Hydro One Reports Second Quarter with Revenue, Efficiencies and Earnings all Trending Positively

Quarterly results reflect another step in the operational transformation of Hydro One

Toronto, August 12, 2016 – Hydro One Limited, Ontario's largest electricity transmission and distribution company, today announced its financial and operating results for the second quarter ended June 30, 2016.

- Adjusted basic earnings per share of $0.26 up 16% compared to $0.22 last year.
- Operating cost improvements supported by efficiencies and pension cost reductions.
- Capital investments of $417 million in the reliability and performance of Ontario's electricity system.
- Transmission rate application filed with the OEB reflects focus on operating cost controls and revitalization of Ontario power grid.
- Non-dilutive secondary offering by Province doubles public float of Hydro One shares.
- Senior management strengthened by the announcements of new Customer Service and Legal team leaders.

"These second quarter results reflect another step in the operational transformation of Hydro One, a company-wide initiative to materially enhance operating capabilities, build momentum and move towards best in class customer service and operating metrics," said Mayo Schmidt, President and Chief Executive Officer, Hydro One. "Our intensified focus on customer service, operating cost improvements and capital deployment effectiveness are beginning to take hold as we build organizational muscle and momentum and invest in the revitalization of Ontario's electric grid. The recent addition of new and proven leaders to our team build upon our operations, customer service and legal strength and are additive to our capabilities."

Consolidated Financial Highlights and Statistics

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars, except as otherwise noted)	2016	2015	2016	2015
Revenues	1,546	1,563	3,232	3,371
Revenues, net of purchased power	743	725	1,533	1,563
Net income attributable to common shareholders	152	131	360	359
Basic earnings per common share (EPS)	$0.26	$0.27	$0.61	$0.74
Diluted EPS	$0.25	$0.27	$0.60	$0.74
Basic Adjusted EPS[1]	$0.26	$0.22	$0.61	$0.60
Diluted Adjusted EPS[1]	$0.25	$0.22	$0.60	$0.60
Net cash from operating activities	304	287	677	713
Funds from operations (FFO)	337	273	719	761
Capital investments	417	429	796	774
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,799	18,986	20,177	20,182
Distribution: Electricity distributed to Hydro One customers *(TWh)*	6.2	6.7	13.2	15.4

[1] 2015 Adjusted EPS is calculated using the number of common shares outstanding at June 30, 2016, versus a weighted average number of shares which includes the non-comparable pre-IPO share count.

Common Share Dividends

In May 2016, Hydro One Limited ("the Company") announced a cash dividend to common shareholders of $0.21 per share. The dividend was paid on June 30, 2016 to shareholders of record on June 14, 2016. Following the conclusion of the second quarter, on August 11, 2016, the Company's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on September 30, 2016 to shareholders of record on September 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 this secondary 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 ownership 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 the common shares by the Province.

Key Operating and Financial Highlights

Second quarter revenues, net of power costs, were higher than last year by 2.5%, primarily reflecting changes to OEB-approved distribution rates, and higher average monthly Ontario 60-minute peak demand due to warmer weather in the second quarter of 2016, partially offset by the divestiture of Hydro One Brampton on August 31, 2015.

Year-to-date revenues, net of power costs, were lower than last year by 1.9%, reflecting lower energy consumption and overall lower average monthly Ontario 60-minute peak demand in the six month period, mainly due to unseasonably mild winter weather in the first quarter of 2016, as well as the divestiture of Hydro One Brampton in 2015, partially offset by changes to OEB-approved distribution rates.

In addition to the items impacting revenue noted above, earnings for the quarter and year-to-date were positively affected by lower bad debt costs, lower costs relating to outsourcing support services, and lower costs associated with transformer equipment refurbishments and stations maintenance.

In June 2016, Hydro One Inc. filed an actuarial valuation of its Pension Plan as at December 31, 2015. Several factors, including improved balance between employer and employee contributions to the plan, have resulted in an improved funded position and lower expected pension contributions. As lower contributions will be returned to ratepayers in future periods, the effect of the change was a reduction of $15 million in revenue for the three and six months ended June 30, 2016, with a corresponding decrease in OM&A costs, and no effect on earnings before taxes.

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 $417 million during the second quarter and approximately $796 million in 2016 to date, and has placed over $523 million of new assets in-service during 2016.

On May 31, 2016, the Company filed a cost-of-service application with the Ontario Energy Board for 2017 and 2018 transmission rates. This is expected to be the Company's last cost-of-service filing, with future transmission rate applications anticipated to be filed under the Ontario Energy Board's incentive-based regulatory framework.

Subsequent to the end of the quarter, the Company announced the appointments of senior executives as follows:

- Ferio Pugliese was appointed to the position of Executive Vice President, Customer Care and Corporate Affairs, effective September 26, 2016. Ferio is a recognized leader in customer service, and brings a wealth of expertise in building and leading a strong corporate culture focused on serving its customers and communities, as demonstrated by his significant contributions at WestJet Airlines over the past decade.
- Jamie Scarlett was appointed to the position of Executive Vice President and Chief Legal Officer, effective September 1, 2016. Jamie is a trusted and experienced legal advisor who brings a proven track record and a deep knowledge of corporate finance, cross-border mergers and acquisitions and corporate and securities law to Hydro One most recently from Torys LLP where he served as Senior Partner and a member of the firm's Executive Committee.

Supplemental Segment Information

	Three months ended June 30,		Six months ended June 30,	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Revenues				
Transmission	381	364	767	770
Distribution	1,152	1,185	2,438	2,574
Other	13	14	27	27
Total revenues	**1,546**	**1,563**	**3,232**	**3,371**
Revenues, net of purchased power				
Transmission	381	364	767	770
Distribution	349	347	739	766
Other	13	14	27	27
Total revenues, net of purchased power	**743**	**725**	**1,533**	**1,563**
Income (loss) before financing charges and taxes				
Transmission	195	172	390	385
Distribution	108	85	264	246
Other	(15)	(4)	(22)	(5)
Total income before financing charges and taxes	**288**	**253**	**632**	**626**
Capital Investments				
Transmission	238	234	473	445
Distribution	178	192	321	324
Other	1	3	2	5
Total capital Investments	**417**	**429**	**796**	**774**

This press release should be read in conjunction with the Company's second 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.

