Hydro One announces increase in first quarter net income

Toronto, May 7, 2003 - Hydro One Inc. today released its first quarter results which show net income of $139 million, an increase of $33 million or 31 per cent over the first three months of last year.

The increase in net income is primarily related to high demand for electricity this quarter and to transmission revenue which now fluctuates with demand compared to the first quarter of 2002 when, prior to market opening, transmission revenue was based on a fixed monthly amount. Net income also reflects the increase in distribution revenues attributable to demand as well as the increase in distribution rates that came into effect on March 1, 2002.

"Our results this quarter demonstrate our commitment to ensure stability in Hydro One's operations and financial results. Our emphasis on operational efficiency has allowed us to ensure Hydro One remains on a sound commercial footing. We will continue to focus on productivity improvements like our new consolidated operating centre," said Tom Parkinson, President and Chief Executive Officer of Hydro One.

Total revenue increased by $125 million to $1,147 million compared to last year. Revenue was up primarily because of the increase in large customers served by Hydro One and the high demand for electricity this winter. Net cash from operations was $252 million in the first quarter. During the three months ended March 31, 2003, the company has paid $65 million in dividends from retained earnings to the Province and invested $94 million in capital expenditures, primarily in transmission and distribution.

Highlights

- Tom Parkinson was appointed President and Chief Executive Officer of Hydro One effective January 21, 2003, after serving as our President and Chief Operating Officer since July, 2002. On April 16, 2003, Tom was also appointed to our Board of Directors.

- Hydro One successfully issued $250 million 40 year notes on April 22, 2003, joining a short list of Canadian companies who have issued at terms longer than 30 years.

CONSOLIDATED FINANCIAL HIGHLIGHTS				
Three months ended March 31(Canadian dollars in millions)	**2003**	**2002**	**$ Change**	**% Change**
Revenues	1,147	1,022	125	12%
Purchased power	576	496	80	16%
Operating costs	281	271	10	4%
Net income	139	106	33	31%
Operating cash flow	234	194	40	21%
STATISTICS				
Transmission – units transmitted (*TWh*)	41.0	38.2	2.8	7%
Distribution - units distributed (*TWh*)	8.2	7.0	1.2	17%

Hydro One Inc. is a holding company that operates through its subsidiaries in electricity transmission and distribution and telecom businesses. One of its subsidiaries, Hydro One Networks Inc., operates one of the largest transmission and distribution systems in North America. Hydro One Inc. is wholly owned by the Ontario government.

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RESULTS OF OPERATIONS

As used in this section, references to increases and decreases, whether in terms of amounts or percentages are made by comparison of the three months ended March 31, 2003 to the three months ended March 31, 2002.

Revenues

Three months ended March 31 *(Canadian dollars in millions)*	2003	2002	$ Change	% Change
Transmission	335	309	26	8%
Distribution	808	701	107	15%
Other	4	12	(8)	(67%)
	1,147	1,022	125	12%
Transmission - units transmitted *(TWh)*	41.0	38.2	2.8	7%
Distribution - units distributed *(TWh)*	8.2	7.0	1.2	17%

Transmission revenues reflect a higher level of demand on our transmission system and that our transmission revenues now fluctuate with demand. Commencing with the opening of the electricity market to competition on May 1, 2002 (Open Access), our approved transmission tariff is collected directly through unbundled rates and therefore our related transmission revenue fluctuates with the peak demand for electricity during a month. Prior to Open Access, which included the first quarter of 2002, this revenue was collected through the revenue allocation agreement between the successor corporations of Ontario Hydro as a fixed amount per month.

Distribution revenues increased primarily as a result of the volume of electricity distributed through our system this quarter. We distributed 8.2 terra-watt hours of electricity during the first quarter of 2003, compared to 7.0 terra-watt hours during the same period last year. Higher revenues of $158 million were attributable to this increase in volume, including the requirement commencing with Open Access to directly serve a number of commercial, industrial and local distribution companies that are connected to our low voltage system. Prior to the opening of the electricity market to competition, these customers purchased their electricity from Ontario Power Generation Inc. (OPG). Volume further increased as a result of weather related demand. The increase in distribution revenues due to higher volume was partially offset by lower revenues of $51 million attributable to price changes, primarily associated with the unbundling of electricity rates upon Open Access. The debt retirement charge is now separately identified within the rates and therefore, it has been excluded from our revenue and purchased power.

