Hydro One maintains strong performance in first half of 2003

Toronto, August 6, 2003 - Hydro One Inc. today released its second quarter results, which show net income of $85 million for the second quarter and $224 million for the six months ended June 30, 2003.

Compared to the first six months in 2002, net income increased by $19 million, or 9%. Two primary factors contributed to this increase. The first was the higher demand for electricity created by Ontario's cold winter and the second was the positive impact on earnings related to the sale of the competitive retail operations in April 2002. These factors were partially offset by higher planned and corrective maintenance expenditures to the transmission and distribution systems, including an expanded forestry program.

Second quarter net income decreased by $14 million, or 14%, compared to 2002. This was due primarily to the increase in maintenance expenditures, partially offset by the sale of the competitive retail operations. Decreased net income for the second quarter over the first quarter also reflects lower demand. Demand for electricity is highest in the first and third quarters due to seasonal variations in weather.

For the six months ended June 30, 2003, total revenue increased by $165 million to $2,100 million compared to last year. Revenue was up primarily because of the increase in large customers served by Hydro One and the higher demand for electricity this winter. Net cash from operations was $477 million in the first six months of 2003. During this period, the Company has paid $125 million in dividends to the Province and invested $234 million in capital expenditures, primarily to enhance and reinforce the transmission and distribution systems.

"The financial results are consistent with expectations", said Tom Parkinson, President and Chief Executive Officer of Hydro One. "Our commitment to stable financial performance goes hand in hand with our commitment to continually improve the performance of Ontario's electricity delivery system. Investing in our core wires business is our focus," added Parkinson.

HIGHLIGHTS

- Effective June 4, 2003, the Province appointed Rita Burak as interim Chair of the Board of Directors. Prior to assuming the position of Chair, Ms. Burak was Vice-Chair of the Hydro One Board, and is also a member of the Board of the Equitable Life Insurance Company of Canada and the University Health Network. Ms. Burak is also a Vice-Chair of the University of Guelph and serves on the Ontario government's panel on the role of government and the federal government's External Advisory Committee on Smart Regulation.

- Hydro One successfully issued $500 million 5-year notes on June 23, 2003. The issue received strong support from investors.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions) (except as otherwise noted)	**2003**	**2002**	**2003**	**2002**
Revenues	953	913	2,100	1,935
Purchased power	424	376	1,000	872
Operating costs	311	295	592	566
Net income	85	99	224	205
Net cash from operations	225	112	477	187
Transmission – units transmitted *(TWh)*	35.6	35.9	76.6	74.1
Distribution – units distributed *(TWh)*	6.1	6.3	14.3	13.9

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 and six months ended June 30, 2003 to the three and six months ended June 30, 2002.

Revenues

	Three months ended June 30				Six months ended June 30			
(Canadian dollars in millions)	2003	2002	$ Change	% Change	2003	2002	$ Change	% Change
Transmission	323	318	5	2%	658	627	31	5%
Distribution	619	585	34	6%	1,427	1,286	141	11%
Other	11	10	1	10%	15	22	(7)	(32%)
	953	913	40	4%	2,100	1,935	165	9%
Transmission - units transmitted *(TWh)*	35.6	35.9	(0.3)	(1%)	76.6	74.1	2.5	3%
Distribution - units distributed *(TWh)*	6.1	6.3	(0.2)	(3%)	14.3	13.9	0.4	3%

The demand for electricity generally follows normal weather-related variations, and therefore our energy related revenues will tend to be higher in the first and third quarters than in the second and fourth quarters.

Transmission revenues increased in the second quarter compared to the same period in 2002 primarily due to contract revenues from other industry participants. Revenue attributable to our transmission tariff was consistent with that of the second quarter of 2002. The lower weather-related demand experienced in early spring was offset by the impact of higher demand levels experienced in June from warmer temperatures.

On a year-to-date basis, transmission revenues increased significantly over the comparative period primarily as a result of higher demand in the first quarter of this year due to the colder winter, and that our transmission tariff revenue now fluctuates with demand. Prior to the opening of the electricity market on May 1, 2002 (Open Access), the transmission tariff was collected through the revenue allocation agreement between the successor corporations of Ontario Hydro as a fixed monthly amount.