Quarterly Investment Community Teleconference

The Company's second quarter 2016 results teleconference with the investment community will be held on August 12, 2016 at 8:30 a.m. Eastern Time, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to listen or ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's second quarter 2016 results call, conference ID 36352636 (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 $24.4 billion in assets and 2015 revenues of over $6.5 billion. The company delivers electricity safely and reliably to over 1.3 million customers and to large industrial customers and municipal utilities across the province of Ontario. 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).

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, operational transformation, service, performance, reliability, ongoing and planned investments, rate filings, dividends, future pension contributions, and executive appointments. 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 and six months ended June 30, 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 and six months ended June 30, 2016, based on information available to management as of August 11, 2016.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended June 30			Six months ended June 30		
(millions of Canadian dollars, except as otherwise noted)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	1,546	1,563	(1.1%)	3,232	3,371	(4.1%)
Purchased power	803	838	(4.2%)	1,699	1,808	(6.0%)
Revenues, net of purchased power	743	725	2.5%	1,533	1,563	(1.9%)
Operation, maintenance and administration costs	262	282	(7.1%)	518	560	(7.5%)
Depreciation and amortization	193	190	1.6%	383	377	1.6%
Financing charges	98	93	5.4%	194	187	3.7%
Income tax expense	33	23	43.5%	66	68	(2.9%)
Net income attributable to common shareholders of Hydro One	**152**	**131**	**16.0%**	**360**	**359**	**0.3%**
Basic earnings per common share (EPS)	$0.26	$0.27	(3.7%)	$0.61	$0.74	(17.6%)
Diluted EPS	$0.25	$0.27	(7.4%)	$0.60	$0.74	(18.9%)
Basic pro forma adjusted non-GAAP EPS (Adjusted EPS)[1]	$0.26	$0.22	16.0%	$0.61	$0.60	0.3%
Diluted Adjusted EPS[1]	$0.25	$0.22	13.6%	$0.60	$0.60	–
Net cash from operating activities	304	287	5.9%	677	713	(5.0%)
Funds from operations (FFO)[1]	337	273	23.4%	719	761	(5.5%)
Capital investments	417	429	(2.8%)	796	774	2.8%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,799	18,986	4.3%	20,177	20,182	–
Distribution: Electricity distributed to Hydro One customers *(TWh)*	6.2	6.7	(7.5%)	13.2	15.4	(14.3%)

	June 30, 2016	**December 31, 2015**
Debt to capitalization ratio[2]	51.6%	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 June 30, 2016, and approximately 50% of its total revenues, net of purchased power, for the six months ended June 30, 2016.

Distribution Business – Hydro One's distribution business accounted for approximately 38% of its total assets as at June 30, 2016 and approximately 48% of its total revenues, net of purchased power, for the six months ended June 30, 2016.

Other Business – Hydro One's other business segment accounted for approximately 12% of its total assets as at June 30, 2016 and approximately 2% of its total revenues, net of purchased power, for the six months ended June 30, 2016.

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended June 30, 2016 of $152 million is an increase of $21 million or 16.0% from the prior year, principally driven by cost reductions and improvements in transmission revenues.

The increase of $1 million or 0.3% in net income for the six months ended June 30, 2016 was the result of similar factors noted above and in addition was negatively impacted by an overall lower average monthly Ontario 60-minute peak demand in the first six months of 2016 due to an unseasonably milder winter in 2016 which negatively impacted transmission revenues.

EPS and Adjusted EPS

EPS and Adjusted EPS were $0.26 and $0.61 in the three and the six months ended June 30, 2016, respectively, compared to EPS of $0.27 and $0.74 in the three and the six months ended June 30, 2015, and Adjusted EPS of $0.22 and $0.60 in the three and the six months ended June 30, 2015. The changes in EPS and Adjusted EPS were driven by higher net income in 2016, as discussed above, and in the case of EPS, the increase was more than offset by an increase in the weighted average number of common shares outstanding. See section "Non-GAAP Measures" for description of Adjusted EPS.

Revenues

	Three months ended June 30			Six months ended June 30		
(millions of Canadian dollars)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Transmission	381	364	4.7%	767	770	(0.4%)
Distribution	1,152	1,185	(2.8%)	2,438	2,574	(5.3%)
Other	13	14	(7.1%)	27	27	–
	1,546	1,563	(1.1%)	3,232	3,371	(4.1%)
Transmission:						
Average monthly Ontario 60-minute peak demand *(MW)*	19,799	18,986	4.3%	20,177	20,182	–
Distribution:						
Electricity distributed to Hydro One customers *(TWh)*	6.2	6.7	(7.5%)	13.2	15.4	(14.3%)

Transmission Revenues

The increase of $17 million or 4.7% in transmission revenues for the quarter ended June 30, 2016 was primarily due to higher average monthly Ontario 60-minute peak demand and increased Ontario Energy Board (OEB)-approved transmission rates for 2016.

The decrease of $3 million or 0.4% in transmission revenues for the six months ended June 30, 2016 was primarily due to lower average monthly Ontario 60-minute peak demand due to an unseasonably milder winter in 2016, partially offset by increased OEB-approved transmission rates for 2016.

Distribution Revenues

The decrease of $33 million or 2.8% in distribution revenues for the quarter ended June 30, 2016 was primarily due to lower power costs, the divestiture of Hydro One Brampton in August 2015, partially offset by increased OEB-approved distribution rates for 2016.

The decrease of $136 million or 5.3% in distribution revenues for the six months ended June 30, 2016 was the result of similar factors as noted above, and were also negatively impacted by lower energy consumption resulting from a milder winter in 2016 compared to the prior year.

Operation, Maintenance and Administration (OM&A) Costs

	Three months ended June 30			Six months ended June 30		
(millions of Canadian dollars)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Transmission	92	98	(6.1%)	188	197	(4.6%)
Distribution	144	168	(14.3%)	285	334	(14.7%)
Other	26	16	62.5%	45	29	55.2%
	262	282	(7.1%)	518	560	(7.5%)

Transmission OM&A Costs

The decreases of $6 million or 6.1% and $9 million or 4.6% in transmission OM&A costs for the quarter and six months ended June 30, 2016, respectively, were primarily due to lower volume of work associated with transformer equipment refurbishments and stations maintenance.

