Hydro One First Quarter, Building Momentum and an Operating Metrics Focus

Strong core first quarter results offset by unseasonably mild winter temperatures, ice storm recovery costs

Toronto, May 6, 2016 – Hydro One Limited, Ontario's largest electricity transmission and distribution company, today announced its financial and operating results for the first quarter ended March 31, 2016.

- Adjusted earnings per share of $0.35 compared to $0.38 last year.
- Operating cost improvements offset by unseasonably mild winter temperatures and ice storm recovery costs.
- Capital investments in the reliability and performance of Ontario's electricity system up 9.9%.
- Pending acquisition of Great Lakes Power Transmission to further strengthen Hydro One as Ontario's leading electrical utility.
- Balance sheet and financial flexibility both strengthened following successful $1.35 billion multi-tranche debt offering.
- Non-dilutive secondary share offering by Province doubles public float; Province's ownership down to approximately 70.1%.

"This was Hydro One's first full quarter as a public company and the entire management team is deeply engaged in a company-wide initiative targeted at materially enhancing operating capabilities, building momentum and moving towards best in class customer service and operating metrics," said Mayo Schmidt, President and CEO, Hydro One.

"The first quarter results reflect a strong core business with improved operating costs offset by the unseasonably mild winter temperatures and ice storm recovery costs. We continue to focus on building organizational muscle and momentum to drive increased value for our customers and shareholders."

Consolidated Financial Highlights and Statistics

	Three months ended March 31,	
(millions of Canadian dollars, except as otherwise noted)	**2016**	**2015**
Revenues	1,686	1,808
Revenues, net of purchased power	790	838
Net income attributable to common shareholders	208	228
Earnings per common share (EPS)	$0.35	$0.47
Adjusted EPS[1]	$0.35	$0.38
Net cash from operating activities	373	426
Funds from operations (FFO)	382	488
Capital investments	379	345
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,555	21,378
Distribution: Electricity distributed to Hydro One customers *(TWh)*	7.0	8.7

[1] First quarter 2015 adjusted EPS is calculated using the number of common shares outstanding at March 31, 2016, versus a weighted average number of shares which includes the non-comparable pre-IPO share count.

Initiation of Common Share Dividends

In February 2016, the Company announced a cash dividend to common shareholders of $0.34 per share. This was the first common share dividend declared by Hydro One Limited following the completion of its initial public offering in November 2015 and included $0.13 for the post-IPO period from November 5 to December 31, 2015, and $0.21 for the first quarter ended March 31, 2016. The dividend was paid on March 31, 2016 to shareholders of record on March 17, 2016. Following the conclusion of the first quarter, on May 5, 2016, the Company's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on June 30, 2016 to shareholders of record on June 14, 2016.

Secondary Common Share Offering

On April 14, 2016, Hydro One announced the closing of a secondary offering by the Province of Ontario (Province), on a bought deal basis, of 72,434,800 common shares of Hydro One on the Toronto Stock Exchange. In addition, the Province granted the underwriters an over-allotment option to purchase up to an additional 10,865,200 common shares of Hydro One which was fully exercised and closed on April 29, 2016. Following completion of the Offering and the over-allotment, the Province directly holds approximately 70.1% of Hydro One's total issued and outstanding common shares. This non-dilutive secondary offering increased the public float of Hydro One to approximately 29.9% or 178.2 million common shares. Hydro One did not receive any of the proceeds from the sale of its common shares by the Province.

Key Operating and Financial Highlights

For the three months ended March 31, 2016, Hydro One reported revenues of $1,686 million, net income attributable to common shareholders of $208 million, and earnings per share of $0.35.

Revenues, net of power costs were lower than last year by 5.7%, primarily reflecting lower average monthly Ontario 60-minute peak demand and lower energy consumption due to unseasonably mild winter weather in the first quarter and the divestiture of Hydro One Brampton late in 2015, partially offset by changes to OEB-approved distribution rates.

In addition to the revenue impacts resulting from unseasonably mild winter temperatures, earnings for the quarter were affected by costs of restoring services following an ice storm in the last week of March 2016. These costs were more than offset by lower customer service and bad debt costs, lower costs relating to outsourcing support services, and decreased vegetation management expenditures.

Hydro One continues to invest to improve the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate new generation, and improve service to customers. The Company made capital investments of $379 million and placed $161 million of new assets in-service during the first quarter of 2016, compared to $345 million of capital investments and $187 million of new assets placed in-service in the first quarter of 2015.

On February 19, 2016, the Company announced the pricing of a $1.35 billion three-tranche debt offering by its fully owned subsidiary, Hydro One Inc. The offering consisted of $500 million each of five and 10 year term notes and $350 million of 30 year notes, which were priced at historically attractive coupon rates. Proceeds of the transaction were principally used to repay maturing short and long-term borrowings.

In January 2016, the Company entered into a purchase agreement to acquire Great Lakes Power Transmission LP from Brookfield Infrastructure for $222 million in cash plus the assumption of approximately $151 million in outstanding indebtedness. Great Lakes Power Transmission LP is an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, whose grid is interconnected with Hydro One's transmission network. It has a rate base of approximately $219 million primarily consisting of 15 transmission stations, 560 kilometers of high and medium voltage 44-230 kV transmission lines, and related infrastructure covering an area of approximately 12,000 square kilometers. Upon completion of the transaction, Hydro One will operate approximately 98% of Ontario's transmission capacity. The transaction is conditional upon the satisfaction of customary closing conditions, including receipt of Competition Act (Canada) and OEB approvals.

In March 2016, the Company filed a final universal 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 $8.0 billion of debt, equity, preferred or other securities, or any combination thereof, during the 25-month period ending on April 30, 2018. The Universal Base Shelf Prospectus provides the Company with increased financing flexibility going forward and can also be used to facilitate potential future offerings of common or preferred shares of the Company by the Province.

Supplemental Segment Information

(millions of Canadian dollars)	**2016 Q1**	**2015 Q1**
Revenues		
Transmission	386	406
Distribution	1,286	1,389
Other	14	13
Total revenues	**1,686**	**1,808**
Revenues, net of purchased power		
Transmission	386	406
Distribution	390	419
Other	14	13
Total revenues, net of purchased power	**790**	**838**
Income (loss) before financing charges and taxes		
Transmission	195	213
Distribution	156	161
Other	(7)	(1)
Total income before financing charges and taxes	**344**	**373**
Capital Investments		
Transmission	235	211
Distribution	143	132
Other	1	2
Total capital Investments	**379**	**345**

Quarterly Investment Community Teleconference

The Company's first quarter 2016 results teleconference with the investment community will be held on May 6, 2016 at 8:00 a.m. Eastern Time, 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 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's first quarter 2016 results call, conference ID 75900580 (international callers may dial 1-440-996-5689). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available following the call.

