

Hydro One announces first quarter net income

Toronto, May 7, 2004 - Hydro One Inc. today released its first quarter results with net income of \$125 million and revenues of \$1,106 million for the three months ended March 31, 2004.

Net income decreased by \$14 million, or 10%, compared to the first three months of 2003, primarily related to the impact of higher investments to upgrade, maintain and reinforce the high-voltage transmission network and low-voltage distribution system. Higher depreciation charges related to increased transmission and distribution investments were incurred as well as higher overall expenditures on work programs to sustain our electricity system. These included higher expenditures associated with our distribution forestry program and the funding requirements associated with our pension plan.

“Construction is well under way to complete our Parkway transformer station north of Toronto, which will enable us to safely and reliably supply the growing requirements of the Greater Toronto Area and York region” said Tom Parkinson, President and Chief Executive Officer of Hydro One. “Parkway is an example of the significant investment in system upgrades and expansion required to meet Ontario’s electricity delivery needs in the future.”

For the three months ended March 31, 2004, total revenue decreased by \$41 million, or 4%, compared to last year, primarily due to lower distribution revenues from lower prices for purchased power and lower transmission revenues reflecting milder winter temperatures compared to last winter. Net cash from operations was \$274 million for the first three months of 2004. During the first quarter, the company paid \$80 million in dividends to the Ontario government and invested \$147 million in capital expenditures, primarily in the transmission and distribution systems.

Recent Developments

- On April 22, 2004, Standard & Poor’s Rating Service Inc. raised Hydro One’s long-term corporate credit rating to “A” from “A-” and, at the same time, the CreditWatch with developing implications was removed. The outlook on the rating is stable.
- On April 5, 2004, the US-Canada Power System Outage Task Force established to identify the causes of the August 14, 2003 blackout released its final report. The report issued by the Task Force showed that the roots of the blackout were elsewhere. We were a key participant in the investigation and fully support the Task Force’s recommendations. We currently employ many of the key recommendations and practices highlighted in the report and continue to make substantial investments to maintain and upgrade the electricity system to ensure continued reliability. In addition, we already adhere to rules and standards that are among the most rigorous in North America.
- Beth Summers was appointed Chief Financial Officer of Hydro One Inc., effective March 25, 2004.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

CONSOLIDATED FINANCIAL HIGHLIGHTS				
<i>Three months ended March 31 (Canadian dollars in millions)</i>	2004	2003	\$ Change	% Change
Revenues	1,106	1,147	(41)	(4)
Purchased power	540	576	(36)	(6)
Operating costs	297	281	16	6
Net income	125	139	(14)	(10)
Net cash from operations	274	266	8	3
STATISTICS				
Transmission – units transmitted (<i>TWh</i>) ¹	41.1	41.0	0.1	-
Distribution - units distributed (<i>TWh</i>) ¹	8.3	8.2	0.1	1
Average Ontario 60-minute Peak Demand (<i>MW</i>) ¹	23,060	23,581	(521)	(2)

¹system-related statistics are preliminary

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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HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004 to the three months ended March 31, 2003.

Revenues

<i>Three months ended March 31</i> <i>(Canadian dollars in millions)</i>	2004	2003	\$ Change	% Change
Transmission	322	335	(13)	(4)
Distribution	780	808	(28)	(3)
Other	4	4	-	-
	1,106	1,147	(41)	(4)
Transmission - units transmitted (TWh) ¹	41.1	41.0	0.1	-
Distribution - units distributed (TWh) ¹	8.3	8.2	0.1	1
Average Ontario 60-minute Peak Demand (MW) ¹	23,060	23,581	(521)	(2)

¹system-related statistics are preliminary

Transmission revenues consist predominantly of our transmission tariff, which is based on the peak demand for electricity across our high-voltage network. The level of peak demand is primarily influenced by weather conditions. As a result of a milder winter this year, the average peak demand was approximately 521 MWs lower as compared to the first quarter of 2003 and accordingly, our transmission tariff revenues were lower. Ancillary revenues, including those associated with contract work for other industry participants, were also marginally lower for the first quarter of 2004.

