Hydro One Reports First Quarter Results, Announces New CEO, CFO, and Increases Dividend

Renewed leadership and strong fundamentals continue to drive momentum while receipt of the distribution rates decision results in earnings catch up

TORONTO, May 9, 2019 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the first quarter ended March 31, 2019.

First Quarter Highlights

- Catch up revenues, favourable weather and lower taxes contributed to earnings per share (EPS) of $0.29 and adjusted EPS of $0.52, compared to $0.37 and $0.35, respectively, for the same period in 2018.
- The Company received a regulatory decision regarding its 2018-2022 Distribution Revenue Requirement Application and submitted its 2020-2022 Transmission Rate Application to the Ontario Energy Board (OEB).
- Hydro One filed a Motion to Review and Vary the OEB's decision on the Company's 2018-2022 Distribution Revenue Requirement Application with respect to recovery of pension costs.
- The Company appealed to the Ontario Divisional Court with respect to the OEB's decision upholding its original finding on the handling of the deferred tax asset.
- Continued focus on operational improvement through initiatives such as the use of Telematics within the Company's fleet increased utilization by 14% and led to incremental year-over-year productivity savings.
- Billing accuracy continues to surpass the OEB's requirements of 98%, ending the quarter at 99.6%, up from 99.4% at the end of 2018.
- Hydro One and the Society of United Professionals reached a settlement of a two-year collective agreement covering approximately 1,500 employees in critical engineering, supervisory and administrative roles.
- Mark Poweska, recently announced as President and CEO, has a proven record that reinforces the Company's unwavering commitment to safety, operational excellence, exceptional customer service, and cutting costs.
- Chris Lopez, appointed as Chief Financial Officer (CFO), distinguished himself as Acting CFO by leading the Finance organization where he successfully secured favourable financing and delivered impactful productivity initiatives across the business.
- Organized transition of senior management team underway with the retirement of the Chief Human Resource Officer and the departures of the Chief Operating Officer, Chief Legal Officer and Chief Corporate Development Officer. Hydro One's significant bench strength and management depth will ensure stability and continuity during this period of transition.
- Hydro One Inc. successfully issued $1.5 billion of long-term debt on April 5, 2019.
- Quarterly dividend declared at $0.2415 per share, payable June 28, 2019, an increase of 5%.

"I am pleased to join a results-driven team at a critical point in Hydro One's transformation into a customer-focused and innovative company focused on safety, driving down costs and delivering greater value to customers, communities and shareholders," said Mark Poweska, incoming President and CEO, Hydro One. "Building on the Company's strong business foundations, Hydro One will prioritize meeting the needs of our customers, employees, investors and all stakeholders through continuous improvement and an unfailing commitment to safety and exceptional service. I look forward to working with Hydro One's Board of Directors and management team to develop a clear vision and strategy that will ensure a strong, stable and successful Hydro One now and into the future."

Selected Consolidated Financial and Operating Highlights

(amounts throughout in millions of Canadian dollars, except as otherwise noted)	Three months ended March 31 2019	2018
Revenues	1,759	1,576
Purchased power	807	751
Revenues, net of purchased power[1]	952	825
Net income attributable to common shareholders	171	222
Costs (income) related to acquisition of Avista	140	(12)
Adjusted net income attributable to common shareholders[1]	311	210
Basic EPS	$0.29	$0.37
Diluted EPS	$0.29	$0.37
Adjusted basic EPS[1]	$0.52	$0.35
Adjusted diluted EPS[1]	$0.52	$0.35
Net cash from operating activities	118	376
Capital investments	311	305
Assets placed in-service	145	145
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,763	19,815
Distribution: Electricity distributed to Hydro One customers (GWh)	7,738	7,406

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

Key Financial Highlights

In the first quarter of March 31, 2019, the Company reported net income attributable to common shareholders of $171 million (2018 - $222 million), a 23.0% decrease from last year, and EPS of $0.29 (2018 - $0.37). Adjusted EPS, which exclude the impact of $140 million costs related to the termination of the Avista Corporation acquisition agreement (Merger), was $0.52 for the quarter.

Revenues, net of purchased power, for the first quarter were higher than last year by 15.4% driven by higher distribution revenues primarily due to OEB's decision on the 2018 and 2019 distribution rates.

The comparability of first quarter earnings was impacted by costs related to the Merger. This consisted of $138 million OM&A costs for the Merger termination fee, and $53 million financing charges due to the reversal of previously recorded gains on the foreign-exchange contract and the write-off of deferred financing costs partially offset by a decrease in interest expense related to convertible debentures.

In addition, first quarter OM&A costs were higher than prior year due to higher project write-offs, primarily driven by the regulatory decision with regard to the Lake Superior Link project. Higher vegetation coverage compared to the previous year and higher emergency power restoration costs due to a higher volume of weather related emergency calls were offset by lower costs due to the repatriation of the Call Centre which resulted in operational improvements.

The income tax recovery for the first quarter of 2019 was primarily attributable to a combination of costs related to the Merger and incremental tax deductions as a result of the deferred tax asset sharing mandated by the OEB. This was partially offset by higher income before taxes from ongoing operations.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new load customers and generation sources, and improve service to customers. The Company made capital investments of $311 million during the first quarter, and placed $145 million worth of new assets in-service.

Selected Operating Highlights

On March 28, following a thorough and competitive international search process, the Company announced Mark Poweska as its new President and CEO. Mark comes to Hydro One with over 25 years of experience at BC Hydro where he last served as Executive Vice President, Operations, with responsibility for all aspects of the Company's electricity generation, transmission and distribution operations.

On March 21, Hydro One submitted its 2020-2022 Transmission Rate Application to the OEB. The Company's three-year investment plan aims to keep Ontario's transmission system safe and reliable which is essential to supporting strong and successful communities.

During the quarter, the Company received a decision from the OEB on its 2018-2022 Distribution Revenue Requirement Application. Hydro One filed a Motion to Review and Vary the OEB's decision on the Company's Distribution Revenue Requirement Application with respect to recovery of pension costs and the Company filed an appeal with the Ontario Divisional Court with respect to the decision.

The OEB upheld its original decision on the handling of the deferred tax asset that arose from the payment of a departure tax at the time of Hydro One's transition to an investor-owned company. Hydro One filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax asset decision.

Hydro One and the Society of United Professionals reached a settlement of a two-year collective agreement covering approximately 1,500 employees in critical engineering, supervisory and administrative roles. This agreement recognizes the significant contributions employees make in maintaining the supply of power across the province while delivering value to customers and shareholders.

On January 23, 2019, Hydro One and Avista announced that the companies mutually agreed to terminate their previously announced merger agreement.

Subsequent to the termination of the Avista transaction, on February 8, the Company completed the redemption of all of its outstanding $1.54 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures represented by installment receipts.

Common Share Dividends

Following the conclusion of the first quarter, on May 8, 2019, the Company declared a quarterly cash dividend to common shareholders of $0.2415 per share to be paid on June 28, 2019 to shareholders of record on June 12, 2019. This represents a dividend increase of 5% since the last increase in May 2018.

Supplemental Segment Information

(millions of dollars)	Three months ended March 31 2019	2018
Revenues		
Transmission	428	421
Distribution	1,321	1,145
Other	10	10
Total revenues	**1,759**	**1,576**
Revenues, net of purchased power		
Transmission	428	421
Distribution	514	394
Other	10	10
Total revenues, net of purchased power	**952**	**825**
Income (loss) before financing charges and taxes		
Transmission	216	213
Distribution	270	157
Other	(162)	(12)
Total income before financing charges and taxes	**324**	**358**
Capital investments		
Transmission	206	190
Distribution	103	114
Other	2	1
Total capital investments	**311**	**305**
Assets placed in-service		
Transmission	54	38
Distribution	88	105
Other	3	2
Total assets placed in-service	**145**	**145**

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

Quarterly Investment Community Teleconference

The Company's first quarter 2019 results teleconference with the investment community will be held on May 9, 2019 at 8 a.m. ET, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's first quarter 2019 results call, conference ID 3488617 (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 at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One Limited

We are Ontario's largest electricity transmission and distribution provider with almost 1.4 million valued customers, almost C$25.5 billion in assets and 2018 annual revenues of almost C$6.2 billion. Our team of approximately 8,600 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2018, Hydro One invested almost $1.6 billion in its 30,000 circuit kilometres of high-voltage transmission and 123,000 circuit kilometres of primary distribution networks and injected approximately $1.3 billion into the economy by buying goods and services in Ontario. We are committed to the communities where we live and work through community investment, sustainability and diversity initiatives. We are one of only six utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. Through Hydro One Telecom Inc.'s extensive fibre optic network, we also provide advanced broadband telecommunications services on a wholesale basis. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

