Hydro One Reports First Quarter Results

A resilient business strategy and stable fundamentals allow Hydro One to support its customers and communities while delivering positive financial results

TORONTO, May 7, 2021 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the first quarter ended March 31, 2021.

First Quarter Highlights

- First quarter earnings per share (EPS) and adjusted EPS was $0.45, compared to EPS and adjusted EPS of $0.38, for the same period in 2020. The increase was due mainly to approved rates for the transmission and distribution segments, and higher demand because of colder weather, partially offset by higher depreciation, amortization and asset removal costs, and higher work program costs.
- Hydro One launched Connected for Life, a promise that helps customers stay connected to power while it helps them access financial relief and flexible service options. Since launch, the support provided to customers was four times higher than during the previous quarter.
- The Company was requested by the Independent Electricity System Operator (IESO) to build a 230-kilovolt double circuit transmission line between Chatham and Lambton to provide electricity in support of agricultural growth in the Windsor-Essex and Chatham areas.
- The Company received a regulatory decision regarding the implementation of the Ontario Divisional Court ruling regarding the deferred tax asset.
- Hydro One Networks Inc. and Capgemini Canada Inc. entered into a new master services agreement for information technology services.
- The Company's capital investments and in-service additions for the quarter were $527 million and $157 million, respectively, compared to $372 million and $225 million in 2020.
- Quarterly dividend declared at $0.2663 per share, payable June 30, 2021.

"Hydro One continues to support our employees, customers and communities through these challenging times," said Mark Poweska, President and CEO, of Hydro One. “Our teams are focused on delivering essential power to homes, businesses and other essential services. We play a critical role in powering Ontario's economic growth by building essential, sustainable infrastructure, such as the new transmission line between Chatham and Lambton that will support the rapid growth of the agriculture industry in southwest Ontario."

Selected Consolidated Financial and Operating Highlights

(millions of Canadian dollars, except as otherwise noted)	Three months ended March 31 2021	2020
Revenues	1,811	1,850
Purchased power	894	1,007
Revenues, net of purchased power[1]	917	843
Net income attributable to common shareholders	268	225
Adjusting items	—	—
Adjusted net income attributable to common shareholders[1]	268	225
Basic EPS	$0.45	$0.38
Diluted EPS	$0.45	$0.38
Basic Adjusted EPS[1]	$0.45	$0.38
Diluted Adjusted EPS[1]	$0.45	$0.38
Net cash from operating activities	517	548
Capital investments	527	372
Assets placed in-service	157	225
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,937	19,247
Distribution: Electricity distributed to Hydro One customers (GWh)	8,156	7,484

[1] **Non-GAAP Measures -** Hydro One uses financial measures that do not have a standardized meaning under the United States generally accepted accounting principles (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 (MD&A) for further discussion of these items.

Key Financial Highlights

2021 First Quarter Highlights

The Company reported net income attributable to common shareholders of $268 million during the quarter, compared to $225 million in the same period of 2020. This resulted in EPS and adjusted EPS of $0.45, compared to EPS and adjusted EPS of $0.38 in the prior year.

Revenues, net of purchased power, for the first quarter were $74 million higher than last year, mainly due to higher distribution and transmission revenues as a result of OEB-approved rates including the timing of the OEB decision on the 2020 rates received in the second quarter of the prior year, and higher energy demand and consumption driven by favourable weather.

Operation, maintenance and administration (OM&A) costs in the first quarter of 2021 were higher than last year, primarily due to higher work program spend related to vegetation management, information technology initiatives, and customer programs, higher volume of distribution station maintenance work, and costs related to the Peterborough Distribution and Orillia Power acquisitions, partially offset by lower corporate support costs. OM&A expenditures in the first quarter of 2021 also included other post-employment benefit (OPEB) costs that have been recognized in OM&A following the 2020-2022 OEB transmission decision and recovered in rates, therefore net income neutral.

Depreciation, amortization and asset removal costs for the first quarter were higher than last year, mainly due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Income tax expense for the first quarter of 2021 was higher than the prior year primarily due to higher income before taxes for the quarter.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems, by addressing aging power system infrastructure, facilitating connectivity to new load customers and generation sources, and improving service to customers. The Company made capital investments of $527 million during the first quarter of 2021, and placed $157 million of new assets in-service.

<u>COVID-19</u>

Throughout the COVID-19 pandemic, the Company's decisions and actions have continuously been guided by two priorities: to protect Hydro One's employees and to maintain the safe and reliable supply of electricity to Hydro One's customers. To date, Hydro One has been successful in achieving these priorities.

Notwithstanding the onset of the third wave of the COVID-19 pandemic in the first quarter of 2021, Hydro One continues to operate safely as a result of the safety procedures and practices that the Company implemented in 2020. To date, Hydro One has experienced very few cases of workplace transmission of the COVID-19 virus.

Included in the Company's results for the first quarter are costs incurred as a result of the COVID-19 pandemic. OM&A costs in the quarter include $4 million of COVID-19 related expenses, which primarily consist of direct expenses, including purchases of additional facility-related cleaning supplies and personal protective equipment.

Looking ahead, it is very difficult to determine or estimate the future impacts of COVID-19 on Hydro One's operations as it will be largely dependent on the duration of the pandemic and severity of the measures implemented to combat this virus. Electricity consumption and demand can be impacted by numerous variables, including weather, changing economic conditions and conservation efforts, making it difficult to estimate the impact of COVID-19 with any level of precision. Hydro One continues to take the necessary steps to mitigate the impact of COVID-19 on the Company's operations.

Selected Operating Highlights

Hydro One launched Connected for Life, a promise to help customers stay connected to safe and reliable power while our customer care team helps them access financial assistance and flexible payment options. The initiative builds on the Company’s Pandemic Relief Program and its pledge to keep the lights on during the pandemic.

The Company was requested by the IESO to build a 230-kilovolt double circuit transmission line between Chatham and Lambton to provide electricity in support of agricultural growth in the Windsor-Essex and Chatham areas. The IESO is expecting the agricultural electricity demand in the region to grow from 500 MW today to about 2,000 MW by 2035. If approved by the OEB, the line would be in service by 2028.

Hydro One Networks Inc. and Capgemini Canada Inc. entered into a new master services agreement for information technology services for a period of just over three years. This agreement replaced an arrangement with Inergi LP for similar services that expired on February 28, 2021.

Subsequent to the quarter, the Company received a decision from the OEB regarding the implementation of the deferred tax asset. The decision concludes the process.

Common Share Dividends

Following the conclusion of the first quarter, on May 6, 2021, the Company declared a quarterly cash dividend to common shareholders of $0.2663 per share to be paid on June 30, 2021 to shareholders of record on June 9, 2021.

Supplemental Segment Information

(millions of Canadian dollars)	Three months ended March 31, 2021	2020
Revenues		
Transmission	448	400
Distribution	1,354	1,439
Other	9	11
Total revenues	**1,811**	**1,850**
Revenues, net of purchased power		
Transmission	448	400
Distribution	460	432
Other	9	11
Total revenues, net of purchased power	**917**	**843**
Operation, maintenance and administration costs		
Transmission	98	102
Distribution	167	148
Other	17	15
Total operation, maintenance and administration costs	**282**	**265**
Income (loss) before financing charges and taxes		
Transmission	229	186
Distribution	193	186
Other	(10)	(6)
Total income before financing charges and taxes	**412**	**366**
Capital investments		
Transmission	348	236
Distribution	176	135
Other	3	1
Total capital investments	**527**	**372**
Assets placed in-service		
Transmission	48	129
Distribution	106	95
Other	3	1
Total assets placed in-service	**157**	**225**

This press release should be read in conjunction with the Company's first quarter 2021 unaudited consolidated financial statements and MD&A. These financial statements and MD&A together with additional information about Hydro One, including the audited consolidated financial statements and MD&A for the year ended December 31, 2020 can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's first quarter 2021 results teleconference with the investment community will be held on May 7, 2021 at 8 a.m. ET, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-866-221-1674 prior to the scheduled start time and request access to Hydro One's first quarter 2021 results call, conference ID 3790693 (international callers may dial 1-270-215-9604). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

Hydro One Limited (TSX: H)

Hydro One Limited, through its wholly-owned subsidiaries, is Ontario's largest electricity transmission and distribution provider with approximately 1.4 million valued customers, approximately $30.3 billion in assets as at December 31, 2020, and annual revenues in 2020 of approximately $7.3 billion.