Distribution revenues include our distribution tariff, which is based on Ontario Energy Board (OEB) approved rates, recovery for the cost of purchased power used by our customers and ancillary distribution services. Accordingly, distribution revenues are primarily influenced by our distribution rates, the amount of electricity we distribute and the cost of purchased power.

Lower distribution revenues for the first three months of 2004 primarily reflect lower purchased power costs of \$36 million as described below. This reduction was partially offset by higher distribution tariff revenues and marginally higher revenues from ancillary distribution services.

Other revenues were consistent in the first quarter of 2004 compared to the same period last year. We earn these revenues from our telecommunications business conducted by our wholly owned subsidiary, Hydro One Telecom Inc.

Purchased Power

Purchased power costs incurred by our distribution business represent the cost of electricity delivered to customers within our distribution service area and consist of the wholesale commodity cost of energy, Independent Electricity Market Operator's (IMO) wholesale market service charges and transmission charges levied by the IMO. For certain low volume and designated customers, the wholesale commodity price of energy is fixed at 4.3 cents per kWh. On April 1, 2004, this fixed rate was replaced by a two-tiered interim pricing structure of 4.7 cents per kWh for the first 750 kWhs consumed per month and 5.5 cents per kWh for any additional consumption. Customers who are not eligible for the interim pricing structure pay the wholesale commodity price of energy which is based on the Hourly Ontario Energy Price (HOEP) established by the IMO spot market.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Purchased power costs decreased by \$36 million, or 6%, to \$540 million primarily as a result of a lower average HOEP. The average monthly weighted-average HOEP was 5.8 cents per kWh for the first three months of 2004 as compared to 7.9 cents per kWh for the same period last year.

Operation, Maintenance and Administration

Our operation, maintenance and administration costs are comprised primarily of labour, material, equipment and purchased services in support of the operation and maintenance of the transmission and distribution systems. These costs also include property taxes and payments in lieu thereof on our transmission and distribution lines, stations and buildings.

Commencing in 2004, operation, maintenance and administration and capital expenditures also include the recognition of pension contribution costs. As a result of an actuarial valuation as at December 31, 2003 that will be filed with the Financial Services Commission of Ontario later in 2004, we expect to make contributions to our pension plan of approximately \$100 million per year, for the next three years. We intend to apply to the OEB for recovery of any increased ongoing expenses related to pension costs through future rate applications for our transmission and distribution businesses.

The Minister of Energy has granted us approval to submit an application to the OEB for an accounting order to enable us to defer the operating expense portion of the pension contributions related to our distribution business. We expect to file an application soon. In its review of our application, the OEB is to conduct a prudence assessment. At a later date, the OEB is expected to address the appropriateness of including pension contributions in future electricity rates.

Operation, maintenance and administration costs for each of our three business segments were as follows:

<i>Three months ended March 31</i> <i>(Canadian dollars in millions)</i>	2004	2003	\$ Change	% Change
Transmission	85	94	(9)	(10)
Distribution	97	82	15	18
Other	4	6	(2)	(33)
	186	182	4	2

Transmission operation, maintenance and administration expenditures necessary to sustain our high-voltage system were lower by \$9 million in the first quarter as compared to the same period last year. This reduction primarily reflects the reassignment of resources to support the increased capital program, largely to expand and reinforce the transmission system. Within the work program, we experienced marginally higher corrective station-maintenance expenditures and higher costs associated with the funding requirements of our pension plan.

