

Hydro One Reports Third Quarter Results

Renewed strategy focuses on Hydro One's commitment to all Ontarians and operational excellence that continues to deliver strong performance

TORONTO, November 7, 2019 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the third quarter ended September 30, 2019.

Third Quarter Highlights

- Earnings per share (EPS) of \$0.40 and adjusted EPS of \$0.40, compared to \$0.33 and \$0.38, respectively, for the same period in 2018, an increase of 21% and 5%. This reflects the update to 2019 distribution rates, a decrease in operation, maintenance and administration (OM&A) costs due to lower corporate support costs in the quarter, partially offset by lower revenues due to less favourable weather.
- Hydro One released its updated corporate strategy which reaffirms its commitment to Ontario and the provision of safe, reliable, and affordable electricity.
- Partnering with Six Nations of the Grand River Development Corporation and Mississaugas of the Credit First Nation, Hydro One announced the completion of the 76 km double circuit, 230 kV transmission Niagara Reinforcement Line.
- The Company moved forward with plans to build a new Ontario grid control centre in Orillia. This new, state-of-the-art facility is expected to serve as one of the Company's technology hubs and will ensure the safe, reliable delivery of electricity to communities across all of Ontario for years to come.
- In the third quarter of 2019, the distribution customer satisfaction score with residential and small businesses continued to rise and averaged 86% year-to-date.
- Enhancing the framework around its sustainability objectives, the Company released its report on the Carbon Disclosure Project (CDP) in which it outlined actions to address climate change.
- The Ontario Energy Association (OEA) presented two awards to Hydro One employees, for Customer Service and for Contributor of the Year.
- Quarterly dividend declared at \$0.2415 per share, payable December 31, 2019.

"The roll out of our corporate strategy will involve sticking to our strengths and continuing to champion for our customers and the electricity sector in Ontario. Our main focus has been and will remain operational excellence as we continue to drive performance," said Mark Poweska, President and Chief Executive Officer of Hydro One. "We are a leader in Ontario and continue to build relationships with all partners in our region. We are taking a focused lens on creating a brighter, sustainable future for Ontarians, and are steadfast in improving the safety, reliability, affordability, and environmental impacts of our operations."

Selected Consolidated Financial and Operating Highlights

(amounts throughout in millions of Canadian dollars, except as otherwise noted)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues	1,593	1,606	4,765	4,659
Purchased power	737	733	2,197	2,158
Revenues, net of purchased power ¹	856	873	2,568	2,501
Net income attributable to common shareholders	241	194	567	616
Costs related to acquisition of Avista	—	33	140	15
Adjusted net income attributable to common shareholders ¹	241	227	707	631
Basic EPS	\$0.40	\$0.33	\$0.95	\$1.03
Diluted EPS	\$0.40	\$0.32	\$0.95	\$1.03
Adjusted basic EPS ¹	\$0.40	\$0.38	\$1.19	\$1.06
Adjusted diluted EPS ¹	\$0.40	\$0.38	\$1.18	\$1.06
Net cash from operating activities	648	508	1,063	1,176
Capital investments	424	402	1,105	1,108
Assets placed in-service	433	239	854	861
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,954	22,759	19,981	20,841
Distribution: Electricity distributed to Hydro One customers (GWh)	6,627	6,817	20,438	20,334

¹ **Non-GAAP Measures** - Hydro One uses financial measures that do not have a standardized meaning under generally accepted accounting principles in the United States of America (US GAAP) and may not be comparable to similar measures presented by other entities. Hydro One calculated the non-GAAP measures by adjusting certain US GAAP measures for specific items that impact comparability but which the Company does not consider part of normal, ongoing operations. Refer to the Non-GAAP Measures section of the Company's Management's Discussion and Analysis for further discussion of these items.

Key Financial Highlights

For the three months ended September 30, 2019, the Company reported net income attributable to common shareholders of \$241 million (2018 - \$194 million), a 24.2% increase from last year, and EPS of \$0.40 (2018 - \$0.33). With no costs or income related to the proposed Avista Corporation acquisition (Merger) in the third quarter of 2019, adjusted EPS was \$0.40 for the quarter (2018 - \$0.38).

Revenues, net of purchased power, for the third quarter were lower than last year by 1.9% driven by less favourable weather, as well as deferred tax asset sharing and accelerated tax depreciation (Accelerated CCA), both of which will flow through to customers and are offset in lower taxes, with no impact on regulated return on equity. This has been partially offset by the update to 2019 distribution rates. Third quarter OM&A costs were lower than prior year due to lower corporate support costs, which were partially offset by insurance proceeds received last year.

Financing costs decreased in the third quarter of 2019 compared to the same quarter last year primarily due to recognition of an unrealized loss on the foreign-exchange contract and interest expense related to convertible debentures in the third quarter of 2018. The decrease due to these Merger-related charges was partially offset by an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019.

Lower income tax expense for the third quarter of 2019 was primarily attributable to a combination of incremental tax deductions resulting from the deferred tax asset sharing as mandated by the OEB, Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter, and lower income before taxes. Lower taxes as a result of deferred tax asset sharing and Accelerated CCA are offset by lower revenues, as these savings will be returned to customers. The latter has no impact on the regulated return on equity.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new load customers and generation sources, and improve service to customers. The Company made capital investments of \$424 million during the third quarter, and placed \$433 million worth of new assets in-service.

Selected Operating Highlights

Hydro One released its updated corporate strategy that reaffirmed its commitment to Ontarians through five priorities, including building a grid for the future, becoming the safest and most efficient utility, being a trusted partner, advocating for customers and helping them make informed decisions, and growing the business innovatively.

On September 5, 2019, Hydro One, with Six Nations of the Grand River Development Corporation, a community owned corporation of the Six Nations of the Grand River First Nation, and Mississaugas of the Credit First Nation, announced the completion of the Niagara Reinforcement Line. This line was completed in collaboration with these First Nations and is expected to provide long-term benefits through an equity ownership model, which could serve as a framework for future infrastructure projects across Ontario. The Niagara Reinforcement Line is a 76 km double circuit, 230 kV transmission line primarily along an existing Hydro One right-of-way between Allanburg Transformer Station and Middleport Transformer Station. The line was brought to completion by A6N, a joint venture between Six Nations of the Grand River Development Corporation and Aecon Group Inc. As part of the project's partnership model, both First Nation partners have an equity ownership in the line, which would provide an annual income to these partners over the life of the asset, supporting investments in local community priorities.

During the quarter, the Company announced that it is moving forward with plans to build a new Ontario grid control centre in Orillia. This new, state-of-the-art facility is expected to serve as one of the Company's technology hubs and will ensure the safe, reliable delivery of electricity to communities across all of Ontario for years to come. Total investment is approximately \$150 million.

In the third quarter of 2019, the distribution customer satisfaction score with residential and small businesses reached 87%, bringing the year-to-date average to 86%.

Hydro One released its 2018 CDP report on September 30, 2019, as it works to limit its environmental impact and increase the resiliency of its assets to better withstand the impacts of climate change.

Two of the Company's employees were presented with OEA awards. One was the OEA's Customer Service Award and the other was the Contributor of the Year.

Common Share Dividends

Following the conclusion of the third quarter, on November 6, 2019, the Company declared a quarterly cash dividend to common shareholders of \$0.2415 per share to be paid on December 31, 2019 to shareholders of record on December 11, 2019.

Supplemental Segment Information

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues				
Transmission	443	493	1,245	1,344
Distribution	1,140	1,103	3,490	3,284
Other	10	10	30	31
Total revenues	1,593	1,606	4,765	4,659
Revenues, net of purchased power				
Transmission	443	493	1,245	1,344
Distribution	403	370	1,293	1,126
Other	10	10	30	31
Total revenues, net of purchased power	856	873	2,568	2,501
Income (loss) before financing charges and taxes				
Transmission	232	287	607	728
Distribution	153	120	541	397
Other	(7)	(18)	(174)	(41)
Total income before financing charges and taxes	378	389	974	1,084
Capital investments				
Transmission	276	261	724	693
Distribution	146	138	375	409
Other	2	3	6	6
Total capital investments	424	402	1,105	1,108
Assets placed in-service				
Transmission	294	112	509	466
Distribution	129	126	331	389
Other	10	1	14	6
Total assets placed in-service	433	239	854	861

This press release should be read in conjunction with the Company's third quarter 2019 Consolidated Financial Statements and Management's Discussion and Analysis (MD&A). These financial statements and MD&A together with additional information about Hydro One, including the audited amended consolidated financial statements and amended MD&A for the year ended December 31, 2018 can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's third quarter 2019 results teleconference with the investment community will be held on November 7, 2019 at 8 a.m. ET, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-866-221-1674 prior to the scheduled start time and request access to Hydro One's third quarter 2019 results call, conference ID 2469538 (international callers may dial 1-270-215-9604). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One Limited

We are Ontario's largest electricity transmission and distribution provider with almost 1.4 million valued customers, almost \$25.8 billion in assets and 2018 annual revenues of almost \$6.2 billion. Our team of approximately 8,600 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2018, Hydro One

invested almost \$1.6 billion in its 30,000 circuit kilometres of high-voltage transmission and 123,000 circuit kilometres of primary distribution networks and injected approximately \$1.3 billion into the economy by buying goods and services in Ontario. We are committed to the communities where we live and work through community investment, sustainability and diversity initiatives. We are designated as a Sustainable Electricity Company by the Canadian Electricity Association. Through Hydro One Telecom Inc.'s extensive fibre optic network, we also provide advanced broadband telecommunications services on a wholesale basis. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

For More Information

For more information about everything Hydro One, please visit www.HydroOne.com where you can find additional information including links to securities filings, historical financial reports, and information about the Company's governance practices, corporate social responsibility, customer solutions, and further information about its business.

Forward-Looking Statements and Information

This press release may contain “forward-looking information” within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: Hydro One's corporate strategy; new Ontario grid control centre; operational excellence; performance; building relationships with the Company's partners; creating a sustainable future; improvements to safety, reliability, resiliency, affordability and environmental impacts; customer service and satisfaction; reliability and performance; connections; ongoing and planned investments, projects and initiatives; the Niagara Reinforcement Line and expected impacts, as well as anticipated impacts of equity ownership in the line; dividends; anticipated impacts of Accelerated CCA; and anticipated impacts relating to the deferred tax asset. Words such as “expect,” “anticipate,” “intend,” “attempt,” “may,” “plan,” “will,” “can,” “believe,” “seek,” “estimate,” and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on SEDAR at www.sedar.com. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

For further information, please contact:

Investors:

Omar Javed
Vice President, Investor Relations
investor.relations@hydroone.com
416-345-5943

Media:

Jay Armitage
Director, Communications
media.relations@hydroone.com
416-345-6868

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the unaudited condensed interim consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and nine months ended September 30, 2019, as well as the Company's audited amended consolidated financial statements and amended MD&A for the year ended December 31, 2018. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canadian securities laws and regulations, which can vary from those of the US. This MD&A provides information for the three and nine months ended September 30, 2019, based on information available to management as of November 6, 2019.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Revenues	1,593	1,606	(0.8%)	4,765	4,659	2.3%
Purchased power	737	733	0.5%	2,197	2,158	1.8%
Revenues, net of purchased power ¹	856	873	(1.9%)	2,568	2,501	2.7%
Operation, maintenance and administration (OM&A) costs	259	271	(4.4%)	942	797	18.2%
Depreciation, amortization and asset removal costs	219	213	2.8%	652	620	5.2%
Financing charges	118	149	(20.8%)	398	336	18.5%
Income tax expense (recovery)	14	41	(65.9%)	(8)	115	(107.0%)
Net income to common shareholders of Hydro One	241	194	24.2%	567	616	(8.0%)
Adjusted net income to common shareholders of Hydro One¹	241	227	6.2%	707	631	12.0%
Basic earnings per common share (EPS)	\$0.40	\$0.33	21.2%	\$0.95	\$1.03	(7.8%)
Diluted EPS	\$0.40	\$0.32	25.0%	\$0.95	\$1.03	(7.8%)
Basic adjusted non-GAAP EPS (Adjusted EPS) ¹	\$0.40	\$0.38	5.3%	\$1.19	\$1.06	12.3%
Diluted Adjusted EPS ¹	\$0.40	\$0.38	5.3%	\$1.18	\$1.06	11.3%
Net cash from operating activities	648	508	27.6%	1,063	1,176	(9.6%)
Funds from operations (FFO) ¹	457	418	9.3%	1,012	1,211	(16.4%)
Capital investments	424	402	5.5%	1,105	1,108	(0.3%)
Assets placed in-service	433	239	81.2%	854	861	(0.8%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,954	22,759	(7.9%)	19,981	20,841	(4.1%)
Distribution: Electricity distributed to Hydro One customers (GWh)	6,627	6,817	(2.8%)	20,438	20,334	0.5%

	2019	2018
Debt to capitalization ratio ²	56.1%	55.6%

¹ See section "Non-GAAP Measures" for description and reconciliation of adjusted net income, basic and diluted Adjusted EPS, FFO and revenues, net of purchased power.

² Debt to capitalization ratio is a non-GAAP measure and has been presented at September 30, 2019 and December 31, 2018, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to noncontrolling interest. Management believes that the debt to capitalization ratio is helpful as a measure of the proportion of debt in the Company's capital structure.

OVERVIEW

The Company's transmission business consists of the transmission system operated by subsidiaries of Hydro One Inc. (a wholly-owned subsidiary of the Company), Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 75% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners). Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities). The other segment includes certain corporate activities and the operations of the Company's telecommunications business.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

For the nine months ended September 30, 2019 and 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Transmission	52%	57%	49%	54%
Distribution	47%	42%	50%	45%
Other	1%	1%	1%	1%

At September 30, 2019 and December 31, 2018, Hydro One's business segments accounted for the Company's total assets as follows:

	September 30, 2019	December 31, 2018
Transmission	56%	55%
Distribution	36%	36%
Other	8%	9%

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended September 30, 2019 of \$241 million is an increase of \$47 million or 24.2% from the prior year. Significant influences on net income included:

- lower revenues, net of purchased power, primarily resulting from:
 - lower average monthly Ontario 60-minute peak demand driven by less favourable weather in the third quarter of 2019 compared to 2018; and
 - deferred tax asset sharing mandated by the OEB and deferred tax regulatory adjustment related to accelerated tax depreciation (Accelerated CCA) both of which will flow through to customers and are offset in lower taxes, with no impact on regulated return on equity (ROE); partially offset by
 - an increase in distribution revenues, net of purchased power, due to the Ontario Energy Board's (OEB) decision on the 2019 distribution rates;
- lower OM&A costs primarily resulting from lower corporate support costs, partially offset by insurance proceeds received last year;
- lower financing charges primarily resulting from:
 - a decrease in charges related to the proposed acquisition of Avista Corporation (Merger) due to no amounts recognized in 2019, compared to recognition in the third quarter of 2018 of an unrealized loss on the foreign-exchange contract and interest expense related to convertible debentures redeemed in February 2019; partially offset by
 - an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019;
- lower income tax expense primarily attributable to the following:
 - incremental tax deductions from deferred tax asset sharing mandated by the OEB;
 - Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019, which flows through to customers and offsets lower revenues, with no impact on regulated ROE; and
 - changes in income before taxes in 2019, excluding costs related to the Merger, compared to 2018.