Our team of approximately 8,700 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2020, Hydro One invested approximately $1.9 billion in its transmission and distribution networks, and supported the economy through buying approximately $1.7 billion of goods and services.

We are committed to the communities where we live and work through community investment, sustainability and diversity initiatives. We are designated as a Sustainable Electricity Company by the Canadian Electricity Association.

Hydro One Limited's common shares are listed on the TSX and certain of Hydro One Inc.'s medium term notes are listed on the NYSE. Additional information can be accessed at www.hydroone.com, www.sedar.com or www.sec.gov.

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: the Company's continuing support of employees, customers and communities; powering Ontario's economic growth; the Company's ongoing and planned projects, initiatives and expected capital investments, including anticipated outcomes, impacts and timing; investments in reliability and performance of the electricity system; the 2020-2022 transmission decision; impact of COVID-19 on the Company's business, operations and service; the Company's priorities in its response to COVID-19 and the actions and mitigation measures taken; the Company's efforts in relation to safety; the IESO's expectations relating to electricity demand; the master services agreements for information technology services; and payment of dividends. 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 unaudited condensed interim consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three months ended March 31, 2021, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2020. The Consolidated Financial Statements have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canadian securities laws and regulations, which can vary from those of the US. This MD&A provides information as at and for the three months ended March 31, 2021, based on information available to management as of May 6, 2021.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	2021	2020	Change
Revenues	1,811	1,850	(2.1%)
Purchased power	894	1,007	(11.2%)
Revenues, net of purchased power[1]	917	843	8.8%
Operation, maintenance and administration (OM&A) costs	282	265	6.4%
Depreciation, amortization and asset removal costs	223	212	5.2%
Financing charges	116	119	(2.5%)
Income tax expense	26	15	73%
Net income to common shareholders of Hydro One	**268**	**225**	**19.1%**
Adjusted net income to common shareholders of Hydro One[1]	**268**	**225**	**19.1%**
Basic earnings per common share (EPS)	$0.45	$0.38	18.4%
Diluted EPS	$0.45	$0.38	18.4%
Basic adjusted non-GAAP EPS (Adjusted EPS)[1]	$0.45	$0.38	18.4%
Diluted Adjusted EPS[1]	$0.45	$0.38	18.4%
Net cash from operating activities	517	548	(5.7%)
Funds from operations (FFO)[1]	567	479	18.4%
Capital investments	527	372	41.7%
Assets placed in-service	157	225	(30.2%)
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,937	19,247	3.6%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	8,156	7,484	9.0%

As at	March 31, 2021	December 31, 2020
Debt to capitalization ratio[2]	56.3%	56.3%

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

[2] Debt to capitalization ratio is a non-GAAP measure and has been calculated as total debt (including total long-term debt and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, but excluding any amounts related to noncontrolling interest. Management believes that the debt to capitalization ratio is helpful as a measure of the proportion of debt in the Company's capital structure.

OVERVIEW

The Company's transmission business consists of the transmission system operated by subsidiaries of Hydro One Inc. (a wholly-owned subsidiary of the Company), Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners). Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, which include Hydro One Networks, Hydro One Remote Communities Inc. (Hydro One Remote Communities), Orillia Power Distribution Corporation (Orillia Power), as well as the distribution business and assets acquired from Peterborough Distribution Inc. (Peterborough Distribution) in 2020. The other segment consists principally of Hydro One's telecommunications business, which provides telecommunications support for the Company's transmission and distribution businesses, as well as certain corporate activities, and is not rate-regulated.

For the three months ended March 31, 2021 and 2020, Hydro One's segments accounted for the Company's total revenues, net of purchased power, as follows:

Three months ended March 31	2021	2020
Transmission	49 %	48 %
Distribution	50 %	51 %
Other	1 %	1 %

As at March 31, 2021 and December 31, 2020, Hydro One's segments accounted for the Company's total assets as follows:

As at	March 31, 2021	December 31, 2020
Transmission	59 %	58 %
Distribution	39 %	38 %
Other	2 %	4 %

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended March 31, 2021 of $268 million is an increase of $43 million, or 19.1%, from the prior year. Significant influences on net income included:

- higher revenues, net of purchased power, primarily resulting from:
  - an increase in transmission revenues resulting from Ontario Energy Board (OEB)-approved rates and higher average monthly Ontario 60-minute peak demand driven by favourable weather; and
  - an increase in distribution revenues, net of purchased power, primarily resulting from OEB-approved rates and revenues related to the Peterborough Distribution and Orillia Power acquisitions.
- higher OM&A costs primarily resulting from:
  - higher work program spend mainly related to vegetation management, information technology initiatives, and customer programs; and
  - costs related to the Peterborough Distribution and Orillia Power acquisitions; partially offset by
  - lower corporate support costs.
- higher depreciation, amortization and asset removal costs primarily attributable to:
  - growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.
- higher income tax expense primarily attributable to:
  - higher earnings compared to same period in prior year, partially offset by
  - higher deductible timing differences.

Included in the Company's results for the three months ended March 31, 2021 are $4 million of costs incurred as a result of the COVID-19 pandemic, compared to $5 million of COVID-19 related costs incurred in the first quarter of 2020. Costs in the current year primarily consist of direct expenses, including purchases of additional facility-related cleaning supplies and personal protective equipment. For additional disclosure related to the impact of COVID-19 on the Company's operations for the three months ended March 31, 2021, please see section "Other Developments - COVID-19".

EPS and Adjusted EPS

EPS and Adjusted EPS was $0.45 for the three months ended March 31, 2021, compared to EPS and Adjusted EPS of $0.38 in the comparable period last year. The increase in EPS and Adjusted EPS was driven by higher earnings for the three months ended March 31, 2021, as discussed above. 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)*	2021	2020	Change
Transmission	448	400	12.0%
Distribution	1,354	1,439	(5.9%)
Other	9	11	(18.2%)
Total revenues	1,811	1,850	(2.1%)
Transmission	448	400	12.0%
Distribution, net of purchased power[1]	460	432	6.5%
Other	9	11	(18.2%)
Total revenues, net of purchased power[1]	917	843	8.8%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,937	19,247	3.6%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	8,156	7,484	9.0%

[1] See section "Non-GAAP Measures" for description and reconciliation of distribution revenues, net of purchased power, and revenues, net of purchased power.

Transmission Revenues

Transmission revenues increased by 12.0% during the quarter ended March 31, 2021, compared to the first quarter in 2020, primarily due to the following:

- higher revenues resulting from the OEB-approved 2021 rates and the timing of the OEB decision on the 2020 rates received in the second quarter of the prior year; and
- higher average monthly Ontario 60-minute peak demand driven by favourable weather.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 6.5% during the quarter ended March 31, 2021, compared to the first quarter in 2020, primarily due to the following:

- higher revenues resulting from the OEB-approved 2021 rates;
- higher revenues related to the Peterborough Distribution and Orillia Power acquisitions; and
- higher energy consumption driven by favourable weather.

OM&A Costs

Three months ended March 31 *(millions of dollars)*	2021	2020	Change
Transmission	98	102	(3.9%)
Distribution	167	148	12.8%
Other	17	15	13.3%
	282	265	6.4%

Transmission OM&A Costs

The 3.9% decrease in transmission OM&A costs for the quarter ended March 31, 2021, compared to the first quarter in 2020, was primarily due to the following:

- lower corporate support costs; partially offset by
- OPEB costs that are recognized in OM&A following the 2020-2022 OEB transmission decision and recovered in rates, therefore net income neutral; and
- higher vegetation management expenditures.