About Hydro One

Hydro One Limited is Ontario's largest electricity transmission and distribution company headquartered in Toronto, Ontario with approximately $24.5 billion in assets and 2015 revenues of over $6.5 billion. The company delivers electricity safely and reliably to over 1.3 million customers across the province of Ontario, and to large industrial customers and municipal utilities. Hydro One owns and operates an approximately 29,000 circuit km high-voltage transmission network and an approximately 123,000 circuit km primary low-voltage distribution network in Ontario. Hydro One Limited common shares are listed on the Toronto Stock Exchange (TSX: H). This press release should be read in conjunction with the Company's first quarter 2016 Consolidated Financial Statements and Management's Discussion and Analysis. Additional information about Hydro One, including the full year 2015 Consolidated Financial Statements and Management's Discussion and Analysis, can be accessed at www.sedar.com and www.HydroOne.com/Investors.

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 strategy, service, performance, reliability, value creation, ongoing and planned investments, the Universal Base Shelf Prospectus, and the Company's acquisitions. 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.

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the condensed interim unaudited consolidated financial statements and accompanying notes (the Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three months ended March 31, 2016, as well as the Company's audited consolidated financial statements and accompanying notes thereto, and MD&A, for the year ended December 31, 2015. 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. This MD&A provides information for the three months ended March 31, 2016, based on information available to management as of May 5, 2016.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 *(millions of Canadian dollars, except as otherwise noted)*	**2016**	**2015**	**Change**
Revenues	1,686	1,808	(6.7%)
Purchased power	896	970	(7.6%)
Revenues, net of purchased power	790	838	(5.7%)
Operation, maintenance and administration costs	256	278	(7.9%)
Depreciation and amortization	190	187	1.6%
Financing charges	96	94	2.1%
Income tax expense	33	45	(26.7%)
Net income attributable to common shareholders of Hydro One	**208**	**228**	**(8.8%)**
Basic and diluted earnings per common share (EPS)	$0.35	$0.47	(25.5%)
Basic and diluted pro forma adjusted non-GAAP EPS (Adjusted EPS)[1]	$0.35	$0.38	(8.8%)
Net cash from operating activities	373	426	(12.4%)
Funds from operations (FFO)[1]	382	488	(21.7%)
Capital investments	379	345	9.9%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,555	21,378	(3.8%)
Distribution: Electricity distributed to Hydro One customers *(TWh)*	7.0	8.7	(19.5%)

	March 31, 2016	**December 31, 2015**
Debt to capitalization ratio[2]	51.1%	50.7%

[1] See section "Non-GAAP Measures" for description and reconciliation of Adjusted EPS and FFO.

[2] Debt to capitalization ratio has been calculated as total debt (includes total long-term debt and short-term borrowings, net of cash) divided by total debt plus total shareholder's equity, including preferred shares but excluding any amounts related to non-controlling interest.

OVERVIEW

Hydro One is the largest electricity transmission and distribution company in Ontario. Through its wholly-owned subsidiary, Hydro One Inc., Hydro One owns and operates substantially all of Ontario's electricity transmission network, and an approximately 123,000 circuit km low-voltage distribution network. Hydro One has three business segments: (i) transmission; (ii) distribution; and (iii) other business.

Transmission Business – Hydro One's transmission business accounted for approximately 50% of the Company's total assets as at March 31, 2016, and approximately 49% of its total 2016 first quarter revenues, net of purchased power.

Distribution Business – Hydro One's distribution business accounted for approximately 37% of its total assets as at March 31, 2016 and approximately 49% of its total 2016 first quarter revenues, net of purchased power.

Other Business – Hydro One's other business segment accounted for approximately 13% of Hydro One's total assets as at March 31, 2016 and approximately 2% of its total 2016 first quarter revenues, net of purchased power.

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended March 31, 2016 of $208 million is a decrease of $20 million (8.8%) from the prior year. Significant influences on net income included:

- unseasonably milder weather in the first quarter of 2016 resulted in a decrease in transmission revenues, mainly due to lower average Ontario peak demand in the quarter, and a decrease in distribution revenues, net of purchased power, due to lower energy consumption, partially offset by increased distribution rates.
- the divestiture of Hydro One Brampton Networks Inc. (Hydro One Brampton) in August 2015; and
- lower operation, maintenance and administration (OM&A) costs due to:
  - lower customer service costs and bad debt expense related to completing the stabilization of the Company's customer information system:
  - lower costs relating to outsourcing support services; and
  - decreased vegetation management expenditures relating to distribution lines clearing; partially offset by
  - increased costs associated with responding to power outages and restoring power services as a result of an ice storm in March of 2016.

EPS and Adjusted EPS

EPS and adjusted EPS were $0.35 in the first quarter of 2016, compared to EPS of $0.47 and adjusted EPS of $0.38 in the first quarter of 2015. The decrease in EPS and adjusted EPS was driven by lower net income in 2016, as discussed above, and in the case of EPS, an increase in the weighted average number of common shares outstanding.

Revenues

Three months ended March 31 *(millions of Canadian dollars, except as otherwise noted)*	**2016**	**2015**	**Change**
Transmission	386	406	(4.9%)
Distribution	1,286	1,389	(7.4%)
Other	14	13	7.7%
	1,686	1,808	(6.7%)
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,555	21,378	(3.8%)
Distribution: Electricity distributed to Hydro One customers *(TWh)*	7.0	8.7	(19.5%)

Transmission Revenues

The decrease of $20 million or 4.9% in transmission revenues for the quarter ended March 31, 2016 was primarily due to lower average monthly Ontario 60-minute peak demand due to unseasonably milder weather in 2016, which more than offset increased Ontario Energy Board (OEB)-approved transmission rates for 2016.

Distribution Revenues

The decrease of $103 million or 7.4% in distribution revenues for the quarter ended March 31, 2016 was primarily due to lower purchased power costs, lower energy consumption resulting from the unseasonably mild winter temperatures in 2016, and the divestiture of Hydro One Brampton in August 2015, partially offset by increased OEB-approved distribution rates for 2016. The decrease in electricity distributed to Hydro One customers in the first quarter of 2016 was primarily due to lower energy consumption as noted above.

OM&A Costs

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**	**Change**
Transmission	96	99	(3.0%)
Distribution	EMEN16	166	(15.1%)
Other	19	13	46.2%
	256	278	(7.9%)

Transmission OM&A Costs

The decrease of $3 million or 3.0% in transmission OM&A costs for the quarter ended March 31, 2016 was primarily due to lower requirements for transformer equipment refurbishments and lower volume of corrective maintenance on power equipment.

Distribution OM&A Costs

The decrease of $25 million or 15.1% in distribution OM&A costs for the quarter ended March 31, 2016 was primarily due to the following:

- a decrease in bad debt expense due to revised estimates of uncollectible accounts and lower expenditures related to completing the stabilization of the Company's customer information system:
- a decrease in outsourcing support services costs;
- decreased expenditures due to the spin-off of Hydro One Brampton in August 2015; and
- decreased vegetation management expenditures related mainly to distribution lines clearing; partially offset by
- increased costs associated with responding to power outages and restoring power services as a result of an ice storm in March of 2016; and
- increased costs related to the operations of newly acquired local distribution companies.

Other OM&A Costs

The increase of $6 million or 46.2% in other OM&A costs for the quarter ended March 31, 2016 was primarily due to increased consulting costs in 2016.