Net income attributable to common shareholders for the nine months ended September 30, 2019 of \$567 million is a decrease of \$49 million or 8.0% from the prior year. Year-to-date results were impacted by factors noted above, as well as the following:

- payment of the Merger termination fee;
- increased Merger-related financing charges due to write-off of deferred financing costs related to convertible debentures, and the reversal in 2019 of previously recorded unrealized gains on the foreign-exchange contract;
- higher vegetation management coverage compared to the prior year;
- higher costs of non-storm emergency restorations due to higher occurrence of such events; and
- higher information technology (IT) costs due to implementation of new tools to support ongoing operations; partially offset by
- an increase in distribution revenues, net of purchased power, due to the OEB's decision on the 2018 distribution rates;
- income tax recovery on termination fee and financing charges related to the Merger; and
- lower costs due to the repatriation of the Call Centre which resulted in operational improvements.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

EPS and Adjusted EPS

EPS was \$0.40 and \$0.95 for the three and nine months ended September 30, 2019, respectively, compared to EPS of \$0.33 and \$1.03 in the comparable periods last year. The changes in EPS were driven by changes in net income for the three and nine months ended September 30, 2019, as discussed above. Adjusted EPS, which adjusts for income and costs related to the Merger, was \$0.40 and \$1.19 for the three and nine months ended September 30, 2019, compared to \$0.38 and \$1.06 in the comparable periods last year. The increase in Adjusted EPS was driven by changes in net income for the three and nine months ended September 30, 2019, as discussed above, but excluding the impact of items related to the Merger. See section "Non-GAAP Measures" for description and reconciliation of Adjusted EPS.

Revenues

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission	443	493	(10.1%)	1,245	1,344	(7.4%)
Distribution	1,140	1,103	3.4%	3,490	3,284	6.3%
Other	10	10	—%	30	31	(3.2%)
Total revenues	1,593	1,606	(0.8%)	4,765	4,659	2.3%
Transmission	443	493	(10.1%)	1,245	1,344	(7.4%)
Distribution, net of purchased power	403	370	8.9%	1,293	1,126	14.8%
Other	10	10	—%	30	31	(3.2%)
Total revenues, net of purchased power	856	873	(1.9%)	2,568	2,501	2.7%
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,954	22,759	(7.9%)	19,981	20,841	(4.1%)
Distribution: Electricity distributed to Hydro One customers (GWh)	6,627	6,817	(2.8%)	20,438	20,334	0.5%

Transmission Revenues

Transmission revenues decreased by 10.1% during the quarter ended September 30, 2019, primarily due to the following:

- lower average monthly Ontario 60-minute peak demand driven by less favourable weather in the third quarter of 2019;
- revenue recognized in the third quarter of 2018 to reflect the Company's position with respect to the deferred tax asset, which was subsequently reversed following the OEB decision; and
- deferred tax regulatory adjustment related to Accelerated CCA which will flow through to customers and is offset in lower taxes, with no impact on regulated ROE; partially offset by
- higher revenue driven by increased OEB-approved transmission rates for 2019.

The decrease of 7.4% in transmission revenues for the nine months ended September 30, 2019 was the result of similar factors as noted above.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 8.9% during the quarter ended September 30, 2019, primarily due to the following:

- update to the 2019 distribution rates per OEB decision received in March 2019; partially offset by
- lower energy consumption resulting from less favourable weather in the third quarter of 2019; and
- deferred tax asset sharing mandated by the OEB and deferred tax regulatory adjustment related to Accelerated CCA both of which will flow through to customers and are offset in lower taxes, with no impact on regulated ROE.

The increase of 14.8% in distribution revenues, net of purchased power, for the nine months ended September 30, 2019 was the result of similar factors as noted above, as well as the update to the 2018 distribution rates per OEB decision received in March 2019.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

OM&A Costs

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission	96	95	1.1%	296	295	0.3%
Distribution	148	150	(1.3%)	448	435	3.0%
Other	15	26	(42.3%)	198	67	195.5%
	259	271	(4.4%)	942	797	18.2%

Transmission OM&A Costs

Transmission OM&A costs for the quarter and nine months ended September 30, 2019 were consistent with the same periods last year, and were primarily impacted by insurance proceeds received last year for the National Research Council transformer station, and changes in corporate support costs compared to prior year.

Distribution OM&A Costs

The decrease of 1.3% in distribution OM&A costs for the quarter ended September 30, 2019 was primarily due to lower corporate support costs compared to prior year.

The increase of 3.0% in distribution OM&A costs for the nine months ended September 30, 2019 was primarily due to the following:

- higher vegetation management coverage compared to the prior year;
- higher emergency power restoration costs due to a higher volume of non-storm related emergency calls; and
- higher spend related to IT projects as a result of implementation of new tools to support ongoing operations; partially offset by
- lower project and inventory write-offs;
- lower costs due to repatriation of the Call Centre which resulted in operational improvements;
- mutual storm assistance costs in the first quarter of 2018 (net income neutral); and
- lower corporate support costs.

Other OM&A Costs

The decrease of 42.3% in other OM&A costs for the quarter ended September 30, 2019 was primarily due to lower corporate support costs compared to prior year.

The increase of 195.5% in other OM&A costs for the nine months ended September 30, 2019 was primarily due to payment of \$138 million Merger termination fee and higher project write-offs related to the regulatory decision on the Lake Superior Link project, partially offset by lower corporate support costs.

Financing Charges

The decrease of \$31 million or 20.8% in financing charges for the quarter ended September 30, 2019 was primarily due to the following:

- a decrease in charges related to the Merger due to no amounts recognized in 2019, compared to recognition in the third quarter of 2018 of an unrealized loss on the foreign-exchange contract and interest expense related to convertible debentures redeemed in February 2019; partially offset by
- an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019, mainly due to the issuance of \$1.5 billion long-term debt in April 2019; and
- a decrease in interest income on short-term investment driven by lower weighted-average balance of short-term investment outstanding in 2019.

The increase of \$62 million or 18.5% in financing charges for the nine months ended September 30, 2019 was primarily due to the following:

- write-off of deferred financing costs related to convertible debentures, and reversal of previously recorded unrealized gains on the foreign-exchange contract incurred in the first quarter of 2019;
- no amounts were recognized in 2019, compared to unrealized gain on the foreign-exchange contract recorded in the third quarter of 2018;
- an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019, mainly due to the issuance of \$1.5 billion long-term debt in April 2019; and
- an increase in interest expense on short-term notes payable driven by higher weighted-average interest rates and balance of short-term notes outstanding in 2019; partially offset by
- a decrease in interest expense related to convertible debentures redeemed in February 2019, following termination of the Merger agreement.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Income Tax Expense

Income tax expense was \$14 million and income tax recovery was \$8 million for the three and nine months ended September 30, 2019, respectively, compared to an expense of \$41 million and \$115 million in the comparable periods last year. The Company realized an effective tax rate (ETR) for the three and nine months ended September 30, 2019 of approximately 5.4% and (1.4%), respectively, compared to approximately 17.1% and 15.4% realized in the same periods last year.

As prescribed by the regulators, the Company recovers income taxes and is required to accrue its tax expense based on the tax liability determined without accounting for temporary differences recoverable from or refundable to customers in the future.

The decrease in income tax expense for the three months ended September 30, 2019 was primarily attributable to the following:

- incremental tax deductions from deferred tax asset sharing mandated by the OEB;
- Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019, which flows through to customers and offsets lower revenues, with no impact on regulated ROE; and
- changes in income before taxes in 2019, excluding costs related to the Merger, compared to 2018.

The decrease in income tax expense for the nine months ended September 30, 2019 was primarily attributable to similar factors to those noted above, as well as income tax recovery on the termination fee and financing charges related to the Merger incurred in the first quarter of 2019.

Common Share Dividends

In 2019, the Company declared and paid cash dividends to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 20, 2019	March 13, 2019	March 29, 2019	\$0.2300	137
May 8, 2019	June 12, 2019	June 28, 2019	\$0.2415	145
August 8, 2019	September 12, 2019	September 30, 2019	\$0.2415	144
				426

Following the conclusion of the third quarter of 2019, the Company declared a cash dividend to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
November 6, 2019	December 11, 2019	December 31, 2019	\$0.2415	144

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Revenues	1,593	1,413	1,759	1,491	1,606	1,477	1,576	1,439
Purchased power	737	653	807	741	733	674	751	662
Revenues, net of purchased power ¹	856	760	952	750	873	803	825	777
Net income (loss) to common shareholders	241	155	171	(705)	194	200	222	155
Adjusted net income to common shareholders ¹	241	155	311	176	227	194	210	170
Basic EPS	\$0.40	\$0.26	\$0.29	(\$1.18)	\$0.33	\$0.34	\$0.37	\$0.26
Diluted EPS	\$0.40	\$0.26	\$0.29	(\$1.18)	\$0.32	\$0.33	\$0.37	\$0.26
Basic Adjusted EPS ¹	\$0.40	\$0.26	\$0.52	\$0.30	\$0.38	\$0.33	\$0.35	\$0.29
Diluted Adjusted EPS ¹	\$0.40	\$0.26	\$0.52	\$0.29	\$0.38	\$0.32	\$0.35	\$0.28

¹ See section "Non-GAAP Measures" for description of revenues, net of purchased power, adjusted net income and Adjusted EPS.

Variations in revenues and net income over the quarters are primarily due to the impact of seasonal weather conditions on customer demand and market pricing, as well as timing of regulatory decisions.

CAPITAL INVESTMENTS

The Company makes capital investments to maintain the safety, reliability and integrity of its transmission and distribution system assets and to provide for the ongoing growth and modernization required to meet the expanding and evolving needs of its customers and the electricity market. This is achieved through a combination of sustaining capital investments, which are required to support the continued operation of Hydro One's existing assets, and development capital investments, which involve both additions to existing assets and large scale projects such as new transmission lines and transmission stations.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the three and nine months ended September 30, 2019 and 2018:

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission	294	112	162.5%	509	466	9.2%
Distribution	129	126	2.4%	331	389	(14.9%)
Other	10	1	900.0%	14	6	133.3%
Total assets placed in-service	433	239	81.2%	854	861	(0.8%)

Transmission Assets Placed In-Service

Transmission assets placed in-service increased by \$182 million or 162.5% during the third quarter of 2019 primarily due to the following:

- completion of development work at Niagara Reinforcement Project; and
- assets placed in-service in the third quarter of 2019 for station sustainment investments (primarily at Elgin transmission station) and line refurbishment projects.

Transmission assets placed in-service increased by \$43 million or 9.2% during the nine months ended September 30, 2019 primarily due to similar factors as noted above, as well as the following:

- assets placed in service in first half of 2019 for station sustainment investments (primarily at Enfield, Hanmer, Cherrywood, and St. Isidore transmission stations); partially offset by
- assets placed in service in the second quarter of 2018 for Clarington transmission station.

Distribution Assets Placed In-Service

Distribution assets placed in-service increased by \$3 million or 2.4% during the third quarter of 2019 primarily due to the following:

- higher volume of emergency power restoration work;
- higher volume of distribution station refurbishments; and
- higher volume of new customer connections; partially offset by
- lower volume of storm-related asset replacements in the third quarter of 2019.

Distribution assets placed in-service decreased by \$58 million or 14.9% during the nine months ended September 30, 2019 primarily due to the following:

- lower volume of storm-related asset replacements in 2019 compared to the prior year; and
- cumulative investments that were placed in-service for the Advanced Distribution System project and the Advanced Metering Infrastructure Wireless project work in the first half of 2018; partially offset by
- higher volume of emergency power restoration work; and
- higher volume of distribution station refurbishments.

Capital Investments

The following table presents Hydro One's capital investments during the three and nine months ended September 30, 2019 and 2018:

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Transmission						
Sustaining	220	221	(0.5%)	602	587	2.6%
Development	47	30	56.7%	96	77	24.7%
Other	9	10	(10.0%)	26	29	(10.3%)
	276	261	5.7%	724	693	4.5%
Distribution						
Sustaining	63	72	(12.5%)	173	232	(25.4%)
Development	71	59	20.3%	168	153	9.8%
Other	12	7	71.4%	34	24	41.7%
	146	138	5.8%	375	409	(8.3%)
Other	2	3	(33.3%)	6	6	—%
Total capital investments	424	402	5.5%	1,105	1,108	(0.3%)

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Transmission Capital Investments

Transmission capital investments increased by \$15 million or 5.7% during the third quarter of 2019 primarily due to the following:

- higher investments in multi-year development projects (East-West Tie Expansion); and
- higher volume of work on load customer connections at Leamington transmission station.

Transmission capital investments increased by \$31 million or 4.5% during the nine months ended September 30, 2019 primarily due to factors noted above, as well as the following:

- higher volume of overhead line refurbishments and replacements; and
- higher volume of work for the North American Electric Reliability Corporation Critical Infrastructure Protection project.

Distribution Capital Investments

Distribution capital investments increased by \$8 million or 5.8% during the third quarter of 2019. Principal impacts on the levels of capital investments included:

- higher volume of new customer connections;
- higher investments in distribution system connections (Leamington and Enfield transmission stations);
- higher volume of emergency power restoration work; and
- higher volume of overhead line refurbishments and replacements; partially offset by
- lower volume of storm-related asset replacements; and
- lower costs due to disallowance of pension costs as a result of the OEB decision on the 2018-2022 distribution application.

Distribution capital investments decreased by \$34 million or 8.3% during the nine months ended September 30, 2019 primarily due to the following:

- lower volume of storm-related asset replacements; and
- lower costs due to disallowance of pension costs as a result of the OEB decision on the 2018-2022 distribution application; partially offset by
- higher volume of new customer connections;
- higher volume of emergency power restoration work;
- higher volume of line and station refurbishments and replacements;
- timing of investments in distribution system connections (Leamington and Enfield transmission stations); and
- higher volume of customer requests for line relocations.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at September 30, 2019:

Project Name	Location	Type	Anticipated In-Service Date (year)	Estimated Cost (millions of dollars)	Capital Cost To Date
Development Projects:					
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line and stations	2019 ¹	135	135
Wataynikaneyap Power LP Line Connection	Pickle Lake Northwestern Ontario	New stations and transmission connection	2021	31	1
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2022 ²	157	41
Waasigan Transmission Line	Thunder Bay-Atikokan-Dryden Northwestern Ontario	New transmission line	2024 ³	35 ³	2 ³
Leamington Area Transmission Reinforcement ⁴	Leamington Southwestern Ontario	New transmission line and stations	2026 ⁴	325 ⁴	—
Sustainment Projects:					
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2021	115	106
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2021	147	132
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2023	113	74
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	111	73
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	116 ⁵	27

¹ The Niagara Reinforcement Project was placed in-service in August 2019. Total costs include \$119 million for the construction of a new 230 kV transmission line (Niagara Line), as well as \$16 million for costs relating to other assets, including stations. In September 2019, the Niagara Line assets were transferred from Hydro One Networks to NRLP. See section Regulation - NRLP for additional information.