Other revenue was lower due to the sale of substantially all of the assets of our competitive retail operations, effective April 30, 2002. Our other business segment now primarily represents our telecommunications operations conducted by our wholly owned subsidiary, Hydro One Telecom Inc.

Purchased Power

Purchased power costs increased by $80 million, or 16%, to $576 million. Purchased power costs increased by $145 million due to volume, including the additional customers that we are now required to directly serve and the weather related demand. The increase due to higher volume was partially offset by lower purchased power costs of $65 million attributable to the unbundling of electricity rates upon Open Access.

Operation, Maintenance and Administration

Three months ended March 31 *(Canadian dollars in millions)*	**2003**	**2002**	**$ Change**	**% Change**
Transmission	94	78	16	21%
Distribution	82	76	6	8%
Other	6	26	(20)	(77%)
	182	180	2	1%

Transmission operation, maintenance and administration costs were higher primarily as a result of increased lines and stations maintenance, increased forestry line clearing and unplanned lines and stations' corrective work. Better weather conditions this year, particularly in our northern region, have enabled planned maintenance and forestry work to be done earlier this year. During the first quarter of 2002, severe storm conditions required our line crews to focus on emergency capital work.

Distribution operation, maintenance and administration costs also increased due to the availability of our crews to work on planned line maintenance programs and forestry clearing activities rather than emergency capital work. We also experienced an increase in customer trouble call work.

Other operation, maintenance and administration costs were lower due to the sale of substantially all of the assets pertaining to our competitive retail operations.

Depreciation and Amortization

Depreciation and amortization expense increased by $8 million, or 9%, to $99 million. This increase primarily reflects an increase in fixed assets in service consistent with our capital expenditures program and higher amortization expense. The increase in amortization expense is associated with the regulatory assets established for market ready costs and for certain environmental remediation costs incurred by our distribution business.

Financing Charges

Financing charges declined by $3 million, or 3%, to $86 million. This reduction principally reflects the refinancing of maturing long-term debt at lower interest rates, partially offset by the impact of higher average levels of debt outstanding.

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes increased by $5 million, or 8%, to $65 million. This increase reflects higher levels of income, partially offset by the impact of a reduction in the statutory tax rate from 38.62% to 36.62% and higher available tax deductions, primarily related to capital cost allowance.

Net Income

Net income increased by $33 million, or 31%, to $139 million. This increase reflects a higher level of demand on our transmission system and that our transmission revenue now fluctuates with demand. Net income also reflects the increase in distribution revenues attributable to weather related demand as well as an increase in distribution rates that came into effect on March 1, 2002. This rate increase was the second phased increase associated with a plan to partially mitigate the impact of an increase in the wholesale cost of power to our distribution business.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity and capital resources are funds generated from operations, debt capital market borrowings and bank financing. These resources will be used to satisfy our capital resource requirements, which continue to include capital expenditures, servicing and repayment of our debt, payments related to our outsourcing arrangements, investing activities, and dividends.

Operating Activities

Net cash generated from operations was $252 million for the three months ended March 31, 2003 compared with $75 million for the comparative period. This increase principally reflects changes in the level of accounts payable and accrued charges associated with purchased power, and payments in lieu of corporate income taxes. Our invoice for purchased power from the Independent Electricity Market Operator (IMO) reflects the reduction to 4.3 cents per kWh for our low volume and designated customers, as stipulated by the *Electricity Pricing, Conservation and Supply Act, 2002.* The reduction is applied to our customer billings as the bills are issued, which is subsequent to the reduction in our invoice for purchased power. The increase attributable to payments in lieu of corporate income taxes was due to higher pre-tax income and to the timing of installments. The increase in net income also contributed to the increase in net cash generated from operations.

Financing Activities

Cash from financing activities was $70 million for the three months ended March 31, 2003 compared with $94 million for the comparative period.

Short-term liquidity is provided through funds from operations and our commercial paper program, under which we are authorized to issue up to $1 billion in short-term notes with a term to maturity of less than 365 days. This program is supported by committed revolving credit agreements with a syndicate of banks of $750 million maturing in August 2003, which we plan to renew, and $250 million maturing in August 2005. At March 31, 2003, we had $208 million of short-term notes outstanding. The remaining short-term liquidity available of approximately $792 million under this program, together with anticipated levels of funding from operations, should be sufficient to fund our normal operating requirements.