Income Tax Expense

Income tax expense for the quarter ended March 31, 2016 decreased by $12 million compared to 2015. The effective tax rate for the quarter was 13.3%, compared to 16.1% in the first quarter of 2015. The difference in effective tax rates is primarily due to lower net income before taxes with minimal change in temporary differences included in rates.

During the fourth quarter of 2015, in the course of the sale by the Province of a stake of approximately 15% in the Company, Hydro One exited the Province's payments in lieu of corporate income taxes regime (PILs Regime) and transitioned to becoming taxable under the *Income Tax Act* (Canada). As part of this transition, there was a revaluation of the tax basis of the assets of Hydro One and its subsidiaries to fair market value. This step-up of the tax basis of the Company's assets resulted in the recording of a $2.6 billion deferred tax asset. The inclusion of this non-cash deferred tax asset in the consolidated results of the Company during the fourth quarter of 2015 caused certain cash flow metrics including working capital and FFO to become non-comparable, and has the impact on a go-forward basis of increasing shareholders' equity, resulting in the return on equity (ROE) calculated on a consolidated basis appearing significantly below the ROE allowed by regulators for the Company's transmission and distribution businesses.

Common Share Dividends

In February 2016, the Company announced a cash dividend to common shareholders of $0.34 per share. This was the first common share dividend declared by Hydro One following the completion of its Initial Public Offering (IPO) in November 2015 and included $0.13 for the post-IPO period from November 5 to December 31, 2015, and $0.21 for the first quarter ended March 31, 2016. The dividend was paid on March 31, 2016 to shareholders of record on March 17, 2016. Following the conclusion of the first quarter, on May 5, 2016, the Company's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on June 30, 2016 to shareholders of record on June 14, 2016.

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (*millions of Canadian dollars*)	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014
Revenues	1,686	1,522	1,645	1,563	1,808	1,662	1,556	1,566
Revenues, net of purchased power	790	736	789	725	838	769	776	742
Net income to common shareholders	208	143	188	131	228	216	169	110
Basic and diluted EPS	$0.35	$0.26	$0.39	$0.27	$0.47	$0.45	$0.35	$0.23
Basic and diluted Adjusted EPS	$0.35	$0.24	$0.32	$0.22	$0.38	$0.36	$0.29	$0.18

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.

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 dividends.

The following table presents the Company's sources and uses of cash during the quarters ended March 31, 2016 and 2015:

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Operating activities		
Net income	215	234
Changes in non-cash balances related to operations	(18)	(66)
Other	176	258
	373	426
Financing activities		
Long-term debt issued	1,350	–
Long-term debt retired	(450)	–
Short-term notes repaid	(536)	–
Dividends paid	(208)	(29)
Other	(9)	33
	147	4
Investing activities		
Capital expenditures	(371)	(344)
Other	10	(5)
	(361)	(349)
Net change in cash and cash equivalents	**159**	**81**

Cash from Operating Activities

Cash from operations during the first quarter of 2016 totalled $373 million compared to $426 million during the first quarter of 2015. The decrease in cash from operations in 2016 was mainly due to changes in regulatory variance and deferral accounts that impact revenue and the decrease in net income, partially offset by changes in accounts receivable balances impacted by lower revenues, and increased purchased power accrual due to changes in the global adjustment rate.

Cash from Financing Activities

Cash from financing activities was $147 million during the first quarter of 2016, compared to $4 million during the first quarter of 2015. The increase in 2016 was primarily due to cash proceeds from issuance of long-term debt, partially offset by repayment of short-term notes and long-term debt and payment of dividends. See section "Liquidity and Financing Strategy" for details of the Company's liquidity and financing strategy.

During the first quarter of 2016, Hydro One issued $1,350 million of long-term debt under its Medium-Term Note (MTN) Program, and repaid $450 million in maturing long-term debt, compared to no long-term debt issued or repaid during the first quarter of 2015.

During the first quarter of 2016, Hydro One paid dividends in the amount of $208 million ($202 million of common share dividends and $6 million of preferred share dividends), compared to dividends totalling $29 million paid during the first quarter of 2015 ($25 million of common share dividends and $4 million of preferred share dividends).

Cash from Investing Activities

Cash used in investing activities during the first quarter of 2016 was $361 million compared to $349 million during the first quarter of 2015. The increase in 2016 was mainly due to higher capital investments in 2016; partially offset by capital contributions received. See section "Capital Investments" for details of the Company's capital investments.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through funds from operations, 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 $1.5 billion in short-term notes with a term to maturity of up to 365 days. At March 31, 2016, Hydro One Inc. had $955 million in commercial paper borrowings outstanding, compared to $1,491 million outstanding at December 31, 2015. In addition, the Company and Hydro One Inc. have revolving bank credit facilities totalling $2,550 million that mature between 2018 and 2020. The Company may use the credit facilities for working capital and general corporate purposes. The short-term liquidity under the Commercial Paper Program, the credit facilities and anticipated levels of funds from operations are expected to be sufficient to fund the Company's normal operating requirements.

At March 31, 2016, all of the Company's long-term debt in the principal amount of $9,623 million was issued by Hydro One Inc. under Hydro One Inc.'s MTN Program. At March 31, 2016, the maximum authorized principal amount of medium-term notes issuable under the MTN Program was $3.5 billion, with $2,150 million remaining available until January 2018. The long-term debt consists of notes and debentures that mature between 2016 and 2064, and at March 31, 2016, had an average term to maturity of approximately 16.7 years and a weighted average coupon of 4.4%.

On March 30, 2016, Hydro One filed a final universal 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 $8.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on April 30, 2018. Hydro One filed the Universal Base Shelf Prospectus in part to facilitate the offerings of shares of the Company by the Province, and to provide the Company with increased financing flexibility going forward. Subsequent to the end of first quarter of 2016, Hydro One announced the closing of a secondary offering of a portion of its common shares by the Province. See "Secondary Common Share Offering" for details of this transaction. Upon closing of the transaction, $6,030 million remained available under the Universal Base Shelf Prospectus.

At March 31, 2016, the Company and Hydro One Inc. were in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

Credit Ratings

At March 31, 2016, Hydro One's corporate credit ratings from approved rating organizations were as follows:

Rating Agency	Corporate Credit Rating
Standard & Poor's Rating Services (S&P)	A

Hydro One has not obtained a credit rating in respect of any of its securities. An issuer rating from S&P is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due but it does not apply to any specific financial obligation. An obligor with a long term credit rating of 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

The rating above is not a recommendation to purchase, sell or hold any of Hydro One's securities and does not comment on the market price or suitability of any of the securities for a particular investor. There can be no assurance that the rating will remain in effect for any given period of time or that the rating will not be revised or withdrawn entirely by S&P at any time in the future. Hydro One has made, and anticipates making, payments to S&P pursuant to agreements entered into with S&P in respect of the rating assigned to Hydro One and expects to make payments to S&P in the future to the extent it obtains a rating specific to any of its securities.

At March 31, 2016, Hydro One Inc.'s long-term and short-term debt ratings from approved rating organizations were as follows:

Rating Agency	Short-term Debt Rating	Long-term Debt Rating
DBRS Limited (DBRS)	R-1 (low)	A (high)
Moody's Investors Service (Moody's)	Prime-2	A3
S&P	A-1	A

CAPITAL INVESTMENTS

During the first quarter of 2016, the Company made capital investments totalling $379 million and placed $161 million of new assets in-service, including replacements of end-of-life wood poles, new load connections and customer upgrades, and storm damage equipment replacements, compared to $345 million of capital investments and $187 million of new assets placed in-service in 2015.