² The majority of the East-West Tie Station Expansion project is expected to be placed in-service in 2021, enabling the connection and energization of the new East-West Tie transmission line. Additional work to complete the upgrades is expected to be placed in-service in 2022.

³ The in-service date and the costs of the Waasigan Transmission Line project (formerly known as Northwest Bulk Transmission Line Development project) relate to the development phase.

⁴ The Leamington Area Transmission Reinforcement project consists of the construction of a new double-circuit line between Chatham and Leamington and associated transmission stations and connections. The project is currently in the development stage. The anticipated in-service dates for the line and stations are between 2020 and 2026, and the total estimated cost is in the range of \$290 million to \$325 million, with approximately \$143 million of the total estimated cost included in the projected capital investments tables in section "Future Capital Investments" below.

⁵ Approximately \$107 million of the total estimated cost is included in the projected capital investments tables in section "Future Capital Investments" below.

Future Capital Investments

Following is a summary of estimated capital investments by Hydro One over the years 2019 to 2023. The Company's estimates are based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework.

The 2019 to 2022 distribution capital investments estimates differ from 2018 year end disclosures, representing a decrease to reflect Hydro One's five-year rate application for 2018-2022 distribution rates. The projections and the timing of the transmission 2020-2023 expenditures are subject to approval by the OEB.

The following table summarizes Hydro One's annual projected capital investments for 2019 to 2023, by business segment:

(millions of dollars)	2019	2020	2021	2022	2023
Transmission	1,049	1,203	1,329	1,380	1,381
Distribution	632	671	645	620	757
Other	13	15	26	9	10
Total capital investments¹	1,694	1,889	2,000	2,009	2,148

¹ Total capital investments include approximately \$150 million related to the Integrated Systems Operations Center with an anticipated in-service date of 2021.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

The following table summarizes Hydro One's annual projected capital investments for 2019 to 2023, by category:

<i>(millions of dollars)</i>	2019	2020	2021	2022	2023
Sustainment	1,068	1,182	1,397	1,479	1,530
Development	408	493	419	376	468
Other ¹	218	214	184	154	150
Total capital investments²	1,694	1,889	2,000	2,009	2,148

¹ "Other" capital expenditures consist of special projects, such as those relating to IT.

² Total capital investments include approximately \$150 million related to the Integrated Systems Operations Center with an anticipated in-service date of 2021.

SUMMARY OF SOURCES AND USES OF CASH

Hydro One's primary sources of cash flows are funds generated from operations, capital market debt issuances and bank credit facilities that are used to satisfy Hydro One's capital resource requirements, including the Company's capital expenditures, servicing and repayment of debt, and dividend payments.

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by operating activities	648	508	1,063	1,176
Cash provided by (used in) financing activities	(216)	(746)	(414)	487
Cash used in investing activities	(404)	(394)	(1,069)	(1,075)
Increase (decrease) in cash and cash equivalents	28	(632)	(420)	588

Cash provided by operating activities

Cash from operating activities increased by \$140 million during the three months ended September 30, 2019, compared to the same period in 2018. The increase was impacted by various factors, including higher cash earnings in the third quarter of 2019, changes in certain regulatory variance and deferral accounts, and changes in accrual balances related to purchased power resulting from lower generation rebates from the Independent Electricity System Operator (IESO) in the third quarter of 2019.

Cash from operating activities decreased by \$113 million during the nine months ended September 30, 2019, compared to the same period in 2018. The decrease was impacted by various factors, including lower cash earnings in 2019, changes in certain regulatory variance and deferral accounts, and changes in receivable balances mainly due to higher non-energy revenues in 2019 related to secondary land use, partially offset by changes in accrual balances related to purchased power resulting from lower generation rebates from the IESO and higher global adjustment rate in 2019.

Cash provided by (used in) financing activities

Sources of cash

- During the nine months ended September 30, 2019, the Company issued \$1.5 billion of long-term debt, all in the second quarter, compared to \$1.4 billion long-term debt issued in the same period last year.
- The Company received proceeds of \$520 million and \$3,112 million from the issuance of short-term notes in the three and nine months ended September 30, 2019, respectively, compared to \$445 million and \$2,987 million received in the same periods last year.

Uses of cash

- The Company repaid \$599 million and \$3,845 million of short-term notes in the three and nine months ended September 30, 2019, respectively, compared to \$1,049 million and \$3,469 million repaid in the same periods last year.
- The Company redeemed \$513 million of convertible debentures in the nine months ended September 30, 2019, all in the first quarter, compared to no convertible debentures redeemed in the prior year.
- The Company repaid \$229 million of long-term debt during the nine months ended September 30, 2019, all in the second quarter, compared to \$1 million of long-term debt repaid in the same period last year.
- Dividends paid in the three and nine months ended September 30, 2019 were \$148 million and \$439 million, respectively, consisting of \$144 million and \$426 million of common share dividends and \$4 million and \$13 million of preferred share dividends, respectively. In comparison, dividends of \$141 million and \$418 million were paid in the same periods last year, consisting of \$137 million and \$405 million of common share dividends and \$4 million and \$13 million of preferred share dividends, respectively.

Cash used in investing activities

Uses of cash

- Capital expenditures were \$17 million higher in the third quarter of 2019 and \$7 million lower year-to-date 2019, primarily due to changes in volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through FFO, Hydro One Inc.'s commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One Inc. is authorized to issue up to \$2.3 billion in short-term notes with a term to maturity of up to 365 days. On March 25, 2019, the maximum number of short-term notes authorized for issuance was increased from \$1.5 billion to \$2.3 billion.

At September 30, 2019, Hydro One Inc. had \$519 million in commercial paper borrowings outstanding, compared to \$1,252 million outstanding at December 31, 2018. The interest rates on the commercial paper borrowings outstanding at September 30, 2019 ranged from 1.8% to 1.9%. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) with total availability of \$2,550 million. On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended from 2021 and 2022 to 2024. At September 30, 2019 and December 31, 2018, no amounts were drawn on the Operating Credit Facilities. The Company may use these credit facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, and anticipated levels of FFO are expected to be sufficient to fund the Company's normal operating requirements.

On February 1, 2019, Hydro One entered into a credit agreement for a \$170 million unsecured demand operating credit facility (Demand Facility) which was used to fund the payment of the Merger termination fee and other Merger-related costs. On June 6, 2019, the \$170 million drawn on the Demand Facility was repaid, and the Demand Facility is no longer available.

At September 30, 2019, the Company had long-term debt outstanding in the principal amount of \$11,987 million, which included \$11,845 million of long-term debt issued by Hydro One Inc. and long-term debt in the principal amount of \$142 million issued by HOSSM. The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium Term Note (MTN) Program. The long-term debt consists of notes and debentures that mature between 2019 and 2064, and at September 30, 2019, had a weighted-average term to maturity of approximately 15.3 years and a weighted-average coupon rate of 4.1%.

The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion, and at September 30, 2019, \$1.1 billion remained available for issuance until April 2020.

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada to replace the universal base shelf prospectus that expired on April 30, 2018. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. On November 23, 2018, Hydro One Holdings Limited (HOHL), an indirect wholly-owned subsidiary of Hydro One, filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US for the purposes of, but not limited to, funding a portion of the cash purchase price of the Merger. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US\$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At September 30, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

Acquisition Credit Facilities

In June 2018, for the purpose of bridge financing for the Merger, the Company secured a \$1.0 billion non-revolving equity bridge credit facility, and a US\$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities). As a result of the termination of the Merger agreement, on January 24, 2019, the Company cancelled the Acquisition Credit Facilities. In addition, the foreign-exchange contract entered into in October 2017 that was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed by the issuance of convertible debentures was revalued to \$nil, resulting in a loss of \$22 million recorded in the nine months ended September 30, 2019, compared to an unrealized gain of \$25 million recorded in the nine months ended September 30, 2018.

Compliance

At September 30, 2019, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of Hydro One's debt and other major contractual obligations and commercial commitments:

September 30, 2019 (millions of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations (due by year)					
Long-term debt - principal repayments	11,987	1,153	1,406	833	8,595
Long-term debt - interest payments	8,407	486	895	845	6,181
Short-term notes payable	519	519	—	—	—
Pension contributions ¹	353	74	129	128	22
Environmental and asset retirement obligations	175	26	63	58	28
Outsourcing and other agreements ²	203	126	58	5	14
Lease obligations	33	11	11	4	7
Long-term software/meter agreement	36	21	10	3	2
Total contractual obligations	21,713	2,416	2,572	1,876	14,849
Other commercial commitments (by year of expiry)					
Operating Credit Facilities ³	2,550	—	—	2,550	—
Letters of credit ⁴	174	169	5	—	—
Guarantees ⁵	330	330	—	—	—
Total other commercial commitments	3,054	499	5	2,550	—

¹ Contributions to the Hydro One Pension Fund are generally made one month in arrears. Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable. The most recent actuarial valuation was performed effective December 31, 2018 and filed on September 30, 2019.

² In September 2019, the agreements with Inergi LP for finance and accounting, and pay operations services were extended to December 31, 2020.

³ On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

⁴ Letters of credit consist of \$163 million letters of credit related to retirement compensation arrangements, \$5 million in letters of credit to satisfy debt service reserve requirements, a \$3 million letter of credit provided to the IESO for prudential support, and \$3 million in letters of credit for various operating purposes.

⁵ Guarantees consist of \$325 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees totalling \$5 million provided by Hydro One to the Minister of Natural Resources relating to Ontario Charging Network LP (OCN LP) (OCN Guarantee). Ontario Power Generation Inc. (OPG) has provided a \$2.5 million guarantee to Hydro One for 50% of the \$5 million OCN Guarantee.

SHARE CAPITAL

The common shares of Hydro One are publicly traded on the Toronto Stock Exchange (TSX) under the trading symbol "H". Hydro One is authorized to issue an unlimited number of common shares. The amount and timing of any dividends payable by Hydro One is at the discretion of Hydro One's Board of Directors (Board) and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant. At November 6, 2019, Hydro One had 596,605,054 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. The Company has two series of preferred shares authorized for issuance: the Series 1 preferred shares and Series 2 preferred shares. At November 6, 2019, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

The number of additional common shares of Hydro One that would be issued if all outstanding awards under the share grant plans and the Long-term Incentive Plan (LTIP) were vested and exercised as at November 6, 2019 was 4,702,163.

REGULATION

The OEB approves both the revenue requirements and the rates charged by Hydro One's regulated transmission and distribution businesses. The rates are designed to permit the Company's transmission and distribution businesses to recover the allowed costs and to earn a formula-based annual rate of return on its deemed 40% equity level invested in the regulated businesses. This is done by applying a specified equity risk premium to forecasted interest rates on long-term bonds. In addition, the OEB approves rate riders to allow for the recovery or disposition of specific regulatory deferral and variance accounts over specified time frames.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

The following table summarizes the status of Hydro One's major regulatory proceedings with the OEB:

Application	Years	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision received ¹
Hydro One Networks	2019	Transmission – Revenue Cap	OEB decision received
Hydro One Networks	2020-2022	Transmission – Custom	OEB decision pending
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision received ²
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
B2M LP	2020-2024	Transmission – Revenue Cap	OEB decision pending
HOSSM	2017-2026	Transmission – Revenue Cap	OEB decision received
NRLP	2020-2024	Transmission – Revenue Cap	OEB decision pending
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power	n/a	Acquisition	OEB decision pending ³
Peterborough Distribution	n/a	Acquisition	OEB decision pending
Leave to Construct			
East-West Tie Station Expansion	n/a	Section 92	OEB decision received
Lake Superior Link Project	n/a	Section 92	OEB decision received ⁴

¹ On March 7, 2019, the OEB upheld its Original Decision relating to the deferred tax asset. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court.

² On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court, which is being held in abeyance pending the outcome of the motion.

³ In September 2018, Hydro One filed a new MAAD application with the OEB to acquire Orillia Power.

⁴ On February 11, 2019, the OEB issued its decision awarding the construction of the East-West Tie Line to NextBridge, as directed by the Province of Ontario (Province) on January 30, 2019.

The following table summarizes the key elements and status of Hydro One's electricity rate applications:

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base Allowed (A) or Forecast (F)	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2019	n/a ¹	n/a ¹	Filed in October 2018	Approved in June 2019
	2020	8.52% (F)	\$12,375 million ² (F)	Filed in March 2019	To be filed
	2021	8.52% (F)	\$13,093 million ² (F)	Filed in March 2019	To be filed
	2022	8.52% (F)	\$13,917 million ² (F)	Filed in March 2019	To be filed
B2M LP	2019	8.98% (A)	\$496 million (A)	Approved in December 2015	Approved in December 2018
	2020-2024	8.52% (F)	\$490 million (F)	Filed in July 2019	To be filed
HOSSM	2017-2026	9.19% (A)	\$218 million (A)	Approved in October 2016	Approved in July 2019 ³
NRLP	2020-2024	8.52% (F)	\$120 million (F)	Filed in October 2019	To be filed
Distribution					
Hydro One Networks	2018	9.00% (A)	\$7,637 million (F)	Filed in March 2017 ⁴	Approved in June 2019
	2019	9.00% (A)	\$7,894 million (F)	Filed in March 2017 ⁴	Approved in June 2019
	2020	9.00% (A)	\$8,175 million (F)	Filed in March 2017 ⁴	Filed in August 2019
	2021	9.00% (A)	\$8,517 million (F)	Filed in March 2017 ⁴	To be filed in 2020
	2022	9.00% (A)	\$8,813 million (F)	Filed in March 2017 ⁴	To be filed in 2021

¹ The Revenue Cap application is a formulaic adjustment to the approved revenue requirement and does not consider ROE or rate base.

² On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments.

³ In October 2016, the OEB approved the 2017-2026 revenue requirements. In June 2019, the OEB approved the request for an inflationary increase (revenue cap escalator index) to the 2019 revenue requirement. On July 18, 2019, the OEB issued the final rate order including a final 2019 revenue requirement of \$38 million to be included in the 2019 Uniform Transmission Rates (UTRs).

⁴ On June 11, 2019, the OEB approved Hydro One Networks' rate order which included the rate base amounts shown above.

Electricity Rates Applications

Hydro One Networks - Transmission

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision), with 2017 rates effective January 1, 2017.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

In its Original Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act, 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a decision and order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Original Decision relating to the deferred tax asset to an OEB panel for reconsideration.