Distribution operation, maintenance and administration costs necessary to maintain our low-voltage system, increased by \$15 million in the first three months compared to the same period last year. We expanded our forestry program and achieved an earlier start to this work program in 2004. Enhanced clearing of trees and brush on our rights of way is being undertaken to maintain reliability and to reduce vegetation-caused power outages on our system. Costs to support our customer care operations were also marginally higher, largely resulting from the implementation and communication of changes associated with the Government's policies with respect to electricity pricing. Distribution operation, maintenance and administration costs also reflect the impact of increased pension contributions. These overall increases were partially offset by the reassignment of resources to support the larger distribution capital work program in the first quarter.

Other operation, maintenance and administration costs were lower in the first three months as compared to the same period in 2003 primarily due to lower costs for telecommunications services and fibre.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Depreciation and Amortization

Depreciation and amortization expense increased by \$12 million, or 12%, to \$111 million. This increase primarily reflects an increase in fixed assets in service consistent with the investments made in our electricity delivery network.

Financing Charges

Financing charges declined by \$1 million, or 1%, to \$85 million. This reduction reflects the refinancing of our debt at lower average interest rates compared to the rates on the maturing debt, partially offset by the impact of a higher average level of debt outstanding in the first quarter of 2004 than in the comparative period.

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes declined by \$6 million, or 9%, to \$59 million. This reduction reflects a lower level of income and the impact of a reduction in the statutory tax rate from 36.62% to 36.12%.

Net Income

Net income of \$125 million for the first three months of 2004 was \$14 million lower than in the same period last year. This reduction primarily reflects the impact of higher investments to upgrade, maintain and reinforce our electricity delivery network. Higher depreciation charges related to increased transmission and distribution investments were incurred as well as higher overall expenditures on work programs, including those associated with our distribution forestry program and the funding requirements for our pension plan. Electricity revenues did not have a significant impact on net income as the higher net revenue from the distribution of electricity was substantially offset by the reduction in transmission revenues.

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

<i>Three months ended March 31 (Canadian dollars in millions)</i>	2004	2003
Operating activities	274	266
Financing activities		
Long-term debt issued	250	500
Long-term debt retired	(235)	-
Short-term notes payable	(25)	(371)
Dividends paid	(80)	(65)
Investing activities		
Capital expenditures	(147)	(94)
Other financing and investing activities	-	6
Net change in cash and cash equivalents	37	242

Operating Activities

Net cash generated from operations for the first three months of 2004 was \$274 million, compared with \$266 million in 2003. While net income was lower in the first quarter of 2004, non-cash adjustments related to depreciation expense, amortization of the debt discount, and retail settlements variance accounts that reflect timing differences between when we pay certain system charges and when they are recovered from customers, were higher. Our working capital requirements during the first quarter of 2004 were consistent with the same period last year.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 2004 and \$250 million maturing in August 2005. The \$1 billion in short-term liquidity available under this program 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. We have approximately \$1.25 billion principal amount issuable under this program that is available until July 2005. Our notes and debentures mature between 2004 and 2043. We currently plan to refinance maturing debt principally through our medium term note program.

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

¹On April 22, 2004, Standard & Poor's Rating Service Inc. raised Hydro One's credit rating to A from A- and, at the same time, the CreditWatch with developing implications was removed. The outlook on the rating is stable.

During the first quarter of 2004, we issued \$250 million in long-term debt under our medium term note program and we repaid \$235 million in maturing long-term debt. We also repaid all of our short-term notes. In comparison, during the first quarter of 2003 we issued \$500 million in debt under our medium term note program and had a net reduction of \$371 million in short-term notes.

In the first quarter of 2004, we paid dividends to the Government of Ontario in the amount of \$80 million, consisting of \$76 million in common dividends and \$4 million in preferred dividends. In the comparative period during 2003, we paid common dividends of \$61 million and preferred dividends of \$4 million.