Distribution OM&A Costs

The 12.8% increase in distribution OM&A costs for the quarter ended March 31, 2021, compared to the first quarter in 2020, was primarily due to the following:

- OM&A costs related to the Peterborough Distribution and Orillia Power acquisitions;
- higher volume of distribution station maintenance work;
- higher spend on information technology initiatives; and
- higher spend on customer programs.

Depreciation, Amortization and Asset Removal Costs

The increase of $11 million or 5.2% in depreciation, amortization and asset removal costs for the quarter ended March 31, 2021, compared to the first quarter in 2020, was mainly due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Financing Charges

The $3 million, or 2.5%, decrease in financing charges for the quarter ended March 31, 2021, compared to the first quarter in 2020, was primarily due to:

- higher capitalized interest due to higher average balance of assets under construction during the first quarter of 2021; and
- lower weighted-average interest rates on short-term notes and long-term debt.

Income Tax Expense

Income tax expense was $26 million for the three months ended March 31, 2021 compared to income tax expense of $15 million for the comparable period last year. The $11 million increase in income tax expense for the three months ended March 31, 2021 was principally attributable to the following:

- higher earnings compared to same period in prior year, partially offset by
- higher deductible timing differences.

The Company realized an effective tax rate (ETR) of approximately 8.8% for the three months ended March 31, 2021, compared to approximately 6.1% in 2020.

Common Share Dividends

In 2021, 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 23, 2021	March 17, 2021	March 31, 2021	$0.2536	152

Following the conclusion of the first quarter of 2021, 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 6, 2021	June 9, 2021	June 30, 2021	$0.2663	159

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of dollars, except EPS and ratio)*	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019
Revenues	1,811	1,867	1,903	1,670	1,850	1,715	1,593	1,413
Purchased power	894	1,046	993	808	1,007	914	737	653
Revenues, net of purchased power[1]	917	821	910	862	843	801	856	760
Net income to common shareholders	268	161	281	1,103	225	211	241	155
Adjusted net income to common shareholders[1]	268	161	281	236	225	211	241	155
Basic EPS	$0.45	$0.27	$0.47	$1.84	$0.38	$0.35	$0.40	$0.26
Diluted EPS	$0.45	$0.27	$0.47	$1.84	$0.38	$0.35	$0.40	$0.26
Basic Adjusted EPS[1]	$0.45	$0.27	$0.47	$0.39	$0.38	$0.35	$0.40	$0.26
Diluted Adjusted EPS[1]	$0.45	$0.27	$0.47	$0.39	$0.38	$0.35	$0.40	$0.26
Earnings coverage ratio[2]	2.9	2.8	2.9	n/a	n/a	n/a	n/a	n/a

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

[2] Earnings coverage ratio is a non-GAAP measure that has been presented for the twelve months ended March 31, 2021, December 31, 2020 and September 30, 2020, and has been calculated as net income before financing charges and income taxes attributable to shareholders of Hydro One, divided by the sum of financing charges and capitalized interest.

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, 2021 and 2020:

Three months ended March 31 *(millions of dollars)*	2021	2020	Change
Transmission	48	129	(62.8%)
Distribution	106	95	11.6%
Other	3	1	200.0%
Total assets placed in-service	157	225	(30.2%)

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

Transmission assets placed in-service decreased by $81 million or 62.8% in the first quarter of 2021 compared to the first quarter of 2020 primarily due to the following:

- assets placed in-service in the first quarter of 2020 including the high voltage underground cable replacement work from Leaside transmission station to Main transmission station; the Elgin transmission station, the Kapuskasing area reinforcement project, and the Middleport air-blast breaker replacement project; partially offset by
- higher volume of overhead lines and component replacements in the first quarter of 2021.

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

Distribution assets placed in-service increased by $11 million or 11.6% in the first quarter of 2021 compared to the first quarter of 2020 primarily due to the following:

- higher volume of work on customer connections; and
- higher volume of wood pole replacements; partially offset by
- assets placed in-service for distribution station refurbishments program in the first quarter of 2020.

Capital Investments

The following table presents Hydro One's capital investments during the three months ended March 31, 2021 and 2020:

Three months ended March 31 *(millions of dollars)*	2021	2020	Change
Transmission			
Sustaining	244	177	37.9%
Development	72	47	53.2%
Other	32	12	166.7%
	348	236	47.5%
Distribution			
Sustaining	77	66	16.7%
Development	67	60	11.7%
Other	32	9	255.6%
	176	135	30.4%
Other	3	1	200.0%
Total capital investments	527	372	41.7%

<u>Transmission Capital Investments</u>

Transmission capital investments increased by $112 million or 47.5% in the first quarter of 2021 compared to the first quarter of 2020. Principal impacts on the levels of capital investments included:

- higher volume of station refurbishments and replacements;
- higher volume of line refurbishments and wood pole replacements;
- higher investments in multi-year development projects, (primarily including the new Lakeshore switching station, Barrie area transmission upgrade, the Watay line to Pickle Lake connection, partially offset by the timing of expenditures related to the East-West Tie connection); and
- investment in the new Ontario grid control centre in the City of Orillia.

<u>Distribution Capital Investments</u>

Distribution capital investments increased by $41 million or 30.4% in the first quarter of 2021 compared to the first quarter of 2020. Principal impacts on the levels of capital investments included:

- investment in the new Ontario grid control centre in the City of Orillia;
- higher investments in information technology projects;
- higher volume of wood pole replacements; and
- higher volume of work on customer connections.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at March 31, 2021:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
Development Projects:			(year)	(millions of dollars)	
Wataynikaneyap Power LP Line Connection	Pickle Lake Northwestern Ontario	New stations and transmission connection	2022	28	10
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2022[1]	160	140
Waasigan Transmission Line	Thunder Bay-Atikokan-Dryden Northwestern Ontario	New transmission line	2024[2]	68[2]	8
Leamington Area Transmission Reinforcement[3,4]	Leamington Southwestern Ontario	New transmission line and stations	2026[3,4]	525[3,4]	82
Sustainment Projects:					
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2021	118	116
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2021	146	144
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2023	136	92
Bruce B Switching Station Circuit Breaker Replacement	Tiverton Southwestern Ontario	Station sustainment	2024	146	79
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2026	152	94
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	123	78

1 The East-West Tie Station Expansion project is impacted by the construction schedule of the new East-West Tie transmission line being built by Upper Canada Transmission Inc., operating as NextBridge Infrastructure, LP (NextBridge). In September 2020, NextBridge advised the OEB of a delay in the in-service date of the East-West Tie transmission line to March 31, 2022. As a result of this delay, the majority of the East-West Tie Station Expansion project, enabling the connection and energization of the new East-West Tie transmission line, is now expected to be placed in-service in 2022.

2 The estimated cost of the Waasigan Transmission Line relates to the development phase of the project and the anticipated in-service date reflects the anticipated completion date of the development phase.

3 The Leamington Area Transmission Reinforcement project consists of the construction of a new double-circuit line between Chatham and Lakeshore and associated transmission stations and connections. The project is currently in the development stage and as such the estimated cost is subject to change. The anticipated in-service dates for the line and stations are between 2022 and 2026.

4 On March 29, 2021, The Independent Electricity System Operator (IESO) requested Hydro One initiate work to develop and construct a new transmission line between Chatham and Lambton to support agricultural growth in Southwest Ontario; Hydro One is currently evaluating the scope and timing of this work.

