended September 30, 2000 compared with \$118 million for the comparable period in 1999, representing a decrease of \$17 million, or 14%.

Revenues declined by \$46 million, or 6%, to \$715 million compared with \$761 million for the third quarter of 1999. Revenue from our distribution (including retail) business declined by \$21 million. This reduction is primarily attributable to lower retail demand for electricity and lower revenue attributable to the transitional rate order approved by the Ontario Energy Board (OEB), partially offset primarily by an increase in services provided to commercial and corporate customers. The winding-up of our subsidiary, Ontario Hydro International Inc. (OHI), including the sale of its interest in Ontario Quinta in 1999, resulted in a further reduction in revenue of \$18 million. In addition, revenue from our transmission business declined by \$7 million primarily due to a reduction in services provided to the other successor corporations of Ontario Hydro, partially offset by an increase in revenue attributable to the higher allowed rate of return of 9.88% as approved by the OEB, compared with 9.35%.

Operating costs declined by \$34 million, or 7%, to \$466 million compared with \$500 million for the third quarter of 1999. The reduction in purchased power costs of \$20 million mirrors the reduction in the retail demand for electricity and the reduction due to the sale of the equity interest in Ontario Quinta. Lower operation, maintenance and administration costs of \$8 million are primarily attributable to the winding-up of OHI. The reduction in depreciation and amortization of \$6 million is due to a reduction in fixed asset removal costs.

The reduction in other income of \$32 million reflects the non-recurring nature of the sale of our 25% equity interest in Ontario Quinta on September 15, 1999. At the time of the sale, Ontario Quinta held a 60% interest in Luz del Sur S.A.A., an electricity distribution company serving Southern Lima, Peru, and a 64% interest in Tecsur S.A.A., a utility maintenance and construction company, also operating in Peru.

Financing charges increased by \$5 million, or 6%, to \$88 million compared with \$83 million for the third quarter of 1999. This increase primarily reflects an increase in the weighted average interest rate and fees associated with our committed revolving credit agreements.

The provision for payments in lieu of corporate income taxes declined by \$32 million, or 35%, to \$60 million compared with \$92 million for the third quarter of 1999. This reduction is primarily the result of the lower level of income and an increase in deductions, primarily capital cost allowance claims, recognized in the current quarter for tax purposes but in different periods for accounting purposes.

For the nine months ended September 30, 2000, revenues were \$2,222 million compared to \$2,341 million for the same period in 1999. Net income was \$345 million compared with \$319 million in the corresponding period in 1999.