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Our third quarter interim financial report 2001

HYDRO ONE ANNOUNCES THIRD QUARTER, 2001 FINANCIAL RESULTS

TORONTO, November 12, 2001 – Hydro One Inc. announced today that net income for the third quarter ending September 30 increased $2 million, or about 2%, from the same period last year to $103 million. Year-to-date net income rose 2% to $351 million. Revenue increased by $165 million, or 23%, to $880 million in the third quarter, and rose by 9% to $2,418 million year-to-date.

"Our third quarter results show the progress we're making in growth through expansion of our distribution system," explained Eleanor Clitheroe, Hydro One President and CEO. "We will continue to grow, and lower our costs through a combination of decreasing overheads, exiting businesses which are not core to our company, and pursuing innovative partnerships."

As an example of Hydro One's efforts to increase its competitiveness, Cap Gemini Ernst & Young Canada Inc. was selected by the company to enter into contract negotiations to assume existing Hydro One e-services capabilities.

Operation, maintenance and administration costs increased by $20 million to $204 million, and declined by 7% year-to-date to $529 million. While cost reductions in core transmission and distribution work programs continued in the quarter, they were offset primarily by seasonal increases in work programs and integration and operating costs associated with the 87 municipal electricity utilities acquired by Hydro One. Net cash flow provided from operations increased by $20 million in the quarter and $171 million year-to-date to $747 million compared to $576 million in 2000 largely as a result of lower working capital.

Hydro One Inc., through its subsidiaries, is principally engaged in electricity transmission, distribution, telecom and energy services businesses. Through a wholly owned subsidiary, Hydro One Networks Inc., it owns and operates the largest transmission and distribution system in Ontario and one of the 10 largest in North America.

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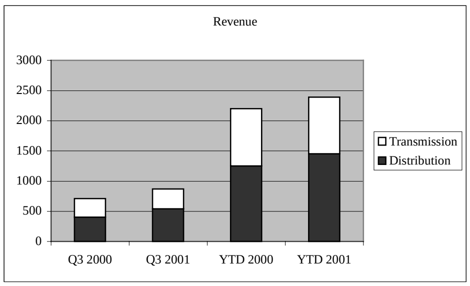
HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net income increased by $2 million to $103 million in the three months ended September 30, 2001 and increased by $6 million, or 2%, to $351 million on a year-to-date basis, compared to the same periods in 2000. While we continued to benefit from growth in our retail distribution business, we also benefited from the recognition of transmission load growth under the 2001 revenue allocation agreement. For the quarter, the impact of these increases on net income was offset by higher costs, including OM&A and corporate income taxes. For the 9 month period, lower OM&A, net of external work, further contributed to the increase in net income, however higher corporate income taxes substantially reduced the impact of these favourable factors on net income. Deductions for tax purposes relating to staff reduction initiatives were not available during 2001.



Total revenues increased by $165 million, or 23%, to $880 million in the third quarter and by $196 million, or 9%, to $2,418 million for the nine months ended September 30, 2001, compared to same periods a year earlier. Of this, distribution revenues increased by 34% to $540 million in the current quarter and by 16% to $1,453 million in the first nine months. These increases reflect volume growth and the June 1, 2001 increase in the wholesale cost of power, which the Ontario Energy Board (OEB) approved, enabling us to pass the increase through to our customers. Volume growth was primarily attributable to the acquisitions of municipal electricity utilities, including our largest acquisition, Hydro One Brampton, which closed during the current quarter. Transmission revenue for the third quarter increased by 7% from the same period last year to $330 million due to an increase in load growth recognized under the 2001 revenue allocation agreement. For the nine months ended September 30, 2001, transmission revenue declined marginally to $938 million. The increase in load growth was more than offset by a reduction in non-energy related services provided to external parties. During the first half of 2000, we were awarded and substantially completed work related to preparations for the opening of the competitive electricity market (Open Access). Other revenue of $10 million and $27 million for the quarter and year-to-date periods, respectively, also increased over 2000 levels.