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)*	2021	2020
Cash provided by operating activities	517	548
Cash provided by (used in) financing activities	(639)	829
Cash used in investing activities	(514)	(365)
Increase (decrease) in cash and cash equivalents	(636)	1,012

Cash provided by operating activities

Cash from operating activities for the first quarter of 2021 decreased by $31 million compared to the first quarter of 2020. The decrease was impacted by various factors, including the following:

- higher receivable from the IESO during the first quarter of 2021 associated with provincial funding programs, and lower payable to IESO due to higher rebates for green energy purchases and lower commodity rates charged; partially offset by:
- higher earnings in the first quarter of 2021;
- higher payables due to energy purchased from embedded generators and higher non-energy payables; and
- cash received associated with other post-employment benefits (OPEB) liability assumed as part of certain employees transferred from Inergi LP to Hydro One Networks in March 2021.

Cash provided by (used in) financing activities

Cash provided by financing activities decreased by $1,468 million for the three months ended March 31, 2021 compared to 2020. The decrease was impacted by various factors, including the following:

Sources of cash

- The Company did not issue any long-term debt in the three months ended March 31, 2021, compared to $1,100 million of long-term debt issued in the same period last year.
- The Company received proceeds of $815 million from the issuance of short-term notes in the first quarter of 2021, compared to $1,285 million received in the same period last year.

Uses of cash

- The Company repaid $800 million of short-term notes in the first quarter of 2021, compared to $1,415 million repaid in the same period last year.
- The Company repaid $500 million of long-term debt in the first quarter of 2021, compared to no debt repaid in the same period last year.
- Common share dividends paid in the first quarter of 2021 were $152 million, compared to dividends of $149 million paid in the same period last year.

Cash used in investing activities

Cash used in investing activities increased by $149 million for the three months ended March 31, 2021 compared to 2020. The increase is primarily attributable to a $155 million increase in capital investments during the first quarter of 2021. Please see section "Capital Investments" for comparability of capital investments made by the Company during the three months ended March 31, 2021 compared to prior year.

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 $2,300 million in short-term notes with a term to maturity of up to 365 days.

At March 31, 2021, Hydro One Inc. had $815 million in commercial paper borrowings outstanding, compared to $800 million outstanding at December 31, 2020. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) with a total available balance of $2,550 million as at March 31, 2021. No amounts were drawn on the Operating Credit Facilities as at March 31, 2021 or December 31, 2020. The Company may use the Operating Credit Facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, available cash on hand and anticipated levels of FFO are expected to be sufficient to fund the Company's operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements. See section "Other Developments - COVID-19" for additional information of the impact of COVID-19 on the Company's operations.

At March 31, 2021, the Company had long-term debt outstanding in the principal amount of $13,058 million, which included $425 million of long-term debt issued by Hydro One, $12,495 million of long-term debt issued by Hydro One Inc., and long-term debt in the principal amount of $138 million issued by HOSSM. The long-term debt issued by Hydro One was issued under its base shelf prospectus (Universal Base Shelf Prospectus), as further described below. The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium Term Note (MTN) Program, as further described below. The long-term debt consists of notes and debentures that mature between 2021 and 2064, and as at March 31, 2021, had a weighted-average term to maturity of approximately 14.8 years (December 31, 2020 - 14.5 years) and a weighted-average coupon rate of 3.8% (December 31, 2020 - 3.8%).

In August 2020, Hydro One filed a short form Universal Base Shelf Prospectus with securities regulatory authorities in Canada, which has a maximum authorized principal amount of $2,000 million of debt, equity or other securities, or any combination thereof, expiring in September 2022. At March 31, 2021, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus.

In April 2020, Hydro One Inc. filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At March 31, 2021, $2,800 million remained available for issuance under the MTN Program prospectus.

In December 2020, 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, which has a maximum authorized principal amount of US$3,000 million of debt securities, unconditionally guaranteed by Hydro One, expiring in January 2023. At March 31, 2021, no securities have been issued under the US Debt Shelf Prospectus.

Compliance

At March 31, 2021, 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:

As at March 31, 2021 *(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	13,058	904	734	1,950	9,470
Long-term debt - interest payments	8,306	496	937	883	5,990
Short-term notes payable	815	815	—	—	—
Pension contributions	698	68	204	223	203
Environmental and asset retirement obligations	152	33	42	21	56
Outsourcing and other agreements	266	126	113	12	15
Lease obligations	86	15	24	22	25
Long-term software/meter agreement	34	9	13	5	7
Total contractual obligations	23,415	2,466	2,067	3,116	15,766
Other commercial commitments *(by year of expiry)*					
Operating Credit Facilities	2,550	—	—	2,550	—
Letters of credit[1]	185	174	11	—	—
Guarantees[2]	496	496	—	—	—
Total other commercial commitments	3,231	670	11	2,550	—

[1] Letters of credit consist of $167 million in letters of credit related to retirement compensation arrangements, an $11 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.

[2] Guarantees consist of $484 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees provided by Hydro One to the Minister of Natural Resources (Canada) of $7 million relating to Ontario Charging Network LP (OCN LP) (OCN Guarantee) and $5 million relating to Aux Energy Inc., the Company's indirect subsidiary. Ontario Power Generation Inc. (OPG) has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee.

SHARE CAPITAL

The common shares of Hydro One are publicly traded on the Toronto Stock Exchange (TSX) under the trading symbol "H". Hydro One is authorized to issue an unlimited number of common shares. The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors (Board) and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant. At May 6, 2021, Hydro One had 598,217,183 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At May 6, 2021, the Company had no 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 6, 2021 was 2,846,495.

REGULATION

Deferred Tax Asset (DTA)

On March 7, 2019, the OEB issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the DTA resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's DTA Decision. The appeal was heard on November 21, 2019.

On July 16, 2020, the Ontario Divisional Court rendered its decision (ODC Decision) on the Company's appeal of the OEB's DTA Decision. In its decision, the Ontario Divisional Court set aside the OEB's DTA Decision. The Ontario Divisional Court found that the OEB's DTA Decision was incorrect in law because the OEB had failed to apply the correct legal test. In its decision, the Ontario Divisional Court agreed with the submissions of Hydro One that the DTA should be allocated to shareholders in its entirety.

On September 21, 2020, the Ontario Divisional Court issued its final order (ODC Order) with respect to the ODC Decision. Following the ODC Order, on October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court and required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period.

On April 8, 2021, the OEB rendered its decision and order (DTA Implementation Decision) regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. In its DTA Implementation Decision, the OEB approved recovery of the DTA amounts allocated to ratepayers and included in customer rates for the 2017 to 2021 period plus carrying charges over a two-year recovery period commencing on July 1, 2021. The recovery of these amounts is expected to result in an annual increase in FFO of approximately $65 million, $135 million and $65 million in 2021, 2022 and 2023, respectively. In addition, the DTA Implementation Decision requires that Hydro One adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further tax savings flowing to customers. This is expected to further increase FFO by approximately $50 million in 2022, but will decline over time. The DTA Implementation Decision is also expected to result in an increase in the Company's ETR to approximately 14% to 22% over the next five years, with the most significant impacts expected over the recovery period.

Hydro One Remote Communities

On November 3, 2020, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2% increase to 2020 base rates, effective May 1, 2021, which was subsequently updated to 2.2% in accordance with the OEB's 2021 inflation parameters for electricity distributors issued on November 9, 2020. On March 25, 2021, the OEB approved Hydro One Remote Communities' application for rates and other charges to be effective May 1, 2021.

Leave to Construct

On October 27, 2020, Hydro One Networks filed a Leave to Construct application with the OEB seeking approval to upgrade five circuit kilometres of transmission cable facilities in the downtown Toronto area. These facilities are required to ensure that the area continues to receive a safe and reliable supply of electricity. On February 25, 2021, the OEB approved the Leave to Construct application with standard conditions of approval.

OTHER DEVELOPMENTS

COVID-19

Throughout the COVID-19 pandemic, the Company's decisions and actions have continuously been guided by two priorities: to protect Hydro One's employees and to maintain the safe and reliable supply of electricity to Hydro One's customers.