For More Information

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

Forward-Looking Statements and Information

This press release may contain “forward-looking information” within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: momentum; continuous improvement; commitment to safety and service; vision and strategy; customer service; reliability and performance; connections; the Company’s transmission and distribution regulatory applications, related decisions and anticipated impacts; ongoing and planned investments, projects and initiatives; dividends; and transition of the Company’s senior management team. 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 thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three months ended March 31, 2019, as well as the Company's audited amended consolidated financial statements and amended MD&A for the year ended December 31, 2018. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which can vary from those of the US. This MD&A provides information for the three months ended March 31, 2019, based on information available to management as of May 8, 2019.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	2019	2018	Change
Revenues	1,759	1,576	11.6%
Purchased power	807	751	7.5%
Revenues, net of purchased power[1]	952	825	15.4%
Operation, maintenance and administration (OM&A) costs	416	270	54.1%
Depreciation, amortization and asset removal costs	212	197	7.6%
Financing charges	163	88	85.2%
Income tax expense (recovery)	(16)	42	(138.1%)
Net income attributable to common shareholders of Hydro One	**171**	**222**	**(23.0%)**
Basic earnings per common share (EPS)	$0.29	$0.37	(21.6%)
Diluted EPS	$0.29	$0.37	(21.6%)
Basic adjusted non-GAAP EPS (Adjusted EPS)[1]	$0.52	$0.35	48.6%
Diluted Adjusted EPS[1]	$0.52	$0.35	48.6%
Net cash from operating activities	118	376	(68.6%)
Funds from operations (FFO)[1]	224	414	(45.9%)
Capital investments	311	305	2.0%
Assets placed in-service	145	145	—%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,763	19,815	4.8%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	7,738	7,406	4.5%

	2019	2018
Debt to capitalization ratio[2]	56.2%	55.6%

[1] See section "Non-GAAP Measures" for description and reconciliation of basic and diluted Adjusted EPS, FFO and Revenues, net of purchased power.

[2] Debt to capitalization ratio has been presented at March 31, 2019 and December 31, 2018, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to noncontrolling interest.

OVERVIEW

The Company's transmission business consists of the transmission system operated by subsidiaries of Hydro One Inc. (a wholly-owned subsidiary of the Company), Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON) in respect of the Bruce-to-Milton transmission line. Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities). The other segment includes certain corporate activities and the operations of the Company's telecommunications business.

For the three months ended March 31, 2019 and 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

Three months ended March 31	2019	2018
Transmission	45%	51%
Distribution	54%	48%
Other	1%	1%

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

	March 31, 2019	December 31, 2018
Transmission	56%	55%
Distribution	37%	36%
Other	7%	9%

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended March 31, 2019 of $171 million is a decrease of $51 million or 23.0% from the prior year. Significant influences on net income included:

- increase in distribution revenues, net of purchased power, primarily due to the Ontario Energy Board's (OEB) decision on the 2018 and 2019 distribution rates;
- higher OM&A costs primarily resulting from:
  - payment of the Avista Corporation acquisition (Merger) termination fee;
  - higher project write-offs, primarily driven by regulatory decision on Lake Superior Link project;
  - higher vegetation coverage compared to previous year; and
  - higher emergency power restoration costs due to a higher volume of weather related emergency calls; partially offset by:
  - lower costs due to the repatriation of the Call Centre which resulted in operational improvements;
- higher financing charges primarily resulting from:
  - reversal of previously recorded gains on the foreign-exchange contract related to the Merger compared to a gain recorded in the first quarter of 2018; and
  - write-off of deferred financing costs and a decrease in interest expense related to convertible debentures redeemed in February 2019, following termination of the Merger agreement;
- lower income tax expense primarily attributable to the following:
  - income tax recovery on termination fee and financing charges related to the Merger, and
  - incremental tax deductions from deferred tax asset sharing mandated by the OEB, partially offset by
  - higher income before taxes, adjusted for costs related to the Merger, in the first quarter of 2019 compared to 2018.

EPS and Adjusted EPS

EPS was $0.29 in the first quarter of 2019, compared to $0.37 in the first quarter of 2018. The decrease in EPS was driven by lower earnings in the first quarter of 2019, as discussed above. Adjusted EPS, which adjusts for income and costs related to the Merger, was $0.52 in the first quarter of 2019, compared to $0.35 in the first quarter of 2018. The increase in Adjusted EPS was driven by changes in net income for the first quarter of 2019, as discussed above, but excluding the impact of items related to the Merger. See section "Non-GAAP Measures" for description and reconciliation of Adjusted EPS.

Revenues

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	2019	2018	Change
Transmission	428	421	1.7%
Distribution	1,321	1,145	15.4%
Other	10	10	—%
Total revenues	1,759	1,576	11.6%
Transmission	428	421	1.7%
Distribution, net of purchased power	514	394	30.5%
Other	10	10	—%
Total revenues, net of purchased power	952	825	15.4%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,763	19,815	4.8%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	7,738	7,406	4.5%

Transmission Revenues

Transmission revenues increased by 1.7% during the quarter ended March 31, 2019, primarily due to the following:

- higher average monthly Ontario 60-minute peak demand driven by colder January and March in 2019; partially offset by
- revenue recognized in the first quarter of 2018 to reflect the Company's position with respect to the deferred tax asset, which was subsequently reversed following the OEB decision.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 30.5% during the quarter ended March 31, 2019, primarily due to impacts relating to the 2018 and 2019 distribution rates OEB decision received in March 2019.

OM&A Costs

Three months ended March 31 *(millions of dollars)*	2019	2018	Change
Transmission	99	105	(5.7%)
Distribution	146	145	0.7%
Other	171	20	755.0%
	416	270	54.1%

Transmission OM&A Costs

The decrease of 5.7% in transmission OM&A costs for the quarter ended March 31, 2019 was primarily due to:

- lower volume of grid sustainment work; and
- lower corporate support costs.

Distribution OM&A Costs

The increase of 0.7% in distribution OM&A costs for the quarter ended March 31, 2019 was primarily due to:

- higher vegetation coverage compared to previous year;
- higher emergency power restoration costs due to a higher volume of weather related emergency calls; and
- higher sustainment work related to the Distribution Modernization project; partially offset by
- mutual assistance costs in 2018 (net income neutral); and
- lower costs due to repatriation of the Call Centre which resulted in operational improvements.

Other OM&A Costs

The increase in other OM&A costs for the quarter ended March 31, 2019 was primarily due to the payment of $138 million Merger termination fee and higher project write-offs related to the regulatory decision on Lake Superior Link project.

Financing Charges

The increase of $75 million or 85.2% in financing charges for the quarter ended March 31, 2019 was primarily due to the following:

- reversal of previously recorded unrealized gains on the foreign-exchange contract related to the Merger compared to an unrealized gain recorded in the first quarter of 2018;
- write-off of deferred financing costs and a decrease in interest expense related to convertible debentures redeemed in February 2019, following termination of the Merger agreement;
- an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019; and
- an increase in interest expense on short-term notes payable driven by higher weighted-average interest rates and balance of short-term notes outstanding in 2019.

Income Tax Expense

Income tax recovery was $16 million for the quarter ended March 31, 2019, compared to an expense of $42 million for the first quarter of 2018. The Company realized an effective tax rate (ETR) of approximately (9.9%) in the quarter, compared to approximately 15.6% realized in the same period of 2018.

As prescribed by the regulators, the Company recovers income taxes and is required to accrue its tax expense based on the tax liability determined without accounting for temporary differences recoverable from or refundable to customers in the future. The decrease in income tax expense for the period ended March 31, 2019 was primarily attributable to income tax recovery on termination fee and financing charges related to the Merger, and incremental tax deductions from deferred tax asset sharing mandated by the OEB, partially offset by higher income before taxes, adjusted for costs related to the Merger, in the first quarter of 2019 compared to 2018.