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019, the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of \$474 million and Hydro One Networks' transmission deferred income tax regulatory asset of \$558 million, an increase in deferred income tax regulatory liability of \$81 million, and a decrease in the foregone revenue deferral regulatory asset of \$68 million. After recognition of the related \$314 million deferred tax asset, the Company recorded an \$867 million one-time decrease in net income as a reversal of revenues of \$68 million, and charge to deferred tax expense of \$799 million, which is expected to result in an annual decrease to FFO in the range of \$50 million to \$60 million. Notwithstanding the recognition of the effects of the decision in the 2018 financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax asset decision. The appeal is scheduled to be heard on November 21, 2019.

On October 26, 2018, Hydro One filed a one-year inflation based application with the OEB for 2019 transmission revenue requirement. On December 20, 2018, the OEB issued a decision approving Hydro One's 2018 revenue requirement as interim for 2019. On April 25, 2019, the OEB issued its decision on Hydro One's 2019 transmission rate application, and set the revenue index at 1.4% on a final basis effective May 1, 2019.

On March 21, 2019, Hydro One Networks filed a three-year Custom Incentive Rate application with the OEB for 2020-2022 transmission rates. On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments. The hearing began on October 21, 2019, and concluded on November 4, 2019. The OEB decision is pending.

Hydro One Networks - Distribution

On March 31, 2017, Hydro One Networks filed a custom application with the OEB for 2018-2022 distribution rates under the OEB's incentive-based regulatory framework (2018-2022 Distribution Application), which was subsequently updated on June 7 and December 21, 2017. The application reflects the level of capital investments required to minimize degradation in overall system asset condition, to meet regulatory requirements, and to maintain current reliability levels.

On March 7, 2019, the OEB rendered its decision on the 2018-2022 Distribution Application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of \$1,459 million for 2018, \$1,498 million for 2019, \$1,532 million for 2020, \$1,578 million for 2021, and \$1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements. See above in "- Hydro One Networks - Transmission" for impacts relating to the distribution deferred income tax regulatory asset.

On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs, and on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court. The appeal is being held in abeyance pending the outcome of the motion.

Hydro One Remote Communities

On November 5, 2018, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.8% effective May 1, 2019. On February 11, 2019, the OEB issued a draft decision approving the requested increase, which was later finalized on March 28, 2019. On October 16, 2019, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.5% effective May 1, 2020.

Hydro One Remote Communities is fully financed by debt and is operated as a break-even entity with no ROE.

NRLP

On September 19, 2018, NRLP was formed to own and operate a new 230 kV transmission line (Niagara Line) in the Niagara region. The Niagara Line enables generators in the Niagara area to connect to the load centres of the Greater Toronto and Hamilton areas.

On September 27, 2018, Hydro One filed a transmission licence application with the OEB for NRLP. On October 25, 2018, Hydro One filed two other applications with the OEB relating to NRLP requesting approval for Hydro One Networks to sell the applicable Niagara Line assets to NRLP, and approval of interim rates to include in the 2019 Uniform Transmission Rates (UTRs). On December 20, 2018, the OEB issued a decision finding that the request for approval for an interim revenue requirement effective January 1, 2019 was premature but indicated that there would be an opportunity to adjudicate the matter at a later date.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

In January 2019, construction on the project was halted due to a land dispute with the Haudenosaunee Confederacy Chiefs Council (HCCC). On March 1, 2019, Hydro One filed a letter with the OEB requesting that the three previously-filed applications be heard together once the land dispute is resolved. On March 15, 2019, the OEB put the NRLP applications in abeyance per Hydro One's request. Hydro One filed an application with the Ontario Superior Court of Justice for injunctive relief (injunction) against members of the HCCC amongst others. On July 15, 2019, Hydro One was granted an injunction order. Hydro One resumed construction shortly thereafter.

On August 1, 2019, Hydro One filed an update to the three previously-filed OEB applications and asked that the OEB resume adjudication of the applications. On August 30, 2019, the construction of the Niagara Line was completed, and on September 12, 2019, the OEB granted NRLP a transmission licence and granted Hydro One Networks leave to sell the applicable Niagara Line assets to NRLP.

On September 18, 2019, the applicable Niagara Line assets were transferred from Hydro One Networks to NRLP. Subsequently, on the same date, Hydro One Networks sold to the Six Nations of the Grand River Development Corporation and, through a trust, to the Mississaugas of the Credit First Nation a 25.0% and 0.1% equity interest in NRLP partnership units, respectively, for total consideration of \$12 million, representing the fair value of the equity interest acquired. The Mississaugas of the Credit First Nation has an option to purchase an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks at a price based on the book value of the Niagara Line assets on the date the option is exercised. This option is available for up to six months and is subject to certain conditions.

On September 26, 2019, the OEB approved NRLP's request to establish a deferral account to record NRLP's 2019 revenue requirement prior to its inclusion in the UTR. On October 25, 2019, NRLP filed its revenue cap incentive rate application for 2020-2024. The OEB decision is pending.

HOSSM

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB MAAD decision dated October 13, 2016. In July 2018, HOSSM filed a 2019 application to allow for inflationary increase (revenue cap escalator index) to its previously approved revenue requirement. The revenue cap escalator index is designed to add inflationary increases to the revenue requirement on an annual basis. On June 20, 2019, the OEB approved the revenue cap escalator index at 1.1% (net) which was applied to HOSSM's base revenue requirement for 2019, effective February 1, 2019, and also approved the 2019-2026 revenue cap framework.

B2M LP

On July 31, 2019, B2M LP filed a transmission rate application for 2020-2024, seeking a base revenue requirement of \$36 million for 2020, and a 1.4% revenue cap escalator index for 2021 to 2024.

MAAD Applications

Orillia Power MAAD Application

In 2016, Hydro One filed a MAAD application (2016 Application) with the OEB to acquire Orillia Power Distribution Corporation (Orillia Power) from the City of Orillia, Ontario. On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power. On September 26, 2018, Hydro One filed a new MAAD application (2018 Application) with the OEB to acquire Orillia Power. The evidence in the 2018 Application is similar to that provided in the 2016 Application. However, it includes additional information that was not available at the time Hydro One filed its 2016 MAAD Application, including updates to reflect current variables to costs and other metrics, as well as future cost structures pertaining to the acquired entity.

On October 16, 2018, the School Energy Coalition (SEC) filed a motion with the OEB seeking an order dismissing the 2018 Application. On January 16, 2019, Hydro One and Orillia Power filed submissions on the SEC motion, maintaining that the motion should be dismissed, and that the 2018 Application should be heard by the OEB. On March 12, 2019, the OEB dismissed SEC's motion. At the request of Hydro One, on March 21, 2019, the OEB cancelled the deadlines for interrogatories to allow Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's 2018-2022 Distribution Application. Hydro One filed the supplemental evidence on April 26, 2019. A transcribed technical conference was held on October 3-4, 2019. On October 28, 2019, the OEB requested submission from the parties on the need for an oral hearing. Written submissions were due by November 4, 2019. The OEB intends to schedule an oral hearing for December 2-4, 2019.

Peterborough Distribution MAAD Application

On October 12, 2018, the Company filed an application with the OEB for approval of the acquisition of the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution). On October 25, 2018, an advance ruling certification application was filed with the Competition Bureau. On November 14, 2018, the Competition Bureau issued a no action letter, meaning that the transaction can proceed from the Competition Bureau's perspective. At the request of Hydro One, on March 21, 2019, the OEB allowed Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's 2018-2022 Distribution Application. Hydro One filed the supplemental evidence on April 26, 2019. A transcribed technical conference was held on October 3-4, 2019. On October 28, 2019, the OEB requested submission from the parties on the need for an oral hearing. Written submissions were due by November 4, 2019. The OEB intends to schedule an oral hearing for December 2-4, 2019.

OTHER DEVELOPMENTS

Strategy

On November 6, 2019, the Board endorsed the Company's updated strategy focused on five key aspirational priorities:

1. **PLAN, DESIGN AND BUILD A GRID FOR THE FUTURE**

We will plan, design and build a reliable grid taking into account changing technologies to prevent future outages. There will be increased focus on grid resilience in order to restore power after events. Climate change and sustainability factors will be taken into consideration in our planning processes to increase resilience and lower our environmental footprint. We will incorporate distributed energy resources to enable customer choice while delivering exceptional value to customers through best-in-class asset management practices.

2. **BE THE SAFEST AND MOST EFFICIENT UTILITY**

We will transform and improve our safety culture through robust safety analytics as well as grass-roots engagement with our employees. Field operations will be more empowered to drive efficiency, productivity and reliability and provided with efficient corporate support. There will be a focus on efficient capital delivery to support an ongoing growing work program.

3. **BE A TRUSTED PARTNER**

We will make concerted efforts to build and grow relationships with Indigenous peoples, government and industry partners. We will proactively address community concerns and establish strong partnerships with our customers through local investment and economic development for the benefit of Ontarians.

4. **ADVOCATE FOR OUR CUSTOMERS AND HELP THEM MAKE INFORMED DECISIONS**

We will make it easier to do business with Hydro One by strengthening the customer experience through innovative customer-centric practices. We will help our customers make informed decisions with deeper insights and leverage our position as energy experts. We will expand access to energy offerings to become the provider of choice to our customers.

5. **INNOVATE AND GROW THE BUSINESS**

We will continue to invest responsibly in our core transmission and distribution business. In addition, we will pursue incremental regulated and unregulated business opportunities through innovation and our focused presence in Ontario.

Collective Agreements

On March 25, 2019, Hydro One and the Society of United Professionals (Society) announced the tentative settlement of a two-year collective agreement covering approximately 1,500 employees in critical engineering, supervisory and administrative roles. The agreement covering the period from April 1, 2019 to March 31, 2021 was ratified by the Society on April 30, 2019.

Litigation

Class Action Lawsuit

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities, and Norfolk Power Distribution Inc. were defendants in a class action suit commenced in 2015 in which the representative plaintiff was seeking up to \$125 million in damages related to allegations of improper billing practices. In March 2019, the plaintiff's application for leave to appeal the lower court's refusal to certify the lawsuit as a class action was denied by the Ontario Court of Appeal, which means that the lawsuit has effectively ended.

Litigation Relating to the Merger

There were four putative class action lawsuits filed by Avista Corporation shareholders in relation to the Merger. The plaintiffs in the four lawsuits were, respectively, Fink, Jenß, Samuel and Sharpenter. All of these class action lawsuits have now been dismissed.

2019 Federal and Ontario Budgets

Impact

Certain 2019 federal and Ontario budget measures enacted during the nine months ended September 30, 2019 provide certain time-limited investment incentives permitting Hydro One to deduct Accelerated CCA of up to three times the first-year rate for eligible capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028. The Accelerated CCA resulted in a temporary reduction in the Company's ETR and the recognition of a tax regulatory liability relating to the Accelerated CCA that has not been reflected in the OEB approved rates. The timing of the disposition of the tax regulatory liability is subject to OEB approval, and may have a material impact on Hydro One's future cash flows in the near term.

Estimated ETR Change

Hydro One expects that the OEB's March 7, 2019 decision relating to the sharing of the Company's deferred tax asset, the Merger-related costs, and the Accelerated CCA will lower the Company's ETR to approximately 2% in 2019, and to a range of approximately 8% to 11% in the next 5 years.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Avista Corporation

On January 23, 2019, Hydro One and Avista Corporation announced that the companies had mutually agreed to terminate the Merger agreement. As a result of the termination of the Merger agreement, on January 24, 2019, Hydro One paid a US\$103 million termination fee to Avista Corporation as required by the Merger agreement. On January 24, 2019, the Company cancelled the Acquisition Credit Facilities, with no amounts drawn. On February 1, 2019, Hydro One entered into the Demand Facility for the purpose of funding the payment of the termination fee and other Merger-related costs. On February 8, 2019, Hydro One redeemed the convertible debentures and paid the holders of the instalment receipts \$513 million (\$333 per \$1,000 principal amount) plus accrued and unpaid interest of \$7 million. The redemption of the convertible debentures was paid with cash on hand. As a result of the termination of the Merger agreement, the foreign-exchange contract terminated, with no amounts paid or received by Hydro One.

The following amounts related to the termination of the Merger agreement were recorded by the Company during the nine months ended September 30, 2019. All amounts were recognized in the first quarter.

- \$138 million for payment of the US\$103 million Merger termination fee recorded in OM&A costs;
- \$22 million financing charges, due to reversal of previously recorded unrealized gains upon termination of the foreign-exchange contract;
- redemption of \$513 million convertible debentures and payments of related interest of \$7 million; and
- \$24 million financing charges, due to derecognition of the deferred financing costs related to convertible debentures.

HYDRO ONE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

On June 24, 2019, Hydro One announced that the Board Chair Tom Woods would be stepping down from the Board on July 31, 2019. On July 2, 2019, Hydro One announced that Tim Hodgson has been appointed by the Board to serve as the Board Chair commencing August 1, 2019.

Executive Officers

On March 28, 2019, Hydro One announced the appointment of Mark Poweska as President and Chief Executive Officer (CEO) of Hydro One and Hydro One Inc., effective May 10, 2019.

In April 2019, Greg Kiraly, Chief Operating Officer, and Jamie Scarlett, Executive Vice President and Chief Legal Officer, left the Company following a period of planned leadership transition.

On May 8, 2019, Chris Lopez was appointed as the Chief Financial Officer of Hydro One and Hydro One Inc., effective May 9, 2019.

On July 10, 2019, Hydro One announced the appointment of Saylor Millitz-Lee, as Executive Vice President and Chief Human Resources Officer, effective immediately.

On August 9, 2019, Hydro One announced the appointment of Paul Harricks, as Executive Vice President and Chief Legal Officer, effective September 9, 2019.

Executive Compensation

On March 8, 2019, Hydro One released a revised executive compensation framework for its Board, the CEO and other executives that was approved by the Management Board of Cabinet of the Province.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

NON-GAAP MEASURES

FFO

FFO is defined as net cash from operating activities, adjusted for (i) changes in non-cash balances related to operations, (ii) dividends paid on preferred shares, and (iii) distributions to noncontrolling interest. Management believes that FFO is helpful as a supplemental measure of the Company's operating cash flows as it excludes timing-related fluctuations in non-cash operating working capital and cash flows not attributable to common shareholders. As such, FFO provides a consistent measure of the cash generating performance of the Company's assets.

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net cash from operating activities	648	508	1,063	1,176
Changes in non-cash balances related to operations	(186)	(85)	(31)	54
Preferred share dividends	(4)	(4)	(13)	(13)
Distributions to noncontrolling interest	(1)	(1)	(7)	(6)
FFO	457	418	1,012	1,211

Adjusted Net Income and Adjusted EPS

The following adjusted net income, and basic and diluted Adjusted EPS have been calculated by management on a supplementary basis which adjusts net income under US GAAP for income and costs related to the Merger. Adjusted net income and Adjusted EPS are used internally by management to assess the Company's performance and are considered useful because they exclude the impact of Merger-related costs and loss or gain on the foreign-exchange contract. Adjusted net income and Adjusted EPS provide users with a comparative basis to evaluate the current ongoing operations of the Company compared to prior year.