Investing Activities

Cash used for investing activities primarily represents capital expenditures for each of our three business segments as follows:

<i>Three months ended March 31</i> <i>(Canadian dollars in millions)</i>	2004	2003	\$ Change	% Change
Transmission	81	48	33	69
Distribution	64	42	22	52
Other	2	4	(2)	(50)
	147	94	53	56

Transmission capital expenditures increased by \$33 million, from \$48 million during the first quarter of 2003 to \$81 million this year. Capital expenditures to expand and reinforce our transmission system contributed \$19 million towards this increase. These expansion and reinforcement projects will primarily address growing loads and the closure of Lakeview Generating Station, and include the new Parkway transformer station. The remainder of the increase reflects ongoing capital expenditures made to ensure the reliability of our existing transmission stations, lines and equipment and to support our transmission operations. Operational efficiency improvements have allowed us to expedite the release of the work program, resulting in higher work volumes and expenditures in the first quarter to replace end-of-life components and assets, such as wood poles. Construction of our integrated operating facility continued throughout the quarter. This facility is expected to be fully in-service later this year and will achieve cost efficiencies, improve customer response, and provide advanced monitoring and analysis capabilities. The funding requirements associated with our pension plan also contributed to the overall increase in our capital expenditures.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Distribution capital expenditures in the first quarter of 2004 were \$64 million, an increase of \$22 million over the comparable expenditures in 2003. Expenditures to replace existing distribution station components, line assets and other equipment necessary to maintain reliability, increased by \$14 million. Consistent with our transmission program, operational and organizational efficiency improvements have allowed us to accelerate the release of our work program this year. In addition, during the first quarter of 2004 we experienced higher expenditures for unplanned equipment replacements compared to last year. Capital expenditures incurred to expand and improve our distribution system also increased over the first quarter of 2003, primarily due to the changes associated with the OEB's Distribution System Code. These changes result in our company funding a greater proportion of customer-shared new connection and system upgrade costs than last year. The overall increase in our distribution capital expenditures is also partially attributable to our increased pension contributions.

Other capital expenditures decreased from \$4 million in the first quarter of 2003 to \$2 million in 2004. This reduction reflects the completion of our fibre-optic network in 2003. The 2004 capital program reflects ongoing equipment upgrades commensurate with demand.

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, 2004

<i>(Canadian dollars in millions)</i>	Total	2004¹	2005/2006	2007/2008	After 2008
Contractual Obligations (due by year):					
Short-term notes payable	-	-	-	-	-
Long-term debt	5,178	236	1,237	855	2,850
Operating lease commitments	24	7	9	6	2
Inergi LP outsourcing agreement	795	84	212	204	295
Total Contractual Obligations	5,997	327	1,458	1,065	3,147
Other Commercial Commitments (by year of expiry)					
Bank line ²	1,000	750	250	-	-
Letters of credit ³	107	72	35	-	-
Guarantees ³	275	275	-	-	-
Pension ⁴	300	100	200	-	-
Total Other Commercial Commitments	1,682	1,197	485	-	-

¹ The amounts disclosed represent the balance due over the period April 1, 2004 to December 31, 2004.

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 13, 2004 and \$250 million for a five-year term maturing on August 18, 2005.

³ We currently have bank letters of credit of \$72 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 \$35 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.

⁴ Contributions after 2006 will be based on an actuarial valuation as at December 31, 2006 and will depend on future investment returns, changes in benefits or actuarial assumptions. Should financial market conditions improve significantly before December 31, 2006, we have the option to file an earlier actuarial valuation.

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. 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.

HYDRO ONE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

RECENT DEVELOPMENTS

Distribution Acquisitions, Divestments or Assets

In a letter dated April 15, 2004, the Minister of Energy stated that the Government of Ontario expects to address broad policy with respect to the electricity distribution sector later this year and, in the interim, expects us not to enter into further transactions involving the acquisition or divestment of local distribution companies or distribution assets.

Announcement by the Government of Ontario

On April 15, 2004, the Government of Ontario announced a new vision for the electricity sector aimed at new supply, increased conservation and stable prices and intends to introduce legislation to effect the reforms in June. The Government also announced that it will undertake an examination of the transmission and distribution side of the electricity infrastructure over the next 12 months. We will assess the impact of this announcement on our operations as information becomes available.