Distribution revenues increased in the second quarter compared to the same period in 2002 primarily as a result of price changes. Revenues increased by $28 million primarily due to an increase in the average Hourly Ontario Energy Price (HOEP), partially offset by changes associated with the unbundling of electricity rates upon Open Access. The debt retirement charge is now separately identified within the rates and therefore, excluded from our revenue and purchased power costs. Revenues further increased by $6 million due to a 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, partially offset primarily by a reduction in volume attributable to lower weather-related demand.

During the first six months, distribution revenues increased by $164 million as a result of volume changes. We distributed more electricity through our system, reflecting both additional customers that we are now required to directly serve and higher weather-related demand due to colder winter weather. This increase in distribution revenues was partially offset by lower revenues of $23 million, primarily attributable to the price changes associated with the unbundling of electricity rates upon Open Access.

Other revenue increased marginally in the second quarter compared to the same period in 2002 primarily due to the growth of our telecommunications business conducted by our wholly owned subsidiary, Hydro One Telecom Inc., partially offset by the sale of substantially all of the assets of our competitive retail operations, effective April 30, 2002. On a year-to-date basis, the reduction primarily reflects the contribution of the competitive retail operations before it was sold last year.

Purchased Power

Purchased power costs increased by $48 million, or 13%, to $424 million in the second quarter compared to the same period in 2002, primarily as a result of price changes. Purchased power costs increased by $40 million due to an increase in the average HOEP, partially offset by changes associated with the unbundling of electricity rates upon Open Access including the impact of the debt retirement charge. Purchased power costs further increased by $8 million due to the requirement to directly serve additional customers, partially offset by a reduction in weather-related demand.

During the first six months, purchased power costs increased by $128 million or 15%, to $1,000 million, primarily as a result of volume changes. Purchased power costs increased by $153 million due to the increase in electricity required to directly serve the additional customers and the higher weather-related demand this winter. Price changes associated with the unbundling of electricity rates partially offset the volume increase by $25 million.

Operation, Maintenance and Administration

	Three months ended June 30				Six months ended June 30			
(Canadian dollars in millions)	2003	2002	$ Change	% Change	2003	2002	$ Change	% Change
Transmission	95	84	11	13%	189	162	27	17%
Distribution	99	86	13	15%	181	162	19	12%
Other	8	23	(15)	(65%)	14	49	(35)	(71%)
	202	193	9	5%	384	373	11	3%

Transmission operation, maintenance, and administration costs were higher in the second quarter compared to the same period in 2002 primarily as a result of planned and corrective station maintenance. Higher corrective maintenance reflected equipment-related difficulties primarily resulting from adverse weather in the southern regions of the Province. In addition, we incurred higher site infrastructure costs.

On a year-to-date basis, transmission operation, maintenance, and administration costs also reflect an earlier start to the planned maintenance program compared to 2002, when severe storm conditions required our line crews to focus on emergency capital work.

Distribution operation, maintenance and administration costs were higher in the second quarter compared to the same period in 2002 primarily due to an expanded forestry work program and higher costs associated with customer service enhancements.

On a year-to-date basis, distribution operation, maintenance, and administration costs also reflect higher trouble call work and line maintenance activities, primarily in the first quarter of this year.

Other operation, maintenance and administration costs were lower in the second quarter as well as during the first six months, primarily due to the sale of substantially all of the assets pertaining to our competitive retail operations last year, partially offset by costs to support our growing telecom business.

Depreciation and Amortization

Depreciation and amortization expense increased by $7 million, or 7%, to $109 million in the second quarter and by $15 million, or 8%, to $208 million in the first six months compared to the same periods last year. This increase primarily results from 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 increased by $2 million, or 2%, to $88 million in the second quarter and declined by $1 million, or 1%, to $174 million in the first six months compared to the same periods last year. These marginal changes reflect higher average levels of debt outstanding and the impact of refinancing maturing long-term debt at lower interest rates.