Common Share Dividends

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

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
February 20, 2019	March 13, 2019	March 29, 2019	$0.2300	137

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

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
May 8, 2019	June 12, 2019	June 28, 2019	$0.2415	144

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of dollars, except EPS)*	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Revenues	1,759	1,491	1,606	1,477	1,576	1,439	1,522	1,371
Purchased power	807	741	733	674	751	662	675	649
Revenues, net of purchased power	952	750	873	803	825	777	847	722
Net income (loss) to common shareholders	171	(705)	194	200	222	155	219	117
Basic EPS	$0.29	($1.18)	$0.33	$0.34	$0.37	$0.26	$0.37	$0.20
Diluted EPS	$0.29	($1.18)	$0.32	$0.33	$0.37	$0.26	$0.37	$0.20
Basic Adjusted EPS[1]	$0.52	$0.30	$0.38	$0.33	$0.35	$0.29	$0.40	$0.20
Diluted Adjusted EPS[1]	$0.52	$0.29	$0.38	$0.32	$0.35	$0.28	$0.40	$0.20

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

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

CAPITAL INVESTMENTS

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

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the three months ended March 31, 2019 and 2018:

Three months ended March 31 *(millions of dollars)*	2019	2018	Change
Transmission	54	38	42.1%
Distribution	88	105	(16.2%)
Other	3	2	50.0%
Total assets placed in-service	145	145	—%

<u>Transmission Assets Placed In-Service</u>

Transmission assets placed in-service increased by $16 million or 42.1% during the first quarter of 2019 primarily due to the following:

- timing of assets placed in-service in 2019 for station sustainment investments (primarily at St. Isidore, Cherrywood, Kenilworth and Horning transmission stations, partially offset by Orillia transmission station);
- higher volume of demand capital replacement work that were placed in-service;
- cumulative investments of distribution generation connection projects that were placed in-service; and
- timing of assets placed in service for the North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection project; partially offset by
- timing of assets placed in-service at Ear Falls transmission station in the first quarter of 2018.

Distribution Assets Placed In-Service

Distribution assets placed in-service decreased by $17 million or 16.2% during the first quarter of 2019 primarily due to the following:

- cumulative investments that were placed in-service for the Advanced Distribution System project, the Source-to-Order Transformation project, and the Advanced Metering Infrastructure Wireless project work in the first quarter of 2018;
- lower volume of wood pole replacements;
- lower volume of new connections; and
- lower volume of lines component work; partially offset by
- higher volume of distribution stations refurbishments; and
- higher volume of emergency power and storm restorations work.

Capital Investments

The following table presents Hydro One's capital investments during the three months ended March 31, 2019 and 2018:

Three months ended March 31 *(millions of dollars)*	2019	2018	Change
Transmission			
Sustaining	174	155	12.3%
Development	19	23	(17.4%)
Other	13	12	8.3%
	206	190	8.4%
Distribution			
Sustaining	46	59	(22.0%)
Development	44	46	(4.3%)
Other	13	9	44.4%
	103	114	(9.6%)
Other	2	1	100.0%
Total capital investments	311	305	2.0%

Transmission Capital Investments

Transmission capital investments increased by $16 million or 8.4% during the first quarter of 2019. Principal impacts on the levels of capital investments included:

- higher volume of overhead lines refurbishments and replacements;
- higher volume of demand work associated with equipment failures at Finch, Longwood and Hawthorne transmission stations;
- higher spend on information technology (IT) primarily due to the Private Cloud Data Center project; and
- higher volume of work for the NERC Critical Infrastructure Protection project; partially offset by:
- lower volume of transmission station refurbishments and replacements work; and
- lower spend on load customer connections due to completion of work at Runnymede transmission station in 2018.

Distribution Capital Investments

Distribution capital investments decreased by $11 million or 9.6% during the first quarter of 2019. Principal impacts on the levels of capital investments included:

- lower volume of wood pole replacements;
- lower spend in metering programs due to the completion of the Advanced Metering Infrastructure Wireless project last year; and
- lower spend on Advanced Distribution System infrastructures as the project was completed in 2018; partially offset by:
- higher spend on IT primarily due to the Private Cloud Data Center project.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at March 31, 2019:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
			(year)	(millions of dollars)	
Development Projects:					
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line	2019[1]	134	125
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2022[2]	157	19
Waasigan Transmission Line	Thunder Bay-Atikokan Northwestern Ontario	New transmission line	2024[3]	35	1
Sustainment Projects:					
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2020	105	101
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2020	146	126
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	112	67
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	104	63

[1] See section Regulation - Niagara Reinforcement Limited Partnership for additional information.

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

[3] The in-service date of the Waasigan Transmission Line project (formerly known as Northwest Bulk Transmission Line Development project) represents the completion of the development phase.

Future Capital Investments

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

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

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

(millions of dollars)	2019	2020	2021	2022	2023
Transmission	1,049	1,203	1,329	1,380	1,381
Distribution	632	671	652	627	757
Other	13	15	26	9	10
Total capital investments	**1,694**	**1,889**	**2,007**	**2,016**	**2,148**

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

(millions of dollars)	2019	2020	2021	2022	2023
Sustainment	1,068	1,182	1,401	1,483	1,530
Development	408	493	422	379	468
Other[1]	218	214	184	154	150
Total capital investments	**1,694**	**1,889**	**2,007**	**2,016**	**2,148**

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

SUMMARY OF SOURCES AND USES OF CASH

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

Three months ended March 31 *(millions of dollars)*	2019	2018
Cash provided by operating activities	118	376
Cash used in financing activities	(289)	(76)
Cash used in investing activities	(308)	(297)
Increase (decrease) in cash and cash equivalents	(479)	3

Cash provided by operating activities

Cash from operating activities for the first quarter of 2019 decreased by $258 million compared to the first quarter of 2018, were impacted by various factors, including higher receivable balances resulting from increased revenues, changes in certain regulatory variance and deferral accounts, and lower cash earnings in the first quarter of 2019, primarily driven by the Merger termination fee.

Cash provided by financing activities

Sources of cash

- The Company received proceeds of $2,110 million from the issuance of short-term notes in the first quarter of 2019, compared to $1,172 million received in the first quarter of 2018.

Uses of cash

- The Company repaid $1,512 million of short-term notes in the first quarter of 2019, compared to $1,109 million repaid in the first quarter of 2018.
- The Company redeemed $513 million of convertible debentures in the first quarter of 2019, compared to no convertible debentures redeemed in the first quarter of 2018.
- The Company repaid $228 million of long-term debt in the first quarter of 2019, compared to no long-term debt repaid in the first quarter of 2018.
- Dividends paid in the first quarter of 2019 were $142 million, consisting of $137 million of common share dividends and $5 million of preferred share dividends, compared to dividends of $136 million paid in the first quarter of 2018, consisting of $131 million of common share dividends and $5 million of preferred share dividends.

Cash used in investing activities

Uses of cash

- Capital expenditures were $4 million higher in the first quarter of 2019, primarily due to higher volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

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

At March 31, 2019, Hydro One Inc. had $1,680 million in commercial paper borrowings outstanding, compared to $1,252 million outstanding at December 31, 2018. The interest rates on the commercial paper borrowings outstanding at March 31, 2019 ranged from 1.9% to 2.3%. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) with total availability of $2,550 million maturing in 2021 and 2022, with no amounts used at March 31, 2019 or December 31, 2018. The Company may use these credit facilities for working capital and general corporate purposes. On February 1, 2019, Hydro One entered into a credit agreement for a $170 million unsecured demand operating credit facility (Demand Facility) for the purpose of funding the payment of the Merger termination fee and other Merger related costs. At March 31, 2019, $170 million was drawn on the Demand Facility. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, the Demand Facility and anticipated levels of FFO are expected to be sufficient to fund the Company's normal operating requirements.

At March 31, 2019, the Company had long-term debt outstanding in the principal amount of $10,488 million, which included $10,345 million of long-term debt issued by Hydro One Inc. and long-term debt in the principal amount of $143 million issued by HOSSM. The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium Term Note (MTN) Program. The long-term debt consists of notes and debentures that mature between 2019 and 2064, and at March 31, 2019, had a weighted-average term to maturity of approximately 16.4 years and a weighted-average coupon rate of 4.3%.

The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is $4.0 billion, and at March 31, 2019, $2.6 billion remained available for issuance. On April 5, 2019, Hydro One Inc. issued long-term debt totalling $1.5 billion, resulting in $1.1 billion remaining available for issuance under the MTN Program until April 2020.

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada to replace the universal base shelf prospectus that expired on April 30, 2018. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to $4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. On November 23, 2018, Hydro One Holdings Limited (HOHL), an indirect wholly-owned subsidiary of Hydro One, filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US for the purposes of, but not limited to, funding a portion of the cash purchase price of the Merger. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At March 31, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

Acquisition Credit Facilities

In June 2018, for the purpose of bridge financing for the Merger, the Company secured a $1.0 billion non-revolving equity bridge credit facility, and a US$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities). As a result of the termination of the Merger agreement, on January 24, 2019, the Company cancelled the Acquisition Credit Facilities. In addition, the foreign-exchange contract entered into in October 2017 that was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed by the issuance of convertible debentures was revalued to $nil, resulting in a loss of $22 million recorded in the first quarter of 2019, compared to an unrealized gain of $27 million recorded in the first quarter of 2018.