Notwithstanding the onset of the third wave of the COVID-19 pandemic in the first quarter of 2021, Hydro One continues to operate safely as a result of the safety procedures and practices that the Company implemented in 2020. To date, Hydro One has experienced very few cases of workplace transmission of the COVID-19 virus.

As part of the Company's ongoing commitment to customers, Hydro One continued with a number of customer relief measures that were implemented in the early days of the pandemic to assist customers impacted by COVID-19, and in January 2021, the Company launched the Small Business Pandemic Relief Program to provide financial assistance and payment flexibility to small business customers.

The Company continues to track incremental COVID-19 costs and lost revenues in accordance with OEB guidance. During the three months ended March 31, 2021, the Company incurred approximately $4 million of incremental OM&A and as at March 31, 2021, is tracking approximately $64 million in the deferral accounts previously approved by the OEB. The Company has assessed that these amounts are not probable for future recovery in rates and no amounts related to the COVID-19 pandemic have been recognized as regulatory assets. The OEB consultation on the impact of COVID-19 is ongoing, with further guidance expected in the first half of 2021.

Looking ahead, it is very difficult to determine or estimate the future impacts of COVID-19 on Hydro One's operations as it will be largely dependent on the duration of the pandemic and severity of the measures implemented to combat this virus. Hydro One continues to take the necessary steps to mitigate the impact of COVID-19 on the Company's operations and we will continue to actively monitor the developing situations and may take further actions that we determine are in the best interest of our operations, employees, customers, partners and stakeholders, or as required by federal or provincial authorities.

Collective Agreements

The current collective agreement with the Society of United Professionals (Society) expired on March 31, 2021. In February 2021, Hydro One and the Society commenced collective bargaining with the official exchange of bargaining agendas. Both sides acknowledge their commitment to working towards the timely completion of collective bargaining and negotiations are ongoing.

Building Broadband Faster Act

On March 4, 2021, the provincial Government introduced Bill 257 (*Supporting Broadband and Infrastructure Expansion Act, 2021*) to create a new act entitled the *Building Broadband Faster Act, 2021* that is aimed at supporting the timely deployment of needed broadband infrastructure within unserved and underserved rural Ontario communities. Bill 257 received Royal Assent on April 12, 2021. Bill 257 amends the *Ontario Energy Board Act, 1998* (OEB Act) to provide the government with regulation-making authority regarding the development of, access to, or use of electricity infrastructure for non-electricity purposes, including to reduce or fix the annual rental charge that telecommunications service providers must pay to attach their wireline broadband telecommunications attachments to utility poles, establish performance standards and timelines for how utilities must respond to attachment requests and require utilities to consider joint use of poles during planning processes. Regulations informing the legislative changes are expected later this year. The Company will continue to assess the impact as more details become available.

NON-GAAP MEASURES

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 standardized meanings 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.

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, management believes that FFO provides a consistent measure of the cash generating performance of the Company's assets.

Three months ended March 31 *(millions of dollars)*	**2021**	**2020**
Net cash from operating activities	517	548
Changes in non-cash balances related to operations	52	(62)
Preferred share dividends	—	(5)
Distributions to noncontrolling interest	(2)	(1)
FFO	567	480

Adjusted Net Income and Adjusted EPS

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

Quarter ended *(millions of dollars, except number of shares and EPS)*	**Mar 31, 2021**	**Dec 31, 2020**	**Sep 30, 2020**	**Jun 30, 2020**
Net income attributable to common shareholders	268	161	281	1,103
Impacts related to the ODC Decision	—	—	—	(867)
Adjusted net income attributable to common shareholders	268	161	281	236
Weighted-average number of shares				
Basic	597,665,695	597,588,309	597,557,787	597,551,514
Effect of dilutive stock-based compensation plans	2,491,520	2,586,310	2,362,569	2,423,441
Diluted	600,157,215	600,174,619	599,920,356	599,974,955
Adjusted EPS				
Basic	$0.45	$0.27	$0.47	$0.39
Diluted	$0.45	$0.27	$0.47	$0.39

Quarter ended *(millions of dollars, except number of shares and EPS)*	**Mar 31, 2020**	**Dec 31, 2019**	**Sep 30, 2019**	**Jun 30, 2019**
Net income attributable to common shareholders	225	211	241	155
Adjusting items	—	—	—	—
Adjusted net income attributable to common shareholders	225	211	241	155
Weighted-average number of shares				
Basic	596,983,560	596,670,374	596,605,054	596,503,988
Effect of dilutive stock-based compensation plans	2,663,999	2,564,789	2,420,792	2,442,181
Diluted	599,647,559	599,235,163	599,025,846	598,946,169
Adjusted EPS				
Basic	$0.38	$0.35	$0.40	$0.26
Diluted	$0.38	$0.35	$0.40	$0.26

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.

Quarter ended *(millions of dollars)*	**Mar 31, 2021**	**Dec 31, 2020**	**Sep 30, 2020**	**Jun 30, 2020**	**Mar 31, 2020**	**Dec 31, 2019**	**Sep 30, 2019**	**Jun 30, 2019**
Revenues	1,811	1,867	1,903	1,670	1,850	1,715	1,593	1,413
Less: Purchased power	894	1,046	993	808	1,007	914	737	653
Revenues, net of purchased power	917	821	910	862	843	801	856	760

Quarter ended *(millions of dollars)*	**Mar 31, 2021**	**Dec 31, 2020**	**Sep 30, 2020**	**Jun 30, 2020**	**Mar 31, 2020**	**Dec 31, 2019**	**Sep 30, 2019**	**Jun 30, 2019**
Distribution revenues	1,354	1,457	1,410	1,201	1,439	1,298	1,140	1,029
Less: Purchased power	894	1,046	993	808	1,007	914	737	653
Distribution revenues, net of purchased power	460	411	417	393	432	384	403	376

RELATED PARTY TRANSACTIONS

The Province of Ontario (Province) is a shareholder of Hydro One with approximately 47.2% ownership at March 31, 2021. The IESO, OPG, and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy. The following is a summary of the Company's related party transactions during the three months ended March 31, 2021 and 2020:

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

Related Party	Transaction	2021	2020
Province	Dividends paid	72	73
IESO	Power purchased	639	776
	Revenues for transmission services	442	395
	Amounts related to electricity rebates	306	433
	Distribution revenues related to rural rate protection	62	59
	Distribution revenues related to supply of electricity to remote northern communities	9	9
	Funding received related to Conservation and Demand Management programs	—	9
OPG[1]	Power purchased	4	2
	Revenues related to provision of services and supply of electricity	2	2
	Capital contribution received from OPG	2	—
	Costs related to the purchase of services	—	1
OEB	OEB fees	2	2

[1] OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee. See Other Obligations - Summary of Contractual Obligations and Other Commercial Commitments for details related to the OCN Guarantee.

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, 2021, 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 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
ASU 2018-14	August 2018	Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2021	No impact upon adoption
ASU 2019-12	December 2019	The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles and improving consistent application of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	No impact upon adoption
ASU 2020-01	January 2020	The amendments clarify the interaction of the accounting for equity securities under Topic 321, investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021	No impact upon adoption
ASU 2020-10	October 2020	The amendments are intended to improve the Codification by ensuring the guidance required for an entity to disclose information in the notes of financial statements are codified in the disclosure sections to reduce the likelihood of disclosure requirements being missed.	January 1, 2021	No impact upon adoption

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 December 17, 2020. 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, 2021 and December 31, 2020 and for the three months ended March 31, 2021 and March 31, 2020 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.