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes decreased by $12 million, or 21%, to $45 million in the second quarter and by $7 million, or 6%, to $110 million in the first six months compared to the same periods in 2002. These reductions reflect the level of income before taxes and the availability of higher tax deductions, combined with the impact of a reduction in the statutory tax rate from 38.62% to 36.62%.

Net Income

Net income for the second quarter was $85 million, a decrease of $14 million, or 14%, compared to the same period last year. This reduction is attributable to an increase in planned and corrective maintenance expenditures in support of the transmission and distribution systems, partially offset by a positive impact on earnings related to the sale of the competitive retail operations in April 2002.

On a year-to-date basis, net income increased by $19 million, or 9%, to $224 million. Earnings attributable to a higher demand for electricity this winter more than offset the lower net income levels of the second quarter. The demand for electricity is highest in the first and third quarters due to normal seasonal variations in weather patterns. The level of maintenance work performed on the transmission and distribution systems during the first and second quarters reflects continued productivity achievements.

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.

Summary of Sources and Uses of Cash

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions)	**2003**	**2002**	**2003**	**2002**
Operating activities	225	112	477	187
Financing activities				
Debt for long-term financing:				
Debt issued	750	-	1,250	-
Debt retired	(651)	(195)	(651)	(195)
Debt for short-term financing	77	180	(294)	290
Dividends paid	(60)	(5)	(125)	(21)
Other	2	-	8	-
	118	(20)	188	74
Investing activities				
Capital expenditures	(140)	(134)	(234)	(250)
Proceeds from disposition	-	50	-	50
Other	7	(14)	21	(21)
	(133)	(98)	(213)	(221)
Net change in cash and cash equivalents	210	(6)	452	40

Operating Activities

The increase in cash from operating activities in the second quarter and in the first six months of the year primarily reflects one-time funding requirements associated with Open Access, including a delay in billings due to the availability of the HOEP from the Independent Electricity Market Operator and the requirement to serve a number of commercial, industrial and local distribution companies. Year-to-date results also reflect changes in accounts payable and accrued charges associated with purchased power and payments in lieu of corporate income taxes. The increase attributable to payments in lieu of corporate income taxes is primarily due to the timing of installments. The increase in net income for the first six months of 2003 compared to 2002 also contributed to the increase in net cash generated from operations.

Financing Activities

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 facilities with a syndicate of banks of $750 million maturing in August 2003 and $250 million maturing in August 2005. We received confirmation in June that the credit facility scheduled to mature in August 2003 will be renewed for an additional 364-day term. At June 30, 2003, we had $285 million of short-term notes outstanding. The remaining short-term liquidity available of approximately $715 million under this program, together with the current cash reserve of $417 million and 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. On June 2, 2003 we filed a $2.0 billion base shelf prospectus to renew our medium term note program for another 25 months. After considering our most recent debt financing that was completed on June 23, 2003, we have approximately $1.5 billion principal amount issuable under this program. We intend to use the medium term note program to meet most of our borrowing requirements for the foreseeable future. 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 second quarter of 2003, we issued $250 million in 40-year, 6.59% notes and $500 million in 5-year, 4.00% notes under our medium term note program. We also increased our short-term notes issued under our commercial paper program by $77 million. In the first six months of 2003, we have issued a total of $1,250 million in notes under the medium term note program and have reduced our debt for short-term financing by $294 million. In the second quarter, we repaid $651 million in maturing long-term debt to the Ontario Electricity Financial Corporation (OEFC). In the first six months of 2002 we did not issue any long-term debt, but we issued $290 million in short-term notes. In the same period in 2002, we repaid $195 million in maturing long-term debt to the OEFC.

In the second quarter of 2003, we paid dividends to the Province in the amount of $60 million, consisting of $5 million in preferred dividends and $55 million in common dividends. In the comparative period, we only paid $5 million in preferred dividends as the first quarter common dividend in 2002 was paid subsequent to June 30, 2002. Over the first half of the year, we have paid total common and preferred dividends of $125 million compared with total dividends of $21 million in the first six months of 2002.