The following table presents Hydro One's capital investments during the three months ended March 31, 2016 and 2015:

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**	**Change**
Transmission			
Sustaining	181	169	7.1%
Development	40	33	21.2%
Other	14	9	55.6%
	235	211	11.4%
Distribution			
Sustaining	86	70	22.9%
Development	39	44	(11.4%)
Other	18	18	-
	143	132	8.3%
Other	1	2	(50.0%)
Total Capital Investments	**379**	**345**	**9.9%**

Transmission Capital Investments

The increase of $24 million or 11.4% in transmission capital investments during the first quarter of 2016 was primarily due to the following:

- the continued work on some of the Company's major inter-area network development projects, such as the Clarington Transmission Station and Northwest Special Protection Scheme Replacement projects;
- greater volume of work on overhead lines refurbishment and replacement projects and programs;
- increased volume of integrated station component replacements to sustain the aging assets at transmission stations, including the Allanburg transmission station, the Espanola transmission station, and the Chenaux transmission station; and
- increased cyber system investments to adhere to the North American Electric Reliability Corporation Critical Infrastructure Protection (Cyber Security) standards; partially offset by
- the completion of some of the local area supply work, such as the installation of a 230kV in-line circuit breaker at the Almonte transmission station, and breaker replacements at the Manby and Hearn transmission stations; and
- lower volume of spare transformer equipment purchases to ensure readiness for unplanned transformer replacements.

Distribution Capital Investments

The increase of $11 million or 8.3% in distribution capital investments during the first quarter of 2016 was primarily due to the following:

- increased storm restoration work as a result of an ice storm in March 2016, as well as a higher volume of work related to power quality issues;
- continued work on the investment in the Advanced Metering Infrastructure Wireless Telecom Project to ensure continuity of smart meter and to enhance network communications;
- increased wood pole replacements due to advance preparation work to take advantage of the mild weather conditions in the first quarter; and
- investments in Customer Service Operations efficiency enhancements; partially offset by
- reduced capital expenditures due to the Hydro One Brampton spin-off in August of 2015; and
- lower volume of distributed generation connection customer driven work.

Major Transmission Projects

The following table summarizes the status of certain major transmission projects of Hydro One at March 31, 2016:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date	Status
Development Projects:						
Toronto Midtown Transmission Reinforcement	Toronto Southwestern Ontario	New transmission line	December 2016	$123 million	$101 million	In progress
Guelph Area Transmission Refurbishment	Guelph area Southwestern Ontario	Transmission line upgrade	September 2016	$103 million	$74 million	In progress
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018/2019	$297 million	$142 million	In progress
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	To be determined	–	OEB decision received in July 2015
Northwest Bulk Transmission Line	Thunder Bay Northwestern Ontario	New transmission line	As early as 2020	To be determined	–	Development work is in progress
East-West Tie Expansion Station Work	Northern Ontario	Station expansion	2020	$166 million	–	Development work is in progress
Sustainment Projects:						
Bruce A Transmission Station Circuit Breaker Replacement	Tiverton Southwestern Ontario	Station sustainment	2019	$109 million	$60 million	In progress
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	$102 million	$48 million	In progress
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2020	$95 million	$3 million	In progress
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2020	$93 million	$4 million	In progress

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, as well as other major commercial commitments:

March 31, 2016 *(millions of Canadian 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	9,623	50	1,578	1,150	6,845
Long-term debt – interest payments	7,884	423	815	727	5,919
Short-term notes payable	955	955	–	–	–
Pension contributions[1]	151	151	–	–	–
Environmental and asset retirement obligations	245	25	52	59	109
Outsourcing agreements	482	159	235	77	11
Operating lease commitments	44	11	18	12	3
Other	86	17	34	29	6
Total contractual obligations	19,470	1,791	2,732	2,054	12,893
Other commercial commitments *(by year of expiry)*					
Credit facilities	2,550	–	800	1,750	–
Letters of credit[2]	151	151	–	–	–
Guarantees[3]	330	330	–	–	–
Total other commercial commitments	3,031	481	800	1,750	–

[1] Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2016 minimum pension contributions are based on an actuarial valuation as at December 31, 2013 and projected levels of pensionable earnings.

[2] Letters of credit consist of a $139 million letter of credit related to retirement compensation arrangements, and a $12 million letter of credit provided to the Independent Electricity System Operator (IESO) as prudential support.

[3] Guarantees consist of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries using parental guarantees of $330 million.

OTHER DEVELOPMENTS

Great Lakes Power Transmission Purchase Agreement

On January 28, 2016, Hydro One Inc. reached an agreement to acquire various entities that own and control Great Lakes Power Transmission LP, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario from Brookfield Infrastructure, for $222 million in cash, subject to customary adjustments, plus the assumption of approximately $151 million in outstanding indebtedness. The acquisition is pending approval from the Competition Bureau as well as regulatory approval by the OEB. The application for the acquisition was filed with the OEB on March 10, 2016. Upon completion of this acquisition, Hydro One's transmission system will account for approximately 98% of Ontario's transmission capacity, an increase of approximately 2%.

Share-based Compensation – Long-term Incentive Plan

On March 31, 2016, the Company granted awards under the Long-term Incentive Plan (LTIP). These awards consist of approximately 124,120 Performance Stock Units (PSUs) and 149,120 Restricted Stock Units (RSUs), all of which are equity settled.

Secondary Common Share Offering

On April 14, 2016, Hydro One announced the closing of a secondary offering (Offering) by the Province, on a bought deal basis, of 72,434,800 common shares of Hydro One on the Toronto Stock Exchange. In addition, the Province granted the underwriters an over-allotment option to purchase up to an additional 10,865,200 common shares of Hydro One which was fully exercised and closed on April 29, 2016. Following completion of the Offering and the over-allotment, the Province directly holds approximately 70.1% of Hydro One's total issued and outstanding common shares. This non-dilutive secondary offering increased the public float of Hydro One to approximately 29.9% or 178.2 million common shares. Hydro One did not receive any of the proceeds from the sale of its common shares by the Province.

NON-GAAP MEASURES

FFO

FFO is defined as net cash from operating activities, adjusted for the following: (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, this measure provides a consistent measure of the cash generating performance of the Company's assets.

The following table presents the reconciliation of net cash from operating activities to FFO:

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Net cash from operating activities	373	426
Changes in non-cash balances related to operations	18	66
Preferred share dividends	(6)	(4)
Distributions to noncontrolling interest	(3)	–
FFO	382	488

Adjusted EPS

The following basic and diluted Adjusted EPS has been prepared by management on a supplementary basis which assumes that the total number of common shares outstanding was 595,000,000 during each of the quarters ended March 31, 2016 and 2015. The supplementary pro forma disclosure is used internally by management subsequent to the IPO of the Company's common shares in November 2015 to assess the Company's performance and is considered useful because it eliminates the impact of the issuance of common shares to the Province prior to the IPO. Prior to the IPO, the Province was the sole shareholder of Hydro One and disclosure of EPS did not provide meaningful information. EPS is considered an important measure and management believes that presenting it for all periods based on the number of outstanding shares on, and subsequent to, the IPO provides users with a basis to evaluate the operations of the Company with comparable companies and with prior periods.