Total operating costs increased by $153 million, or 33%, to $619 million in the third quarter and by $135 million, or 9%, to $1,583 million for the nine months ended September 30, 2001, compared to the same periods in 2000. These increases were primarily driven by the additional power requirements of the distribution business as well as the increase in the cost of wholesale power. We also incurred higher OM&A in the quarter as well as higher depreciation expense. For the nine-month period, these increases were partially offset by reductions in OM&A. Total OM&A declined by $41 million year-to-date to $529 million. Cost reductions in core work programs, together with lower costs required to support external work programs, were partially offset by integration and other OM&A costs attributable to the acquired utilities and increases from our other business segment. In the third quarter, OM&A increased by $20 million to $204 million. Marginally higher work program costs contributed further to the cost increases related to the acquired utilities and our other business segment.

Our transmission business experienced OM&A reductions of $11 million and $73 million in the quarter and year-to-date, respectively. These reductions continue to reflect our focus on reducing costs. While we have achieved savings as a result of our staff reduction program, we have also embarked on a number of initiatives to enhance productivity, such as improving labour utilization. Key initiatives to improve labour utilization include the hiring hall established with the Power Worker's Union to provide flexibility in resourcing levels and the use of temporary headquarters to reduce travelling time for our line and forestry crews. For the nine months ended September 30, 2001, reductions in transmission OM&A also reflect the reductions in services provided to external parties. OM&A for our distribution business increased by $21 million and $10 million in the quarter and year-to-date periods, respectively. While we continue to experience reductions from productivity initiatives similar to our transmission business, these gains were more than offset by increased work accomplishments in core programs such as vegetation management and pole testing. Distribution costs also include the incremental OM&A associated with the acquired utilities.

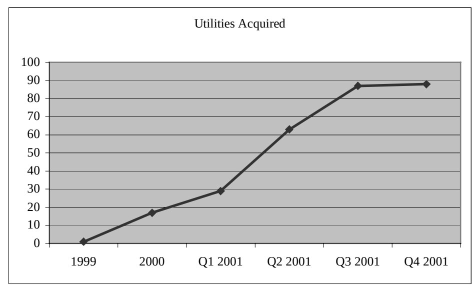
Financing charges were consistent on the quarter and increased by $7 million, or 3%, to $261 million for the nine months ended September 30, 2001, compared to the same periods in 2000. Higher average interest rates on our debt portfolio and lower interest income from temporary investments were partially offset by the impact on financing charges from lower average debt levels. The debt issued under our inaugural bond offering and our Medium Term Note program has attracted average interest rates of approximately 7%, compared to average interest rates of approximately 6% on Ontario Electricity Financial Corporation (OEFC) debt repaid.

Provision for payments in lieu of corporate income taxes increased by $9 million, or 15%, to $69 million in the quarter and by $48 million, or 27%, to $223 million for the nine months ended September 30, 2001 compared to the same periods a year earlier. These increases primarily reflect higher levels of income and lower available deductions for tax purposes, partially offset by a reduction in the statutory tax rate. In 2000, deductions related to the 1999 staff reduction program were taken for tax purposes during the first half when the cash payments were made.

LIQUIDITY AND CAPITAL RESOURCES

Net cash generated from operations increased by $20 million to $287 million in the third quarter and by $171 million to $747 million for nine months ended September 30, 2001. Cash earnings increased in both periods compared to the prior year. Working capital requirements were comparable on a quarterly basis, but were much lower on a year-to-date basis. This reduction primarily reflects the cash payments made in the first half of 2000 associated with the 1999 staff reduction program.