Long-term financing is provided by our access to the debt markets including our medium term note program. The maximum authorized principal amount of medium term notes issuable under this program is $2.5 billion and is currently available until July 2003. We plan to renew the program for an additional two years. We intend to use the medium term note program to meet most of our borrowing requirements for the foreseeable future. At March 31, 2003, we had $1,550 million in principal amount of medium term notes outstanding. After considering our most recent debt financing that was completed on April 22, 2003, we have approximately $700 million principal amount issuable under this program. We believe that we will be able to issue medium term notes on satisfactory terms, taking into account, among other factors, the investment grade ratings for our long-term senior, unsecured debt from major Canadian and U.S. rating agencies.

	Rating	
Rating Agency	**Short-term Debt**	**Long-term Debt**
Standard & Poor's Rating Services Inc.[1]	A-2	A-
Dominion Bond Rating Service Inc.[2]	R-1 (low)	A
Moody's Investor Services Inc.	Prime-1	A2

[1]On February 21, 2003, Standard & Poor's Rating Services Inc. lowered Hydro One's long-term rating to "A-" from "A" and short term rating to "A-2" from "A-1". At the same time, the outlook changed to negative.

[2]On December 10, 2002, Dominion Bond Rating Service Inc. placed Hydro One's long-term credit rating on negative trend.

During the first quarter of 2003, we issued $500 million in debt under our medium term note program, had a net reduction in short-term notes of $371 million under our commercial paper program and paid dividends to the Province in the amount of $65 million. The dividends included preferred dividends of $4 million and common dividends of $61 million. During the comparative period, we had a net increase in short-term notes of $110 million under our commercial paper program and paid dividends to the Province in the amount of $16 million, including preferred dividends of $4 million and common dividends of $12 million. The increase in dividends primarily reflects our objective of minimizing significant variations in dividend payments from quarter to quarter.

OEFC Debt

On February 20, 2003, we restructured approximately $1.65 billion of existing debt held by Ontario Electricity Financial Corporation (OEFC), which had a weighted-average interest rate of approximately 8.7%, for approximately $1.86 billion of debt, which has a weighted-average interest rate of approximately 4.0%. The restructured notes have terms to maturity that are consistent with the original notes and range from January 2004 to August 2007. This debt restructuring will lower our interest payments from 2003 through 2007, but increase the principal amount of the debt payable at maturity.

On March 5, 2003, OEFC sold approximately $2.09 billion of the Hydro One notes that it held pursuant to a short form shelf prospectus which we filed on February 21, 2003. These notes are unsecured and rank *pari passu* with all other outstanding unsecured indebtedness of our company. We did not receive any proceeds from the sale of these notes. OEFC continues to hold notes with outstanding principal amounts of $651 million that mature in 2003.

Investing Activities

Cash used for investing activities was $80 million for the three months ended March 31, 2003 compared to $123 million for the comparative period and primarily represents capital expenditures on our transmission and distribution systems. Capital expenditures for each of our three business segments were as follows:

Three months ended March 31 *(Canadian dollars in millions)*	**2003**	**2002**	**$ Change**	**% Change**
Transmission	48	48	-	-
Distribution	42	60	(18)	(30%)
Other	4	8	(4)	(50%)
	94	116	(22)	(19%)

Transmission capital expenditures were consistent in the first quarter of 2003 compared to 2002. Increased investments associated with our protection and control equipment and the construction of an integrated operating centre were offset by lower expenditures in our lines and stations' refurbishment and replacement programs, primarily due to the extent of storm damage experienced last year and variations in the scheduling of project work. The integrated operating centre will be fully functional in 2004 and is expected to result in improved cost efficiencies, supply reliability and an enhanced level of service to our customers.

Distribution capital expenditures declined by $18 million in the first quarter of 2003 compared to 2002. This reduction is primarily due to the extent of emergency capital work required to restore power in 2002 which was caused by intense storms in February and March of that year. In addition, capital expenditures in 2002 included work necessary to prepare our systems and processes for the opening of the electricity market. This work was completed last year.

