

## Hydro One Releases 2011 Second Quarter Financial Results

*For Immediate Release – August 11, 2011*

**Toronto** - Hydro One Inc. today released its 2011 second quarter results with net income for the quarter of \$142 million and revenues of \$1,268 million.

“Our Company has performed well in the face of major storms, extreme heat and forest fires this year,” said Laura Formusa, President and CEO, Hydro One Inc. “Our employees worked efficiently and tirelessly to safely restore power as quickly as possible to more than 300,000 customers affected by storms in late April and early June, as well as forest fires in July. We continue to deliver the high standard of emergency response our customers depend upon in these challenging situations.”

The following are some of our key achievements in the quarter:

- Year-to-date, we have invested more than \$640 million in capital expenditures to improve system reliability, address an aging power system, facilitate new generation and improve service to our customers. During the same period, more than \$385 million of investments were put in-service.
- We continue to leverage our enterprise-wide information system to realize efficiencies in our operations. For example, we are building upon productivity gains already achieved through this system such as streamlining of our work management processes, better monitoring and maintaining of our asset base through enhanced reporting and reducing administrative costs. With our planned implementation of a new customer information system (CIS), we will have substantially completed the implementation of our enterprise-wide information system. This new CIS system will enable process improvements thereby reducing the overall service cost per customer and will enhance customer satisfaction through a variety of methods such as reduced call times and first call resolution of issues achieved through better and faster availability of information.
- On July 4, 2011, we celebrated the mid-point of construction of the Bruce to Milton line, which is anticipated to be in-service by December 2012. On May 13, 2011, we received a decision from the Minister of Natural Resources directing the Niagara Escarpment Commission to issue us a Development Permit for our work on the Niagara Escarpment portion of the Bruce to Milton line, provided that we meet certain conditions. Those conditions are virtually unchanged from the conditions that accompanied the Development Permit initially issued to us and which was the subject matter of an appeal by certain parties.
- We successfully met the Ontario Energy Board’s (OEB) deadline for converting more than one million of our customers to Time-of-Use pricing.
- We were recognized again by *Corporate Knights Magazine* as one of Canada’s Top 50 Corporate Citizens, having successfully managed our specific environmental, social and governance performance.
- The Canadian Electricity Association recognized us with its 2010 Social Responsibility Award for our innovative stakeholder engagement strategy. The award recognizes our commitment to face-to-face meetings, sharing information, supporting technical working groups and consulting with stakeholders affected by our projects and plans.

- We earned the Utilities Telecom Council Apex Award for demonstrating excellence and innovation in developing telecommunications solutions for our rural utility Smart Grid Project. The award recognizes special instances of how utilities use their communication systems and expertise to demonstrate excellence, innovation and service to the communities they serve.
- On July 21, 2011 the Ontario Securities Commission approved an application we made on July 7 granting us the requested exemptive relief from reporting under International Financial Reporting Standards for the years 2012, 2013 and 2014 inclusive. We will commence reporting under United States Generally Accepted Accounting Principles (US GAAP) in our first quarter consolidated financial statements for the year 2012. We have also amended our bond indentures allowing us to use US GAAP for reporting purposes. Reporting under US GAAP will provide more stable financial reporting that will be comparable to our current results under Canadian GAAP. This will facilitate benchmarking to other large North American utilities in terms of our securities as well as our cost comparisons for the OEB.

Net income of \$142 million in the second quarter and \$354 million year-to-date was higher by \$37 million, or 35%, and by \$80 million, or 29%, respectively, compared to 2010 results. Higher net income reflected OEB rate decisions that allowed for the recovery of assets from prior years which are now in service and a higher rate of return for the electricity industry, based on the OEB's standard formula. New assets in service include new investments to address our aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives, and the initiation of investments in support of the Green Energy Act. The rate decisions support the maintenance and investment requirements of the distribution system, including those to enable the safe and reliable delivery of electricity to our customers throughout Ontario and those to support renewable distributed generation. A smarter grid for distribution will further facilitate investment in renewable sources of power generation which provide clean energy sources, reducing reliance on carbon-based fuels.

Capital expenditures of \$640 million for the first six months were lower by \$65 million, or 9%, compared to the previous year. Capital expenditures on our transmission system were lower by \$43 million, or 11%, compared to last year. This reduction was attributable to lower expenditures to expand our transmission system resulting from last year's substantial completion of a number of multi-year inter-area network and local area supply projects. We continue to invest in a number of significant on-going inter-area network upgrade projects to facilitate new generation. Expenditures to sustain our existing transmission system were also lower than last year. Capital expenditures within our Distribution Business were lower by \$22 million, or 7%, compared to last year, mainly due to the reduction in smart meter installations year-over-year. In 2011, we continued to invest in our smart meter network infrastructure, the development and integration of systems required for Time-of-Use billing and the initiation of our Smart Grid Project that will enhance our operations and support distributed generation.

Total revenues for the six-month period were \$2,728 million, which were \$244 million, or 10%, higher than the same period last year. Our transmission revenues were \$688 million, \$62 million higher than last year primarily due to the OEB-approved transmission tariff rate increases that were effective January 1, 2011 combined with increased revenues resulting from higher average monthly Ontario 60-minute peak demand experienced in the first quarter of the year. Our distribution revenues were \$2,008 million, \$183 million higher than the comparative period. This increase reflects the recovery of higher purchased power costs of \$109 million and the impact of the OEB rate decisions that were effective on May 1, 2010 and on January 1, 2011.

Net cash from operating activities was \$334 million in the second quarter of 2011. During the quarter, we paid dividends to the Province of Ontario and recorded a provision for payments in lieu of corporate income taxes payable to the Ontario Electricity Financial Corporation in the amounts of \$42 million and \$27 million, respectively.

## CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(Canadian dollars in millions)</i>	Three months ended June 30				Six months ended June 30			
	2011	2010	Change	%	2011	2010	Change	%
Revenues	1,268	1,165	103	9	2,728	2,484	244	10
Purchased power	587	542	45	8	1,306	1,197	109	9
Operating costs	426	410	16	4	832	807	25	3
Net income	142	105	37	35	354	274	80	29
Net cash from operations	334	257	77	30	574	544	30	6

### STATISTICS

Average Ontario 60-minute peak demand (MW) <sup>1</sup>	20,519	20,610	(91)	-	21,138	20,772	366	2
Distribution – units distributed to customers (TWh) <sup>1</sup>	6.5	6.4	0.1	2	14.8	14.4	0.4	3

<sup>1</sup> System-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 Province of Ontario.

Hydro One's 2011 Second Quarter Consolidated Financial Statements and Management's Discussion and Analysis can be accessed through the following link:

[www.hydroone.com/financials](http://www.hydroone.com/financials)

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