Cash required for financing activities was $301 million in the third quarter of 2001 compared with $451 million in the comparative period. On a year-to-date basis, $71 million was provided from financing activities in 2001 and $670 million was required for financing activities in 2000. On June 22, 2001, we raised $547 million under our Medium Term Note program. These funds were used to repay $226 million to OEFC during the third quarter and to finance net capital additions. For the nine months ended September 30, 2001, $260 million of debt was repaid. In the comparative period, the proceeds of our $1 billion inaugural bond issue, as well as other cash resources, were used to repay $1,399 million of debt owing to OEFC, including $445 million repaid in the third quarter. Dividends paid to the Province amounted to $75 million and $189 million for the three and nine months ended September 30, 2001, respectively. On a year-to-date basis, dividends paid were substantially lower because dividends of $171 million pertaining to 1999 were paid in conjunction with the issuance of shares to the Province of Ontario on March 31, 2000.



Cash used for investing activities increased by $271 million to $390 million in the quarter and by $322 million to $694 million for nine months ended September 30, 2001. These increases primarily reflect the substantial completion of our municipal electricity utility acquisition program. We spent $317 million in the current quarter to acquire 24 utilities, bringing the total to $410 million for 70 utilities in 2001. Our largest acquisition, Hydro One Brampton, serves approximately 88,000 electricity customers in one of the fastest growing regions in Ontario.

Capital expenditures on core work programs and other operations amounted to $107 million in the quarter, consistent with spending levels in the third quarter of last year. For the first nine months, such capital expenditures amounted to $320 million, a reduction of $30 million over 2000 spending levels. Lower transmission expenditures were partially offset by increased investments in our distribution system. Capital expenditures for other operations of $6 million and $16 million in the third quarter and first nine months, respectively, increased marginally over the same periods in 2000.

Capital expenditures for our transmission business amounted to $51 million in the third quarter and $155 million for the nine months ended September 30, 2001, representing reductions of $14 million and $73 million, respectively, over the comparative periods. In the quarter, investments of $41 million in our transmission stations, lines, equipment and telecommunication refurbishment were comparable to spending levels a year earlier. On a year-to-date basis, such spending amounted to $105 million, a $49 million reduction over the same period in 2000. This reduction primarily reflects fewer load connection replacements and network refurbishments as well as lower pole replacement and telecommunciation work. The remaining capital expenditures were incurred to expand the transmission system and to support operations. Reductions in these categories reflect the substantial completion of a number of key construction projects in 2000, including a dedicated transmission service to the auto industry, the first phase shifter at the interconnection with the State of Michigan, a new network management system and the Transmission Outage Management Centre.

Core work program spending on our distribution system increased by $8 million to $50 million in the quarter and by $32 million to $149 million in the first nine months of 2001, compared to the same periods in 2000. Customer-demand-driven and asset sustainment capital expenditures of $37 million in the third quarter and $111 million year-to-date, increased by $3 million and $18 million, respectively, primarily due to the expansion of our end-of-life pole replacement program. Expenditures to support operations, enhance efficiency and reduce costs amounted to $13 million in the third quarter, an increase of $5 million over the comparative period. For the nine months ended September 30, 2001, such expenditures increased by $14 million to $38 million. These increases reflect the continued preparation of our systems and processes for the opening of the competitive electricity market.

The increases in regulatory assets and long-term accounts payable and accrued charges reported on the Consolidated Balance Sheets do not substantially impact cash flow. We changed our accounting policy for estimated future expenditures required to remediate past environmental contamination. We now provide for the net present value of these estimated future expenditures rather than charging them to operations as incurred. The corresponding increase in regulatory assets reflects our expectation that we will continue to recover these expenditures in future rates (See Note 3 to the Consolidated Financial Statements).

RISK MANAGEMENT

As disclosed in our 2000 Annual Report and our Interim Reports for 2001, we are exposed to market, credit, regulatory, environment, and operational risks. We are continuing to implement an enterprise risk management policy and framework that aims to balance these risks while optimizing returns.