Compliance

At March 31, 2019, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

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

Summary of Contractual Obligations and Other Commercial Commitments

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

March 31, 2019 *(millions of dollars)*	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations *(due by year)*					
Long-term debt – principal repayments	10,488	502	1,457	734	7,795
Long-term debt – interest payments	8,093	446	836	762	6,049
Short-term notes payable[1]	1,850	1,850	—	—	—
Pension contributions[2]	458	80	155	161	62
Environmental and asset retirement obligations	178	25	61	59	33
Outsourcing and other agreements	271	148	107	5	11
Lease obligations	28	8	14	3	3
Long-term software/meter agreement	38	20	14	3	1
Total contractual obligations	21,404	3,079	2,644	1,727	13,954
Other commercial commitments *(by year of expiry)*					
Operating Credit Facilities	2,550	—	250	2,300	—
Letters of credit[3]	176	176	—	—	—
Guarantees[4]	330	330	—	—	—
Total other commercial commitments	3,056	506	250	2,300	—

[1] Includes $170 million drawn on the Demand Facility.

[2] Contributions to the Hydro One Pension Fund are generally made one month in arrears. Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable.

[3] Letters of credit consist of a $163 million letter of credit related to retirement compensation arrangements, a $7 million letter of credit provided to the Independent Electricity System Operator (IESO) for prudential support, $5 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

[4] Guarantees consist of $325 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees totalling $5 million provided by Hydro One to the Minister of Natural Resources relating to Ontario Charging Network LP (OCN LP).

SHARE CAPITAL

The common shares of Hydro One are publicly traded on the Toronto Stock Exchange (TSX) under the trading symbol "H". Hydro One is authorized to issue an unlimited number of common shares. The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant. At May 8, 2019, Hydro One had 596,474,638 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series, Series 1 preferred shares and Series 2 preferred shares. At May 8, 2019, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

The number of additional common shares of Hydro One that would be issued if all outstanding awards under the share grant plans and the Long-term Incentive Plan (LTIP) were vested and exercised as at May 8, 2019 is 5,727,685.

REGULATION

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

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

Application	Years	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision received[1]
Hydro One Networks	2019	Transmission – Revenue Cap	OEB decision received
Hydro One Networks	2020-2022	Transmission – Custom	OEB decision pending
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision received[2]
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
HOSSM	2017-2026	Transmission – Revenue Cap	OEB decision received[3]
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power	n/a	Acquisition	OEB decision pending[4]
Peterborough Distribution	n/a	Acquisition	OEB decision pending
Leave to Construct			
East-West Tie Station Expansion	n/a	Section 92	OEB decision received
Lake Superior Link Project	n/a	Section 92	OEB decision received[5]

[1] On March 7, 2019, the OEB upheld its Original Decision relating to the deferred tax asset. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court.
[2] On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court.
[3] In October 2016, the OEB approved the 2017-2026 revenue requirements. In July 2018, HOSSM filed an application for an inflationary increase (Revenue Cap Escalator factor) to its 2019 revenue requirement.
[4] In September 2018, Hydro One filed a new MAAD application with the OEB to acquire Orillia Power.
[5] On February 11, 2019, the OEB issued its decision awarding the construction of the East-West Tie Line to NextBridge, as directed by the Province of Ontario (Province) on January 30, 2019.

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

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base Allowed (A) or Forecast (F)	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2019	n/a[1]	n/a[1]	Filed in October 2018	To be filed
	2020	8.98% (F)	$12,398 million (F)	Filed in March 2019	To be filed
	2021	8.98% (F)	$13,120 million (F)	Filed in March 2019	To be filed
	2022	8.98% (F)	$13,947 million (F)	Filed in March 2019	To be filed
B2M LP	2019	8.98% (A)	$496 million (A)	Approved in December 2015	Approved in December 2018
HOSSM	2017-2026	9.19% (A)	$218 million (A)	Approved in October 2016	OEB decision received[2]
Distribution					
Hydro One Networks	2018	9.00% (A)	$7,637 million (F)	Filed in March 2017[3]	Filed in April 2019
	2019	8.98% (A)	$7,894 million (F)	Filed in March 2017[3]	Filed in April 2019
	2020	8.98% (F)	$8,175 million (F)	Filed in March 2017[3]	To be filed in 2019 Q4
	2021	8.98% (F)	$8,517 million (F)	Filed in March 2017[3]	To be filed in 2020 Q4
	2022	8.98% (F)	$8,813 million (F)	Filed in March 2017[3]	To be filed in 2021 Q4

[1] The Revenue Cap application is a formulaic adjustment to the approved revenue requirement and does not consider return on equity (ROE) or rate base.
[2] In October 2016, the OEB approved the 2017-2026 revenue requirements. In July 2018, HOSSM filed an application for an inflationary increase (Revenue Cap Escalator factor) to its 2019 revenue requirement.
[3] In April 2019, Hydro One Networks filed a draft rate order with the OEB which included updated rate base amounts.

Electricity Rates Applications

Hydro One Networks - Transmission

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

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

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

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

On March 21, 2019, the Company filed a three-year Custom Incentive Rate application with the OEB for 2020-2022 transmission rates. The OEB decision is pending.

Hydro One Networks - Distribution

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

On March 7, 2019, the OEB issued its decision for Hydro One Networks’ 2018-2022 distribution rates. See above in “- Hydro One Networks - Transmission” for impacts relating to the distribution deferred income tax regulatory asset.

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

Hydro One Remote Communities

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

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

Niagara Reinforcement Limited Partnership (NRLP)

On September 19, 2018, NRLP was formed to own and operate a new 230 kV transmission line in the Niagara region that will enable generators in the Niagara area to connect to the load centres of the Greater Toronto and Hamilton areas. NRLP is designed to include minority participation of local First Nations partners in a structure similar to B2M LP.

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

In January 2019, construction on the project was halted due to a land dispute with another Indigenous group. On March 1, 2019, Hydro One filed a letter with the OEB requesting that the three previously-filed applications be heard together once the land dispute is resolved. When the revised in-service date is determined, Hydro One will request that the OEB resume adjudication of the applications. On March 15, 2019, the OEB put the NRLP applications in abeyance per Hydro One’s request. Although Hydro One and the First Nations partners continue to work towards resolving the dispute, there is a risk that the in-service date could be delayed beyond 2019.

MAAD Applications

Orillia Power MAAD Application

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

On October 16, 2018, the School Energy Coalition (SEC) filed a motion with the OEB seeking an order dismissing the 2018 Application. On January 16, 2019, Hydro One and Orillia Power filed submissions on the SEC motion, maintaining that the motion should be dismissed, and that the 2018 Application should be heard by the OEB. On March 12, 2019, the OEB dismissed SEC's motion. At the request of Hydro One, on March 21, 2019, the OEB cancelled the deadlines for interrogatories to allow Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's Distribution Rates Application for 2018-2022. Hydro One filed the supplemental evidence on April 26, 2019. Further procedural steps will be forthcoming. The OEB decision is pending

Peterborough Distribution MAAD Application

On October 12, 2018, the Company filed an application with the OEB for approval of the acquisition of business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution). On October 25, 2018, an advance ruling certification application was filed with the Competition Bureau. On November 14, 2018, the Competition Bureau issued a no action letter, meaning that transaction can proceed from the Competition Bureau's perspective. At the request of Hydro One, on March 21, 2019, the OEB allowed Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's Distribution Rates Application for 2018-2022. Hydro One filed the supplemental evidence on April 26, 2019. Further procedural steps will be forthcoming. The OEB decision is pending

OTHER DEVELOPMENTS

Collective Agreements

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

Litigation

Class Action Lawsuit

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

Litigation Relating to the Merger

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

2019 Federal and Ontario Budgets

Budgets' Impact

The 2019 federal and Ontario budgets introduced certain time-limited investment incentives which, when enacted, will allow Hydro One to take accelerated tax depreciation up to three times the first year rate for capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028. This accelerated tax deduction will result in a temporary reduction to the Company's ETR in the near term and may have a material impact on the timing of Hydro One's future cash flows. The Company is currently assessing the impact.

Estimated ETR Change

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

Avista Corporation

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

The following amounts related to the termination of the Merger agreement were recorded by the Company in its 2019 first quarter financial statements:

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

HYDRO ONE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers

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

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

Subsequent to the end of the first quarter, in April 2019, Greg Kiraly, Chief Operating Officer, and Jamie Scarlett, Executive Vice President and Chief Legal Officer, have left the Company following a period of planned leadership transition.