Distribution OM&A Costs

The decrease of $24 million or 14.3% in distribution OM&A costs for the quarter ended June 30, 2016 was primarily due to a decrease in bad debt expense, the effect of the divestiture of Hydro One Brampton in August 2015, lower outsourcing support services costs, and lower costs associated with underground distribution cable locates.

The decrease of $49 million or 14.7% in distribution OM&A costs for the six months ended June 30, 2016 was the result of similar factors as noted above, partly offset by increased OM&A costs associated with restoring power services as a result of an ice storm in March 2016.

Other OM&A Costs

The increase in other OM&A costs for the quarter and six months ended June 30, 2016 was primarily due to increased consulting costs in 2016.

Income Tax Expense

Income tax expense for the six months ended June 30, 2016 decreased by $2 million compared to 2015. The effective tax rate for the six months ended June 30, 2016 was 15.1%, compared to 15.5% in the six months ended June 30, 2015. The difference in effective tax rates is primarily due to changes in temporary differences included in rates.

During the fourth quarter of 2015, in the course of the sale by the Province of Ontario (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 of increasing shareholders' equity, resulting in the consolidated return on equity (ROE) appearing significantly below the ROE allowed by regulators for the Company's transmission and distribution businesses.

Common Share Dividends

On May 6, 2016, the Company announced a cash dividend to common shareholders of $0.21 per share. The dividend was paid on June 30, 2016 to shareholders of record on June 14, 2016. Following the conclusion of the second quarter, on August 11, 2016, the Company's Board of Directors declared a quarterly cash dividend to common shareholders of $0.21 per share to be paid on September 30, 2016 to shareholders of record on September 14, 2016.

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of Canadian dollars, except EPS)*	**Jun. 30, 2016**	**Mar. 31, 2016**	**Dec. 31, 2015**	**Sep. 30, 2015**	**Jun. 30, 2015**	**Mar. 31, 2015**	**Dec. 31, 2014**	**Sep. 30, 2014**
Revenues	1,546	1,686	1,522	1,645	1,563	1,808	1,662	1,556
Revenues, net of purchased power	743	790	736	789	725	838	769	776
Net income to common shareholders	152	208	143	188	131	228	216	169
Basic EPS	$0.26	$0.35	$0.26	$0.39	$0.27	$0.47	$0.45	$0.35
Diluted EPS	$0.25	$0.35	$0.26	$0.39	$0.27	$0.47	$0.45	$0.35
Basic Adjusted EPS	$0.26	$0.35	$0.24	$0.32	$0.22	$0.38	$0.36	$0.29
Diluted Adjusted EPS	$0.25	$0.35	$0.24	$0.32	$0.22	$0.38	$0.36	$0.29

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 three and six months ended June 30, 2016 and 2015:

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	2016	2015	2016	2015
Operating activities				
Net income	157	137	372	371
Changes in non-cash balances related to operations	(38)	7	(56)	(59)
Other	185	143	361	401
	304	287	677	713
Financing activities				
Long-term debt issued	–	350	1,350	350
Long-term debt retired	–	–	(450)	–
Short-term notes repaid	(7)	–	(543)	–
Dividends paid	(129)	(30)	(337)	(59)
Other	(1)	(38)	(10)	(5)
	(137)	282	10	286
Investing activities				
Capital expenditures	(414)	(422)	(785)	(766)
Acquisitions	–	(58)	–	(58)
Other	–	–	10	(5)
	(414)	(480)	(775)	(829)
Net change in cash and cash equivalents	(247)	89	(88)	170

Cash from Operating Activities

Cash from operations during the second quarter of 2016 totalled $304 million compared to $287 million during the second quarter of 2015. The increase was mainly due to an increase in net income, and changes in accrual balances, mainly related to timing of capital projects, partially offset by decreased purchased power accrual and an increase in other assets primarily due to prepaid pension contributions resulting from an updated pension actuarial valuation completed in the second quarter of 2016.

Cash from operations during the six months ended June 30, 2016 totalled $677 million compared to $713 million during the same period in 2015. The decrease was mainly due to changes in regulatory variance and deferral accounts that impact revenue, and an increase in other assets primarily due to prepaid pension contributions resulting from an updated pension actuarial valuation completed in the second quarter of 2016.

Cash from Financing Activities

Cash used in financing activities was $137 million during the second quarter of 2016, compared to $282 million of cash received during the second quarter of 2015. The decrease in 2016 was primarily due to cash proceeds from issuance of long-term debt in the second quarter of 2015, and payment of higher dividends in 2016 compared to 2015.

Cash from financing activities was $10 million during the six months ended June 30, 2016, compared to $286 million during the same period in 2015. The decrease in 2016 was primarily due to repayment of short-term notes and long-term debt and payment of higher dividends, partially offset by higher cash proceeds from issuance of long-term debt in 2016.

During the six months ended June 30, 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, all in the first quarter. In 2015, $350 million of long-term debt was issued in the second quarter, and no long-term debt was repaid during the six months ended June 30, 2015. See section entitled "Liquidity and Financing Strategy" for details of the Company's liquidity and financing strategy.

During the second quarter of 2016, Hydro One paid dividends in the amount of $129 million ($125 million of common share dividends and $4 million of preferred share dividends), compared to dividends totalling $30 million paid during the second quarter of 2015 ($25 million of common share dividends and $5 million of preferred share dividends).

During the six months ended June 30, 2016, Hydro One paid dividends in the amount of $337 million ($327 million of common share dividends and $10 million of preferred share dividends), compared to dividends totalling $59 million paid during the six months ended June 30, 2015 ($50 million of common share dividends and $9 million of preferred share dividends).

Cash from Investing Activities

Cash used in investing activities during the second quarter of 2016 was $414 million compared to $480 million during the second quarter of 2015. The higher cash used in 2015 was mainly due to the acquisition of Haldimand Hydro in the second quarter of 2015.

Cash used in investing activities during the six months ended June 30, 2016 was $775 million compared to $829 million during the same period in 2015. The decrease in 2016 was mainly due to cash used for the acquisition of Haldimand Hydro in the second quarter of 2015, and increased capital contributions received in 2016, partially offset by higher capital investments in 2016.