US-Canada Power System Outage Task Force

On April 5, 2004, the US-Canada Power System Outage Task Force (Task Force) established to identify the causes of the August 14, 2003 blackout released its final report. The report issued by the Task Force showed that the roots of the blackout were elsewhere. We were a key participant in the investigation and fully support the Task Force's recommendations. We currently employ many of the key recommendations and practices highlighted in the report and continue to make substantial investments to maintain and upgrade the electricity system to ensure continued reliability. In addition, we already adhere to rules and standards that are among the most rigorous in North America.

Interim Rates Approved

Interim rates associated with the rate application filed by Hydro One Networks Inc. for the recovery of certain regulatory assets over a four-year period were given interim approval by the OEB on March 16, 2004. The amounts for recovery will be subject to review by the OEB. A similar application by Hydro One Brampton Inc. was approved earlier, on March 11, 2004. The interim rates pertaining to regulatory assets in the amount of approximately \$160 million were implemented on April 1, 2004.

Appointment of Chief Financial Officer

Beth Summers was appointed Chief Financial Officer of Hydro One Inc., effective March 25, 2004.

SELECTED FINANCIAL HIGHLIGHTS AND RATIOS

<i>Three months ended March 31</i> <i>(Canadian dollars in millions) (except as otherwise noted)</i>	2004	2003
Net income	125	139
EBITDA ¹	380	389
Net cash from operations	274	266
Capital expenditures	147	94
Earnings per common share <i>(Canadian dollars)</i>	1,208	1,343
Earnings coverage ratio ²	2.38	2.46
Net asset coverage on long-term debt ³	1.86	1.86
Total debt to capitalization ⁴	54%	54%

¹EBITDA has been presented for the three months ended March 31, 2004 and March 31, 2003 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 non-GAAP measure because we believe that it is a standard and useful measure of our financial performance.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

²The earnings coverage ratio has been presented for the twelve months ended March 31, 2004 and March 31, 2003, 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.

³The net asset coverage on long-term debt ratio has been presented as at March 31, 2004 and December 31, 2003 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.

⁴Total debt to capitalization ratio has been presented as at March 31, 2004 and December 31, 2003 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)

<i>Three months ended March 31 (Canadian dollars in millions)</i>	2004	2003
Revenues		
Transmission	322	335
Distribution	780	808
Other	4	4
	<u>1,106</u>	<u>1,147</u>
Costs		
Purchased power	540	576
Operation, maintenance and administration	186	182
Depreciation and amortization	111	99
	<u>837</u>	<u>857</u>
Income before financing charges and provision for payments in lieu of corporate income taxes	269	290
Financing charges	85	86
	<u>184</u>	<u>204</u>
Income before provision for payments in lieu of corporate income taxes	184	204
Provision for payments in lieu of corporate income taxes	59	65
Net income	<u>125</u>	<u>139</u>
Basic and fully diluted earnings per common share (Canadian dollars)	<u>1,208</u>	<u>1,343</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (unaudited)

<i>Three months ended March 31 (Canadian dollars in millions)</i>	2004	2003
Retained earnings, beginning of period	654	502
Net income	125	139
Dividends (Note 2)	(80)	(65)
Retained earnings, end of period	<u>699</u>	<u>576</u>