Three months ended March 31 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	151	2	—	—	2,004	1,961	(344)	(113)	1,811	1,850
Net Income (Loss) Attributable to Common Shareholders	151	(2)	—	—	444	308	(327)	(81)	268	225

As at March 31, 2021 and December 31, 2020 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Mar. 2021	Dec.2020	Mar. 2021	Dec.2020	Mar. 2021	Dec.2020	Mar. 2021	Dec.2020	Mar. 2021	Dec.2020
Current Assets	99	97	—	—	2,895	3,446	(1,669)	(1,554)	1,325	1,989
Non-Current Assets	3,426	3,426	—	—	44,228	44,408	(18,944)	(19,529)	28,710	28,305
Current Liabilities	458	454	—	—	4,185	4,066	(1,659)	(1,541)	2,984	2,979
Non-Current Liabilities	425	423	—	—	27,848	28,810	(11,961)	(12,546)	16,312	16,687

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, the industry, regulatory and economic environments in which it operates, and includes 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, resulting and related decisions, including the DTA Implementation Decision, as well as resulting rates, recovery and expected impacts and timing; expectations about the Company's liquidity and capital resources and operational requirements, including as result of COVID-19; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; the Company's ongoing and planned projects, initiatives and expected capital investments, including expected results, costs and in-service and completion dates; the potential impact of delays on the Company's transmission in-service additions; the potential impact of COVID-19 on the Company's business and operations, and potential future actions that the Company may take in response to the COVID-19 pandemic and its anticipated impacts; expectations relating to the recoverability of incremental costs and lost revenues from ratepayers in connection with the COVID-19 pandemic; the OEB consultation on the impact of COVID-19; contractual obligations and other commercial commitments; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans and the LTIP; collective bargaining; Bill 257, related regulations and the expected timing and impacts; future pension contributions; dividends; non-GAAP measures; internal controls over financial reporting and disclosure; the MTN Program; the Universal Base Shelf Prospectus; and the US Debt Shelf Prospectus. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "would", "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: the scope of the COVID-19 pandemic and duration thereof as well as the effect and severity of corporate and other mitigation measures on the Company's operations, supply chain or employees; 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; no changes to expectations regarding electricity consumption; no unforeseen changes to economic and market conditions; recoverability of costs and expenses related to the COVID-19 pandemic, including the costs of customer defaults resulting from the pandemic; completion of operating and capital projects that have been deferred; 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:

- a significant expansion in length or severity of the COVID-19 pandemic restricting or prohibiting the Company's operations or significantly impacting the Company's supply chain or workforce;
- severity of mitigation measures related to the COVID-19 pandemic;
- delays in completion of and increases in costs of operating and capital projects;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders and the rate-setting models for transmission and distribution, actual performance against forecasts and capital expenditures, competition with other transmitters and other applications to the OEB, the recoverability of total compensation costs or denials of applications;
- 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, risks associated with the Province's exercise of further legislative and regulatory powers in the implementation of the *Hydro One Accountability Act*, risks relating to the ability of the Company to attract and retain qualified executive talent or the risk of a credit rating downgrade for the Company and its impact on the Company's funding and liquidity;
- risks relating to the location of the Company's assets on Reserve lands and the risk that Hydro One may incur significant costs associated with transferring assets located on Reserves;
- 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, man-made events or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- the risk of non-compliance with environmental regulations and inability to recover environmental expenditures in rate applications and the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;
- risks associated with information system security and maintaining complex information technology (IT) and operational technology (OT) system infrastructure, including system failures or risks of cyber-attacks or unauthorized access to corporate IT and OT systems;
- the risk of labour disputes and inability to negotiate or renew appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- the risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit and financial instrument risk;
- risks associated with economic uncertainty and financial market volatility;
- 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 or the risk of increased competition for the development of large transmission projects or legislative changes affecting the selection of transmitters;
- risks associated with asset condition, capital projects and innovation, including public opposition to or delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk of failure to mitigate significant health and safety risks;
- 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 impact of the ownership by the Province of lands underlying the Company's transmission system;
- the risk associated with legal proceedings that could be costly, time-consuming or divert the attention of management and key personnel from the Company's business operations;
- the impact if the Company does not have valid occupational rights on third-party owned or controlled lands and the risks associated with occupational rights of the Company that may be subject to expiry;
- risks relating to adverse reputational events or political actions;
- risks relating to acquisitions, including the failure to realize anticipated benefits of such transaction at all, or within the time periods anticipated, and unexpected costs incurred in relation thereto;
- the inability to prepare financial statements using US GAAP; and
- the risk related to the impact of any 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 entitled "Risk Management and Risk Factors" in the 2020 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, 2021 and 2020

Three months ended March 31 (*millions of Canadian dollars, except per share amounts*)	**2021**	**2020**
Revenues		
Distribution (includes $73 related party revenues; 2020 - $70) *(Note 24)*	1,354	1,439
Transmission (includes $442 related party revenues; 2020 - $395) *(Note 24)*	448	400
Other	9	11
	1,811	1,850
Costs		
Purchased power (includes $643 related party costs; 2020 - $778) *(Note 24)*	894	1,007
Operation, maintenance and administration *(Note 24)*	282	265
Depreciation, amortization and asset removal costs *(Note 5)*	223	212
	1,399	1,484
Income before financing charges and income tax expense	**412**	**366**
Financing charges *(Note 6)*	116	119
Income before income tax expense	**296**	**247**
Income tax expense *(Note 7)*	26	15
Net income	**270**	**232**
Other comprehensive income (loss) *(Note 8)*	3	(20)
Comprehensive income	**273**	**212**
Net income attributable to:		
Noncontrolling interest	2	2
Preferred shareholders	—	5
Common shareholders	268	225
	270	**232**
Comprehensive income attributable to:		
Noncontrolling interest	2	2
Preferred shareholders	—	5
Common shareholders	271	205
	273	**212**
Earnings per common share *(Note 22)*		
Basic	$0.45	$0.38
Diluted	$0.45	$0.38
Dividends per common share declared *(Note 21)*	$0.25	$0.24

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At March 31, 2021 and December 31, 2020

As at *(millions of Canadian dollars)*	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	121	757
Accounts receivable *(Note 9)*	721	722
Due from related parties *(Note 24)*	297	326
Other current assets *(Note 10)*	186	184
	1,325	1,989
Property, plant and equipment *(Note 11)*	22,938	22,631
Other long-term assets:		
Regulatory assets *(Note 12)*	4,660	4,571
Deferred income tax assets	124	124
Intangible assets (net of accumulated amortization - $605; 2020 - $586)	527	514
Goodwill	373	373
Other assets *(Note 13)*	88	92
	5,772	5,674
Total assets	**30,035**	**30,294**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 16)*	815	800
Long-term debt payable within one year (includes $301 measured at fair value; 2020 - $303) *(Notes 16, 17)*	905	806
Accounts payable and other current liabilities *(Note 14)*	1,111	1,044
Due to related parties *(Note 24)*	153	329
	2,984	2,979
Long-term liabilities:		
Long-term debt *(Notes 16, 17)*	12,125	12,726
Regulatory liabilities *(Note 12)*	290	231
Deferred income tax liabilities	152	56
Other long-term liabilities *(Note 15)*	3,745	3,674
	16,312	16,687
Total liabilities	**19,296**	**19,666**
Contingencies and Commitments (Notes 26, 27)		
Subsequent Events (Note 29)		
Noncontrolling interest subject to redemption	19	22
Equity		
Common shares *(Note 20)*	5,680	5,678
Additional paid-in capital *(Note 23)*	43	47
Retained earnings	4,954	4,838
Accumulated other comprehensive loss	(26)	(29)
Hydro One shareholders' equity	10,651	10,534
Noncontrolling interest	69	72
Total equity	**10,720**	**10,606**
	30,035	**30,294**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the three months ended March 31, 2021 and 2020

Three months ended March 31, 2021 *(millions of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholders' Equity**	**Non-controlling Interest**	**Total Equity**
January 1, 2021	5,678	—	47	4,838	(29)	10,534	72	10,606
Net income	—	—	—	268	—	268	2	270
Other comprehensive income *(Note 8)*	—	—	—	—	3	3	—	3
Distributions to noncontrolling interest	—	—	—	—	—	—	(5)	(5)
Dividends on common shares	—	—	—	(152)	—	(152)	—	(152)
Common shares issued	2	—	(2)	—	—	—	—	—
Stock-based compensation	—	—	(2)	—	—	(2)	—	(2)
March 31, 2021	**5,680**	**—**	**43**	**4,954**	**(26)**	**10,651**	**69**	**10,720**