Investing Activities

Cash used in investing activities primarily represents capital expenditures to enhance and reinforce our transmission and distribution systems. Investing activities in 2002 also included net proceeds of approximately $50 million from the sale of substantially all of the assets pertaining to the competitive retail business of our wholly owned subsidiary formerly known as Ontario Hydro Energy Inc. Capital expenditures for each of our three business segments were as follows:

	Three months ended June 30				Six months ended June 30			
(Canadian dollars in millions)	**2003**	**2002**	**$ Change**	**% Change**	**2003**	**2002**	**$ Change**	**% Change**
Transmission	64	58	6	10%	112	106	6	6%
Distribution	72	74	(2)	(3%)	114	134	(20)	(15%)
Other	4	2	2	100%	8	10	(2)	(20%)
	140	134	6	4%	234	250	(16)	(6%)

Transmission capital expenditures increased in the second quarter compared to the same period in 2002 primarily as a result of investments to increase capacity, in particular station construction in southern Ontario.

On a year-to-date basis, investments associated with the ongoing replacement of our microwave radio system and the construction of the integrated operating centre were also higher, but were partially offset by lower expenditures on other transmission lines and stations capital work 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 marginally in the second quarter compared to the same period in 2002 primarily reflecting the completion of work necessary to prepare our systems and processes for the opening of the electricity market last year.

On a year-to-date basis, the lower level of expenditures also reflects the extent of emergency capital work required in the first quarter of 2002 as a result of intense storms.

Other capital expenditures increased in the second quarter as a result of further enhancement of our fibre-optic network in support of our growing telecommunications business. On a year-to-date basis, expenditures declined primarily due to the sale of substantially all of the assets pertaining to our competitive retail operations.

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.

June 30, 2003 *(Canadian dollars in millions)*	Total	2003[1]	2004/2005	2006/2007	After 2007
Contractual Obligations *(due by year):*					
Short-term notes payable	285	285	-	-	-
Long-term debt	5,392	-	1,239	1,053	3,100
Operating lease commitments	17	5	10	2	-
Inergi LP outsourcing agreement	859	60	215	200	384
Total Contractual Obligations	6,553	350	1,464	1,255	3,484
Other Commercial Commitments *(by year of expiry)*					
Bank line[2]	1,000	750	250	-	-
Letters of credit[3]	123	102	21	-	-
Guarantees[3]	275	275	-	-	-
Total Other Commercial Commitments	1,398	1,127	271	-	-

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

[2]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 15, 2003 and $250 million for a five-year term maturing on August 18, 2005. We received confirmation in June that the credit facility scheduled to mature on August 15, 2003 will be renewed for an additional 364-day term.

[3]We currently have bank letters of credit of $97 million outstanding relating to retirement compensation agreements. We have also provided prudential support to the IMO as required by the Market Rules, using a combination of bank letters of credit of $20 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 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 Interim Chair

Effective June 4, 2003, the Province appointed Rita Burak as interim Chair of the Board of Directors. Ms. Burak replaces the former Chair, Glen Wright, who has completed his one-year commitment to act as Chair of Hydro One and has returned to the Workplace Safety and Insurance Board as its Chair and President. Mr. Wright will continue to be a member of the Hydro One Board of Directors. Prior to assuming the position of Chair, Ms. Burak was Vice-Chair of the Hydro One Board, and is also a member of the Board of the Equitable Life Insurance Company of Canada and the University Health Network. Ms. Burak is also a Vice-Chair of the University of Guelph and serves on the Ontario government's panel on the role of government and the federal government's External Advisory Committee on Smart Regulation.

SELECTED FINANCIAL HIGHLIGHTS AND RATIOS

(Canadian dollars in millions) (except as otherwise noted)	**Three months ended June 30** **2003**	**2002**	**Six months ended June 30** **2003**	**2002**
Net income	85	99	224	205
EBITDA[1]	327	344	716	690
Net cash from operations	225	112	477	187
Capital expenditures	140	134	234	250
Earnings per common share *(Canadian dollars)*	806	941	2,149	1,956
Earnings coverage[2]			2.38	2.31
Net asset coverage on long-term debt[3]			1.81	1.90
Total debt to capitalization[4]			56%	56%