Other capital expenditures declined by $4 million due to the sale of substantially all of the assets pertaining to our competitive retail operations. Other capital expenditures now principally pertain to the further enhancement of our fibre-optic network in support of our growing telecommunications business.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of our debt and other major contractual obligations as well as other major commercial commitments.

March 31, 2003 *(Canadian dollars in millions)*	**Total**	**2003[1]**	**2004/2005**	**2006/2007**	**After 2007**
Contractual Obligations *(due by year):*					
Short-term notes payable	208	208	-	-	-
Long-term debt[2]	5,293	651	1,239	1,053	2,350
Operating lease commitments	20	7	10	2	1
Inergi LP outsourcing agreement	889	90	215	200	384
Total Contractual Obligations	6,410	956	1,464	1,255	2,735
Other Commercial Commitments *(by year of expiry)*					
Bank line[3]	1,000	750	250	-	-
Letters of credit[4]	153	153	-	-	-
Guarantees[4]	275	275	-	-	-
Total Other Commercial Commitments	1,428	1,178	250	-	-

[1]The amounts disclosed represent the balance due over the period April 1, 2003 to December 31, 2003.

[2]On April 22, 2003, we issued 40-year notes with a principal amount of $250 million under our medium term note program. The notes were issued at par, have a 6.59% coupon rate and mature on April 22, 2043. This debt financing is not reflected in the Summary of Contractual Obligations and Other Commercial Commitments as at March 31, 2003.

[3]As a backstop to our commercial paper program, we have a revolving standby credit facility with a syndicate of banks of $750 million for a 364-day term maturing on August 18, 2003 and $250 million for a five-year term maturing on August 18, 2005.

[4]We currently have bank letters of credit of $97 million outstanding relating to retirement compensation arrangements. We have also provided prudential support to the IMO as required by the Market Rules, using a combination of bank letters of credit of $50 million and parental guarantees of $275 million. The amount of prudential support that we provide in the form of bank letters of credit to the IMO is dependent on our long-term credit ratings from major Canadian and U.S. rating agencies. The amount of bank letters of credit provided would need to increase if our credit ratings deteriorated. The remaining letters of credit pertain to operating letters of credit and to surety bonds.

Payments in respect of operating leases and our outsourcing agreement with Inergi LP are recorded under operation, maintenance and administration costs on our statement of operations or in our capital programs. The amounts in the above table under short-term notes payable and long-term debt are not charged to our results of operations, but are reflected on our balance sheet and statement of cash flows. Interest associated with this debt is recorded under financing charges on our statement of operations or in our capital programs, but these financing charges are not reflected in the above table.

RECENT DEVELOPMENTS

Appointment of Tom Parkinson

Tom Parkinson was appointed President and Chief Executive Officer of Hydro One Inc. effective January 21, 2003, after serving as our President and Chief Operating Officer since July, 2002. On April 16, 2003, Tom was also appointed to our Board of Directors.

Retail Electricity Price Cap and Market Power Mitigation Rebate

On March 21, 2003, the Province announced an expansion of the 4.3 cents per kWh energy price for customers with annual consumption of less than 250,000 kilowatts (from 150,000 kilowatts) as well as an extension of the price freeze to designated farm customers. The extension will be retroactive to May 1, 2002 and will continue to be funded through the OEFC. The impact of this extension on distribution revenues and purchased power costs is not significant.

The Province also announced new rules for the application of the OPG Market Power Mitigation Agreement Rebate. In mid-May 2003, the IMO will facilitate an interim payment in respect of the nine months ended January 31, 2003. The rebate payment for the three months ended April 30, 2003 will be facilitated by the IMO in August 2003. Commencing May 1, 2003 rebates will be 50% of the amount by which the average spot price exceeds 3.8 cents per kWh. This rebate will be paid to customers on a quarterly basis. As our company is only required to process the payment of the rebate from OPG to its end use customers, there is no impact on our distribution revenues and purchased power costs.

Debt Issuance

On April 22, 2003, we issued 40-year notes with a principal amount of $250 million under our medium term note program. The notes were issued at par, have a 6.59% coupon rate and mature on April 22, 2043.