Three months ended March 31, 2020 *(millions of Canadian dollars)*	**Common Shares**	**Preferred Shares**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholders' Equity**	**Non-controlling Interest**	**Total Equity**
January 1, 2020	5,661	418	49	3,667	(5)	9,790	59	9,849
Net income	—	—	—	230	—	230	2	232
Other comprehensive loss	—	—	—	—	(20)	(20)	—	(20)
Distributions to noncontrolling interest	—	—	—	—	—	—	(1)	(1)
Contributions from sale of noncontrolling interest	—	—	—	—	—	—	9	9
Dividends on preferred shares	—	—	—	(5)	—	(5)	—	(5)
Dividends on common shares	—	—	—	(144)	—	(144)	—	(144)
Common shares issued	6	—	(1)	—	—	5	—	5
March 31, 2020	**5,667**	**418**	**48**	**3,748**	**(25)**	**9,856**	**69**	**9,925**

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, 2021 and 2020

Three months ended March 31 *(millions of Canadian dollars)*	**2021**	**2020**
Operating activities		
Net income	270	232
Environmental expenditures	(8)	(6)
Adjustments for non-cash items:		
Depreciation and amortization *(Note 5)*	198	191
Regulatory assets and liabilities	60	61
Deferred income tax expense	19	3
Other	30	5
Changes in non-cash balances related to operations *(Note 25)*	(52)	62
Net cash from operating activities	**517**	**548**
Financing activities		
Long-term debt issued	—	1,100
Long-term debt repaid	(500)	—
Short-term notes issued	815	1,285
Short-term notes repaid	(800)	(1,415)
Dividends paid	(152)	(149)
Distributions paid to noncontrolling interest	(2)	(1)
Contributions received from sale of noncontrolling interest *(Note 4)*	—	9
Common shares issued	—	5
Costs to obtain financing	—	(5)
Net cash from (used in) financing activities	**(639)**	**829**
Investing activities		
Capital expenditures *(Note 25)*		
Property, plant and equipment	(479)	(339)
Intangible assets	(37)	(22)
Capital contributions received	2	—
Other	—	(4)
Net cash used in investing activities	**(514)**	**(365)**
Net change in cash and cash equivalents	(636)	1,012
Cash and cash equivalents, beginning of period	757	30
Cash and cash equivalents, end of period	**121**	**1,042**

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). At March 31, 2021, the Province held approximately 47.2% (December 31, 2020 - 47.3%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

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

Rate Setting

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners).

Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks, Hydro One Remote Communities Inc. (Hydro One Remote Communities), and Orillia Power Distribution Corporation (Orillia Power), as well as the distribution business and assets acquired from Peterborough Distribution Inc. (Peterborough Distribution).

Deferred Tax Asset (DTA)

On March 7, 2019, the Ontario Energy Board (OEB) issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the DTA resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On July 16, 2020, the Ontario Divisional Court rendered its decision (ODC Decision) on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. See Note 12 - Regulatory Assets and Liabilities and Note 29 - Subsequent Events for additional details.

Hydro One Remote Communities

On November 3, 2020, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2% increase to 2020 base rates, effective May 1, 2021, which was subsequently updated to 2.2% in accordance with the OEB's 2021 inflation parameters for electricity distributors issued on November 9, 2020. On March 25, 2021, the OEB approved Hydro One Remote Communities' application for rates and other charges to be effective May 1, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation

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 consolidated financial statements for the year ended December 31, 2020, with the exception of the adoption of new accounting standards as described 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 consolidated financial statements for the year ended December 31, 2020.

Management Estimates

The impact of the COVID-19 pandemic (COVID-19 or the pandemic) as at and for the three months ended March 31, 2021 has been reflected in the Consolidated Financial Statements. While the pandemic has resulted in incremental operating costs and lost revenues, the Company has analyzed the impact of the pandemic on its estimates and assumptions that affect its financial results as at and for the three months ended March 31, 2021 and has determined that there was no material impact. Additional details regarding the impact of the pandemic on the Consolidated Financial Statements are available in Note 9 - Accounts Receivable.

As the duration of the pandemic remains uncertain, the Company continues to assess its impact to the Company's financial results and operations.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standard 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
ASU 2018-14	August 2018	Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2021	No impact upon adoption
ASU 2019-12	December 2019	The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles and improving consistent application of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	No impact upon adoption
ASU 2020-01	January 2020	The amendments clarify the interaction of the accounting for equity securities under Topic 321, investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021	No impact upon adoption
ASU 2020-10	October 2020	The amendments are intended to improve the Codification by ensuring the guidance required for an entity to disclose information in the notes of financial statements are codified in the disclosure sections to reduce the likelihood of disclosure requirements being missed.	January 1, 2021	No impact upon adoption

4. BUSINESS COMBINATIONS

NRLP

On January 31, 2020, the Mississaugas of the Credit First Nation purchased an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks for total cash consideration of $9 million. Following this transaction, Hydro One's interest in the equity portion of NRLP partnership units was reduced to 55%, with the Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation owning 25% and 20%, respectively, of the equity interest in NRLP partnership units. NRLP is fully consolidated in these Consolidated Financial Statements as it is controlled by Hydro One. The First Nations Partners' noncontrolling interest in NRLP is classified within equity.

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

Three months ended March 31 *(millions of dollars)*	2021	2020
Depreciation of property, plant and equipment	171	169
Amortization of intangible assets	19	16
Amortization of regulatory assets	8	6
Depreciation and amortization	198	191
Asset removal costs	25	21
	223	212

6. FINANCING CHARGES

Three months ended March 31 *(millions of dollars)*	2021	2020
Interest on long-term debt	124	122
Interest on short-term notes	—	5
Realized loss on cash flow hedges (interest-rate swap agreements) *(Notes 8, 17)*	3	—
Other	3	4
Less: Interest capitalized on construction and development in progress	(13)	(10)
Interest earned on cash and cash equivalents	(1)	(2)
	116	119

7. INCOME TAXES

As a rate regulated utility company, the Company recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated business. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable from or refundable to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax expense (recovery). The Company's consolidated tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recovered from, or refunded to, customers in future rates. Thus, the Company's income tax expense or recovery 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)*	2021	2020
Income before income tax expense	296	247
Income tax expense at statutory rate of 26.5% (2020 - 26.5%)	78	65
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(25)	(24)
Impact of tax deductions from deferred tax asset sharing[1]	(12)	(12)
Overheads capitalized for accounting but deducted for tax purposes	(7)	(5)
Interest capitalized for accounting but deducted for tax purposes	(4)	(3)
Pension and post-retirement benefit contributions in excess of pension expense	(4)	(4)
Environmental expenditures	(2)	(2)
Other	1	(1)
Net temporary differences attributable to regulated business	(53)	(51)
Net permanent differences	1	1
Total income tax expense	26	15
Effective income tax rate	8.8%	6.1%

[1] Prior to the ODC Decision, the impact represents tax deductions from deferred asset tax sharing given to ratepayers as previously mandated by the OEB. Subsequent to the ODC Decision, the impact represents amounts given to ratepayers as previously mandated by the OEB, but recoverable pending the procedural order from the OEB. See Note 12 - Regulatory Assets and Liabilities.

8. OTHER COMPREHENSIVE INCOME (LOSS)

Three months ended March 31 *(millions of dollars)*	2021	2020
Gain (loss) on cash flow hedges (interest-rate swap agreements) *(Notes 6, 17)*[1]	3	(20)
	3	(20)

[1] Includes $2 million realized loss, after $1 million tax, on cash flow hedges reclassified to financing charges (2020 - $nil).