<i>(millions of dollars, except number of shares and EPS)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net income attributable to common shareholders	241	194	567	616
Impacts related to Merger:				
OM&A - Merger-related costs (before tax)	—	1	138	5
Financing charges - Merger-related costs (before tax)	—	15	31	44
Financing charges - loss (gain) on foreign-exchange contract (before tax)	—	24	22	(25)
Tax impact	—	(7)	(51)	(9)
Merger-related impacts (after tax)	—	33	140	15
Adjusted net income attributable to common shareholders	241	227	707	631
Weighted average number of shares				
Basic	596,605,054	595,882,438	596,359,125	595,714,016
Effect of dilutive stock-based compensation plans	2,420,792	1,968,856	2,343,278	2,128,211
Diluted	599,025,846	597,851,294	598,702,403	597,842,227
Adjusted EPS				
Basic	\$0.40	\$0.38	\$1.19	\$1.06
Diluted	\$0.40	\$0.38	\$1.18	\$1.06

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of purchased power. Management believes that revenue, net of purchased power is helpful as a measure of net revenues for the distribution segment, as purchased power is fully recovered through revenues.

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues	1,593	1,606	4,765	4,659
Less: Purchased power	737	733	2,197	2,158
Revenues, net of purchased power	856	873	2,568	2,501

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Distribution revenues	1,140	1,103	3,490	3,284
Less: Purchased power	737	733	2,197	2,158
Distribution revenues, net of purchased power	403	370	1,293	1,126

FFO, basic and diluted Adjusted EPS, adjusted net Income, revenues, net of purchased power, and distribution revenues, net of purchased power are not recognized measures under US GAAP and do not have a standardized meaning prescribed by US GAAP. They are therefore unlikely to be directly comparable to similar measures presented by other companies. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under US GAAP.

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.3% ownership at September 30, 2019. The IESO, OPG, Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. OCN LP is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2019 and 2018:

<i>(millions of dollars)</i>	Related Party	Transaction	Three months ended September 30		Nine months ended September 30	
			2019	2018	2019	2018
	Province	Dividends paid	73	69	215	205
	IESO	Power purchased	301	321	1,110	1,079
		Revenues for transmission services	439	474	1,222	1,293
		Amounts related to electricity rebates	137	113	379	353
		Distribution revenues related to rural rate protection	60	59	178	177
		Distribution revenues related to the supply of electricity to remote northern communities	8	8	26	24
		Funding received related to Conservation and Demand Management programs	5	11	28	33
	OPG	Power purchased	—	2	5	8
		Revenues related to provision of services and supply of electricity	4	2	7	6
		Costs related to the purchase of services	—	—	1	—
	OEFC	Power purchased from power contracts administered by the OEFC	—	1	1	2
	OEB	OEB fees	3	2	7	6
	OCN LP¹	Investment in OCN LP	—	—	2	—

¹ OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Internal control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and due to its inherent limitations, may not prevent or detect all misrepresentations.

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2019, that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standards Codifications (ASCs) and Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB) that are applicable to Hydro One:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 to the financial statements for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption
ASU 2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Hydro One early-adopted this ASU on April 1, 2019. The ASU was applied prospectively and there was no material impact upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 <i>Financial Instruments - Credit Losses</i> , Topic 815 <i>Derivatives and Hedging</i> and Topic 825 <i>Financial Instruments</i> .	January 1, 2020	Under assessment
ASU 2019-05	May 2019	The amendments in this update provide entities with an option to irrevocably elect the fair value option to be applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326.	January 1, 2020	Under assessment

HYDRO ONE HOLDINGS LIMITED - UNAUDITED CONSOLIDATING SUMMARY FINANCIAL INFORMATION

Hydro One Limited fully and unconditionally guarantees the payment obligations of its wholly-owned subsidiary Hydro One Holdings Limited (HOHL) issuable under the short form base shelf prospectus dated November 23, 2018. Accordingly, the following consolidating summary financial information is provided in compliance with the requirements of section 13.4 of National Instrument 51-102 - *Continuous Disclosure Obligations* providing for an exemption for certain credit support issuers. The tables below contain consolidating summary financial information as at September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018 for: (i) Hydro One Limited; (ii) HOHL; (iii) the subsidiaries of Hydro One Limited, other than HOHL, on a combined basis, (iv) consolidating adjustments, and (v) Hydro One Limited and all of its subsidiaries on a consolidated basis, in each case for the periods indicated. Such summary financial information is intended to provide investors with

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

meaningful and comparable financial information about Hydro One Limited and its subsidiaries. This summary financial information should be read in conjunction with Hydro One Limited's most recently issued annual and interim financial statements. This summary financial information has been prepared in accordance with US GAAP, as issued by the FASB.

Three months ended September 30 (millions of dollars, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Revenue	2	2	—	—	1,718	1,632	(127)	(28)	1,593
Net Income (Loss) Attributable to Common Shareholders	(2)	(18)	—	(21)	359	249	(116)	(16)	241	194

Nine months ended September 30 (millions of dollars, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Revenue	15	10	—	—	4,954	4,725	(204)	(76)	4,765
Net Income (Loss) Attributable to Common Shareholders	(130)	(52)	(19)	22	882	693	(166)	(47)	567	616

At September 30, 2019 and December 31, 2018 (millions of dollars, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Sep.2019	Dec.2018	Sep.2019	Dec.2018	Sep.2019	Dec.2018	Sep.2019	Dec.2018	Sep.2019	Dec.2018
	Current Assets	116	159	—	22	2,723	2,054	(1,774)	(744)	1,065
Non-Current Assets	4,090	5,799	—	—	40,243	41,597	(19,602)	(23,230)	24,731	24,166
Current Liabilities	410	97	—	—	4,073	4,391	(1,761)	(1,460)	2,722	3,028
Non-Current Liabilities	—	1,516	—	3	24,372	22,373	(11,096)	(10,906)	13,276	12,986

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company's liquidity and capital resources and operational requirements; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects and initiatives, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; expected impacts relating to the deferred tax asset; Hydro One's appeal of the OEB's deferred tax asset decision; the motion to review and vary the OEB's decision relating to recovery of pension costs and the related appeal; options to purchase additional equity interest in NRLP partnership units; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans and the LTIP; collective agreements; the pension plan, future pension contributions, valuations and expected impacts; dividends; the anticipated impacts of the Accelerated CCA on Hydro One, including timing of such impacts; the Company's expectations relating to its ETR; Hydro One's strategy; non-GAAP measures; internal control over financial reporting and disclosure; recent accounting-related guidance; the Universal Base Shelf Prospectus; the US Debt Shelf Prospectus; and the Company's acquisitions and mergers, including Orillia Power and Peterborough Distribution. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking statements, except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to, the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market or for Hydro One specifically; favourable decisions from the OEB and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining the required approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's distribution and transmission businesses; continued use of US GAAP; a stable regulatory environment; no unfavourable changes in environmental regulation; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to the Company, including information obtained from third party sources. Actual results may differ materially from those predicted by such forward-looking statements. While Hydro One does not know what impact any of these

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2019 and 2018

differences may have, the Company's business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- risks associated with the Province's share ownership of Hydro One and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders, actual performance against forecasts and capital expenditures, or denials of applications;
- the risk that the Company may be unable to comply with regulatory and legislative requirements or that the Company may incur additional costs for compliance that are not recoverable through rates;
- the risk of exposure of the Company's facilities to the effects of severe weather conditions, natural disasters or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- public opposition to and delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk that Hydro One may incur significant costs associated with transferring assets located on reserves (as defined in the Indian Act (Canada));
- the risks associated with information system security and maintaining a complex IT system infrastructure;
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- the risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- the risk of a credit rating downgrade and its impact on the Company's funding and liquidity;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit risk;
- the risk that the Company may not be able to execute plans for capital projects necessary to maintain the performance of the Company's assets or to carry out projects in a timely manner;
- the risk of non-compliance with environmental regulations or failure to mitigate significant health and safety risks and inability to recover environmental expenditures in rate applications;
- the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;
- the risk of not being able to recover the Company's pension expenditures in future rates and uncertainty regarding the future regulatory treatment of pension, other post-employment benefits and post-retirement benefits costs;
- the potential that Hydro One may incur significant expenses to replace functions currently outsourced if agreements are terminated or expire before a new service provider is selected;
- the risks associated with economic uncertainty and financial market volatility;
- the inability to prepare financial statements using US GAAP;
- the impact of the ownership by the Province of lands underlying the Company's transmission system; and
- the risk related to the impact of the new accounting pronouncements.

Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risk Factors" in the 2018 amended MD&A.

In addition, Hydro One cautions the reader that information provided in this MD&A regarding the Company's outlook on certain matters, including potential future investments, is provided in order to give context to the nature of some of the Company's future plans and may not be appropriate for other purposes.

Additional information about Hydro One, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com, the US Securities and Exchange Commission's EDGAR website at www.sec.gov/edgar.shtml, and the Company's website at www.HydroOne.com/Investors.

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three and nine months ended September 30, 2019 and 2018

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
<i>(millions of Canadian dollars, except per share amounts)</i>				
Revenues				
Distribution (includes related party revenues of \$70 and \$209 (2018 - \$68 and \$205) for the three and nine months ended September 30, respectively) (Note 24)	1,140	1,103	3,490	3,284
Transmission (includes related party revenues of \$440 and \$1,223 (2018 - \$475 and \$1,295) for the three and nine months ended September 30, respectively) (Note 24)	443	493	1,245	1,344
Other	10	10	30	31
	1,593	1,606	4,765	4,659
Costs				
Purchased power (includes related party costs of \$301 and \$1,116 (2018 - \$324 and \$1,089) for the three and nine months ended September 30, respectively) (Note 24)	737	733	2,197	2,158
Operation, maintenance and administration (Notes 4, 24)	259	271	942	797
Depreciation, amortization and asset removal costs (Note 5)	219	213	652	620
	1,215	1,217	3,791	3,575
Income before financing charges and income taxes	378	389	974	1,084
Financing charges (Notes 4, 6)	118	149	398	336
Income before income taxes	260	240	576	748
Income tax expense (recovery) (Note 7)	14	41	(8)	115
Net income	246	199	584	633
Other comprehensive income (loss)	—	2	(1)	2
Comprehensive income	246	201	583	635
Net income attributable to:				
Noncontrolling interest	1	1	4	4
Preferred shareholders	4	4	13	13
Common shareholders	241	194	567	616
	246	199	584	633
Comprehensive income attributable to:				
Noncontrolling interest	1	1	4	4
Preferred shareholders	4	4	13	13
Common shareholders	241	196	566	618
	246	201	583	635
Earnings per common share (Note 22)				
Basic	\$0.40	\$0.33	\$0.95	\$1.03
Diluted	\$0.40	\$0.32	\$0.95	\$1.03
Dividends per common share declared (Note 21)	\$0.24	\$0.23	\$0.71	\$0.68

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At September 30, 2019 and December 31, 2018

<i>(millions of Canadian dollars)</i>	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	63	483
Accounts receivable <i>(Note 8)</i>	620	628
Due from related parties <i>(Note 24)</i>	262	255
Other current assets <i>(Note 9)</i>	120	125
	1,065	1,491
Property, plant and equipment <i>(Note 10)</i>	21,166	20,687
Other long-term assets:		
Regulatory assets <i>(Note 11)</i>	1,939	1,721
Deferred income tax assets	830	1,018
Intangible assets (net of accumulated amortization - \$495; 2018 - \$445)	437	410
Goodwill	325	325
Other assets <i>(Note 12)</i>	34	5
	3,565	3,479
Total assets	25,796	25,657
Liabilities		
Current liabilities:		
Short-term notes payable <i>(Note 15)</i>	519	1,252
Long-term debt payable within one year <i>(Notes 15, 17)</i>	1,153	731
Accounts payable and other current liabilities <i>(Note 13)</i>	1,044	956
Due to related parties <i>(Note 24)</i>	6	89
	2,722	3,028
Long-term liabilities:		
Long-term debt (includes \$851 measured at fair value; 2018 - \$845) <i>(Notes 15, 17)</i>	10,825	9,978
Convertible debentures <i>(Notes 16, 17)</i>	—	489
Regulatory liabilities <i>(Note 11)</i>	220	326
Deferred income tax liabilities	62	58
Other long-term liabilities <i>(Note 14)</i>	2,169	2,135
	13,276	12,986
Total liabilities	15,998	16,014
<i>Contingencies and Commitments (Notes 26, 27)</i>		
<i>Subsequent Events (Note 29)</i>		
Noncontrolling interest subject to redemption	20	21
Equity		
Common shares <i>(Note 20)</i>	5,657	5,643
Preferred shares <i>(Note 20)</i>	418	418
Additional paid-in capital	48	56
Retained earnings	3,600	3,459
Accumulated other comprehensive loss	(4)	(3)
Hydro One shareholders' equity	9,719	9,573
Noncontrolling interest	59	49
Total equity	9,778	9,622
	25,796	25,657

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the nine months ended September 30, 2019 and 2018

Nine months ended September 30, 2019 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2019	5,643	418	56	3,459	(3)	9,573	49	9,622
Net income	—	—	—	580	—	580	3	583
Other comprehensive income (loss)	—	—	—	—	(1)	(1)	—	(1)
Distributions to noncontrolling interest	—	—	—	—	—	—	(5)	(5)
Contributions from sale of noncontrolling interest <i>(Note 4)</i>	—	—	—	—	—	—	12	12
Dividends on preferred shares	—	—	—	(13)	—	(13)	—	(13)
Dividends on common shares	—	—	—	(426)	—	(426)	—	(426)
Common shares issued	14	—	(11)	—	—	3	—	3
Stock-based compensation	—	—	3	—	—	3	—	3
September 30, 2019	5,657	418	48	3,600	(4)	9,719	59	9,778

Nine months ended September 30, 2018 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2018	5,631	418	49	4,090	(7)	10,181	50	10,231
Net income	—	—	—	629	—	629	3	632
Other comprehensive income	—	—	—	—	2	2	—	2
Distributions to noncontrolling interest	—	—	—	—	—	—	(4)	(4)
Dividends on preferred shares	—	—	—	(13)	—	(13)	—	(13)
Dividends on common shares	—	—	—	(405)	—	(405)	—	(405)
Common shares issued	10	—	(10)	—	—	—	—	—
Stock-based compensation	—	—	15	—	—	15	—	15
September 30, 2018	5,641	418	54	4,301	(5)	10,409	49	10,458

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three and nine months ended September 30, 2019 and 2018

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
<i>(millions of Canadian dollars)</i>				
Operating activities				
Net income	246	199	584	633
Environmental expenditures	(5)	(7)	(21)	(17)
Adjustments for non-cash items:				
Depreciation and amortization <i>(Note 5)</i>	192	188	576	549
Regulatory assets and liabilities	22	(29)	(151)	(32)
Deferred income taxes	6	36	(31)	95
Unrealized loss (gain) on foreign-exchange contract	—	24	22	(25)
Derecognition of deferred financing costs	—	—	24	—
Other	1	12	29	27
Changes in non-cash balances related to operations <i>(Note 25)</i>	186	85	31	(54)
Net cash from operating activities	648	508	1,063	1,176
Financing activities				
Long-term debt issued	—	—	1,500	1,400
Long-term debt repaid	—	—	(229)	(1)
Short-term notes issued	520	445	3,112	2,987
Short-term notes repaid	(599)	(1,049)	(3,845)	(3,469)
Convertible debentures redeemed	—	—	(513)	—
Dividends paid	(148)	(141)	(439)	(418)
Distributions paid to noncontrolling interest	(1)	(1)	(7)	(6)
Contributions received from sale of noncontrolling interest <i>(Note 4)</i>	12	—	12	—
Common shares issued <i>(Note 20)</i>	—	—	3	—
Costs to obtain financing	—	—	(8)	(6)
Net cash from (used in) financing activities	(216)	(746)	(414)	487
Investing activities				
Capital expenditures <i>(Note 25)</i>				
Property, plant and equipment	(391)	(370)	(1,007)	(1,022)
Intangible assets	(21)	(25)	(69)	(61)
Capital contributions received	—	—	3	—
Other	8	1	4	8
Net cash used in investing activities	(404)	(394)	(1,069)	(1,075)
Net change in cash and cash equivalents	28	(632)	(420)	588
Cash and cash equivalents, beginning of period	35	1,245	483	25
Cash and cash equivalents, end of period	63	613	63	613

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At September 30, 2019, the Province held approximately 47.3% (December 31, 2018 - 47.4%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

Earnings for interim periods may not be indicative of results for the year due to the impact of seasonal weather conditions on customer demand and market pricing.