See section entitled "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 June 30, 2016, Hydro One Inc. had $948 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 June 30, 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 June 30, 2016, the maximum authorized principal amount of notes issuable under the current MTN Program filed in December 2015 was $3.5 billion, with $2,150 million remaining available for issuance until January 2018. The long-term debt consists of notes and debentures that mature between 2016 and 2064, and at June 30, 2016, had an average term to maturity of approximately 16.4 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 secondary offerings of outstanding shares of the Company by the Province, and to provide the Company with increased financing flexibility going forward. During the second quarter of 2016, Hydro One announced the closing of a secondary offering of a portion of its common shares previously owned 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 June 30, 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 June 30, 2016, Hydro One's corporate credit ratings 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 June 30, 2016, Hydro One Inc.'s long-term and short-term debt ratings 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

The following table presents Hydro One's capital investments during the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30			Six months ended June 30		
(millions of Canadian dollars)	2016	2015	Change	2016	2015	Change
Transmission						
Sustaining	187	193	(3.1%)	368	362	1.7%
Development	40	40	–	80	73	9.6%
Other	11	1	–	25	10	–
	238	234	1.7%	473	445	6.3%
Distribution						
Sustaining	111	123	(9.8%)	197	193	2.1%
Development	52	57	(8.8%)	91	101	(9.9%)
Other	15	12	25.0%	33	30	10.0%
	178	192	(7.3%)	321	324	(0.9%)
Other	1	3	(66.7%)	2	5	(60.0%)
Total capital investments	417	429	(2.8%)	796	774	2.8%

Transmission Capital Investments

The increase of $4 million or 1.7% in transmission capital investments during the second quarter of 2016 was primarily due to the following:

- greater volume of work on overhead line refurbishments and insulator replacements; and
- increased volume of integrated station component replacements to sustain the aging assets at transmission stations, including the Hanmer transmission station, DeCew Falls switching station, and the Allanburg transmission station; partially offset by
- decreased investments in certain system re-investment projects, primarily due to the refurbishment work at the Dunnville, Dundas, and Wiltshire Transmission stations last year.

The increase of $28 million or 6.3% in transmission capital investments for the six months ended June 30, 2016 was the result of similar factors as noted above. In addition, continued work on major local area supply and inter-area network development projects, such as the Holland Transmission Station, Guelph Area Transmission Refurbishment, Toronto Midtown Transmission Reinforcement, Northwest Special Protection Scheme Replacement, and Clarington Transmission Station projects, also contributed to the overall increase in transmission capital investments during the six months ended June 30, 2016.

Distribution Capital Investments

The decrease of $14 million or 7.3% in distribution capital investments during the second quarter of 2016 was primarily due to the following:

- reduced capital expenditures due to the divestiture of Hydro One Brampton in August 2015;
- lower volume of work within station refurbishment programs and lower volume of spare transformer purchases; and
- lower volume of work on the Joint Use and Relocations program, which enables certain of Hydro One's assets to be jointly used by the telecommunications and cable television industries, as well as relocation of poles, conductors and other equipment as required by municipal and provincial road authorities; partially offset by
- increased investments related to information technology equipment, upgrade and enhancement projects, including investments to integrate mobile technology with the Company's existing work management tools; and
- increased number of wood pole replacements.

The decrease of $3 million or 0.9% in distribution capital investments for the six months ended June 30, 2016 was the result of similar factors as noted above. In addition, increased storm restoration work mainly as a result of an ice storm in March 2016, contributed to offset the overall decrease in distribution capital investments during the six months ended June 30, 2016.

Major Transmission Projects

The following table summarizes the status of certain major transmission projects of Hydro One at June 30, 2016:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date
Development Projects:					
Guelph Area Transmission Refurbishment	Guelph area Southwestern Ontario	Transmission line upgrade	September 2016	$103 million	$79 million
Toronto Midtown Transmission Reinforcement	Toronto Southwestern Ontario	New transmission line	December 2016	$123 million	$107 million
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	$73 million	$6 million
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	$297 million	$162 million
Northwest Bulk Transmission Line	Thunder Bay Northwestern Ontario	New transmission line	As early as 2020	To be determined	–
East-West Tie Station Expansion Work	Northern Ontario	Station expansion	2020	$166 million	–
Sustainment Projects:					
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2019	$109 million	$69 million
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	$102 million	$54 million
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2020	$95 million	$4 million
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2021	$93 million	$8 million

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:

June 30, 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	7,760	423	789	717	5,831
Short-term notes payable	948	948	–	–	–
Pension contributions[1]	257	94	163	–	–
Environmental and asset retirement obligations	238	24	53	61	100
Outsourcing agreements	410	144	208	48	10
Operating lease commitments	41	11	16	12	2
Long-term software/meter agreement	81	16	34	26	5
Total contractual obligations	19,358	1,710	2,841	2,014	12,793
Other commercial commitments *(by year of expiry)*					
Credit facilities	2,550	–	800	1,750	–
Letters of credit[2]	144	144	–	–	–
Guarantees[3]	330	330	–	–	–
Total other commercial commitments	3,024	474	800	1,750	–

[1] Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2016, 2017 and 2018 minimum pension contributions are based on an actuarial valuation as at December 31, 2015 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 $5 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.

REGULATION

Hydro One Networks – 2017-2018 Transmission Rate Application

On May 31, 2016, Hydro One Networks filed a cost-of-service application with the OEB for 2017 and 2018 transmission rates, and an update to evidence was filed on June 20, 2016. The application seeks approval of rate base of $10,554 million for 2017 and $11,226 million for 2018, and reflects a return on equity (ROE) of 9.19% for each year. The application also includes a proposed future transmission capital investment program for the next five years, with investments in capital spending primarily to address safety and customer and reliability needs, in a cost effective manner. An OEB decision is anticipated in the fourth quarter of 2016 or the first quarter of 2017. Future transmission rate applications are anticipated to be filed under the OEB's incentive-based regulatory framework.

OEB Pension and Other Post-Employment Benefits (OPEB) Generic Hearing

In 2015, the OEB began a consultation process to examine pensions and OPEBs in rate-regulated utilities, with the objectives of developing standard principles to guide its review of pension and OPEB related costs in the future, and to establish specific requirements for applications and appropriate and consistent regulatory mechanisms for cost recovery. Hydro One and other stakeholders filed written submissions with respect to initial OEB questions meant to solicit views on the key issues of interest to the OEB. Following a stakeholder forum in July 2016, updated written submissions will be accepted by the OEB until September 2016. It is anticipated that subsequent to the OEB's review of the updated written submissions, the OEB will outline principles to guide its review of pension and OPEB related costs in the future, and provide further guidance on application requirements and regulatory mechanisms for cost recovery.