[1]EBITDA has been presented for the three and six months ended June 30, 2003 and June 30, 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. EBITDA is not recognized as a measure under Canadian generally accepted accounting principles (GAAP). 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 June 30, 2003 and June 30, 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 June 30, 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 June 30, 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 June 30		Six months ended June 30	
(Canadian dollars in millions)	**2003**	**2002**	**2003**	**2002**
Revenues				
Transmission	323	318	658	627
Distribution *(Note 4)*	619	585	1,427	1,286
Other	11	10	15	22
	953	913	2,100	1,935
Costs				
Purchased power *(Note 4)*	424	376	1,000	872
Operation, maintenance and administration	202	193	384	373
Depreciation and amortization	109	102	208	193
	735	671	1,592	1,438
Income before financing charges and provision for payments in lieu of corporate income taxes	218	242	508	497
Financing charges	88	86	174	175
Income before provision for payments in lieu of corporate income taxes	130	156	334	322
Provision for payments in lieu of corporate income taxes	45	57	110	117
Net income	85	99	224	205
Basic and fully diluted earnings per common share *(Canadian dollars)*	806	941	2,149	1,956

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (unaudited)

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions)	**2003**	**2002**	**2003**	**2002**
Retained earnings, beginning of period	576	447	502	357
Net income	85	99	224	205
Dividends *(Note 2)*	(60)	(59)	(125)	(75)
Retained earnings, end of period	601	487	601	487

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

(Canadian dollars in millions)	**June 30, 2003** **(unaudited)**	**December 31, 2002**
Assets		
Current assets		
Cash and cash equivalents	417	-
Accounts receivable (net of allowance for doubtful accounts) *(Note 4)*	609	646
Materials and supplies	53	55
	1,079	701
Fixed assets		
Fixed assets in service	13,934	13,790
Less: accumulated depreciation	5,011	4,859
	8,923	8,931
Construction in progress	368	300
	9,291	9,231
Other long-term assets		
Deferred pension asset	663	742
Regulatory assets	532	570
Goodwill	133	133
Long-term accounts receivable and other assets	21	28
Deferred debt costs	23	17
	1,372	1,490
Total assets	11,742	11,422
Liabilities		
Current liabilities		
Bank indebtedness	-	35
Accounts payable and accrued charges *(Note 4)*	577	576
Accrued interest	43	53
Short-term notes payable	285	579
Long-term debt payable within one year *(Note 3)*	700	651
	1,605	1,894
Long-term debt *(Note 3)*	4,503	3,938
Other long-term liabilities		
Regulatory liability	663	742
Employee future benefits other than pension	569	540
Environmental liabilities	134	140
Long-term accounts payable and accrued charges	30	29
	1,396	1,451
Total liabilities	7,504	7,283
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	601	502
Total shareholder's equity	4,238	4,139
Total liabilities and shareholder's equity	11,742	11,422

See accompanying notes to Consolidated Financial Statements.

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

	Three months ended June 30		Six months ended June 30	
(Canadian dollars in millions)	**2003**	**2002**	**2003**	**2002**
Operating activities				
Net income	85	99	224	205
Adjustments for non-cash items:				
Depreciation and amortization (net of removal costs)	98	93	193	181
	183	192	417	386
Changes in non-cash balances related to operations	42	(80)	60	(199)
Net cash from operations	225	112	477	187
Financing activities				
Debt for long-term financing:				
Issued	750	-	1,250	-
Retired	(651)	(195)	(651)	(195)
Amortization of discount	17	-	25	-
Termination of forward sale *(Note 3)*	(12)	-	(12)	-
Debt for short-term financing	77	180	(294)	290
Dividends paid	(60)	(5)	(125)	(21)
Other	(3)	-	(5)	-
Net cash from (used in) financing activities	118	(20)	188	74
Investing activities				
Fixed assets	(140)	(134)	(234)	(250)
Proceeds from disposition	-	50	-	50
Other assets	7	(14)	21	(21)
Net cash used in investing activities	(133)	(98)	(213)	(221)
Net change in cash and cash equivalents	210	(6)	452	40
Cash and cash equivalents, beginning of period	207	22	(35)	(24)
Cash and cash equivalents, end of period	417	16	417	16

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
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 June 30, 2003 and the results of operations and cash flows for the three and six months ended June 30, 2003 and 2002.