Rate Setting

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 75% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners). (See Note 4 - Business Combinations). Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Transmission

On March 7, 2019, the Ontario Energy Board (OEB) issued a decision on its reconsideration of its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirement dated September 28, 2017 (Original Decision) with respect to the rate-setting treatment of the benefits of the deferred tax asset resulting from the transition from the payments in lieu of tax regime under the *Electricity Act 1998* (Ontario) to tax payments under the federal and provincial tax regimes which occurred when Hydro One became a public company listed on the Toronto Stock Exchange. See Note 11 - Regulatory Assets and Liabilities for additional information. On October 26, 2018, Hydro One filed a one-year inflation-based application with the OEB for 2019 transmission revenue requirement. On April 25, 2019, the OEB issued its decision on Hydro One Networks' 2019 transmission rate application, and set the revenue index at 1.4% on a final basis effective May 1, 2019.

On November 23, 2018, B2M LP filed a revised 2019 revenue requirement with the OEB using the updated cost of capital parameters. On December 20, 2018, the OEB issued its decision approving the requested 2019 revenue requirement of \$33 million, effective January 1, 2019.

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB Mergers Acquisitions Amalgamations and Divestitures (MAAD) decision dated October 13, 2016. In July 2018, HOSSM filed a 2019 application for permission to include a revenue cap escalator index, which would allow for inflationary increases to its previously approved revenue requirement. On June 20, 2019, the OEB approved the revenue cap escalator index at 1.1% (net) which was applied to HOSSM's base revenue requirement for 2019, effective February 1, 2019, and also approved the 2019-2026 revenue cap framework.

On September 26, 2019, the OEB approved NRLP's request to establish a deferral account to record NRLP's 2019 revenue requirement prior to its inclusion in the Uniform Transmission Rates.

Distribution

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates. On March 7, 2019, the OEB rendered its decision on the distribution rates application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of \$1,459 million for 2018, \$1,498 million for 2019, \$1,532 million for 2020, \$1,578 million for 2021, and \$1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements. See Note 11 - Regulatory Assets and Liabilities for additional information.

On November 5, 2018, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.8% effective May 1, 2019. On February 11, 2019, the OEB issued a draft decision approving the requested increase, which was later finalized on March 28, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These unaudited condensed interim Consolidated Financial Statements (Consolidated Financial Statements) include the accounts of the Company and its subsidiaries. Inter-company transactions and balances have been eliminated.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States Generally Accepted Accounting Principles (US GAAP) for interim financial statements and in Canadian dollars.

The accounting policies applied are consistent with those outlined in Hydro One's annual audited amended consolidated financial statements for the year ended December 31, 2018, with the exception of the adoption of new accounting standards as described below and in Note 3 - New Accounting Pronouncements. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual audited 2018 amended consolidated financial statements.

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Codification (ASC) 842 - *Leases* using the modified retrospective transition approach using the effective date of January 1, 2019, as its date of initial application. In the Company's transition to ASC 842, the Company elected the package of practical expedients and the land easement practical expedient. As a result, there was a \$27 million impact to the Consolidated Balance Sheet and no adjustments were made to prior period reported financial statement amounts. There was no material impact to the Consolidated Statement of Operations and Comprehensive Income. On adoption, the Company did not identify any finance leases.

At the commencement date of a lease, the minimum lease payments are discounted and recognized as a lease obligation. Discount rates used correspond to the Company's incremental borrowing rates. Renewal options are assessed for their likelihood of being exercised and are included in the measurement of the lease obligation when it is reasonably certain they will be exercised. The Company does not recognize leases with a term of less than 12 months. A corresponding Right-of-Use (ROU) asset is recognized at the commencement date of a lease. The ROU asset is measured as the lease obligation adjusted for any lease payments made and/or any lease incentives and initial direct costs incurred. ROU assets are included in other long-term assets, and corresponding lease obligations are included in other current liabilities and other long-term liabilities on the Consolidated Balance Sheets.

Subsequent to the commencement date, the lease expense recognized at each reporting period is the total remaining lease payments over the remaining lease term. Lease obligations are measured as the present value of the remaining unpaid lease payments using the discount rate established at commencement date. The amortization of the ROU assets are calculated as the difference between the lease expense and the accretion of interest, which is calculated on the effective interest method. Lease modifications and impairments are assessed at each reporting period to assess the need for a re-measurement of the lease obligations or ROU assets.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present ASCs and Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 to the financial statements for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption
ASU 2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Hydro One early-adopted this ASU on April 1, 2019. The ASU was applied prospectively and there was no material impact upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 <i>Financial Instruments - Credit Losses</i> , Topic 815 <i>Derivatives and Hedging</i> and Topic 825 <i>Financial Instruments</i> .	January 1, 2020	Under assessment
ASU 2019-05	May 2019	The amendments in this update provide entities with an option to irrevocably elect the fair value option to be applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326.	January 1, 2020	Under assessment

4. BUSINESS COMBINATIONS

NRLP

In 2018, Hydro One entered into an agreement with the First Nations Partners, wherein a noncontrolling equity interest in Hydro One's limited partnership, NRLP, would be made available for purchase at fair value by the First Nations Partners. On September 19, 2018, NRLP was formed to own and operate a new 230 kV transmission line (Niagara Line) in the Niagara region. The Niagara Line enables generators in the Niagara area to connect to the load centres of the Greater Toronto and Hamilton areas. Hydro One Networks maintains and operates the Niagara Line in accordance with an operation and management services agreement. On September 12, 2019, the OEB granted NRLP a transmission licence and granted Hydro One Networks leave to sell the applicable Niagara Line assets to NRLP.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

On September 18, 2019, the applicable Niagara Line assets were transferred from Hydro One Networks to NRLP for \$119 million. This was financed with 60% debt (\$71 million) and 40% equity (\$48 million). The cash payment of \$71 million was financed by debt sourced by NRLP from a Hydro One subsidiary, and the \$48 million equity comprised of partnership units issued by NRLP to Hydro One Networks. Subsequently, on the same date, Hydro One Networks sold to the Six Nations of the Grand River Development Corporation and, through a trust, to the Mississaugas of the Credit First Nation a 25.0% and 0.1% equity interest in NRLP partnership units, respectively, for total consideration of \$12 million, representing the fair value of the equity interest acquired. The Mississaugas of the Credit First Nation has an option to purchase an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks at a price based on the book value of the Niagara Line assets on the date the option is exercised. This option is available for up to six months and is subject to certain conditions.

NRLP is fully consolidated in these Consolidated Financial Statements as it is controlled by Hydro One. The First Nations Partners' 25.1% noncontrolling interest in NRLP is classified within equity. Net income attributable to the First Nations Partners' noncontrolling interest for the period from September 18, 2019 to September 30, 2019 was not significant.

Avista Corporation Purchase Agreement

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger). On January 23, 2019, Hydro One and Avista Corporation announced that the companies have mutually agreed to terminate the Merger agreement. As a result of the termination of the Merger agreement, on January 24, 2019, Hydro One paid a US\$103 million termination fee to Avista Corporation as required by the Merger agreement. On January 24, 2019, the Company cancelled the \$1.0 billion non-revolving equity bridge credit facility and on January 25, 2019, Hydro One terminated the US\$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities). No amounts had been drawn on the Acquisition Credit Facilities. On February 1, 2019, Hydro One entered into a credit agreement for a \$170 million unsecured demand operating credit facility (Demand Facility) for the purpose of funding the payment of the termination fee and other Merger related costs. On February 8, 2019, Hydro One redeemed the convertible debentures and paid the holders of the Instalment Receipts \$513 million (\$333 per \$1,000 principal amount) plus accrued and unpaid interest of \$7 million. The redemption of the convertible debentures was paid with cash on hand. As a result of the termination of the Merger agreement, the deal-contingent foreign-exchange forward contract (foreign-exchange contract) terminated, with no amounts paid or received by Hydro One.

The following amounts related to the termination of the Merger agreement were recorded by the Company during the nine months ended September 30, 2019. All amounts were recognized in the first quarter.

- \$138 million for payment of the US\$103 million Merger termination fee recorded in operation, maintenance and administration costs;
- \$22 million financing charges, due to reversal of previously recorded unrealized gains upon termination of the foreign-exchange contract;
- redemption of \$513 million convertible debentures and payments of related interest of \$7 million; and
- \$24 million financing charges, due to derecognition of the deferred financing costs related to convertible debentures.

See Note 16 - Convertible Debentures and Note 17 - Fair Value of Financial Instruments and Risk Management for details of the convertible debentures and the foreign-exchange contract, respectively.

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Depreciation of property, plant and equipment	167	163	495	481
Amortization of intangible assets	20	18	60	51
Amortization of regulatory assets	5	7	21	17
Depreciation and amortization	192	188	576	549
Asset removal costs	27	25	76	71
	219	213	652	620

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

6. FINANCING CHARGES

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest on long-term debt	124	118	358	332
Derecognition of deferred financing costs (Notes 4, 16)	—	—	24	—
Unrealized loss (gain) on foreign-exchange contract (Notes 4, 17)	—	24	22	(25)
Interest on short-term notes	2	2	15	9
Interest on convertible debentures (Notes 4, 16)	—	15	7	46
Other	5	4	14	14
Less: Interest capitalized on construction and development in progress	(12)	(14)	(36)	(40)
Interest earned on cash and cash equivalents	(1)	—	(6)	—
	118	149	398	336

7. INCOME TAXES

As a rate-regulated utility company, the Company's effective tax rate excludes temporary differences that are recoverable in future rates charged to customers. Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

(millions of dollars)	Nine months ended September 30	
	2019	2018
Income before income taxes	576	748
Income taxes at statutory rate of 26.5% (2018 - 26.5%)	153	198
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization ¹	(70)	(40)
Overheads capitalized for accounting but deducted for tax purposes	(14)	(12)
Pension and post-retirement benefit contributions in excess of expense	(13)	(6)
Interest capitalized for accounting but deducted for tax purposes	(9)	(11)
Environmental expenditures	(5)	(5)
Other	(8)	(9)
Net temporary differences	(119)	(83)
Incremental tax deductions from deferred tax asset sharing ²	(47)	—
Net permanent differences	5	—
Total income tax expense (recovery)	(8)	115
Effective income tax rate	(1.4%)	15.4%

¹ Included in current period's amount is the accelerated tax depreciation of up to three times the first-year rate for certain eligible capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028, as introduced in the 2019 federal and Ontario budgets and enacted in the second quarter of 2019.

² Incremental tax deductions from deferred tax sharing represents the OEB's prescribed allocation to ratepayers of the net deferred tax asset that originated from the transition from the payments in lieu of tax regime under the *Electricity Act 1998* (Ontario) to tax payments under the federal and provincial tax regime.

8. ACCOUNTS RECEIVABLE

(millions of dollars)	September 30, 2019	December 31, 2018
Accounts receivable - billed	299	292
Accounts receivable - unbilled	340	357
Accounts receivable, gross	639	649
Allowance for doubtful accounts	(19)	(21)
Accounts receivable, net	620	628

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

The following table shows the movements in the allowance for doubtful accounts for the nine months ended September 30, 2019 and the year ended December 31, 2018:

<i>(millions of dollars)</i>	Nine months ended September 30, 2019	Year ended December 31, 2018
Allowance for doubtful accounts - beginning	(21)	(29)
Write-offs	12	25
Additions to allowance for doubtful accounts	(10)	(17)
Allowance for doubtful accounts - ending	(19)	(21)

9. OTHER CURRENT ASSETS

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Regulatory assets <i>(Note 11)</i>	48	42
Prepaid expenses and other assets	51	41
Materials and supplies	21	20
Derivative instrument - foreign-exchange contract <i>(Notes 4, 17)</i>	—	22
	120	125

10. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Property, plant and equipment	31,230	30,485
Less: accumulated depreciation	(11,347)	(10,900)
	19,883	19,585
Construction in progress	1,131	947
Future use land, components and spares	152	155
	21,166	20,687

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

11. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Regulatory assets:		
Deferred income tax regulatory asset	1,048	908
Pension benefit regulatory asset	536	547
Environmental	147	165
Foregone revenue deferral	82	—
Post-retirement and post-employment benefits - non-service cost	64	39
Stock-based compensation	41	43
Pension cost differential	22	—
Debt premium	18	22
Conservation and Demand Management (CDM) deferral variance	3	—
Distribution system code exemption	—	10
Other	26	29
Total regulatory assets	1,987	1,763
Less: current portion	(48)	(42)
	1,939	1,721
Regulatory liabilities:		
Post-retirement and post-employment benefits	130	130
Distribution rate riders	52	6
Green Energy expenditure variance	34	52
Tax rule changes variance	30	5
Pension cost differential	15	55
Deferred income tax regulatory liability	5	86
External revenue variance	4	26
Retail settlement variance account	—	39
Other	9	18
Total regulatory liabilities	279	417
Less: current portion	(59)	(91)
	220	326

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates.