On April 1, 2001, the Province passed a regulation that increased the cost of wholesale power generated by Ontario Power Generation Inc. by 0.7 cents per kWh, effective June 1, 2001. On that date, the OEB approved rates that enabled the pass through of this non-distribution-related increase to customers in our capacity as billing agent. On May 26, 2001, this regulation was amended to further increase our cost of power, effective October 1, 2001, to be consistent with the rate paid by other large distribution companies. On August 8, 2001, we filed a rate application with the OEB to factor the October cost of power increase into existing bundled rates over the next 3 years. Approval of this application would result in levels of distribution rate revenues that align with those proposed in our January 2001 application for unbundled rates. On September 19, 2001 the OEB issued an interim approval of the first phase of our proposed increase, effective October 1, 2001. We must request approval to implement the remaining phased increases contained in the proposal. We have instituted a number of cost reduction and mitigation actions to enable us to manage the distribution business. Our distribution rate review process is expected to commence during the fourth quarter of 2001, with a hearing contemplated to occur in early 2002.

The OEB continues to focus on ensuring the readiness of the Province's electricity distributors for Open Access. In so doing, it extended transmission and distribution licenses to March 31, 2003. As for all distributors, fulfilment of market ready preparations is a condition of our distribution license. We believe that our distribution business is well positioned to meet its market ready obligations.

The collective agreement with the Society of Energy Professionals expires on December 31, 2001. Two-party negotiations have concluded and mediation-arbitration is scheduled for mid-November.

SUPPLEMENTARY INFORMATION

As a result of filing a short-form shelf prospectus on June 4, 2001 for our Medium Term Note program, we are required under securities legislation to provide the following information:

Twelve months ended *(Canadian dollars in millions)*	**September 30, 2001**	**December 31, 2000**
Earnings coverage ratio[1]	2.50	2.30[2]

[1]The earnings coverage ratio has been calculated as the sum of net income, gross interest expensed (which excludes capitalized interest) and provision for payments in lieu of corporate income taxes divided by the sum of gross interest plus preferred dividends declared.
[2]On March 31, 2000, preferred dividends of $13 million were declared in respect of the nine months ended December 31, 1999. Assuming dividends of $18 million, which is the annual entitlement, the earnings coverage ratio would have been 2.37.

FORWARD LOOKING STATEMENTS AND INFORMATION

We have included forward-looking statements in this report that are subject to risks, uncertainties and assumptions. Such information represents our current views based on information as at the date of this report. We do not intend to update this information and disclaim any legal obligation to the contrary.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(Canadian dollars in millions)	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Revenues				
Transmission	330	307	938	948
Distribution (including retail)	540	402	1,453	1,253
Other	10	6	27	21
	880	715	2,418	2,222
Costs				
Operation, maintenance and administration	204	184	529	570
Purchased power	312	201	780	634
Depreciation and amortization	103	81	274	244
	619	466	1,583	1,448
Income before financing charges and provision for payments in lieu of corporate income taxes	261	249	835	774
Financing charges	89	88	261	254
Income before provision for payments in lieu of corporate income taxes	172	161	574	520
Provision for payments in lieu of corporate income taxes	69	60	223	175
Net income	103	101	351	345

CONSOLIDATED STATEMENT OF EARNINGS (unaudited)

(Canadian dollars in millions)	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Retained earnings, beginning of period	375	254	241	265
Net income	103	101	351	345
Dividends	(75)	(80)	(189)	(335)
Retained earnings, end of period	403	275	403	275

See accompanying notes to the Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