Executive Compensation

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

NON-GAAP MEASURES

FFO

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

Three months ended March 31 *(millions of dollars)*	2019	2018
Net cash from operating activities	118	376
Changes in non-cash balances related to operations	115	46
Preferred share dividends	(5)	(5)
Distributions to noncontrolling interest	(4)	(3)
FFO	224	414

Adjusted Net Income and Adjusted EPS

The following basic and diluted Adjusted EPS has been calculated by management on a supplementary basis which adjusts for income and costs related to the Merger, in net income attributable to common shareholders. Adjusted EPS is used internally by management to assess the Company's performance and is considered useful because it excludes the impact of Merger-related costs and loss or gain on the foreign-exchange contract. It provides users with a comparative basis to evaluate the current ongoing operations of the Company compared to prior year.

Three months ended March 31 *(millions of dollars, except number of shares and EPS)*	2019	2018
Net income attributable to common shareholders	171	222
Impacts related to Merger:		
OM&A - Merger-related costs (before tax)	138	2
Financing charges - Merger-related costs (before tax)	31	14
Financing charges - loss (gain) on foreign-exchange contract (before tax)	22	(27)
Tax impact	(51)	(1)
Merger-related impacts (after tax)	140	(12)
Adjusted net income attributable to common shareholders	311	210
Weighted average number of shares		
Basic	595,961,260	595,386,711
Effect of dilutive stock-based compensation plans	2,354,970	2,322,393
Diluted	598,316,230	597,709,104
Adjusted EPS		
Basic	$0.52	$0.35
Diluted	$0.52	$0.35

Revenues, Net of Purchased Power

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

Three months ended March 31 *(millions of dollars)*	2019	2018
Revenues	1,759	1,576
Less: Purchased power	807	751
Revenues, net of purchased power	952	825

Three months ended March 31 *(millions of dollars)*	2019	2018
Distribution revenues	1,321	1,145
Less: Purchased power	807	751
Distribution revenues, net of purchased power	514	394

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

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at March 31, 2019. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. OCN LP is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three months ended March 31, 2019 and 2018:

Three months ended March 31 *(millions of dollars)*

Related Party	Transaction	2019	2018
Province	Dividends paid	70	67
IESO	Power purchased	550	513
	Revenues for transmission services	413	405
	Amounts related to electricity rebates	138	137
	Distribution revenues related to rural rate protection	58	57
	Distribution revenues related to the supply of electricity to remote northern communities	9	8
	Funding received related to Conservation and Demand Management programs	15	12
OPG	Power purchased	3	4
	Revenues related to provision of services and supply of electricity	2	2
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	2	2
OCN LP	Investment in OCN LP	2	—

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2019, that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 *Financial Instruments - Credit Losses*, Topic 815 *Derivatives and Hedging* and Topic 825 *Financial Instruments*.	January 1, 2020	Under assessment

HYDRO ONE HOLDINGS LIMITED - CONSOLIDATING SUMMARY FINANCIAL INFORMATION

Hydro One Limited fully and unconditionally guarantees the payment obligations of its wholly-owned subsidiary Hydro One Holdings Limited (HOHL) issuable under the short form base shelf prospectus dated November 23, 2018. Accordingly, the following consolidating summary financial information is provided in compliance with the requirements of section 13.4 of National Instrument 51-102 - *Continuous Disclosure Obligations* providing for an exemption for certain credit support issuers. The tables below contain consolidating summary financial information as at March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019 and 2018 for: (i) Hydro One Limited; (ii) HOHL; (iii) the subsidiaries of Hydro One Limited, other than HOHL, on a combined basis, (iv) consolidating adjustments, and (v) Hydro One Limited and all of its subsidiaries on a consolidated basis, in each case for the periods indicated. Such summary financial information is intended to provide investors with meaningful and comparable financial information about Hydro One Limited and its subsidiaries. This summary financial information should be read in conjunction with Hydro One Limited's most recently issued annual and interim financial statements. This summary financial information has been prepared in accordance with US GAAP, as issued by the FASB.

For the three months ended March 31 *(millions of dollars, unaudited)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	11	6	—	—	1,791	1,599	(43)	(29)	1,759	1,576
Net Income (Loss) Attributable to Common Shareholders	(124)	(15)	(19)	31	346	225	(32)	(19)	171	222

As at March 31, 2019 and December 31, 2018 *(millions of dollars, unaudited)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Mar.2019	Dec.2018	Mar.2019	Dec.2018	Mar.2019	Dec.2018	Mar.2019	Dec.2018	Mar.2019	Dec.2018
Current Assets	135	159	—	22	1,795	2,054	(852)	(744)	1,078	1,491
Non-Current Assets	4,274	5,799	—	—	39,828	41,597	(19,744)	(23,230)	24,358	24,166
Current Liabilities	325	97	—	—	4,380	4,391	(1,340)	(1,460)	3,365	3,028
Non-Current Liabilities	—	1,516	—	3	22,256	22,373	(9,857)	(10,906)	12,399	12,986

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company's liquidity and capital resources and operational requirements; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects and initiatives, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; expected impacts relating to the deferred tax asset; the motion to review and vary the OEB's decision relating to reductions to pension costs and the related appeal; NRLP, related regulatory applications, and expectations related to the project, including timing; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans and the LTIP; the pension plan, future pension contributions, valuations and expected impacts; dividends; the anticipated impacts of certain investment incentives introduced in the 2019 federal and Ontario budgets; the Company's expectations relating to its ETR; non-GAAP measures; internal control over financial reporting and disclosure; recent accounting-related guidance; the Universal Base Shelf Prospectus;

the US Debt Shelf Prospectus; the Company's acquisitions and mergers, including Orillia Power and Peterborough Distribution; and appointment of Hydro One's President and CEO. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking statements, except as required by law.

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

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

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

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

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three months ended March 31, 2019 and 2018

Three months ended March 31 *(millions of Canadian dollars, except per share amounts)*	**2019**	**2018**
Revenues		
Distribution (includes $69 related party revenues; 2018 - $67) *(Note 24)*	1,321	1,145
Transmission (includes $413 related party revenues; 2018 - $405) *(Note 24)*	428	421
Other	10	10
	1,759	1,576
Costs		
Purchased power (includes $554 related party costs; 2018 - $518) *(Note 24)*	807	751
Operation, maintenance and administration *(Notes 4, 24)*	416	270
Depreciation, amortization and asset removal costs *(Note 5)*	212	197
	1,435	1,218
Income before financing charges and income taxes	**324**	**358**
Financing charges *(Notes 4, 6)*	163	88
Income before income taxes	161	270
Income tax expense (recovery) *(Note 7)*	(16)	42
Net income	**177**	**228**
Other comprehensive income (loss)	(1)	—
Comprehensive income	**176**	**228**
Net income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	5
Common shareholders	171	222
	177	**228**
Comprehensive income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	5
Common shareholders	170	222
	176	**228**
Earnings per common share *(Note 22)*		
Basic	$0.29	$0.37
Diluted	$0.29	$0.37
Dividends per common share declared *(Note 21)*	$0.23	$0.22

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

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

(millions of Canadian dollars)	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	4	483
Accounts receivable *(Note 8)*	638	628
Due from related parties *(Note 24)*	263	255
Other current assets *(Note 9)*	173	125
	1,078	1,491
Property, plant and equipment *(Note 10)*	20,783	20,687
Other long-term assets:		
Regulatory assets *(Note 11)*	1,835	1,721
Deferred income tax assets	959	1,018
Intangible assets (net of accumulated amortization – $465; 2018 – $445)	422	410
Goodwill	325	325
Other assets *(Note 12)*	34	5
	3,575	3,479
Total assets	**25,436**	**25,657**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 15)*	1,850	1,252
Long-term debt payable within one year *(Notes 15, 17)*	502	731
Accounts payable and other current liabilities *(Note 13)*	997	956
Due to related parties *(Note 24)*	16	89
	3,365	3,028
Long-term liabilities:		
Long-term debt (includes $849 measured at fair value; 2018 – $845) *(Notes 15, 17)*	9,983	9,978
Convertible debentures *(Notes 16, 17)*	—	489
Regulatory liabilities *(Note 11)*	201	326
Deferred income tax liabilities *(Note 7)*	59	58
Other long-term liabilities *(Note 14)*	2,156	2,135
	12,399	12,986
Total liabilities	**15,764**	**16,014**
Contingencies and Commitments (Notes 26, 27)		
Subsequent Events (Notes 1, 29)		
Noncontrolling interest subject to redemption	20	21
Equity		
Common shares *(Note 20)*	5,645	5,643
Preferred shares *(Note 20)*	418	418
Additional paid-in capital *(Note 23)*	53	56
Retained earnings	3,493	3,459
Accumulated other comprehensive loss	(4)	(3)
Hydro One shareholders' equity	9,605	9,573
Noncontrolling interest	47	49
Total equity	**9,652**	**9,622**
	25,436	**25,657**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the three months ended March 31, 2019 and 2018