OTHER DEVELOPMENTS

Great Lakes Power Transmission Purchase Agreement

On January 28, 2016, Hydro One Inc. reached an agreement to acquire 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 currently pending regulatory approval by the OEB. 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. These awards consist of approximately 124,120 Performance Stock Units and 149,120 Restricted Stock Units, 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 ownership 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 the common shares by the Province.

Pension Plan

In June 2016, Hydro One Inc. filed an actuarial valuation of its Pension Plan as at December 31, 2015. Based on this valuation and projected levels of pensionable earnings, the estimated total employer annual pension contributions for 2016, 2017 and 2018 are approximately $108 million, $105 million and $102 million, respectively. The estimated 2016 annual employer contributions have decreased by approximately $72 million from $180 million based on improvements in the funded status of the plan and future actuarial assumptions, and also reflect the impact of changes implemented by management to improve the balance between employee and Company contributions to the Pension Plan. The updated actuarial valuation resulted in a $15 million decrease in revenue for the three and six months ended June 30, 2016, with a corresponding decrease in OM&A costs, which will be refunded to ratepayers through the pension cost variance deferral account in future rate applications.

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 June 30		Six months ended June 30	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Net cash from operating activities	304	287	677	713
Changes in non-cash balances related to operations	38	(7)	56	59
Preferred share dividends	(4)	(5)	(10)	(9)
Distributions to noncontrolling interest	(1)	(2)	(4)	(2)
FFO	337	273	719	761

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 three and six months ended June 30, 2016 and 2015. The supplementary pro forma disclosure is used internally by management subsequent to the Initial Public Offering (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 a different number of shares outstanding and held by the Province prior to the IPO. 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 comparative basis to evaluate the operations of the Company.

	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Net income attributable to common shareholders *(millions of Canadian dollars)*	152	131	360	359
Pro forma weighted average number of common shares				
Basic	595,000,000	595,000,000	595,000,000	595,000,000
Effect of dilutive stock-based compensation plans	1,574,109	–	1,363,976	–
Diluted	596,574,109	595,000,000	596,363,976	595,000,000
Adjusted EPS				
Basic	$0.26	$0.22	$0.61	$0.60
Diluted	$0.25	$0.22	$0.60	$0.60

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 three and six months ended June 30, 2016:

		Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Related Party	Transaction	*(millions of Canadian dollars)*			
Province	Dividends paid	92	30	268	59
IESO	Power purchased	335	471	1,045	1,262
	Revenues for transmission services (based on OEB-approved uniform transmission rates)	375	363	751	768
	Distribution revenues related to rural rate protection	32	32	63	64
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	16	16
	Funding received related to Conservation and Demand Management programs	17	11	24	23
OPG	Power purchased	1	2	3	8
	Revenues related to provision of construction and equipment maintenance services	1	1	2	3
	Costs expensed related to the purchase of services	–	–	1	1
OEFC	Payments in lieu of corporate income taxes	–	14	–	32
	Power purchased from power contracts administered by the OEFC	1	2	1	4
	Indemnification fee paid (terminated effective October 31, 2015)	–	–	–	5
OEB	OEB fees	3	3	7	6
Hydro One Brampton	Revenues from management, administrative and smart meter network services	1	–	2	–

At June 30, 2016, the amounts due from and due to related parties as a result of the transactions described above were $191 million and $5 million, compared to $191 million and $138 million at December 31, 2015, respectively. At June 30, 2016, amounts due from related parties included net amount due from the IESO of $17 million in respect of power purchases, compared to $134 million due to the IESO included in amounts due to related parties 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 six months ended June 30, 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
2015-03	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.
2015-17	November 2015	All deferred tax assets and liabilities are required to be classified as noncurrent on the balance sheet.	January 1, 2017	To simplify reporting, this ASU was early adopted as of April 1, 2016 and applied prospectively. As a result, the current portions of the Company's deferred income tax assets are reclassified as noncurrent assets on the consolidated Balance Sheet. Prior periods were not retrospectively adjusted.

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, 2018	Under assessment
2016-12	May 2016	This guidance aims to simplify the transition to the new standard on accounting for revenue from contracts with customers (ASU 2014-09) and to clarify certain aspects of the new standard.	January 1, 2018	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, 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 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 and/or initiatives, 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 and valuations; 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 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 entitled "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 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 six months ended June 30, 2016 and 2015

(millions of Canadian dollars, except per share amounts)	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Revenues				
Distribution (includes related party revenues of $41 (2015 – $40) and $81 (2015 – $80) for three and six months ended June 30, respectively) *(Note 19)*	1,152	1,185	2,438	2,574
Transmission (includes related party revenues of $375 (2015 – $364) and $752 (2015 – $770) for three and six months ended June 30, respectively) *(Note 19)*	381	364	767	770
Other	13	14	27	27
	1,546	1,563	3,232	3,371
Costs				
Purchased power (includes related party costs of $337 (2015 – $475) and $1,049 (2015 – $1,274) for three and six months ended June 30, respectively) *(Note 19)*	803	838	1,699	1,808
Operation, maintenance and administration *(Note 19)*	262	282	518	560
Depreciation and amortization	193	190	383	377
	1,258	1,310	2,600	2,745
Income before financing charges and income taxes	**288**	**253**	**632**	**626**
Financing charges	98	93	194	187
Income before income taxes	**190**	**160**	**438**	**439**
Income taxes *(Notes 5, 19)*	33	23	66	68
Net income	**157**	**137**	**372**	**371**
Other comprehensive income	–	–	–	–
Comprehensive income	**157**	**137**	**372**	**371**
Net income and comprehensive income attributable to:				
Noncontrolling interest	1	1	2	3
Preferred shareholders	4	5	10	9
Common shareholders	152	131	360	359
	157	**137**	**372**	**371**
Earnings per common share *(Note 17)*				
Basic	$0.26	$0.27	$0.61	$0.74
Diluted	$0.25	$0.27	$0.60	$0.74
Dividends per common share declared *(Note 16)*	$0.21	$0.05	$0.55	$0.10