2. DIVIDENDS

During the six months ended June 30, 2003, preferred dividends in the amount of $9 million (2002 - $9 million) and common dividends in the amount of $116 million (2002 - $66 million) were declared. At June 30, 2002, common dividends in the amount of $54 million were unpaid and were included in accounts payable and accrued charges in the balance sheet.

3. LONG-TERM DEBT

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: $300 million at a coupon rate of 5.77% due November 15, 2012 and $200 million at a coupon rate of 6.35% due January 31, 2034.

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. These notes have a 6.59% coupon rate and mature on April 22, 2043.

On June 23, 2003, Hydro One issued 5-year notes with a principal amount of $500 million, under the Company's medium term note program. These notes have a 4.00% coupon rate and mature on June 23, 2008. Simultaneously, the Company terminated its forward sale agreement executed on April 15, 2003 of $250 million in Government of Canada bonds for a net cash payment of $12 million. This agreement was designated as an interest rate hedge for an anticipated transaction and, as a result, the cost of termination will be deferred and amortized on an annuity basis over the five-year term of the related debt.

4. REBATES

The *Electricity Pricing, Conservation and Supply Act, 2002* stipulated a fixed energy price of 4.3 cents per kWh for low volume and designated customers, retroactive to Open Access and lasting until at least April 30, 2006. On March 21, 2003, the Province of Ontario announced that all customers with annual consumption up to 250,000 kWh and certain designated customers would now qualify for the 4.3 cents per kWh price, again retroactive to May 1, 2002. The 4.3 cents per kWh price freeze will be funded through the Ontario Electricity Financial Corporation.

The Company has retroactively restated its revenue and purchased power for the period May 1, 2002 to December 31, 2002 to reflect the 4.3 cents per kWh price. These offsetting restatements have not resulted in any adjustment to the net income previously reported. The Company's December 31, 2002 balance sheet has also been restated to adjust accounts receivable and accounts payable and accrued charges to reflect the 4.3 cents per kWh price.

5. SEGMENTED REPORTING

Hydro One has three reportable segments:

I. The transmission business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
II. The distribution business, which comprises the core business of delivering and selling electricity to customers; and
III. The "other" segment, which primarily consists 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 is 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 June 30 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2003				
Segment profit				
Revenues	323	619	11	953
Purchased power	-	424	-	424
Operation, maintenance and administration	95	99	8	202
Depreciation and amortization	56	52	1	109
Income before financing charges and provision for payments in lieu of corporate income taxes	172	44	2	218
Financing charges				88
Income before provision for payments in lieu of corporate income taxes				130
Capital expenditures	64	72	4	140
2002				
Segment profit				
Revenues	318	585	10	913
Purchased power	-	375	1	376
Operation, maintenance and administration	84	86	23	193
Depreciation and amortization	54	47	1	102
Income before financing charges and provision for payments in lieu of corporate income taxes	180	77	(15)	242
Financing charges				86
Income before provision for payments in lieu of corporate income taxes				156
Capital expenditures	58	74	2	134

Six months ended June 30 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2003				
Segment profit				
Revenues	658	1,427	15	2,100
Purchased power	-	1,000	-	1,000
Operation, maintenance and administration	189	181	14	384
Depreciation and amortization	108	99	1	208
Income before financing charges and provision for payments in lieu of corporate income taxes	361	147	-	508
Financing charges				174
Income before provision for payments in lieu of corporate income taxes				334
Capital expenditures	112	114	8	234
2002				
Segment profit				
Revenues	627	1,286	22	1,935
Purchased power	-	871	1	872
Operation, maintenance and administration	162	162	49	373
Depreciation and amortization	107	83	3	193
Income before financing charges and provision for payments in lieu of corporate income taxes	358	170	(31)	497
Financing charges				175
Income before provision for payments in lieu of corporate income taxes				322
Capital expenditures	106	134	10	250

(Canadian dollars in millions)	**June 30, 2003**	**December 31, 2002**
Total assets		
Transmission	6,560	6,638
Distribution	4,676	4,694
Other	506	90
	11,742	11,422

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

6. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2003 Consolidated Financial Statements.