(Canadian dollars in millions)	**September 30, 2001**	**December 31, 2000**
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	100	-
Accounts receivable (net of allowance for doubtful accounts)	535	511
Materials and supplies	60	65
	695	576
Fixed assets		
Fixed assets in service	13,052	12,375
Less: accumulated depreciation	4,453	4,108
	8,599	8,267
Construction in progress	314	252
	8,913	8,519
Other long-term assets		
Regulatory assets	523	352
Deferred pension asset	452	452
Goodwill	116	6
Long-term accounts receivable and other assets	28	78
Deferred debt cost	14	14
	1,133	902
Total assets	10,741	9,997
Liabilities		
Current liabilities		
Bank indebtedness	-	24
Accounts payable and accrued charges	441	357
Accrued interest	130	64
Short-term notes payable	100	130
Long-term debt payable within one year	409	474
	1,080	1,049
Long-term debt *(Note 5)*	4,327	3,972
Other long-term liabilities		
Employee future benefits other than pension	532	509
Regulatory liability	452	452
Long-term accounts payable and accrued charges	188	15
	1,172	976
Total liabilities	6,579	5,997
Shareholder's equity *(Note 2)*		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,436	3,436
Retained earnings	403	241
Total shareholder's equity	4,162	4,000
Total liabilities and shareholder's equity	10,741	9,997

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, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Operating activities				
Net income	103	101	351	345
Adjustment for non-cash items:				
Depreciation and amortization (net of removal costs)	89	78	257	234
	192	179	608	579
Changes in non-cash balances related to operations	95	88	139	(3)
Net cash generated from operations	287	267	747	576
Financing activities				
Debt for long-term financing:				
Issued	-	-	550	1,000
Retired	(226)	(445)	(260)	(1,399)
Debt for short-term financing	-	75	(30)	75
Deferred debt costs	-	(6)	-	(16)
Dividends paid	(75)	(75)	(189)	(330)
Net cash used in financing activities	(301)	(451)	71	(670)
Investing activities				
Fixed assets	(107)	(108)	(320)	(350)
Acquisitions of municipal electricity utilities	(317)	(8)	(410)	(8)
Other assets	34	(3)	36	(14)
Net cash used in investing activities	(390)	(119)	(694)	(372)
Net change in cash and cash equivalents	(404)	(303)	124	(466)
Cash and cash equivalents, beginning of period	504	305	(24)	468
Cash and cash equivalents, end of period	100	2	100	2

See accompanying notes to the Consolidated Financial Statements.

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, 2000 and December 31, 1999 except as described in Notes 3 and 4, and should be read in conjunction with those financial statements.

2. CAPITALIZATION

On March 31, 2000, Hydro One Inc. (Hydro One or the Company) 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. As consideration, the Province assumed Hydro One's obligations, including accrued interest from April 1, 1999 under a promissory note and, in connection with the assumption of the Company's obligations by the Province, the Ontario Electricity Financial Corporation released Hydro One, 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 and unpaid dividends if the Province sells the Company's common shares to the public such that the Province's holdings are reduced to less than 50% of the Company's common shares. Hydro One may elect to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce 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.

During the nine months ended September 30, 2001, preferred dividends in the amount of $13 million (2000 - $27 million) and common dividends in the amount of $176 million (2000 - $308 million) were declared. Dividends declared during 2000 include $13 million in preferred dividends and $158 million in common dividends that were declared in respect of the nine months ended December 31, 1999.

3. CHANGE IN ACCOUNTING POLICY

Hydro One changed its accounting policy for estimated future expenditures required to remediate past environmental contamination. The Company now provides for the net present value of these estimated future expenditures and, effective January 1, 2001, recorded a provision in the amount of $190 million. Previously, such expenditures were charged to operations as incurred. Expenditures of this nature have been recoverable through rates in the past and, because Hydro One anticipates this rate treatment to continue, a regulatory asset was recognized in an amount equivalent to the environmental provision. This regulatory asset is expected to be amortized over the period to 2020.

4. ACQUISITIONS OF MUNICIPAL ELECTRICITY UTILITIES

Hydro One has entered into numerous agreements to acquire the outstanding shares or assets of municipal electricity utilities. The Company accounts for such acquisitions using the purchase method with the acquired companies' results of operations being included in the Consolidated Statement of Operations from the date of acquisition. The purchase of each municipal electricity utility must be approved by the Ontario Energy Board prior to closing.