Three months ended March 31	**2016**	**2015**
Net income attributable to common shareholders *(millions of Canadian dollars)*	208	228
Pro forma weighted average number of common shares		
Basic	595,000,000	595,000,000
Effect of dilutive share grant plans	1,131,071	–
Diluted	596,131,071	595,000,000
Adjusted EPS		
Basic	$0.35	$0.38
Diluted	$0.35	$0.38

RELATED PARTY TRANSACTIONS

The Province is the majority shareholder of Hydro One. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), the OEB, and Hydro One Brampton are related parties to Hydro One because they are controlled or significantly influenced by the Province. The following is a summary of the Company's related party transactions during the quarter ended March 31, 2016:

		Three months ended March 31	
		2016	2015
Related Party	Transaction	*(millions of Canadian dollars)*	
Province	Dividends paid	176	29
IESO	Power purchased	710	791
	Revenues for transmission services (based on OEB-approved uniform transmission rates)	376	405
	Distribution revenues related to rural rate protection	31	32
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	7	12
OPG	Power purchased	2	6
	Revenues related to provision of construction and equipment maintenance services	1	2
	Costs expensed related to the purchase of services	1	1
OEFC	Payments in lieu of corporate income taxes	–	18
	Power purchased from power contracts administered by the OEFC	–	2
	Indemnification fee paid (terminated effective October 31, 2015)	–	5
OEB	OEB fees	4	3
Hydro One Brampton	Revenues from management, administrative and smart meter network services	1	–

At March 31, 2016, the amounts due from and due to related parties as a result of the transactions described above were $170 million and $136 million, compared to $191 million and $138 million at December 31, 2015, respectively. At March 31, 2016, included in amounts due to related parties were amounts owing to the IESO in respect of power purchases of $130 million, compared to $134 million at December 31, 2015.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in Hydro One's internal controls over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Impact on Hydro One
2015-04	April 2015	Debt issuance costs are required to be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability consistent with debt discounts or premiums.	January 1, 2016	Reclassification of deferred debt issuance costs and net unamortized debt premiums as an offset to long-term debt. Applied retrospectively.

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02	February 2016	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. An exemption election is available for short-term leases.	January 1, 2019	Under assessment
2016-09	March 2016	This guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.	January 1, 2017	Under assessment
2016-10	April 2016	This guidance clarifies the identification of performance obligations and the implementation of the licensing guidance with respect to revenue from contracts with customers.	January 1, 2017	Under assessment

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 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 rates resulting from rate applications; statements regarding the Company's liquidity and capital resources and operational requirements; statements about the standby credit facilities; expectations regarding the Company's financing activities; statements regarding the Company's maturing debt; statements related to credit ratings; statements regarding ongoing and planned projects, including expected results and completion dates; statements regarding expected future capital and development investments, the timing of these expenditures and the Company's investment plans; statements regarding contractual obligations and other commercial commitments; statements related to the OEB; statements regarding future pension contributions; statements related to dividends; statements about non-GAAP measures; statements regarding recent accounting-related guidance; expectations related to tax impacts; statements related to the Universal Base Shelf Prospectus; and statements related to the Company's acquisitions, including statements about Great Lakes Power Transmission LP. 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; 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; 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 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 significant 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;
- 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 information technology system infrastructure;
- the risks related to the Company's workforce demographic and its potential inability to attract and retain qualified personnel;
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- 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 with Inergi LP or Brookfield Global Integrated Solutions 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; and
- the impact of the ownership by the Province of lands underlying the Company's transmission system.

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 2015 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 for the year ended December 31, 2015, is available on SEDAR at www.sedar.com.

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three months ended March 31, 2016 and 2015

Three months ended March 31 *(millions of Canadian dollars, except per share amounts)*	**2016**	**2015**
Revenues		
Distribution (includes $40 related party revenues; 2015 – $40) *(Note 19)*	1,286	1,389
Transmission (includes $377 related party revenues; 2015 – $406) *(Note 19)*	386	406
Other	14	13
	1,686	1,808
Costs		
Purchased power (includes $712 related party costs; 2015 – $799) *(Note 19)*	896	970
Operation, maintenance and administration *(Note 19)*	256	278
Depreciation and amortization	190	187
	1,342	1,435
Income before financing charges and income taxes	**344**	**373**
Financing charges	96	94
Income before income taxes	**248**	**279**
Income taxes *(Notes 5, 19)*	33	45
Net income	**215**	**234**
Other comprehensive income	–	–
Comprehensive income	**215**	**234**
Net income and comprehensive income attributable to:		
Noncontrolling interest	1	2
Preferred shareholders	6	4
Common shareholders	208	228
	215	**234**
Earnings per common share *(Note 17)*		
Basic	$0.35	$0.47
Diluted	$0.35	$0.47
Dividends per common share declared *(Note 16)*	$0.34	$0.05

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At March 31, 2016 and December 31, 2015

(millions of Canadian dollars)	**March 31, 2016**	**December 31, 2015**
Assets		
Current assets:		
Cash and cash equivalents	253	94
Accounts receivable *(Note 6)*	851	776
Due from related parties *(Note 19)*	170	191
Other current assets *(Note 7)*	120	105
	1,394	1,166
Property, plant and equipment *(Note 8)*	18,166	17,968
Other long-term assets:		
Regulatory assets	3,040	3,015
Deferred income tax assets	1,407	1,636
Intangible assets (net of accumulated amortization – $288; 2015 – $274)	335	336
Goodwill	165	163
Other assets	10	10
	4,957	5,160
Total assets	**24,517**	**24,294**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 11)*	955	1,491
Accounts payable and other current liabilities *(Note 9)*	930	868
Due to related parties *(Note 19)*	136	138
Long-term debt payable within one year *(Note 11)*	50	500
	2,071	2,997
Long-term liabilities:		
Long-term debt (includes $51 measured at fair value; 2015 – $51) *(Notes 11, 12)*	9,551	8,207
Regulatory liabilities	200	236
Deferred income tax liabilities	40	207
Other long-term liabilities *(Note 10)*	2,722	2,723
	12,513	11,373
Total liabilities	**14,584**	**14,370**
Contingencies and Commitments (Notes 21, 22)		
Subsequent Events (Note 24)		
Noncontrolling interest subject to redemption	22	23
Equity		
Common shares *(Note 15)*	5,623	5,623
Preferred shares *(Note 15)*	418	418
Additional paid-in capital	15	10
Retained earnings	3,812	3,806
Accumulated other comprehensive loss	(8)	(8)
Hydro One shareholders' equity	9,860	9,849
Noncontrolling interest	51	52
Total equity	9,911	**9,901**
	24,517	**24,294**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the three months ended March 31, 2016 and 2015