Three months ended March 31, 2019 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2019	5,643	418	56	3,459	(3)	9,573	49	9,622
Net income	—	—	—	176	—	176	1	177
Other comprehensive income (loss)	—	—	—	—	(1)	(1)	—	(1)
Distributions to noncontrolling interest	—	—	—	—	—	—	(3)	(3)
Dividends on preferred shares	—	—	—	(5)	—	(5)	—	(5)
Dividends on common shares	—	—	—	(137)	—	(137)	—	(137)
Common shares issued	2	—	(2)	—	—	—	—	—
Stock-based compensation	—	—	(1)	—	—	(1)	—	(1)
March 31, 2019	**5,645**	**418**	**53**	**3,493**	**(4)**	**9,605**	**47**	**9,652**

Three months ended March 31, 2018 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2018	5,631	418	49	4,090	(7)	10,181	50	10,231
Net income	—	—	—	227	—	227	1	228
Distributions to noncontrolling interest	—	—	—	—	—	—	(2)	(2)
Dividends on preferred shares	—	—	—	(5)	—	(5)	—	(5)
Dividends on common shares	—	—	—	(131)	—	(131)	—	(131)
Stock-based compensation	—	—	6	—	—	6	—	6
March 31, 2018	**5,631**	**418**	**55**	**4,181**	**(7)**	**10,278**	**49**	**10,327**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2019 and 2018

Three months ended March 31 *(millions of Canadian dollars)*	**2019**	**2018**
Operating activities		
Net income	177	228
Environmental expenditures	(8)	(4)
Adjustments for non-cash items:		
Depreciation and amortization *(Note 5)*	191	179
Regulatory assets and liabilities	(170)	8
Deferred income taxes	(23)	35
Loss (unrealized gain) on foreign-exchange contract	22	(27)
Derecognition of deferred financing costs	24	—
Other	20	3
Changes in non-cash balances related to operations *(Note 25)*	(115)	(46)
Net cash from operating activities	**118**	**376**
Financing activities		
Long-term debt repaid	(228)	—
Short-term notes issued	2,110	1,172
Short-term notes repaid	(1,512)	(1,109)
Convertible debentures redeemed	(513)	—
Dividends paid	(142)	(136)
Distributions paid to noncontrolling interest	(4)	(3)
Net cash used in financing activities	**(289)**	**(76)**
Investing activities		
Capital expenditures *(Note 25)*		
Property, plant and equipment	(280)	(286)
Intangible assets	(24)	(14)
Other	(4)	3
Net cash used in investing activities	**(308)**	**(297)**
Net change in cash and cash equivalents	(479)	3
Cash and cash equivalents, beginning of period	483	25
Cash and cash equivalents, end of period	**4**	**28**

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

1. DESCRIPTION OF THE BUSINESS

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

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

Rate Setting

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON) in respect of the Bruce-to-Milton transmission line. Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

<u>Transmission</u>

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

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

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB Mergers Acquisitions Amalgamations and Divestitures (MAAD) decision dated October 13, 2016. On July 26, 2018, HOSSM filed a 2019 application for permission to include a Revenue Cap Escalator factor, which would allow for inflationary increases to its previously approved revenue requirement. The OEB decision is pending.

<u>Distribution</u>

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

Basis of Accounting

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

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

Leases

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

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

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 *Financial Instruments - Credit Losses*, Topic 815 *Derivatives and Hedging* and Topic 825 *Financial Instruments*.	January 1, 2020	Under assessment

4. BUSINESS COMBINATIONS

Avista Corporation Purchase Agreement

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

The following amounts related to the termination of the Merger agreement were recorded by the Company during the three months ended March 31, 2019:

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

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

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

Three months ended March 31 *(millions of dollars)*	2019	2018
Depreciation of property, plant and equipment	164	158
Amortization of intangible assets	19	17
Amortization of regulatory assets	8	4
Depreciation and amortization	191	179
Asset removal costs	21	18
	212	197

6. FINANCING CHARGES

Three months ended March 31 *(millions of dollars)*	2019	2018
Interest on long-term debt	111	106
Interest on convertible debentures *(Notes 4, 16)*	7	15
Interest on short-term notes	8	3
Loss (unrealized gain) on foreign-exchange contract *(Notes 4, 17)*	22	(27)
Derecognition of deferred financing costs *(Notes 4, 16)*	24	—
Other	3	4
Less: Interest capitalized on construction and development in progress	(11)	(13)
Interest earned on cash and cash equivalents	(1)	—
	163	88

7. INCOME TAXES

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

Three months ended March 31 *(millions of dollars)*	2019	2018
Income before income taxes	161	270
Income taxes at statutory rate of 26.5% (2018 - 26.5%)	43	72
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(22)	(12)
Overheads capitalized for accounting but deducted for tax purposes	(6)	(5)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)
Pension and post-retirement benefit contributions in excess of expense	(1)	(3)
Environmental expenditures	(2)	(2)
Other	(5)	(1)
Net temporary differences	(40)	(27)
Incremental tax deductions from deferred tax asset sharing	(23)	—
Net permanent differences	4	(3)
Total income tax expense (recovery)	(16)	42
Effective income tax rate	(9.9)%	15.6%

8. ACCOUNTS RECEIVABLE

(millions of dollars)	March 31, 2019	December 31, 2018
Accounts receivable – billed	341	292
Accounts receivable – unbilled	318	357
Accounts receivable, gross	659	649
Allowance for doubtful accounts	(21)	(21)
Accounts receivable, net	638	628

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

(millions of dollars)	Three months ended March 31, 2019	Year ended December 31, 2018
Allowance for doubtful accounts – beginning	(21)	(29)
Write-offs	6	25
Additions to allowance for doubtful accounts	(6)	(17)
Allowance for doubtful accounts – ending	(21)	(21)

9. OTHER CURRENT ASSETS

(millions of dollars)	March 31, 2019	December 31, 2018
Regulatory assets *(Note 11)*	86	42
Prepaid expenses and other assets	66	41
Materials and supplies	21	20
Derivative instrument - foreign-exchange contract *(Note 17)*	—	22
	173	125

10. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	March 31, 2019	December 31, 2018
Property, plant and equipment	30,601	30,485
Less: accumulated depreciation	(11,056)	(10,900)
	19,545	19,585
Construction in progress	1,081	947
Future use land, components and spares	157	155
	20,783	20,687

11. REGULATORY ASSETS AND LIABILITIES

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

(millions of dollars)	March 31, 2019	December 31, 2018
Regulatory assets:		
Deferred income tax regulatory asset	988	908
Pension benefit regulatory asset	539	547
Environmental	158	165
Foregone revenue deferral	66	—
Post-retirement and post-employment benefits - non-service cost	47	39
Stock-based compensation	45	43
Debt premium	21	22
Pension cost differential	12	—
Distribution system code exemption	10	10
Conservation and Demand Management (CDM) deferral variance	6	—
Other	29	29
Total regulatory assets	1,921	1,763
Less: current portion	(86)	(42)
	1,835	1,721
Regulatory liabilities:		
Post-retirement and post-employment benefits	130	130
Deferred income tax regulatory liability	85	86
Green Energy expenditure variance	50	52
Retail settlement variance account	19	39
External revenue variance	19	26
Pension cost differential	—	55
2015-2017 rate rider	6	6
Other	21	23
Total regulatory liabilities	330	417
Less: current portion	(129)	(91)
	201	326

Deferred Income Tax Regulatory Asset and Liability

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

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

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019 the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of $474 million and Hydro One Networks' transmission deferred income tax regulatory asset of $558 million, an increase in deferred income tax regulatory liability of $81 million, and a decrease in the foregone revenue deferral regulatory asset of $68 million. The reduction in Hydro One Networks' distribution and transmission deferred tax regulatory assets, and increase in deferred income tax regulatory liability continue to be reflected in the respective regulatory accounts. Notwithstanding the recognition of the effects of the decision in the financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax benefit decision.

Foregone Revenue Deferral

The foregone revenue deferral account records the difference between revenue earned based on distribution rates approved by the OEB in Hydro One Networks' 2018-2022 distribution rates application, effective May 1, 2018, and revenue earned under the interim rates until the approved 2018 and 2019 rates are implemented. The Company has requested the balance of this account to be recovered from ratepayers over an 18-month period ending December 31, 2020.