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At June 30, 2016 and December 31, 2015

(millions of Canadian dollars)	**June 30, 2016**	**December 31, 2015**
Assets		
Current assets:		
Cash and cash equivalents	6	94
Accounts receivable *(Note 6)*	760	776
Due from related parties *(Note 19)*	191	191
Other current assets *(Note 7)*	120	105
	1,077	1,166
Property, plant and equipment *(Note 8)*	18,415	17,968
Other long-term assets:		
Regulatory assets	3,073	3,015
Deferred income tax assets *(Note 3)*	1,364	1,636
Intangible assets (net of accumulated amortization – $301; 2015 – $274)	335	336
Goodwill	165	163
Other assets	8	10
	4,945	5,160
Total assets	**24,437**	**24,294**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 11)*	948	1,491
Accounts payable and other current liabilities *(Note 9)*	922	868
Due to related parties *(Note 19)*	5	138
Long-term debt payable within one year *(Note 11)*	50	500
	1,925	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	217	236
Deferred income tax liabilities *(Note 3)*	40	207
Other long-term liabilities *(Note 10)*	2,738	2,723
	12,546	11,373
Total liabilities	**14,471**	**14,370**
Contingencies and Commitments (Notes 21, 22)		
Subsequent Events (Note 24)		
Noncontrolling interest subject to redemption	23	23
Equity		
Common shares *(Note 15)*	5,623	5,623
Preferred shares *(Note 15)*	418	418
Additional paid-in capital	21	10
Retained earnings	3,839	3,806
Accumulated other comprehensive loss	(8)	(8)
Hydro One shareholders' equity	9,893	9,849
Noncontrolling interest	50	52
Total equity	**9,943**	**9,901**
	24,437	**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 six months ended June 30, 2016 and 2015

Six months ended June 30, 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	–	–	–	370	–	370	1	371
Other comprehensive income	–	–	–	–	–	–	–	–
Distributions to noncontrolling interest	–	–	–	–	–	–	(3)	(3)
Dividends on preferred shares	–	–	–	(10)	–	(10)	–	(10)
Dividends on common shares	–	–	–	(327)	–	(327)	–	(327)
Stock-based compensation	–	–	11	–	–	11	–	11
June 30, 2016	**5,623**	**418**	**21**	**3,839**	**(8)**	**9,893**	**50**	**9,943**

Six months ended June 30, 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	–	368	–	368	2	370
Other comprehensive income	–	–	–	–	–	–
Distributions to noncontrolling interest	–	–	–	–	(1)	(1)
Dividends on preferred shares	–	(9)	–	(9)	–	(9)
Dividends on common shares	–	(50)	–	(50)	–	(50)
June 30, 2015	**3,314**	**4,558**	**(9)**	**7,863**	**50**	**7,913**

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 six months ended June 30, 2016 and 2015

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Operating activities				
Net income	157	137	372	371
Environmental expenditures	(7)	(5)	(10)	(9)
Adjustments for non-cash items:				
Depreciation and amortization (excluding removal costs)	170	162	336	332
Regulatory assets and liabilities	(12)	(16)	(22)	72
Deferred income taxes	36	1	57	3
Other	(2)	1	–	3
Changes in non-cash balances related to operations *(Note 20)*	(38)	7	(56)	(59)
Net cash from operating activities	304	287	677	713
Financing activities				
Long-term debt issued	–	350	1,350	350
Long-term debt retired	–	–	(450)	–
Short-term notes repaid	(7)	–	(543)	–
Dividends paid	(129)	(30)	(337)	(59)
Distributions paid to noncontrolling interest	(1)	(2)	(4)	(2)
Change in bank indebtedness	–	(35)	–	(2)
Other	–	(1)	(6)	(1)
Net cash from financing activities	(137)	282	10	286
Investing activities				
Capital expenditures *(Note 20)*				
Property, plant and equipment	(399)	(418)	(757)	(757)
Intangible assets	(15)	(4)	(28)	(9)
Net cash paid for Haldimand Hydro	–	(58)	–	(58)
Other	–	–	10	(5)
Net cash used in investing activities	(414)	(480)	(775)	(829)
Net change in cash and cash equivalents	(247)	89	(88)	170
Cash and cash equivalents, beginning of period	253	181	94	100
Cash and cash equivalents, end of period	**6**	**270**	**6**	**270**

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
2015-03	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)
2015-17	November 2015	All deferred tax assets and liabilities are required to be classified as noncurrent on the balance sheet.	January 1, 2017	To simplify reporting, this ASU was early adopted as of April 1, 2016 and applied prospectively. As a result, the current portions of the Company's deferred income tax assets are reclassified as noncurrent assets on the consolidated Balance Sheet. Prior periods were not retrospectively adjusted. (See note 7)

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, 2018	Under assessment
2016-12	May 2016	This guidance aims to simplify the transition to the new standard on accounting for revenue from contracts with customers (ASU 2014-09) and to clarify certain aspects of the new standard.	January 1, 2018	Under assessment

4. BUSINESS COMBINATIONS

Great Lakes Power Transmission Purchase Agreement

On January 28, 2016, Hydro One Inc. reached an agreement to acquire 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 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:

Six months ended June 30 *(millions of Canadian dollars)*	**2016**	**2015**
Income taxes / provision for PILs at statutory rate	116	116
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(23)	(23)
Pension contributions in excess of pension expense	(8)	(12)
Overheads capitalized for accounting but deducted for tax purposes	(7)	(7)
Interest capitalized for accounting but deducted for tax purposes	(9)	(7)
Environmental expenditures	(4)	(3)
Non-refundable investment tax credits	(1)	(1)
Other	1	4
Net temporary differences	(51)	(49)
Net permanent differences	1	1
Total income taxes / provision for PILs	66	68
Effective income tax rate	15.1%	15.5%

6. ACCOUNTS RECEIVABLE

The following table shows the details of accounts receivable at June 30, 2016 and December 31, 2015:

(millions of Canadian dollars)	June 30, 2016	December 31, 2015
Accounts receivable – billed	417	379
Accounts receivable – unbilled	383	458
Accounts receivable, gross	800	837
Allowance for doubtful accounts	(40)	(61)
Accounts receivable, net	760	776