Three months ended March 31, 2016 *(millions of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholders' Equity**	**Non-controlling Interest**	**Total Equity**
January 1, 2016	5,623	418	10	3,806	(8)	9,849	52	9,901
Net income	–	–	–	214	–	214	1	215
Other comprehensive income	–	–	–	–	–	–	–	–
Distributions to noncontrolling interest	–	–	–		–	–	(2)	(2)
Dividends on preferred shares	–	–	–	(6)	–	(6)	–	(6)
Dividends on common shares	–	–	–	(202)	–	(202)	–	(202)
Stock-based compensation	–	–	5	–	–	5	–	5
March 31, 2016	**5,623**	**418**	**15**	**3,812**	**(8)**	**9,860**	**51**	**9,911**

Three months ended March 31, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholders' Equity**	**Non-controlling Interest**	**Total Equity**
January 1, 2015	3,314	4,249	(9)	7,554	49	7,603
Net income	–	232	–	232	1	233
Other comprehensive income	–	–	–	–	–	–
Dividends on preferred shares	–	(4)	–	(4)	–	(4)
Dividends on common shares	–	(25)	–	(25)	–	(25)
March 31, 2015	**3,314**	**4,452**	**(9)**	**7,757**	**50**	**7,807**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2016 and 2015

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Operating activities		
Net income	215	234
Environmental expenditures	(3)	(4)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	166	170
Regulatory assets and liabilities	(10)	88
Deferred income taxes	21	2
Other	2	2
Changes in non-cash balances related to operations *(Note 20)*	(18)	(66)
Net cash from operating activities	373	426
Financing activities		
Long-term debt issued	1,350	–
Long-term debt retired	(450)	–
Short-term notes repaid	(536)	–
Dividends paid	(208)	(29)
Distributions paid to noncontrolling interest	(3)	–
Change in bank indebtedness	–	33
Other	(6)	–
Net cash from financing activities	147	4
Investing activities		
Capital expenditures *(Note 20)*		
Property, plant and equipment	(358)	(339)
Intangible assets	(13)	(5)
Other	10	(5)
Net cash used in investing activities	(361)	(349)
Net change in cash and cash equivalents	159	81
Cash and cash equivalents, beginning of period	94	100
Cash and cash equivalents, end of period	**253**	**181**

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). The Province of Ontario (Province) is the majority shareholder of Hydro One.

In October 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province. Hydro One is a continuation of business operations of Hydro One Inc. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Preparation

These unaudited condensed interim Consolidated Financial Statements (Consolidated Financial Statements) include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

The comparative information to these Consolidated Financial Statements has been presented in a manner similar to the pooling-of-interests method. The comparative information consists of the results of operations of Hydro One Inc. prior to October 31, 2015, and the consolidated results of operations of Hydro One from the date of incorporation on August 31, 2015 to December 31, 2015, which include the results of Hydro One Inc. subsequent to its acquisition on October 31, 2015. All comparative periods have been combined using historical amounts. In addition, Hydro One's issued and outstanding common shares prior to October 31, 2015 have been retroactively adjusted for the purposes of presentation to reflect the effects of the acquisition of Hydro One Inc. using the exchange ratio established for the acquisition. The Consolidated Financial Statements are referred to as "consolidated" for all periods presented.

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.

Basis of Accounting

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

The accounting policies applied are consistent with those outlined in Hydro One's annual audited consolidated financial statements for the year ended December 31, 2015, except as described in Note 3, New Accounting Pronouncements - Recently Adopted Accounting Guidance. 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 2015 annual audited consolidated financial statements. Certain comparative figures have been reclassified to conform with the current period's presentation.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Impact on Hydro One
2015-04	April 2015	Debt issuance costs are required to be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability consistent with debt discounts or premiums.	January 1, 2016	Reclassification of deferred debt issuance costs and net unamortized debt premiums as an offset to long-term debt. Applied retrospectively. (See note 11)

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02	February 2016	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. An exemption election is available for short-term leases.	January 1, 2019	Under assessment
2016-09	March 2016	This guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.	January 1, 2017	Under assessment
2016-10	April 2016	This guidance clarifies the identification of performance obligations and the implementation of the licensing guidance with respect to revenue from contracts with customers.	January 1, 2017	Under assessment

4. BUSINESS COMBINATIONS

Great Lakes Power Transmission Purchase Agreement

On January 28, 2016, Hydro One Inc. reached an agreement to acquire various entities that own and control Great Lakes Power Transmission LP, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario from Brookfield Infrastructure, for $222 million in cash, subject to customary adjustments, plus the assumption of approximately $151 million in outstanding indebtedness. The acquisition is pending approval from the Competition Bureau as well as regulatory approval by the Ontario Energy Board (OEB).

5. INCOME TAXES

Income taxes / provision for payments in lieu of corporate income taxes (PILs) 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:

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Income taxes / provision for PILs at statutory rate	66	74
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(14)	(13)
Pension contributions in excess of pension expense	(7)	(8)
Overheads capitalized for accounting but deducted for tax purposes	(4)	(5)
Interest capitalized for accounting but deducted for tax purposes	(5)	(4)
Environmental expenditures	(2)	(2)
Non-refundable investment tax credits	(1)	(1)
Prior year’s adjustments	(2)	–
Other	2	3
Net temporary differences	(33)	(30)
Net permanent differences	–	1
Total income taxes / provision for PILs	33	45
Effective income tax rate	13.31%	16.13%

6. ACCOUNTS RECEIVABLE

The following table shows the details of accounts receivable at March 31, 2016 and December 31, 2015:

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Accounts receivable – billed	463	379
Accounts receivable – unbilled	431	458
Accounts receivable, gross	894	837
Allowance for doubtful accounts	(43)	(61)
Accounts receivable, net	851	776

The following table shows the movements in the allowance for doubtful accounts for the three months ended March 31, 2016 and year ended December 31, 2015:

(millions of Canadian dollars)	Three months ended March 31, 2016	Year ended December 31, 2015
Allowance for doubtful accounts – beginning	(61)	(66)
Write-offs	11	37
Change in allowance for doubtful accounts	7	(32)
Allowance for doubtful accounts – ending	(43)	(61)

7. OTHER CURRENT ASSETS

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Regulatory assets	46	36
Materials and supplies	20	21
Deferred income tax assets	19	19
Prepaid expenses and other assets	35	29
	120	105

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Property, plant and equipment in service	26,216	26,070
Less: accumulated depreciation	(9,566)	(9,414)
	16,650	16,656
Construction in progress	1,361	1,155
Future use land, components and spares	155	157
	18,166	17,968

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Accounts payable	162	155
Accrued liabilities	595	598
Accrued interest	120	96
Regulatory liabilities	53	19
	930	868

10. OTHER LONG-TERM LIABILITIES

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Post-retirement and post-employment benefit liability *(Note 13)*	1,580	1,560
Pension benefit liability *(Note 13)*	935	952
Environmental liabilities *(Note 14)*	181	185
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	17	17
	2,722	2,723

11. 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 $1.5 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 totalling $2.3 billion. At March 31, 2016, Hydro One Inc. had $955 million in commercial paper borrowings outstanding (December 31, 2015 – $1,491 million).