During the nine months ended September 30, 2001, Hydro One acquired 70 municipal electricity utilities, including Brampton Hydro Corporation, for net cash consideration of approximately $410 million (2000 - $8 million). Net identifiable assets acquired amounted to approximately $300 million (2000 - $5 million), representing assets of $373 million (2000 - $6 million) and liabilities of $73 million (2000 - $1 million). Based on the allocation of the purchase price, the transactions resulted in goodwill of $110 million (2000 - $3 million). In addition, there is one remaining municipal electricity utility to close that has an estimated purchase price of approximately $54 million. A deposit in the amount of $5 million has been made in respect of this acquisition.

In accordance with the transitional provisions of the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3062, *Goodwill and Other Intangible Assets*, goodwill arising from acquisitions completed subsequent to June 30, 2001 is not amortized. Effective January 1, 2002, the amortization of goodwill will cease. The carrying value of goodwill will continue to be evaluated for impairment on a periodic basis. In the event that facts and circumstances indicate that goodwill may be impaired, an evaluation of recoverability is performed based on estimated future undiscounted cash flows, as well as other factors.

5. DEBT

On June 22, 2001, Hydro One issued notes for par value of $550 million under the Company’s Medium Term Note program. The notes were issued in two series: $250 million at a coupon rate of 6.40% due December 1, 2011 and $300 million at a coupon rate of 6.93% due June 1, 2032. Hydro One is authorized to issue notes in an aggregate principal amount of $2.5 billion under its Medium Term Note program.

Hydro One enters into forward interest rate swap agreements to hedge against the effect of future interest rate movements on long-term borrowing requirements. The Company follows hedge accounting for interest rate swap agreements whereby the net interest rate differentials to be paid or received are recorded as adjustments to financing charges.

Derivative financial instruments, such as forward interest rate swap agreements, result in exposure to credit risk since there is a risk of counter-party default. To minimize this risk, the Company enters into such transactions with highly rated counter-parties and incorporates netting provisions into the agreements. Netting provisions enable the settlement of derivative financial assets and liabilities with the counter-party on a net basis in the event of counter-party default.

As at September 30, 2001, Hydro One had a net forward start interest rate swap position of nil. Offsetting forward start interest rate swap agreements were entered into with the same counter-party with a notional principal amount of $167 million. The agreements mature in 2011.

6. 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; and
III. An “other” segment primarily consisting of energy services, power procurement, telecom and head office.

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:

(Canadian dollars in millions)	Three months ended September 30, 2001	2000	Nine months ended September 30, 2001	2000
Transmission				
Revenues	330	307	938	948
Operation, maintenance and administration	81	92	223	296
Depreciation and amortization	58	47	159	137
Income before financing charges and provision for payments in lieu of corporate income taxes	191	168	556	515
Distribution (including retail)				
Revenues	540	402	1,453	1,253
Operation, maintenance and administration	105	84	260	250
Purchased power	311	201	778	633
Depreciation and amortization	44	32	111	102
Income before financing charges and provision for payments in lieu of corporate income taxes	80	85	304	268
Other				
Revenues	10	6	27	21
Operation, maintenance and administration	18	8	46	24
Purchased power	1	-	2	1
Depreciation and amortization	1	2	4	5
Loss before financing charges and provision for payments in lieu of corporate income taxes	(10)	(4)	(25)	(9)
Capital expenditures				
Transmission	51	65	155	228
Distribution (including retail)	373	50	562	125
Other	6	1	16	5
	430	116	733	358

(Canadian dollars in millions)	September 30, 2001	December 31, 2000
Total assets		
Transmission	6,545	6,492
Distribution (including retail)	4,028	3,434
Other	168	71
	10,741	9,997

All consolidated revenues, costs and assets are earned, incurred or held in Canada.

7. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2000 Consolidated Financial Statements.