The following table shows the movements in the allowance for doubtful accounts for the six months ended June 30, 2016 and year ended December 31, 2015:

(millions of Canadian dollars)	Six months ended June 30, 2016	Year ended December 31, 2015
Allowance for doubtful accounts – beginning	(61)	(66)
Write-offs	17	37
Change in allowance for doubtful accounts	4	(32)
Allowance for doubtful accounts – ending	(40)	(61)

7. OTHER CURRENT ASSETS

(millions of Canadian dollars)	June 30, 2016	December 31, 2015
Regulatory assets	40	36
Materials and supplies	20	21
Deferred income tax assets *(Note 3)*	–	19
Prepaid expenses and other assets	60	29
	120	105

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	June 30, 2016	December 31, 2015
Property, plant and equipment in service	26,559	26,070
Less: accumulated depreciation	(9,703)	(9,414)
	16,856	16,656
Construction in progress	1,400	1,155
Future use land, components and spares	159	157
	18,415	17,968

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(millions of Canadian dollars)	June 30, 2016	December 31, 2015
Accounts payable	171	155
Accrued liabilities	627	598
Accrued interest	101	96
Regulatory liabilities	23	19
	922	868

10. OTHER LONG-TERM LIABILITIES

(millions of Canadian dollars)	**June 30, 2016**	**December 31, 2015**
Post-retirement and post-employment benefit liability *(Note 13)*	1,596	1,560
Pension benefit liability *(Note 13)*	935	952
Environmental liabilities *(Note 14)*	177	185
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	21	17
	2,738	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 June 30, 2016, Hydro One Inc. had $948 million in commercial paper borrowings outstanding (December 31, 2015 – $1,491 million).

At June 30, 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 June 30, 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 the current MTN Program filed in December 2015 is $3.5 billion. At June 30, 2016, $2,150 million remained available for issuance until January 2018.

The following table presents Hydro One Inc.'s outstanding long-term debt at June 30, 2016 and December 31, 2015:

(millions of Canadian dollars)	**June 30, 2016**	**December 31, 2015**
Notes and debentures	9,623	8,723
Add: Net unamortized debt premiums[2]	16	17
Add: Unrealized mark-to-market loss[1]	1	1
Less: Deferred debt issuance costs[2]	(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.

[2] Effective January 1, 2016, deferred debt issuance costs and net unamortized debt premiums were reclassified from other long-term assets and other long-term liabilities, respectively, as an offset to long-term debt upon adoption of ASU 2015-03 (see Note 3). Balances as at December 31, 2015 were updated to reflect the retrospective adoption of ASU 2015-03.

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	1.3
2 years	600	5.2
3 years	978	2.4
4 years	650	2.9
5 years	500	1.8
	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)*
Remainder of 2016	212
2017	423
2018	392
2019	369
2020	359
	1,755
2021-2025	1,638
2026 +	4,367
	7,760

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At June 30, 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 June 30, 2016 and December 31, 2015 are as follows:

	June 30, 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	11,333	8,656	9,942
	9,601	11,384	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 June 30, 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 June 30, 2016 and December 31, 2015 is as follows:

June 30, 2016 *(millions of Canadian dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	6	6	6	–	–
Derivative instruments					
Fair value hedge – interest-rate swap	1	1	1	–	–
	7	7	7	–	–
Liabilities:					
Short-term notes payable	948	948	948	–	–
Long-term debt, including current portion	9,601	11,384	–	11,384	–
	10,549	12,332	948	11,384	–

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, including current portion	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 six months ended June 30, 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. The Company 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. The Company may also 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 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 six months ended June 30, 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 June 30, 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 June 30, 2016 and December 31, 2015, there was no significant accounts receivable balance due from any single customer.

At June 30, 2016, the Company's provision for bad debts was $40 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 June 30, 2016, approximately 8% (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 June 30, 2016 and December 31, 2015, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not significant. At June 30, 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 are expected to be sufficient to fund normal operating requirements.

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

Estimated 2016 annual pension plan contributions are approximately $108 million, based on an actuarial valuation as at December 31, 2015 and projected levels of 2016 pensionable earnings. Employer contributions made during the six months ended June 30, 2016 were $75 million (2015 – $89 million).

The following table provides the components of the net periodic benefit costs for the three and six months ended June 30, 2016 and 2015:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended June 30 *(millions of Canadian dollars)*	**2016**	**2015**	**2016**	**2015**
Current service cost	36	37	10	11
Interest cost	77	76	17	16
Expected return on plan assets, net of expenses[1]	(108)	(102)	–	–
Actuarial loss amortization	24	30	2	3
Net periodic benefit costs	29	41	29	30
Charged to results of operations[2]	3	22	11	14

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Six months ended June 30 *(millions of Canadian dollars)*	**2016**	**2015**	**2016**	**2015**
Current service cost	72	74	21	22
Interest cost	154	152	34	32
Expected return on plan assets, net of expenses[1]	(217)	(204)	–	–
Actuarial loss amortization	48	60	4	6
Net periodic benefit costs	57	82	59	60
Charged to results of operations[2]	25	41	24	26

[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 and six months ended June 30, 2016, pension costs of $7 million (2015 – $48 million) and $57 million (2015 – $90 million), respectively, were attributed to labour, of which $3 million (2015 – $22 million) and $25 million (2015 – $41 million), respectively, were charged to operations, and $4 million (2015 – $26 million) and $32 million (2015 – $49 million), respectively, were 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 six months ended June 30, 2016, total environmental expenditures were $10 million (2015 – $9 million) and interest accretion was $4 million (2015 – $5 million). At June 30, 2016, total environmental liabilities, including the current portion, were $201 million (December 31, 2015 – $207 million).

15. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At June 30, 2016, the Company had 595,000,000 common shares issued and outstanding.

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 ownership 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 common shares by the Province.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At June 30, 2016 and December 31, 2015, the Company had 16,720,000 Series 1 preferred shares outstanding.

16. DIVIDENDS

During the three months ended June 30, 2016, preferred share dividends in the amount of $4 million (2015 – $5 million) and common share dividends in the amount of $125 million (2015 – $25 million) were declared.

During the six months ended June 30, 2016, preferred share dividends in the amount of $10 million (2015 – $9 million) and common share dividends in the amount of $327 million (2015 – $50 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 stock-based compensation plans, including the share grant plans and the Long-term Incentive Plan, which are calculated using the treasury stock method.