SELECTED FINANCAL HIGHLIGHTS AND RATIOS

Three months ended March 31 *(Canadian dollars in millions) (except as otherwise noted)*	**2003**	**2002**
Net income	139	106
EBITDA[1]	389	346
Operating cash flow	234	194
Capital expenditures	94	116
Earnings per common share *(Canadian dollars)*	1,343	1,015
Earnings coverage ratio[2]	2.46	2.39
Net asset coverage on long-term debt[3]	1.83	1.90
Total debt to capitalization[4]	56%	56%

[1]EBITDA has been presented for the three months ended March 31, 2003 and March 31, 2002 and has been calculated as the sum of income before financing charges, provision for payments in lieu of corporate income taxes and depreciation and amortization. We provide this measure because we believe that it is a standard and useful measure of our financial performance.

[2]The earnings coverage ratio has been presented for the twelve months ended March 31, 2003 and March 31, 2002, respectively and has been calculated as the sum of net income, provision for payments in lieu of corporate income taxes and financing charges divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

[3]The net asset coverage on long-term debt ratio has been presented as at March 31, 2003 and December 31, 2002 and has been calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt including current portion.

[4]Total debt to capitalization ratio has been presented as at March 31, 2003 and December 31, 2002 and has been calculated as total debt divided by total debt plus total shareholder's equity.

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)

Three months ended March 31 (Canadian dollars in millions)	**2003**	**2002**
Revenues		
Transmission	335	309
Distribution	808	701
Other	4	12
	1,147	1,022
Costs		
Purchased power	576	496
Operation, maintenance and administration	182	180
Depreciation and amortization	99	91
	857	767
Income before financing charges and provision for payments in lieu of corporate income taxes	290	255
Financing charges	86	89
Income before provision for payments in lieu of corporate income taxes	204	166
Provision for payments in lieu of corporate income taxes	65	60
Net income	139	106
Basic and fully diluted earnings per common share *(Canadian dollars)*	1,343	1,015

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (unaudited)

Three months ended March 31 (Canadian dollars in millions)	**2003**	**2002**
Retained earnings, beginning of period	502	357
Net income	139	106
Dividends *(Note 2)*	(65)	(16)
Retained earnings, end of period	576	447

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

(Canadian dollars in millions)	**March 31, 2003**	**December 31, 2002**
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	207	-
Accounts receivable (net of allowance for doubtful accounts)	707	659
Materials and supplies	58	55
	972	714
Fixed assets		
Fixed assets in service	13,825	13,790
Less: accumulated depreciation	4,937	4,859
	8,888	8,931
Construction in progress	352	300
	9,240	9,231
Other long-term assets		
Deferred pension asset	703	742
Regulatory assets	549	570
Goodwill	133	133
Long-term accounts receivable and other assets	22	28
Deferred debt costs	19	17
	1,426	1,490
Total assets	11,638	11,435
Liabilities		
Current liabilities		
Bank indebtedness	-	35
Accounts payable and accrued charges	592	589
Accrued interest	101	53
Short-term notes payable	208	579
Long-term debt payable within one year *(Note 3)*	1,114	651
	2,015	1,907
Long-term debt *(Note 3)*	3,985	3,938
Other long-term liabilities		
Regulatory liability	703	742
Employee future benefits other than pension	556	540
Environmental liabilities	136	140
Long-term accounts payable and accrued charges	30	29
	1,425	1,451
Total liabilities	7,425	7,296
Shareholder's equity		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	576	502
Total shareholder's equity	4,213	4,139
Total liabilities and shareholder's equity	11,638	11,435

See accompanying notes to Consolidated Financial Statements.

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

Three months ended March 31 (Canadian dollars in millions)	2003	2002
Operating activities		
Net income	139	106
Adjustments for non-cash items:		
Depreciation and amortization (net of removal costs)	95	88
	234	194
Changes in non-cash balances related to operations	18	(119)
Net cash from operations	252	75
Financing activities		
Debt issued for long-term financing	500	-
Amortization of discount	8	-
Debt for short-term financing	(371)	110
Deferred debt costs	(2)	-
Dividends paid	(65)	(16)
Net cash from financing activities	70	94
Investing activities		
Fixed assets	(94)	(116)
Other assets	14	(7)
Net cash used in investing activities	(80)	(123)
Net change in cash and cash equivalents	242	46
Cash and cash equivalents, beginning of period	(35)	(24)
Cash and cash equivalents, end of period	207	22

See accompanying notes to Consolidated Financial Statements.