Pension Cost Differential

As part of its March 2019 decision on Hydro One Networks' 2018-2022 distribution rates, the OEB denied Hydro One's request to recover pension costs. On March 26, 2019, Hydro One filed a Motion to Review and Vary to the OEB and on April 5, 2019, an appeal to the Ontario Divisional Court was filed in respect to the recovery of pension contributions. The Company's position in the aforementioned motion and appeal is that the OEB made errors in its decision to disallow the recovery of Hydro One's pension contributions. Therefore, the Company has reflected the impact of this position in the Pension Cost Differential regulatory account. The appeal is being held in abeyance pending the outcome of the motion.

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

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

12. OTHER LONG-TERM ASSETS

(millions of dollars)	March 31, 2019	December 31, 2018
ROU assets *(Note 19)*	25	—
Other	9	5
	34	5

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(millions of dollars)	March 31, 2019	December 31, 2018
Accounts payable	141	179
Accrued liabilities	600	590
Accrued interest	120	96
Regulatory liabilities *(Note 11)*	129	91
Lease obligations *(Note 19)*	7	—
	997	956

14. OTHER LONG-TERM LIABILITIES

(millions of dollars)	March 31, 2019	December 31, 2018
Post-retirement and post-employment benefit liability *(Note 18)*	1,437	1,417
Pension benefit liability *(Note 18)*	539	547
Environmental liabilities	132	139
Lease obligations *(Note 19)*	18	—
Long-term accounts payable	10	12
Asset retirement obligations	10	10
Other liabilities	10	10
	2,156	2,135

15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

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

At March 31, 2019, Hydro One's consolidated committed, unsecured and undrawn credit facilities (Operating Credit Facilities) totalling $2,550 million included Hydro One's credit facilities of $250 million and Hydro One Inc.'s credit facilities of $2.3 billion. At March 31, 2019, no amounts have been drawn on the Operating Credit Facilities.

On February 1, 2019, Hydro One entered into a credit agreement for a $170 million unsecured demand operating credit facility (Demand Facility) for the purpose of funding the payment of the Merger termination fee payable and other Merger-related costs. Drawings under the Demand Facility are repayable on demand and the Demand Facility can be canceled at any time. At March 31, 2019, $170 million was drawn on the Demand Facility and is included in short-term notes payable on the Consolidated Balance Sheet.

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

Subsidiary Debt Guarantee

Hydro One Holdings Limited (HOHL) is an indirect wholly-owned subsidiary of Hydro One that may offer and sell debt securities. Any debt securities issued by HOHL are fully and unconditionally guaranteed by the Company. At March 31, 2019, no debt securities have been issued by HOHL.

Long-Term Debt

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

(millions of dollars)	March 31, 2019	December 31, 2018
Hydro One Inc. long-term debt (a)	10,345	10,573
HOSSM long-term debt (b)	167	168
	10,512	10,741
Add: Net unamortized debt premiums	13	13
Add: Unrealized mark-to-market gain[1]	(1)	(5)
Less: Unamortized deferred debt issuance costs	(39)	(40)
Total long-term debt	10,485	10,709
Less: Long-term debt payable within one year	(502)	(731)
	9,983	9,978

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

(a) Hydro One Inc. long-term debt

At March 31, 2019, long-term debt of $10,345 million (December 31, 2018 - $10,573 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is $4.0 billion. At March 31, 2019, $2.6 billion remained available for issuance until April 2020.

During the three months ended March 31, 2019 and 2018, no long-term debt was issued. During the three months ended March 31, 2019, $228 million of long-term debt was repaid (2018 - $nil) under the MTN Program.

(b) HOSSM long-term debt

At March 31, 2019, HOSSM long-term debt of $167 million (December 31, 2018 - $168 million), with a principal amount of $143 million (December 31, 2018 - $143 million) was outstanding. During the three months ended March 31, 2019 and 2018, no long-term debt was issued or repaid.

Principal and Interest Payments

Principal repayments, interest payments, and related weighted-average interest rates are summarized by year in the following table:

Years	Long-term Debt Principal Repayments *(millions of dollars)*	Interest Payments *(millions of dollars)*	Weighted Average Interest Rate *(%)*
Remainder of 2019	502	360	1.5
2020	654	429	2.9
2021	803	411	2.1
2022	603	393	3.2
2023	131	379	6.1
	2,693	1,972	2.6
2024-2028	850	1,806	2.9
2029 and thereafter	6,945	4,315	5.1
	10,488	8,093	4.3

16. CONVERTIBLE DEBENTURES

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

(millions of dollars)	Three months ended March 31, 2019	Year ended December 31, 2018
Carrying value - beginning	489	487
Amortization of deferred financing costs	—	2
Derecognition of deferred financing costs *(Notes 4, 6)*	24	—
Redemption	(513)	—
Carrying value - ending	—	489
Face value - ending	—	513

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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

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

Fair Value Measurements of Long-Term Debt

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

	March 31, 2019		December 31, 2018	
(millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt measured at fair value:				
$50 million of MTN Series 33 notes	50	50	49	49
$500 million MTN Series 37 notes	497	497	495	495
$300 million MTN Series 39 notes	302	302	301	301
Other notes and debentures	9,636	11,087	9,864	10,820
Long-term debt, including current portion	10,485	11,936	10,709	11,665

Fair Value Measurements of Derivative Instruments

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

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

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

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

Fair Value Hierarchy

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

March 31, 2019 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	4	4	4	—	—
Derivative instruments					
Fair value hedges - interest-rate swaps	2	2	—	2	—
	6	6	4	2	—
Liabilities:					
Short-term notes payable	1,850	1,850	1,850	—	—
Long-term debt, including current portion	10,485	11,936	—	11,936	—
Derivative instruments					
Fair value hedges - interest-rate swaps	3	3	—	3	—
	12,338	13,789	1,850	11,939	—

December 31, 2018 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	483	483	483	—	—
Derivative instrument					
Foreign-exchange contract	22	22	—	—	22
	505	505	483	—	22
Liabilities:					
Short-term notes payable	1,252	1,252	1,252	—	—
Long-term debt, including current portion	10,709	11,665	—	11,665	—
Convertible debentures	489	491	491	—	—
Derivative instruments					
Fair value hedges - interest-rate swaps	5	5	—	5	—
	12,455	13,413	1,743	11,670	—

Cash and cash equivalents include cash and short-term investments. The carrying values are representative of fair value because of the short-term nature of these instruments.

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

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

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

(millions of dollars)	Three months ended March 31, 2019	Year ended December 31, 2018
Fair value of asset (liability) - beginning	22	(3)
Unrealized gain (loss) on foreign-exchange contract included in financing charges	(22)	25
Fair value of asset - ending	—	22

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

Risk Management

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

Market Risk

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

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

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a material decrease in Hydro One's net income for the three months ended March 31, 2019 and 2018.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three months ended March 31, 2019 and 2018 was not material.

Credit Risk

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

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

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

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

Liquidity Risk

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

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to $4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. On November 23, 2018, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At March 31, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

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

Estimated annual Pension Plan contributions for the years 2019, 2020, 2021, 2022, 2023 and 2024 are approximately $78 million, $77 million, $78 million, $79 million, $81 million and $83 million, respectively. The most recent actuarial valuation was performed effective December 31, 2017, and the next actuarial valuation will be performed no later than effective December 31, 2020. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Employer contributions made during the three months ended March 31, 2019 were $18 million (2018 - $18 million).

The following table provides the components of the net periodic benefit costs for the three months ended March 31, 2019 and 2018:

Three months ended March 31 *(millions of dollars)*	Pension Benefits 2019	Pension Benefits 2018	Post-Retirement and Post-Employment Benefits 2019	Post-Retirement and Post-Employment Benefits 2018
Current service cost	37	44	14	12
Interest cost	76	71	15	14
Expected return on plan assets, net of expenses[1]	(116)	(117)	—	—
Amortization of actuarial losses	14	21	1	1
Net periodic benefit costs	11	19	30	27
Charged to results of operations[2]	8	9	12	12

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

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three months ended March 31, 2019, pension costs of $19 million (2018 - $21 million) were attributed to labour, of which $8 million (2018 - $9 million) was charged to operations, $5 million (2018 - $nil) was recorded as regulatory assets, and $6 million (2018 - $12 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

19. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years with renewal options of additional three to five year terms at prevailing market rates at the time of extension. Renewal options are included in the lease term when their exercise is reasonably certain. During the three months ended March 31, 2019, the Company's total lease cost was $2 million for its operating leases.