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision). In its Original Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a decision and order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Decision relating to the deferred tax asset to an OEB panel for reconsideration.

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019, the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of \$474 million and Hydro One Networks' transmission deferred income tax regulatory asset of \$558 million, an increase in deferred income tax regulatory liability of \$81 million, and a decrease in the foregone revenue deferral regulatory asset of \$68 million. The

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

regulatory balances relating to deferred tax asset sharing will continue to decrease as the tax savings are shared with ratepayers. Notwithstanding the recognition of the effects of the decision in the financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax benefit decision. The appeal is scheduled to be heard on November 21, 2019.

Foregone Revenue Deferral

The foregone revenue deferral account is primarily made up of the difference between revenue earned based on distribution rates approved by the OEB in Hydro One Networks' 2018-2022 distribution rates application, effective May 1, 2018, and revenue earned under the interim rates until the approved 2018 and 2019 rates were implemented on July 1, 2019. The balance of this account is being recovered from ratepayers over an 18-month period ending December 31, 2020. The foregone revenue deferral account also records the difference between revenue earned based on transmission rates approved by the OEB in Hydro One Networks' 2019 transmission rate application, effective May 1, 2019, and the revenue earned under the interim rates until the approved 2019 rates were implemented on July 1, 2019. The balance of this account is being recovered from ratepayers over a 6-month period ending December 31, 2019. The 2019 revenue requirement related to NRLP (see Note 1 - Description of the Business and Note 4 - Business Combinations) is also recorded in this account.

Post-Retirement and Post-Employment Benefits - Non-Service Cost

Hydro One applied to the OEB for a regulatory asset account to record the components other than service costs relating to its post-retirement and post-employment benefits that would have previously been capitalized to property, plant and equipment and intangible assets prior to adoption of ASU 2017-07. In May 2018 and March 2019, the OEB approved the regulatory asset account for Hydro One Networks' Transmission Business and Distribution Business, respectively. Hydro One has recorded the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets, in the Post-Retirement and Post-Employment Benefits - Non-Service Cost regulatory asset.

Pension Cost Differential

Variances between the pension cost recognized and the cost embedded in rates as part of the rate-setting process for Hydro One Networks' transmission and distribution businesses are recognized as a regulatory asset or regulatory liability, as the case may be. As part of its March 2019 decision on Hydro One Networks' 2018-2022 distribution rates, the OEB denied Hydro One's request to recover pension costs. On March 26, 2019, Hydro One filed a Motion to Review and Vary to the OEB and on April 5, 2019, an appeal to the Ontario Divisional Court was filed in respect to the recovery of pension contributions. The Company's position in the aforementioned motion and appeal is that the OEB made errors in its decision to disallow the recovery of Hydro One's pension contributions. Therefore, the Company has reflected the impact of this position in Hydro One Networks' distribution Pension Cost Differential regulatory account. The appeal is being held in abeyance pending the outcome of the motion.

Distribution Rate Riders

In March 2019, as part of its decision on Hydro One Networks' distribution rates application for 2018-2022, the OEB approved the disposition of certain deferral and variance accounts which were accumulated in a 2019-2020 Rate Rider. The Distribution Rate Riders balance includes the 2019-2020 Rate Rider, where amounts are currently being disposed of over an 18-month period ending December 31, 2020, and the 2015-2017 Rate Rider balance, representing over-collected amounts to be returned to ratepayers in a future rate application.

Tax Rule Changes Variance

Subsequent to the 2019 federal and Ontario budgets (budgets) being enacted in the second quarter of 2019, Hydro One recorded the revenue requirement impact of accelerated depreciation rules in the tax rule changes variance account which gave rise to regulatory liabilities to be refunded to ratepayers in the future. The budgets provided certain time-limited investment incentives permitting Hydro One to deduct accelerated capital cost allowance of up to three times the first-year rate for capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028.

12. OTHER LONG-TERM ASSETS

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
ROU assets <i>(Note 19)</i>	23	—
Other	11	5
	34	5

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Accounts payable	172	179
Accrued liabilities	661	590
Accrued interest	142	96
Regulatory liabilities <i>(Note 11)</i>	59	91
Lease obligations <i>(Note 19)</i>	10	—
	1,044	956

14. OTHER LONG-TERM LIABILITIES

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Post-retirement and post-employment benefit liability <i>(Note 18)</i>	1,469	1,417
Pension benefit liability <i>(Note 18)</i>	536	547
Environmental liabilities	120	139
Lease obligations <i>(Note 19)</i>	15	—
Long-term accounts payable	7	12
Asset retirement obligations	10	10
Other liabilities	12	10
	2,169	2,135

15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of \$2.3 billion. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by Hydro One Inc.'s committed revolving credit facilities.

At September 30, 2019, Hydro One's consolidated committed, unsecured and undrawn credit facilities (Operating Credit Facilities) totalling \$2,550 million included Hydro One's credit facilities of \$250 million and Hydro One Inc.'s credit facilities of \$2.3 billion. On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended from 2021 and 2022 to 2024. At September 30, 2019, no amounts have been drawn on the Operating Credit Facilities.

On February 1, 2019, Hydro One entered into a credit agreement for a \$170 million unsecured Demand Facility which was used to fund the payment of the Merger termination fee and other Merger-related costs (See Note 4 - Business Combinations). On June 6, 2019, the \$170 million drawn on the Demand Facility was repaid, and the Demand Facility is no longer available.

The Company may use the credit facilities for working capital and general corporate purposes. If used, interest on the credit facilities would apply based on Canadian benchmark rates. The obligation of each lender to make any credit extension under its credit facility is subject to various conditions including that no event of default has occurred or would result from such credit extension.

Subsidiary Debt Guarantee

Hydro One Holdings Limited (HOHL) is an indirect wholly-owned subsidiary of Hydro One that may offer and sell debt securities. Any debt securities issued by HOHL are fully and unconditionally guaranteed by the Company. At September 30, 2019, no debt securities have been issued by HOHL.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

Long-Term Debt

The following table presents long-term debt outstanding at September 30, 2019 and December 31, 2018:

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Hydro One Inc. long-term debt (a)	11,845	10,573
HOSSM long-term debt (b)	163	168
	12,008	10,741
Add: Net unamortized debt premiums	12	13
Add: Unrealized mark-to-market loss (gain) ¹	1	(5)
Less: Unamortized deferred debt issuance costs	(43)	(40)
Total long-term debt	11,978	10,709
Less: Long-term debt payable within one year	(1,153)	(731)
	10,825	9,978

¹ The unrealized mark-to-market net loss of \$1 million (December 31, 2018 - \$5 million net gain) relates to \$50 million of the Series 33 notes due 2020, \$500 million Series 37 notes due 2019, and \$300 million Series 39 notes due 2021. The unrealized mark-to-market net loss is offset by a \$1 million unrealized mark-to-market net gain (December 31, 2018 - \$5 million net loss) on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At September 30, 2019, long-term debt of \$11,845 million (December 31, 2018 - \$10,573 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion. At September 30, 2019, \$1.1 billion remained available for issuance until April 2020.

During the nine months ended September 30, 2019, Hydro One issued long-term debt totalling \$1.5 billion (2018 - \$1.4 billion), all in the second quarter, under its MTN Program as follows:

- \$700 million Series 42 notes with a maturity date of April 5, 2024 and a coupon rate of 2.54%;
- \$550 million Series 43 notes with a maturity date of April 5, 2029 and a coupon rate of 3.02%; and
- \$250 million Series 44 notes with a maturity date of April 5, 2050 and a coupon rate of 3.64%.

During the nine months ended September 30, 2019, \$228 million of long-term debt was repaid (2018 - \$nil), all in the second quarter, under the MTN Program.

(b) HOSSM long-term debt

At September 30, 2019, HOSSM long-term debt of \$163 million (December 31, 2018 - \$168 million), with a principal amount of \$142 million (December 31, 2018 - \$143 million) was outstanding. During the three and nine months ended September 30, 2019 and 2018, no long-term debt was issued, and \$1 million (2018 - \$1 million) of long-term debt was repaid, all in the second quarter.

Principal and Interest Payments

At September 30, 2019, principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments <i>(millions of dollars)</i>	Interest Payments <i>(millions of dollars)</i>	Weighted-Average Interest Rate <i>(%)</i>
Year 1	1,153	486	2.3
Year 2	803	459	2.1
Year 3	603	436	3.2
Year 4	133	426	6.1
Year 5	700	419	2.5
	3,392	2,226	2.6
Years 6-10	1,400	1,915	2.9
Thereafter	7,195	4,266	5.0
	11,987	8,407	4.1

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

16. CONVERTIBLE DEBENTURES

The following table presents the change in convertible debentures during the nine months ended September 30, 2019 and the year ended December 31, 2018:

<i>(millions of dollars)</i>	Nine months ended September 30, 2019	Year ended December 31, 2018
Carrying value - beginning	489	487
Amortization of deferred financing costs	—	2
Derecognition of deferred financing costs <i>(Notes 4, 6)</i>	24	—
Redemption	(513)	—
Carrying value - ending	—	489
Face value - ending	—	513

As a result of the termination of the Merger agreement (see Note 4 - Business Combinations), on February 8, 2019, Hydro One redeemed the Convertible Debentures and paid the holders of the instalment receipts \$513 million (\$333 per \$1,000 principal amount) plus accrued and unpaid interest of \$7 million.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At September 30, 2019 and December 31, 2018, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at September 30, 2019 and December 31, 2018 are as follows:

<i>(millions of dollars)</i>	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt measured at fair value:				
\$50 million of MTN Series 33 notes	50	50	49	49
\$500 million MTN Series 37 notes	499	499	495	495
\$300 million MTN Series 39 notes	302	302	301	301
Other notes and debentures	11,127	13,219	9,864	10,820
Long-term debt, including current portion	11,978	14,070	10,709	11,665

Fair Value Measurements of Derivative Instruments

At September 30, 2019, Hydro One Inc. had interest-rate swaps with a total notional amount of \$850 million (December 31, 2018 - \$850 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. Hydro One Inc.'s fair value hedge exposure was approximately 7% (December 31, 2018 - 8%) of its total long-term debt. At September 30, 2019, Hydro One Inc. had the following interest-rate swaps designated as fair value hedges:

- a \$50 million fixed-to-floating interest-rate swap agreement to convert \$50 million of the \$350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt;
- two \$125 million and one \$250 million fixed-to-floating interest-rate swap agreements to convert the \$500 million MTN Series 37 notes maturing November 18, 2019 into three-month variable rate debt; and
- a \$300 million fixed-to-floating interest-rate swap agreement to convert the \$300 million MTN Series 39 notes maturing June 25, 2021 into three-month variable rate debt.

At September 30, 2019 and December 31, 2018, the Company had no interest-rate swaps classified as undesignated contracts.

In October 2017, the Company entered into a foreign-exchange contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The foreign-exchange contract was contingent on the Company closing the proposed Merger (see Note 4 - Business Combinations) and was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed with the issuance of Convertible Debentures. This contract was an economic hedge and did not qualify for hedge accounting. It has been accounted for as an undesignated contract with changes in fair value being recorded in earnings as they occurred. As a result of the termination of the Merger agreement (see Note 4 - Business Combinations) in January 2019, the foreign-exchange contract was terminated and previously recorded unrealized gains of \$22 million were reversed in financing charges. No payment was due or payable by Hydro One related to the foreign-exchange contract.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at September 30, 2019 and December 31, 2018 is as follows:

<i>September 30, 2019 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instruments - fair value hedges (interest-rate swaps)	2	2	—	2	—
	<u>2</u>	<u>2</u>	<u>—</u>	<u>2</u>	<u>—</u>
Liabilities:					
Long-term debt, including current portion	11,978	14,070	—	14,070	—
Derivative instruments - fair value hedges (interest-rate swaps)	1	1	—	1	—
	<u>11,979</u>	<u>14,071</u>	<u>—</u>	<u>14,071</u>	<u>—</u>
December 31, 2018 (millions of dollars)					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instrument - foreign-exchange contract	22	22	—	—	22
	<u>22</u>	<u>22</u>	<u>—</u>	<u>—</u>	<u>22</u>
Liabilities:					
Long-term debt, including current portion	10,709	11,665	—	11,665	—
Convertible debentures	489	491	491	—	—
Derivative instruments - fair value hedges (interest-rate swaps)	5	5	—	5	—
	<u>11,203</u>	<u>12,161</u>	<u>491</u>	<u>11,670</u>	<u>—</u>

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the nine months ended September 30, 2019 and the year ended December 31, 2018:

<i>(millions of dollars)</i>	Nine months ended September 30, 2019	Year ended December 31, 2018
Fair value of asset (liability) - beginning	22	(3)
Unrealized gain (loss) on foreign-exchange contract included in financing charges	(22)	25
Fair value of asset - ending	<u>—</u>	<u>22</u>

There were no transfers between any of the fair value levels during the nine months ended September 30, 2019 and the year ended December 31, 2018.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss which results from changes in costs, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates, as its regulated return on equity is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a material decrease in Hydro One's net income for the three and nine months ended September 30, 2019 and 2018.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three and nine months ended September 30, 2019 and 2018 was not material.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At September 30, 2019 and December 31, 2018, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At September 30, 2019 and December 31, 2018, there was no material accounts receivable balance due from any single customer.

At September 30, 2019, the Company's provision for bad debts was \$19 million (December 31, 2018 - \$21 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At September 30, 2019, approximately 6% (December 31, 2018 - 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties on both an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At September 30, 2019 and December 31, 2018, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At September 30, 2019, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term operating liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the Operating Credit Facilities. The short-term liquidity under the Commercial Paper Program, Operating Credit Facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. On November 23, 2018, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US\$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At September 30, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

18. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Estimated annual Pension Plan contributions for the years 2019, 2020, 2021, 2022, 2023 and 2024 are approximately \$66 million, \$66 million, \$65 million, \$64 million, \$64 million and \$64 million, respectively. The most recent actuarial valuation was performed effective December 31, 2018 and filed on September 30, 2019. The next actuarial valuation will be performed no later than effective December 31, 2021. Employer contributions during the nine months ended September 30, 2019 were \$42 million (2018 - \$37 million).

The following tables provide the components of the net periodic benefit costs for the three and nine months ended September 30, 2019 and 2018:

Three months ended September 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2019	2018	2019	2018
Current service cost	36	44	14	12
Interest cost	76	71	15	14
Expected return on plan assets, net of expenses ¹	(116)	(117)	—	—
Amortization of actuarial losses	14	21	—	1
Net periodic benefit costs	10	19	29	27
Charged to results of operations ²	7	6	12	12

HYDRO ONE LIMITED

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

For the three and nine months ended September 30, 2019 and 2018

Nine months ended September 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2019	2018	2019	2018
Current service cost	109	132	42	36
Interest cost	227	212	45	42
Expected return on plan assets, net of expenses ¹	(347)	(350)	—	—
Amortization of actuarial losses	42	63	1	2
Net periodic benefit costs	31	57	88	80
Charged to results of operations ²	21	17	35	33

¹ The expected long-term rate of return on pension plan assets for the year ending December 31, 2019 is 6.5% (2018 - 6.5%).