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

<i>(Canadian dollars in millions)</i>	March 31, 2004	December 31, 2003
	(unaudited)	
Assets		
Current assets		
Accounts receivable (net of allowance for doubtful accounts)	660	616
Materials and supplies	50	45
	710	661
Fixed assets		
Fixed assets in service	14,444	14,362
Less: accumulated depreciation	5,257	5,175
	9,187	9,187
Construction in progress	332	278
	9,519	9,465
Other long-term assets		
Deferred pension asset	553	584
Regulatory assets	398	421
Goodwill	133	133
Long-term accounts receivable and other assets	19	20
Deferred debt costs	23	22
	1,126	1,180
Total assets	11,355	11,306
Liabilities		
Current liabilities		
Bank indebtedness	-	37
Accounts payable and accrued charges	616	620
Accrued interest	94	38
Short-term notes payable	-	25
Long-term debt payable within one year <i>(Note 3)</i>	236	472
	946	1,192
Long-term debt <i>(Note 3)</i>	4,807	4,539
Other long-term liabilities		
Regulatory liability	553	584
Employee future benefits other than pension	615	597
Environmental liabilities	66	69
Long-term accounts payable and accrued charges	32	34
	1,266	1,284
Total liabilities	7,019	7,015
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	699	654
Total shareholder's equity	4,336	4,291
Total liabilities and shareholder's equity	11,355	11,306

See accompanying notes to Consolidated Financial Statements.

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

<i>Three months ended March 31 (Canadian dollars in millions)</i>	2004	2003
Operating activities		
Net income	125	139
Adjustments for non-cash items:		
Depreciation and amortization (net of removal costs)	104	95
Amortization of discount	18	8
Retail settlement variance accounts	9	6
	256	248
Changes in non-cash balances related to operations	18	18
Net cash from operations	274	266
Financing activities		
Long-term debt:		
Issued	250	500
Retired	(235)	-
Short-term notes payable	(25)	(371)
Dividends paid	(80)	(65)
Deferred debt costs	(1)	(2)
Net cash (used in) from financing activities	(91)	62
Investing activities		
Fixed assets	(147)	(94)
Other assets	1	8
Net cash used in investing activities	(146)	(86)
Net change in cash and cash equivalents	37	242
Cash and cash equivalents, beginning of period	(37)	(35)
Cash and cash equivalents, end of period	-	207

See accompanying notes to Consolidated Financial Statements.

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

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, 2003 and December 31, 2002, 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, 2004 and the results of operations and cash flows for the three months ended March 31, 2004 and 2003.

2. DIVIDENDS

During the three months ended March 31, 2004, preferred dividends in the amount of \$4 million (2003 - \$4 million) and common dividends in the amount of \$76 million (2003 - \$61 million) were declared.

3. LONG-TERM DEBT

On February 19, 2004, Hydro One issued notes with a principal amount of \$250 million under the Company's medium term note program. The notes were issued in one tranche of Series 7 for \$250 million at a coupon rate of 3.95% due February 24, 2009.

4. EMPLOYEE FUTURE BENEFITS

In accordance with the Ontario Energy Board's rate orders, Hydro One recognizes pension costs in the year contributions are paid to the pension fund. During the three months ended March 31, 2004, the Company has accrued approximately \$27 million (2003 - \$nil) in respect of the contributions expected to be made later in the year. Of this amount, \$16 million has been attributed to labour and charged to operations, and \$11 million has been capitalized as part of the cost of fixed assets. No contributions were paid in 2002.

During the three months ended March 31, 2004, the net periodic benefit cost related to employee future benefits other than pension was \$28 million (2003 - \$24 million).

5. 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 telecommunication.

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:

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

Three months ended March 31
(Canadian dollars in millions)

	Transmission	Distribution	Other	Consolidated
2004				
Segment profit				
Revenues	322	780	4	1,106
Purchased power	-	540	-	540
Operation, maintenance and administration	85	97	4	186
Depreciation and amortization	57	53	1	111
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	180	90	(1)	269
Financing charges				85
Income before provision for payments in lieu of corporate income taxes				184
Capital expenditures	81	64	2	147
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

<i>(Canadian dollars in millions)</i>	March 31, 2004	December 31, 2003
Total assets		
Transmission	6,585	6,589
Distribution	4,675	4,623
Other	95	94
	11,355	11,306

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 March 31, 2004 Consolidated Financial Statements.