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

Three months ended March 31 *(millions of dollars)*	2019
Cash flows from operating leases	2

March 31, 2019	
Weighted average remaining lease term	4.7 years
Weighted average discount rate	2.9%

At March 31, 2019, future minimum operating lease payments were as follows:

(millions of dollars)	
Remainder of 2019	6
2020	11
2021	4
2022	1
2023	1
2024	1
Thereafter	3
Total undiscounted minimum lease payments	27
Less: discounting minimum lease payments to present value	(2)
Total discounted minimum lease payments	25

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

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

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

(millions of dollars)	March 31, 2019
Other long-term assets *(Note 12)*	25
Accounts payable and other current liabilities *(Note 13)*	7
Other long-term liabilities *(Note 14)*	18

20. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At March 31, 2019, the Company had 596,011,696 common shares issued and outstanding (December 31, 2018 - 595,938,975).

The following table presents the changes to common shares during the three months ended March 31, 2019.

(number of shares)	
Common shares - December 31, 2018	595,938,975
Common shares issued - LTIP[1]	72,721
Common shares - March 31, 2019	596,011,696

[1] During the three months ended March 31, 2019, Hydro One issued from treasury 72,721 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP).

Preferred Shares

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

21. DIVIDENDS

During the three months ended March 31, 2019, preferred share dividends in the amount of $5 million (2018 - $5 million) and common share dividends in the amount of $137 million (2018 - $131 million) were declared and paid.

22. EARNINGS PER COMMON SHARE

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

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

Three months ended March 31	2019	2018
Net income attributable to common shareholders *(millions of dollars)*	171	222
Weighted average number of shares		
Basic	595,961,260	595,386,711
Effect of dilutive stock-based compensation plans	2,354,970	2,322,393
Diluted	598,316,230	597,709,104
EPS		
Basic	$0.29	$0.37
Diluted	$0.29	$0.37

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS for the three months ended March 31, 2019 and 2018, as conditions for closing the Merger were not met. As a result of the termination of the Merger agreement (see Note 4 - Business Combinations), the Convertible Debentures were redeemed on February 8, 2019.

23. STOCK-BASED COMPENSATION

Share Grant Plans

There were no changes in share grants under the Share Grant Plans during the three months ended March 31, 2019 and 2018. See Note 29 - Subsequent Events for common shares issued in April 2019.

Directors' Deferred Share Units (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three months ended March 31, 2019 and 2018 is presented below:

Three months ended March 31 *(number of DSUs)*	2019	2018
DSUs outstanding - beginning	46,697	187,090
Granted	12,523	27,753
Settled	(24,015)	—
DSUs outstanding - ending	35,205	214,843

At March 31, 2019, a liability of $1 million (December 31, 2018 - $1 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of $20.76 (December 31, 2018 - $20.25) and was included in other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

A summary of DSU awards activity under the Management DSU Plan during the three months ended March 31, 2019 and 2018 is presented below:

Three months ended March 31 *(number of DSUs)*	2019	2018
DSUs outstanding - beginning	108,296	67,829
Granted	23,436	36,809
Settled	(52,345)	—
DSUs outstanding - ending	79,387	104,638

At March 31, 2019, a liability of $2 million (December 31, 2018 - $2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $20.76 (December 31, 2018 - $20.25) and was included in other liabilities on the Consolidated Balance Sheets.

LTIP

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

A summary of PSU and RSU awards activity under the LTIP during the three months ended March 31, 2019 and 2018 is presented below:

	PSUs		RSUs	
Three months ended March 31 *(number of units)*	2019	2018	2019	2018
Units outstanding - beginning	605,180	429,980	442,470	393,430
Granted	—	427,940	—	332,440
Vested and issued	(77,232)	—	(20,976)	—
Forfeited	(8,968)	(13,220)	(6,924)	(9,880)
Settled	(34,550)	—	(17,270)	—
Units outstanding - ending[1]	484,430	844,700	397,300	715,990

[1] Units outstanding at March 31, 2019 include 190,290 PSUs and 147,820 RSUs that may be settled in cash if certain conditions are met. At March 31, 2019, a liability of $6 million has been recorded with respect to these awards and is included in accrued liabilities on the Consolidated Balance Sheet.

No awards were granted during the three months ended March 31, 2019. The fair value of awards granted during the three months ended March 31, 2018 was $16 million. The compensation expense related to the PSU and RSU awards recognized by the Company during the three months ended March 31, 2019 was $5 million (2018 - $2 million).

Stock Options

A summary of stock options activity during the three months ended March 31, 2019 and 2018 is presented below:

Three months ended March 31 *(number of stock options)*	**2019**	**2018**
Stock options outstanding - beginning	949,910	—
Granted	—	1,450,880
Stock options outstanding - ending[1]	949,910	1,450,880

[1] During the three months ended March 31, 2019, 350,497 stock options have vested. At March 31, 2019, 599,413 stock options remain non-vested.

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

24. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at March 31, 2019. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Ontario Charging Network LP (OCN LP) is a joint-venture limited partnership between a subsidiary of Hydro One and OPG.

Three months ended March 31 *(millions of dollars)*

Related Party	**Transaction**	**2019**	**2018**
Province	Dividends paid	70	67
IESO	Power purchased	550	513
	Revenues for transmission services	413	405
	Amounts related to electricity rebates	138	137
	Distribution revenues related to rural rate protection	58	57
	Distribution revenues related to the supply of electricity to remote northern communities	9	8
	Funding received related to CDM programs	15	12
OPG	Power purchased	3	4
	Revenues related to provision of services and supply of electricity	2	2
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	2	2
OCN LP	Investment in OCN LP	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.

25. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Three months ended March 31 *(millions of dollars)*	**2019**	**2018**
Accounts receivable	(10)	48
Due from related parties	(8)	10
Other assets	(26)	(11)
Accounts payable	(37)	(31)
Accrued liabilities	3	33
Due to related parties	(73)	(120)
Accrued interest	24	17
Long-term accounts payable and other liabilities	—	1
Post-retirement and post-employment benefit liability	12	7
	(115)	(46)

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018. The reconciling items include net change in accruals and capitalized depreciation.

Three months ended March 31, 2019 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(290)	(21)	(311)
Reconciling items	10	(3)	7
Cash outflow for capital expenditures	(280)	(24)	(304)

Three months ended March 31, 2018 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(293)	(12)	(305)
Reconciling items	7	(2)	5
Cash outflow for capital expenditures	(286)	(14)	(300)

Supplementary Information

Three months ended March 31 *(millions of dollars)*	2019	2018
Net interest paid	99	105
Income taxes paid	13	6

26. CONTINGENCIES

Legal Proceedings

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

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

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

27. COMMITMENTS

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

March 31, 2019 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	148	97	10	2	3	11
Long-term software/meter agreement	20	12	2	1	2	1
Operating lease commitments	8	10	4	1	2	3

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

March 31, 2019 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities	—	—	250	2,300	—	—
Letters of credit[1]	176	—	—	—	—	—
Guarantees[2]	330	—	—	—	—	—

[1] Letters of credit consist of letters of credit totalling $163 million related to retirement compensation arrangements, a $7 million letter of credit provided to the IESO for prudential support, $5 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

[2] Guarantees consist of $325 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees totalling $5 million provided by Hydro One to the Minister of Natural Resources relating to OCN LP.

28. SEGMENTED REPORTING

Hydro One has three reportable segments:

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

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

Three months ended March 31, 2019 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	428	1,321	10	1,759
Purchased power	—	807	—	807
Operation, maintenance and administration	99	146	171	416
Depreciation and amortization	113	98	1	212
Income (loss) before financing charges and income taxes	216	270	(162)	324
Capital investments	206	103	2	311

Three months ended March 31, 2018 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	421	1,145	10	1,576
Purchased power	—	751	—	751
Operation, maintenance and administration	105	145	20	270
Depreciation and amortization	103	92	2	197
Income (loss) before financing charges and income taxes	213	157	(12)	358
Capital investments	190	114	1	305

Total Assets by Segment:

(millions of dollars)	March 31, 2019	December 31, 2018
Transmission	14,104	13,973
Distribution	9,441	9,325
Other	1,891	2,359
Total assets	25,436	25,657

Total Goodwill by Segment:

(millions of dollars)	March 31, 2019	December 31, 2018
Transmission	157	157
Distribution	168	168
Total goodwill	325	325

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

29. SUBSEQUENT EVENTS

Dividends

On May 8, 2019, preferred share dividends of $4 million and common share dividends of $144 million ($0.2415 per common share) were declared.

Share Grant Plans

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

Long-Term Debt

On April 5, 2019, Hydro One Inc. issued long-term debt totalling $1.5 billion under its MTN program as follows:

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