² The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and nine months ended September 30, 2019, pension costs of \$19 million (2018 - \$14 million) and \$52 million (2018 - \$39 million), respectively, were attributed to labour, of which \$7 million (2018 - \$6 million) and \$21 million (2018 - \$17 million), respectively, was charged to operations, \$4 million (2018 - \$nil) and \$13 million (2018 - \$nil), respectively, was recorded as regulatory assets, and \$8 million (2018 - \$8 million) and \$18 million (2018 - \$22 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets.

19. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years with renewal options of additional three to five year terms at prevailing market rates at the time of extension. Renewal options are included in the lease term when their exercise is reasonably certain.

Other information related to the Company's operating leases was as follows:

(millions of dollars)	Three months ended	Nine months ended
	September 30	September 30
	2019	2019
Lease expense	2	7
Lease payments made	1	5
September 30, 2019		
Weighted-average remaining lease term		4
Weighted-average discount rate		2.9%

At September 30, 2019, future minimum operating lease payments were as follows:

(millions of dollars)	
Remainder of 2019	2
2020	12
2021	5
2022	2
2023	2
2024	1
Thereafter	3
Total undiscounted minimum lease payments	27
Less: discounting minimum lease payments to present value	(2)
Total discounted minimum lease payments	25

At December 31, 2018, future minimum operating lease payments were as follows:

(millions of dollars)	
2019	7
2020	11
2021	4
2022	1
2023	1
Thereafter	4
Total undiscounted minimum lease payments	28

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

Hydro One presents its ROU assets and lease obligations on the Consolidated Balance Sheets as follows:

<i>(millions of dollars)</i>	September 30, 2019
Other long-term assets <i>(Note 12)</i>	23
Accounts payable and other current liabilities <i>(Note 13)</i>	10
Other long-term liabilities <i>(Note 14)</i>	15

20. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At September 30, 2019, the Company had 596,605,054 common shares issued and outstanding (December 31, 2018 - 595,938,975).

The following table presents the changes to common shares during the nine months ended September 30, 2019:

<i>(number of shares)</i>	
Common shares - December 31, 2018	595,938,975
Common shares issued - LTIP ¹	203,137
Common shares issued - share grants ²	462,942
Common shares - September 30, 2019	596,605,054

¹ During the nine months ended September 30, 2019, Hydro One issued from treasury 203,137 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP). This included the exercise of 129,780 stock options for \$3 million.

² During the nine months ended September 30, 2019, Hydro One issued from treasury 462,942 common shares in accordance with provisions of the Power Workers' Union (PWU) and the Society of United Professionals (Society) Share Grant Plans.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At September 30, 2019 and December 31, 2018, two series of preferred shares were authorized for issuance: Series 1 preferred shares and Series 2 preferred shares. At September 30, 2019 and December 31, 2018, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

21. DIVIDENDS

During the three months ended September 30, 2019, preferred share dividends in the amount of \$4 million (2018 - \$4 million) and common share dividends in the amount of \$144 million (2018 - \$137 million) were declared and paid.

During the nine months ended September 30, 2019, preferred share dividends in the amount of \$13 million (2018 - \$13 million) and common share dividends in the amount of \$426 million (2018 - \$405 million) were declared and paid.

22. EARNINGS PER COMMON SHARE

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted-average number of common shares outstanding.

Diluted EPS is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted-average number of common shares outstanding adjusted for the effects of potentially dilutive stock-based compensation plans, including the share grant plans and the LTIP, which are calculated using the treasury stock method.

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net income attributable to common shareholders <i>(millions of dollars)</i>	241	194	567	616
Weighted-average number of shares				
Basic	596,605,054	595,882,438	596,359,125	595,714,016
Effect of dilutive stock-based compensation plans	2,420,792	1,968,856	2,343,278	2,128,211
Diluted	599,025,846	597,851,294	598,702,403	597,842,227
EPS				
Basic	\$0.40	\$0.33	\$0.95	\$1.03
Diluted	\$0.40	\$0.32	\$0.95	\$1.03

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS for the three and nine months ended September 30, 2019 and 2018, as conditions for closing the Merger were not met. As a result of the termination of the Merger agreement (see Note 4 - Business Combinations), the Convertible Debentures were redeemed on February 8, 2019.

23. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (the PWU Share Grant Plan) and one for the benefit of certain members of the Society (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and nine months ended September 30, 2019 and 2018 is presented below:

<i>(number of share grants)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Share grants outstanding - beginning	3,771,213	4,344,386	4,234,155	4,825,732
Vested and issued ¹	—	—	(462,942)	(481,346)
Share grants outstanding - ending	3,771,213	4,344,386	3,771,213	4,344,386

¹ On April 1, 2019, Hydro One issued from treasury 462,942 common shares to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

Directors' Deferred Share Units (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three and nine months ended September 30, 2019 and 2018 is presented below:

<i>(number of DSUs)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
DSUs outstanding - beginning	41,813	243,660	46,697	187,090
Granted	5,624	10,764	24,755	67,334
Settled	—	—	(24,015)	—
DSUs outstanding - ending	47,437	254,424	47,437	254,424

At September 30, 2019, a liability of \$1 million (December 31, 2018 - \$1 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of \$24.49 (December 31, 2018 - \$20.25) and was included in other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

A summary of DSU awards activity under the Management DSU Plan during the three and nine months ended September 30, 2019 and 2018 is presented below:

<i>(number of DSUs)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
DSUs outstanding - beginning	52,497	105,870	108,296	67,829
Granted	524	1,242	24,508	39,283
Settled	—	—	(79,783)	—
DSUs outstanding - ending	53,021	107,112	53,021	107,112

At September 30, 2019, a liability of \$1 million (December 31, 2018 - \$2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$24.49 (December 31, 2018 - \$20.25) and was included in other liabilities on the Consolidated Balance Sheets.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

LTIP

Performance Share Units (PSU) and Restricted Share Units (RSU)

A summary of PSU and RSU awards activity under the LTIP during the three and nine months ended September 30, 2019 and 2018 is presented below:

<u>Three months ended September 30 (number of units)</u>	PSUs		RSUs	
	2019	2018	2019	2018
Units outstanding - beginning	310,340	846,520	350,420	700,070
Granted	—	4,320	—	3,160
Vested and issued	(345)	—	(1,639)	—
Forfeited	(131,545)	(1,630)	(68,501)	(5,160)
Settled	—	(238,030)	—	(158,310)
Units outstanding - ending¹	178,450	611,180	280,280	539,760

<u>Nine months ended September 30 (number of units)</u>	PSUs		RSUs	
	2019	2018	2019	2018
Units outstanding - beginning	605,180	429,980	442,470	393,430
Granted	—	445,120	—	345,790
Vested and issued	(78,093)	—	(23,395)	(13,470)
Forfeited	(146,727)	(25,890)	(80,175)	(27,680)
Settled	(201,910)	(238,030)	(58,620)	(158,310)
Units outstanding - ending¹	178,450	611,180	280,280	539,760

¹ Units outstanding at September 30, 2019 include 7,740 PSUs and 96,330 RSUs that may be settled in cash if certain conditions are met. At September 30, 2019, a liability of \$2 million has been recorded with respect to these awards and is included in accrued liabilities on the Consolidated Balance Sheet.

No awards were granted during the three and nine months ended September 30, 2019. The fair value of awards granted during the three and nine months ended September 30, 2018 was \$nil and \$16 million, respectively. During the three and nine months ended September 30, 2019, the Company recognized a credit of \$1 million and an expense of \$8 million (2018 - \$7 million and \$12 million), respectively, related to the PSU and RSU awards. Amounts recognized in 2019 were affected by the reversal in the third quarter of 2019 of approximately \$3 million of previously recognized compensation expense to reflect forfeitures of PSUs and RSUs in the third quarter of 2019.

Stock Options

A summary of stock options activity during the three and nine months ended September 30, 2019 and 2018 is presented below:

<u>(number of stock options)</u>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Stock options outstanding - beginning	820,130	1,450,880	949,910	—
Granted	—	—	—	1,450,880
Exercised	—	—	(129,780)	—
Forfeited	(243,840)	(500,970)	(243,840)	(500,970)
Stock options outstanding - ending¹	576,290	949,910	576,290	949,910

¹ During the nine months ended September 30, 2019, 706,070 stock options have vested, of which 129,780 were exercised. At September 30, 2019, no stock options remain non-vested.

At September 30, 2019, the unrecognized compensation expense related to stock options not yet vested was \$nil (December 31, 2018 - \$1 million).

24. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.3% ownership at September 30, 2019. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Ontario Charging Network LP (OCN LP) is a joint-venture limited partnership between a subsidiary of Hydro One and OPG.

<i>(millions of dollars)</i>		Three months ended		Nine months ended	
		September 30		September 30	
Related Party	Transaction	2019	2018	2019	2018
Province	Dividends paid	73	69	215	205
IESO	Power purchased	301	321	1,110	1,079
	Revenues for transmission services	439	474	1,222	1,293
	Amounts related to electricity rebates	137	113	379	353
	Distribution revenues related to rural rate protection	60	59	178	177
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	26	24
	Funding received related to CDM programs	5	11	28	33
OPG	Power purchased	—	2	5	8
	Revenues related to provision of services and supply of electricity	4	2	7	6
	Costs related to the purchase of services	—	—	1	—
OEFC	Power purchased from power contracts administered by the OEFC	—	1	1	2
OEB	OEB fees	3	2	7	6
OCN LP¹	Investment in OCN LP	—	—	2	—

¹ OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest-free and settled in cash.

25. CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

<i>(millions of dollars)</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Accounts receivable	(18)	(7)	5	46
Due from related parties	80	27	(7)	(57)
Other assets	10	5	(13)	—
Accounts payable	35	22	(8)	(14)
Accrued liabilities	32	3	63	78
Due to related parties	1	1	(83)	(151)
Accrued interest	38	32	46	31
Long-term accounts payable and other liabilities	—	(5)	1	(6)
Post-retirement and post-employment benefit liability	8	7	27	19
	186	85	31	(54)

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2019 and 2018. The reconciling items include net change in accruals and capitalized depreciation.

<i>(millions of dollars)</i>	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(400)	(24)	(424)	(1,034)	(71)	(1,105)
Reconciling items	9	3	12	27	2	29
Cash outflow for capital expenditures	(391)	(21)	(412)	(1,007)	(69)	(1,076)

<i>(millions of dollars)</i>	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(374)	(28)	(402)	(1,047)	(61)	(1,108)
Reconciling items	4	3	7	25	—	25
Cash outflow for capital expenditures	(370)	(25)	(395)	(1,022)	(61)	(1,083)

Supplementary Information

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net interest paid	90	106	334	356
Income taxes paid	1	1	17	13

26. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits and claims in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities, and Norfolk Power Distribution Inc. were defendants in a class action suit commenced in 2015 in which the representative plaintiff was seeking up to \$125 million in damages related to allegations of improper billing practices. In March 2019, the plaintiff's application for leave to appeal the lower court's refusal to certify the lawsuit as a class action was denied by the Ontario Court of Appeal, which means that the lawsuit has effectively ended.

There were four putative class action lawsuits filed by Avista Corporation shareholders in relation to the Merger. The plaintiffs in the four lawsuits were, respectively, Fink, Jenß, Samuel and Sharpenter. All of these class action lawsuits have now been dismissed.

27. COMMITMENTS

The following table presents a summary of Hydro One's commitments under leases, outsourcing and other agreements due in the next 5 years and thereafter:

September 30, 2019 <i>(millions of dollars)</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements ¹	126	53	5	2	3	14
Long-term software/meter agreement	21	9	1	2	1	2
Operating lease commitments	11	7	4	3	1	7

¹ In September 2019, the agreements with Inergi LP for finance and accounting, and pay operations services were extended to December 31, 2020.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

The following table presents a summary of Hydro One's other commercial commitments by year of expiry in the next 5 years and thereafter:

September 30, 2019 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities ¹	—	—	—	—	2,550	—
Letters of credit ²	169	5	—	—	—	—
Guarantees ³	330	—	—	—	—	—

¹ On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

² Letters of credit consist of \$163 million letters of credit related to retirement compensation arrangements, \$5 million in letters of credit to satisfy debt service reserve requirements, a \$3 million letter of credit provided to the IESO for prudential support, and \$3 million in letters of credit for various operating purposes.

³ Guarantees consist of \$325 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees totalling \$5 million provided by Hydro One to the Minister of Natural Resources relating to OCN LP (OCN Guarantee). OPG has provided a \$2.5 million guarantee to Hydro One for 50% of the \$5 million OCN Guarantee.

28. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Segment, which includes certain corporate activities and the operations of the Company's telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income taxes from continuing operations (excluding certain allocated corporate governance costs).

Three months ended September 30, 2019 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	443	1,140	10	1,593
Purchased power	—	737	—	737
Operation, maintenance and administration	96	148	15	259
Depreciation and amortization	115	102	2	219
Income (loss) before financing charges and income taxes	232	153	(7)	378

Capital investments	276	146	2	424
----------------------------	------------	------------	----------	------------

Three months ended September 30, 2018 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	493	1,103	10	1,606
Purchased power	—	733	—	733
Operation, maintenance and administration	95	150	26	271
Depreciation and amortization	111	100	2	213
Income (loss) before financing charges and income taxes	287	120	(18)	389

Capital investments	261	138	3	402
----------------------------	------------	------------	----------	------------

Nine months ended September 30, 2019 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,245	3,490	30	4,765
Purchased power	—	2,197	—	2,197
Operation, maintenance and administration	296	448	198	942
Depreciation and amortization	342	304	6	652
Income (loss) before financing charges and income taxes	607	541	(174)	974

Capital investments	724	375	6	1,105
----------------------------	------------	------------	----------	--------------

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2019 and 2018

Nine months ended September 30, 2018 <i>(millions of dollars)</i>	Transmission	Distribution	Other	Consolidated
Revenues	1,344	3,284	31	4,659
Purchased power	—	2,158	—	2,158
Operation, maintenance and administration	295	435	67	797
Depreciation and amortization	321	294	5	620
Income (loss) before financing charges and income taxes	728	397	(41)	1,084
Capital investments	693	409	6	1,108

Total Assets by Segment:

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Transmission	14,473	13,973
Distribution	9,395	9,325
Other	1,928	2,359
Total assets	25,796	25,657

Total Goodwill by Segment:

<i>(millions of dollars)</i>	September 30, 2019	December 31, 2018
Transmission	157	157
Distribution	168	168
Total goodwill	325	325

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

29. SUBSEQUENT EVENTS

Dividends

On November 6, 2019, preferred share dividends of \$5 million and common share dividends of \$144 million (\$0.2415 per common share) were declared.