1. BASIS OF PRESENTATION

The Consolidated Financial Statements of Hydro One Inc. (Hydro One or the Company) which are presented herein have been prepared in accordance with the accounting policies described in the Consolidated Financial Statements for the years ended December 31, 2002 and December 31, 2001, and should be read in conjunction with those financial statements.

In the opinion of management, the unaudited interim Consolidated Financial Statements reflect all of the adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position as at March 31, 2003 and the results of operations and cash flows for the three months ended March 31, 2003 and 2002.

2. DIVIDENDS

During the three months ended March 31, 2003, preferred dividends in the amount of $4 million (2002 - $4 million) and common dividends in the amount of $61 million (2002 - $12 million) were declared.

3. LONG-TERM DEBT

OEFC Debt

On January 24, 2003, Hydro One announced that the Ontario Electricity Financial Corporation (OEFC) would sell some or all its Hydro One debt in the Canadian public debt markets, commencing early in 2003. The notes payable to OEFC mature between 2003 and 2007, with a weighted-average term to maturity of approximately two years. In order to facilitate the sale, Hydro One agreed in principle with OEFC to restructure some or all of the Hydro One debt held by OEFC.

On February 20, 2003, we restructured approximately $1.65 billion of existing debt held by OEFC, which had a weighted-average interest rate of approximately 8.7%, for approximately $1.86 billion of debt, which has a weighted-average interest rate of approximately 4.0%. This debt restructuring will result in lower cash interest payments for Hydro One from 2003 through 2007 and a corresponding increase in the principal amount of the debt payable at maturity from 2004 to 2007. The maturity dates will remain essentially unchanged. For accounting purposes, the restructuring was treated as a renegotiation of debt with the net carrying amount of the new notes (principal less unamortized discount) on the balance sheet equaling the carrying value of the existing notes prior to the renegotiation. No gain or loss was recognized as a result of this transaction.

With the exception of $651 million in notes with maturity dates in 2003, OEFC completed the sale of all of its Hydro One debt into public markets on March 5, 2003.

Debt Issue

On January 28, 2003, Hydro One issued notes with a principal amount of $500 million under the Company’s medium term note program. The notes were issued in two tranches: a re-opening of Series 3 for $300 million at a coupon rate of 5.77% due November 15, 2012 and Series 4 for $200 million at a coupon rate of 6.35% due January 31, 2034. The total outstanding for Series 3 is now $600 million.

Hedge of Forecasted Debt Issue

In February the Company entered into an agreement to sell forward $250 million in Government of Canada bonds to hedge against a potential rise in interest rates related to a planned future issue of debt. This agreement will terminate when the hedged debt is issued and it will result in a single payment to Hydro One if interest rates increase over the term of the agreement, or to the counterparty if interest rates decline. The agreement is being accounted for as a hedge of a forecasted transaction and no gain or loss is being recognized in the Statement of Operations.

4. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The transmission business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The distribution business, which comprises the core business of delivering and selling electricity to customers; and
- An "other" segment primarily consisting of telecom, corporate and, in 2002, energy services. The competitive retail operations of the energy services business were sold in 2002 and the remaining operations of this business are being wound up.

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:

Three months ended March 31 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2003				
Segment profit				
Revenues	335	808	4	1,147
Purchased power	-	576	-	576
Operation, maintenance and administration	94	82	6	182
Depreciation and amortization	52	47	-	99
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	189	103	(2)	290
Financing charges				86
Income before provision for payments in lieu of corporate income taxes				204
Capital expenditures	48	42	4	94
2002				
Segment profit				
Revenues	309	701	12	1,022
Purchased power	-	496	-	496
Operation, maintenance and administration	78	76	26	180
Depreciation and amortization	53	36	2	91
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	178	93	(16)	255
Financing charges				89
Income before provision for payments in lieu of corporate income taxes				166
Capital expenditures	48	60	8	116

(Canadian dollars in millions)	**March 31, 2003**	**December 31, 2002**
Total assets		
Transmission	6,550	6,638
Distribution	4,803	4,707
Other	285	90
	11,638	11,435

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

5. SUBSEQUENT EVENT

On April 22, 2003, Hydro One issued 40-year notes with a principal amount of $250 million under the Company's medium term note program. The notes were issued at par, have a 6.59% coupon rate and mature on April 22, 2043.

6. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2003 Consolidated Financial Statements.