At March 31, 2016, Hydro One's consolidated committed, unsecured and unused credit facilities totaled $2,550 million, which include Hydro One's credit facilities of $250 million and Hydro One Inc.'s credit facilities of $2.3 billion.

Long-Term Debt

At March 31, 2016 and December 31, 2015, all of the Company's long-term debt was issued by Hydro One Inc. under Hydro One Inc.'s Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under this program is $3.5 billion. At March 31, 2016, $2,150 million remained available for issuance until January 2018.

The following table presents Hydro One Inc.'s outstanding long-term debt at March 31, 2016 and December 31, 2015:

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Notes and debentures	9,623	8,723
Add: Net unamortized debt premiums	16	17
Add: Unrealized mark-to-market loss[1]	1	1
Less: Deferred debt issuance costs	(39)	(34)
Less: Long-term debt payable within one year	(50)	(500)
Long-term debt	9,551	8,207

[1] The unrealized mark-to-market loss relates to $50 million of Series 33 notes due 2020. The unrealized mark-to-market loss is offset by a $1 million (2015 – $1 million) unrealized mark-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

On February 24, 2016, Hydro One Inc. issued the following notes under its MTN Program:

- $500 million notes (MTN Series 34 notes) with a maturity date of February 24, 2021 and a coupon rate of 1.84%;
- $500 million notes (MTN Series 35 notes) with a maturity date of February 24, 2026 and a coupon rate of 2.77%; and
- $350 million notes (MTN Series 36 notes) with a maturity date of February 23, 2046 and a coupon rate of 3.91%.

On March 3, 2016, Hydro One Inc. repaid $450 million of maturing long-term debt notes (MTN Series 10 notes) under its MTN Program.

Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments (millions of Canadian dollars)	Weighted Average Interest Rate (%)
1 year	50	1.2
2 years	600	5.2
3 years	978	2.4
4 years	–	–
5 years	1,150	2.4
	2,778	3.0
6 – 10 years	1,100	3.0
Over 10 years	5,745	5.4
	9,623	4.4

Interest payment obligations related to long-term debt are summarized by year in the following table:

Year	Interest Payments (millions of Canadian dollars)
2016	336
2017	423
2018	392
2019	369
2020	359
	1,879
2021-2025	1,638
2026 +	4,367
	7,884

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At March 31, 2016 and December 31, 2015, 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 because of 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 March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016		December 31, 2015	
(millions of Canadian dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt				
$50 million of MTN Series 33 notes[1]	51	51	51	51
Other notes and debentures[2]	9,550	11,091	8,656	9,942
	9,601	11,142	8,707	9,993

[1] The fair value of the $50 million MTN Series 33 notes subject to hedging is primarily based on changes in the present value of future cash flows due to a change in the yield in the swap market for the related swap (hedged risk).

[2] The fair value of other notes and debentures represents the market value of the notes and debentures and is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

Fair Value Measurements of Derivative Instruments

At March 31, 2016, Hydro One Inc. had an interest-rate swap in the notional amount of $50 million (December 31, 2015 – $50 million) that was used to convert fixed-rate debt to floating-rate debt. This swap is classified as a fair value hedge. Hydro One Inc.'s fair value hedge exposure was equal to about 1% (December 31, 2015 – 1%) of the principal amount of its total long-term debt of $9,623 million (December 31, 2015 – $8,723 million).

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at March 31, 2016 and December 31, 2015 is as follows:

March 31, 2016 *(millions of Canadian dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	253	253	253	–	–
Derivative instruments					
Fair value hedge – interest-rate swap	1	1	1	–	–
	254	254	254	–	–
Liabilities:					
Short-term notes payable	955	955	955	–	–
Long-term debt	9,601	11,142	–	11,142	–
	10,556	12,097	955	11,142	–

December 31, 2015 *(millions of Canadian dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	94	94	94	–	–
Derivative instruments					
Fair value hedge – interest-rate swap	1	1	1	–	–
	95	95	95	–	–
Liabilities:					
Short-term notes payable	1,491	1,491	1,491	–	–
Long-term debt	8,707	9,993	–	9,993	–
	10,198	11,484	1,491	9,993	–

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.

There were no significant transfers between any of the fair value levels during the three months ended March 31, 2016 or year ended December 31, 2015.

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 that 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 into account anticipated interest rates, but is not currently exposed to material commodity price risk or material foreign exchange 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. In addition, the Company may utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

Fair Value Hedges
For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative 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 months ended March 31, 2016 and 2015 was not significant.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At March 31, 2016 and December 31, 2015, 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 significant amount of revenue from any single customer. At March 31, 2016 and December 31, 2015, there was no significant accounts receivable balance due from any single customer.

At March 31, 2016, the Company's provision for bad debts was $43 million (December 31, 2015 – $61 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At March 31, 2016, approximately 6% (December 31, 2015 – 6%) of the Company's net accounts receivable were aged 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 and forward credit exposure to counterparties both on 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 March 31, 2016 and December 31, 2015, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not significant. At March 31, 2016, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with one financial institution as the counterparty.

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 liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby facilities. The short-term liquidity under the Commercial Paper Program, and anticipated levels of funds from operations should be sufficient to fund normal operating requirements.

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

Estimated 2016 annual pension plan contributions are approximately $180 million, based on an actuarial valuation as at December 31, 2013 and projected levels of 2016 pensionable earnings. Employer contributions made during the three months ended March 31, 2016 were $46 million (2015 – $46 million).

The following table provides the components of the net periodic benefit costs for the three months ended March 31, 2016 and 2015:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**	**2016**	**2015**
Current service cost	36	37	11	11
Interest cost	77	76	17	16
Expected return on plan assets, net of expenses[1]	(109)	(102)	–	–
Actuarial loss amortization	24	30	2	3
Net periodic benefit costs	28	41	30	30
Charged to results of operations[2]	22	19	13	12

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2016 is 6.5% (2015 – 6.5%).

[2] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the three months ended March 31, 2016, pension costs of $50 million (2015 – $42 million) were attributed to labour, of which $22 million (2015 – $19 million) was charged to operations, and $28 million (2015 – $23 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

14. ENVIRONMENTAL LIABILITIES

Hydro One records a liability for the estimated future expenditures for land assessment and remediation and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Future expenditures have been discounted using factors ranging from approximately 2.0% to 6.3%, depending on the period over which expenditures are expected to be incurred.

During the three months ended March 31, 2016, total environmental expenditures were $3 million (2015 – $4 million) and interest accretion was $2 million (2015 – $2 million). At March 31, 2016, total environmental liabilities, including the current portion, were $206 million (December 31, 2015 – $207 million).

15. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At March 31, 2016, the Company had 595,000,000 common shares issued and outstanding.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At March 31, 2016 and December 31, 2015, the Company had 16,720,000 Series 1 preferred shares outstanding.

16. DIVIDENDS

During the three months ended March 31, 2016, preferred share dividends in the amount of $6 million (2015 – $4 million) and common share dividends in the amount of $202 million (2015 – $25 million) were declared.

17. EARNINGS PER 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 share grant plans, which is calculated using the treasury stock method.