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net income attributable to common shareholders *(millions of Canadian dollars)*	152	131	360	359
Weighted average number of shares				
Basic	595,000,000	477,837,100	595,000,000	477,837,100
Effect of dilutive stock-based compensation plans	1,574,109	–	1,363,976	–
Diluted	596,574,109	477,837,100	596,363,976	477,837,100
EPS				
Basic	$0.26	$0.27	$0.61	$0.74
Diluted	$0.25	$0.27	$0.60	$0.74

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 and six months ended June 30, 2016 and 2015. The supplementary pro forma disclosure is used internally by management subsequent to the Initial Public Offering (IPO) of Hydro One to assess the Company's performance and is considered useful because it eliminates the impact of a different number of shares outstanding and held by the Province prior to the IPO. 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 comparable basis to evaluate the operations of the Company.

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net income attributable to common shareholders *(millions of Canadian dollars)*	152	131	360	359
Pro forma weighted average number of common shares				
Basic	595,000,000	595,000,000	595,000,000	595,000,000
Effect of dilutive stock-based compensation plans	1,574,109	–	1,363,976	–
Diluted	596,574,109	595,000,000	596,363,976	595,000,000
Pro forma adjusted non-GAAP EPS				
Basic	$0.26	$0.22	$0.61	$0.60
Diluted	$0.25	$0.22	$0.60	$0.60

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. These awards consist of approximately 124,120 Performance Stock Units and 149,120 Restricted Stock Units, all of which are equity settled. The grant date fair value of the awards was $7 million. The compensation expense recognized by the Company relating to these awards during the three and six months ended June 30, 2016 was not significant. No long-term incentives were awarded during the three and six months ended June 30, 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 June 30		Six months ended June 30	
		2016	2015	2016	2015
Related Party	**Transaction**	*(millions of Canadian dollars)*			
Province	Dividends paid	92	30	268	59
IESO	Power purchased	335	471	1,045	1,262
	Revenues for transmission services (based on OEB-approved uniform transmission rates)	375	363	751	768
	Distribution revenues related to rural rate protection	32	32	63	64
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	16	16
	Funding received related to Conservation and Demand Management programs	17	11	24	23
OPG	Power purchased	1	2	3	8
	Revenues related to provision of construction and equipment maintenance services	1	1	2	3
	Costs expensed related to the purchase of services	–	–	1	1
OEFC	Payments in lieu of corporate income taxes	–	14	–	32
	Power purchased from power contracts administered by the OEFC	1	2	1	4
	Indemnification fee paid (terminated effective October 31, 2015)	–	–	–	5
OEB	OEB fees	3	3	7	6
Hydro One Brampton	Revenues from management, administrative and smart meter network services	1	–	2	–

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)	June 30, 2016	December 31, 2015
Due from related parties[1]	191	191
Due to related parties[1]	(5)	(138)

[1] At June 30, 2016, amounts due from related parties included net amount due from the IESO of $17 million in respect of power purchases (December 31, 2015 – amounts due to related parties included amounts owing to the IESO of $134 million).

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Accounts receivable	91	100	16	15
Due from related parties	(21)	21	–	47
Materials and supplies	–	–	1	(1)
Prepaid expenses and other assets	(23)	(3)	(29)	(2)
Accounts payable	14	19	20	7
Accrued liabilities	31	(4)	24	18
Due to related parties	(131)	(130)	(133)	(175)
Accrued interest	(19)	(17)	5	(1)
Long-term accounts payable and other liabilities	4	1	4	(3)
Post-retirement and post-employment benefit liability	16	20	36	36
	(38)	7	(56)	(59)

Capital Expenditures

The following table provides a 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 June 30		Six months ended June 30	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Capital investments in property, plant and equipment	(401)	(425)	(768)	(765)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	2	7	11	8
Capital expenditures – property, plant and equipment	(399)	(418)	(757)	(757)

The following table provides a 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 June 30		Six months ended June 30	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Capital investments in intangible assets	(16)	(4)	(28)	(9)
Net change in accruals included in capital investments in intangible assets	1	–	–	–
Capital expenditures – intangible assets	(15)	(4)	(28)	(9)

Supplementary Information

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2016**	**2015**	**2016**	**2015**
Net interest paid	122	122	202	207
Income taxes / PILs paid	6	14	15	32

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.

June 30, 2016 *(millions of Canadian dollars)*	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**
Outsourcing agreements	144	117	91	46	2	10
Long-term software/meter agreement	16	17	17	17	9	5
Operating lease commitments	11	10	6	7	5	2

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 June 30, 2016, Hydro One Inc. provided a letter of credit to the IESO in the amount of $5 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 June 30, 2016 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	381	1,152	13	1,546
Purchased power	–	803	–	803
Operation, maintenance and administration	92	144	26	262
Depreciation and amortization	94	97	2	193
Income (loss) before financing charges and income taxes	195	108	(15)	288
Capital investments	238	178	1	417

Three months ended June 30, 2015 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	364	1,185	14	1,563
Purchased power	–	838	–	838
Operation, maintenance and administration	98	168	16	282
Depreciation and amortization	94	94	2	190
Income (loss) before financing charges and income taxes	172	85	(4)	253
Capital investments	234	192	3	429

Six months ended June 30, 2016 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	767	2,438	27	3,232
Purchased power	–	1,699	–	1,699
Operation, maintenance and administration	188	285	45	518
Depreciation and amortization	189	190	4	383
Income (loss) before financing charges and income taxes	390	264	(22)	632
Capital investments	473	321	2	796

Six months ended June 30, 2015 *(millions of Canadian dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	770	2,574	27	3,371
Purchased power	–	1,808	–	1,808
Operation, maintenance and administration	197	334	29	560
Depreciation and amortization	188	186	3	377
Income (loss) before financing charges and income taxes	385	246	(5)	626
Capital investments	445	324	5	774

Total Assets by Segment:

(millions of Canadian dollars)	**June 30, 2016**	**December 31, 2015**
Transmission	12,275	12,045
Distribution	9,219	9,200
Other	2,943	3,049
Total assets	24,437	24,294

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

24. SUBSEQUENT EVENTS

Dividends

On August 11, 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.