Three months ended March 31	2016	2015
Net income attributable to common shareholders *(millions of Canadian dollars)*	208	228
Weighted average number of shares		
Basic	595,000,000	477,837,100
Effect of dilutive share grant plans	1,131,071	–
Diluted	596,131,071	477,837,100
EPS		
Basic	$0.35	$0.47
Diluted	$0.35	$0.47

Pro forma Adjusted non-GAAP Basic and Diluted EPS

The following pro forma adjusted non-GAAP basic and diluted EPS has been prepared by management on a supplementary basis which assumes that the total number of common shares outstanding was 595,000,000 during the three months ended March 31, 2016 and 2015. The supplementary pro forma disclosure is used internally by management subsequent to the IPO of Hydro One to assess the Company's performance and is considered useful because it eliminates the impact of the issuance of common shares to the Province prior to the IPO. Prior to the IPO, the Province was the sole shareholder of Hydro One and disclosure of EPS did not provide meaningful information. EPS is considered an important measure and management believes that presenting it for all periods based on the number of outstanding shares on, and subsequent to, the IPO provides users with a basis to evaluate the operations of the Company with comparable companies.

Three months ended March 31	2016	2015
Net income attributable to common shareholders *(millions of Canadian dollars)*	208	228
Pro forma weighted average number of common shares		
Basic	595,000,000	595,000,000
Effect of dilutive share grant plans	1,131,071	–
Diluted	596,131,071	595,000,000
Pro forma adjusted non-GAAP EPS		
Basic	$0.35	$0.38
Diluted	$0.35	$0.38

The above pro forma adjusted non-GAAP basic and diluted EPS does not have any standardized meaning in US GAAP.

18. STOCK-BASED COMPENSATION

Long-term Incentive Plan

On March 31, 2016, the Company granted awards under the Long-term Incentive Plan (LTIP). These awards consist of approximately 124,120 Performance Stock Units (PSUs) and 149,120 Restricted Stock Units (RSUs), all of which are equity settled. The grant date fair value of the awards was $7 million. Due to the timing of the grant of the award, no compensation expense was recognized during the three months ended March 31, 2016. No long-term incentives were awarded during the three months ended March 31, 2015.

19. RELATED PARTY TRANSACTIONS

The Province is the majority shareholder of Hydro One. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), the OEB, and Hydro One Brampton Networks Inc. (Hydro One Brampton) are related parties to Hydro One because they are controlled or significantly influenced by the Province.

		Three months ended March 31	
		2016	2015
Related Party	Transaction	(millions of Canadian dollars)	
Province	Dividends paid	176	29
IESO	Power purchased	710	791
	Revenues for transmission services (based on OEB-approved uniform transmission rates)	376	405
	Distribution revenues related to rural rate protection	31	32
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	7	12
OPG	Power purchased	2	6
	Revenues related to provision of construction and equipment maintenance services	1	2
	Costs expensed related to the purchase of services	1	1
OEFC	Payments in lieu of corporate income taxes	–	18
	Power purchased from power contracts administered by the OEFC	–	2
	Indemnification fee paid (terminated effective October 31, 2015)	–	5
OEB	OEB fees	4	3
Hydro One Brampton	Revenues from management, administrative and smart meter network services	1	–

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.

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

(millions of Canadian dollars)	March 31, 2016	December 31, 2015
Due from related parties	170	191
Due to related parties[1]	(136)	(138)

[1] Included in due to related parties at March 31, 2016 are amounts owing to the IESO in respect of power purchases of $130 million (December 31, 2015 – $134 million).

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Accounts receivable	(75)	(85)
Due from related parties	21	26
Materials and supplies	1	(1)
Prepaid expenses and other assets	(6)	1
Accounts payable	6	(12)
Accrued liabilities	(7)	22
Due to related parties	(2)	(45)
Accrued interest	24	16
Long-term accounts payable and other liabilities	–	(4)
Post-retirement and post-employment benefit liability	20	16
	(18)	(66)

Capital Expenditures

The following table illustrates the reconciliation between investments in property, plant and equipment and the amount presented in the Consolidated Statements of Cash Flows after accounting for capitalized depreciation and the net change in related accruals:

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Capital investments in property, plant and equipment	(367)	(340)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	9	1
Capital expenditures – property, plant and equipment	(358)	(339)

The following table illustrates the reconciliation between investments in intangible assets and the amount presented in the Consolidated Statements of Cash Flows after accounting for the net change in related accruals:

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Capital investments in intangible assets	(12)	(5)
Net change in accruals included in capital investments in intangible assets	(1)	–
Capital expenditures – intangible assets	(13)	(5)

Supplementary Information

Three months ended March 31 *(millions of Canadian dollars)*	**2016**	**2015**
Net interest paid	80	85
Income taxes / PILs paid	9	18

21. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings 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.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

22. 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.

March 31, 2016 *(millions of Canadian dollars)*	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**
Outsourcing agreements	159	135	100	75	2	11
Trilliant agreement	17	17	17	16	13	6
Operating lease commitments	11	10	8	5	7	3

Hydro One Inc. currently has outstanding bank letters of credit of $139 million relating to retirement compensation arrangements. Hydro One Inc. also provides prudential support to the IESO in the form of letters of credit. At March 31, 2016, Hydro One Inc. provided a letter of credit to the IESO in the amount of $12 million to meet its current prudential requirements. In addition, Hydro One Inc. provided prudential support to the IESO on behalf of its subsidiaries as required by the IESO's Market Rules, using parental guarantees of $330 million.

23. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, 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 Business, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Business, 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).

Segment information is as follows:

Three months ended March 31, 2016 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	386	1,286	14	1,686
Purchased power	–	896	–	896
Operation, maintenance and administration	96	141	19	256
Depreciation and amortization	95	93	2	190
Income (loss) before financing charges and income taxes	195	156	(7)	344
Capital investments	235	143	1	379

Three months ended March 31, 2015 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	406	1,389	13	1,808
Purchased power	–	970	–	970
Operation, maintenance and administration	99	166	13	278
Depreciation and amortization	94	92	1	187
Income (loss) before financing charges and income taxes	213	161	(1)	373
Capital investments	211	132	2	345

Total Assets by Segment:

(millions of Canadian dollars)	**March 31, 2016**	**December 31, 2015**
Transmission	12,158	12,045
Distribution	9,195	9,200
Other	3,164	3,049
Total assets	24,517	24,294

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

24. SUBSEQUENT EVENTS

Secondary Common Share Offering

On April 14, 2016, Hydro One announced the closing of a secondary offering (Offering) by the Province, on a bought deal basis, of 72,434,800 common shares of Hydro One on the Toronto Stock Exchange. In addition, the Province granted the underwriters an over-allotment option to purchase up to an additional 10,865,200 common shares of Hydro One which was fully exercised and closed on April 29, 2016. Following completion of the Offering and the over-allotment, the Province directly holds approximately 70.1% of Hydro One's total issued and outstanding common shares. This non-dilutive secondary offering increased the public float of Hydro One to approximately 29.9% or 178.2 million common shares. Hydro One did not receive any of the proceeds from the sale of its common shares by the Province.

Dividends

On May 5, 2016, preferred share dividends in the amount of $4 million and common share dividends in the amount of $125 million ($0.21 per common share) were declared.

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