9. ACCOUNTS RECEIVABLE

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Accounts receivable - billed	451	347
Accounts receivable - unbilled	319	421
Accounts receivable, gross	770	768
Allowance for doubtful accounts	(49)	(46)
Accounts receivable, net	721	722

The following table shows the movements in the allowance for doubtful accounts for the three months ended March 31, 2021 and the year ended December 31, 2020:

(millions of dollars)	Three months ended March 31, 2021	Year ended December 31, 2020
Allowance for doubtful accounts – beginning	(46)	(22)
Write-offs	3	11
Additions to allowance for doubtful accounts[1]	(6)	(35)
Allowance for doubtful accounts – ending	(49)	(46)

[1] Additions to allowance for doubtful accounts for the year ended December 31, 2020 included an incremental $14 million related to the COVID-19 pandemic. There were no additional COVID-19 related amounts included in the allowance for doubtful accounts for the three months ended March 31, 2021.

10. OTHER CURRENT ASSETS

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Regulatory assets *(Note 12)*	103	105
Prepaid expenses and other assets	59	53
Materials and supplies	23	23
Derivative assets *(Note 17)*	1	3
	186	184

11. PROPERTY, PLANT AND EQUIPMENT

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Property, plant and equipment	33,499	33,377
Less: accumulated depreciation	(12,210)	(12,056)
	21,289	21,321
Construction in progress	1,473	1,135
Future use land, components and spares	176	175
	22,938	22,631

12. 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:

As at *(millions of dollars)*	**March 31, 2021**	**December 31, 2020**
Regulatory assets:		
Deferred income tax regulatory asset	2,398	2,343
Pension benefit regulatory asset	1,692	1,660
Deferred tax asset sharing	220	204
Environmental	126	133
Post-retirement and post-employment benefits - non-service cost	117	113
Post-retirement and post-employment benefits	60	59
Foregone revenue deferral	53	63
Stock-based compensation	42	41
Conservation and Demand Management (CDM) variance	14	16
Debt premium	11	12
Other	30	32
Total regulatory assets	4,763	4,676
Less: current portion	(103)	(105)
	4,660	4,571
Regulatory liabilities:		
Retail settlement variance account	127	92
Tax rule changes variance	74	70
Earnings sharing mechanism deferral	31	37
Pension cost differential	31	31
Green energy expenditure variance	19	22
Asset removal costs cumulative variance	19	19
Distribution rate riders	19	1
External revenue variance	4	7
Deferred income tax regulatory liability	4	4
Other	15	14
Total regulatory liabilities	343	297
Less: current portion	(53)	(66)
	290	231

Deferred Tax Asset Sharing

On October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court and required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. As at March 31, 2021, Hydro One recorded a regulatory asset of $220 million for the cumulative DTA amounts shared with ratepayers since 2017 to date, consisting of $77 million and $143 million for Hydro One Networks' distribution and transmission segments, respectively. As a result of the OEB's procedural order, the $220 million regulatory asset relating to the cumulative DTA amounts allocated to ratepayers since 2017 has been separately presented from the deferred income tax regulatory asset. Additional amounts shared with ratepayers up to December 31, 2021 will continue to increase this regulatory asset. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). In the DTA Implementation Decision, the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period including the $77 million and $143 million at March 31, 2021 for Hydro One Networks' distributions and transmission segments, respectively. See Note 29 – Subsequent Events for additional information.

Distribution Rate Riders

In December 2020, the OEB rendered its decision on Hydro One Networks distribution 2021 annual update rate application. The retail settlement variance account balance as at December 31, 2019, including accrued interest, was approved for disposition over a one year period ending December 31, 2021. As a result, this balance was transferred to the 2021 Rate Rider in January 2021. Additionally, the residual balance from the 2015-2017 Rate Rider, including accrued interest, was approved for disposition over the same period.

13. OTHER LONG-TERM ASSETS

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Right-of-Use (ROU) assets *(Note 19)*	74	77
Investments *(Note 17)*	7	7
Other long-term assets	7	8
	88	92

14. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Accrued liabilities	646	566
Accounts payable	219	238
Accrued interest	138	118
Regulatory liabilities *(Note 12)*	53	66
Environmental liabilities	33	33
Lease obligations *(Note 19)*	12	12
Derivative liabilities *(Note 17)*	10	11
	1,111	1,044

15. OTHER LONG-TERM LIABILITIES

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Post-retirement and post-employment benefit liability *(Note 18)*	1,850	1,797
Pension benefit liability *(Note 18)*	1,692	1,660
Environmental liabilities	93	100
Lease obligations *(Note 19)*	66	70
Derivative liabilities *(Note 17)*	11	14
Asset retirement obligations	13	13
Long-term accounts payable	5	3
Other long-term liabilities	15	17
	3,745	3,674

16. 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 $2,300 million. 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 revolving standby credit facilities totalling $2,300 million.

At March 31, 2021, 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 $2,300 million. At March 31, 2021, no amounts have been drawn on the Operating Credit Facilities.

The Company may use the Operating Credit Facilities for working capital and general corporate purposes. If used, interest on the Operating 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, 2021 and 2020, no debt securities have been issued by HOHL.

Long-Term Debt

The following table presents long-term debt outstanding at March 31, 2021 and December 31, 2020:

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Hydro One Inc. long-term debt (a)	12,495	12,995
Hydro One long-term debt (b)	425	425
HOSSM long-term debt (c)	150	151
	13,070	13,571
Add: Net unamortized debt premiums	10	10
Add: Unrealized mark-to-market loss[1]	1	3
Less: Unamortized deferred debt issuance costs	(51)	(52)
Total long-term debt	13,030	13,532
Less: Long-term debt payable within one year	(905)	(806)
	12,125	12,726

[1] The unrealized mark-to-market net loss of $1 million (December 31, 2020 - $3 million) relates to $300 million Series 39 notes due 2021. The unrealized mark-to-market net loss is offset by a $1 million unrealized mark-to-market net gain (December 31, 2020 - $3 million) 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, 2021, long-term debt of $12,495 million (December 31, 2020 - $12,995 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. In April 2020, Hydro One Inc. filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At March 31, 2021, $2,800 million remained available for issuance under this MTN Program prospectus. During the three months ended March 31, 2021, no long-term debt was issued (2020 - $1,100 million) and long-term debt of $500 million (2020 - $nil) was repaid.

(b) Hydro One long-term debt

At March 31, 2021, long-term debt of $425 million (December 31, 2020 - $425 million) was outstanding under the Hydro One's short form base shelf prospectus (Universal Base Shelf Prospectus). The Universal Base Shelf Prospectus was filed in August 2020 with securities regulatory authorities in Canada, and has a maximum authorized principal amount of up to $2,000 million of debt, equity or other securities, or any combination thereof, expiring in September 2022. At March 31, 2021, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus. During the three months ended March 31, 2021 and 2020, no long-term debt was issued or repaid.

(c) HOSSM long-term debt

At March 31, 2021, HOSSM long-term debt of $150 million (December 31, 2020 - $151 million), with a principal amount of $138 million (December 31, 2020 - $138 million) was outstanding. During the three months ended March 31, 2021 and 2020, no long-term debt was issued or repaid.

Principal and Interest Payments

At March 31, 2021, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments *(millions of dollars)*	Interest Payments *(millions of dollars)*	Weighted-Average Interest Rate *(%)*
Year 1	904	496	3.0
Year 2	603	473	0.7
Year 3	131	464	6.1
Year 4	1,100	452	2.3
Year 5	850	431	2.9
	3,588	2,316	2.5
Years 6-10	2,175	1,992	3.1
Thereafter	7,295	3,998	4.7
	13,058	8,306	3.8

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At March 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020 are as follows:

	March 31, 2021		December 31, 2020	
As at *(millions of dollars)*	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt measured at fair value:				
$300 million MTN Series 39 notes	301	301	303	303
Other notes and debentures	12,729	14,473	13,229	16,226
Long-term debt, including current portion	13,030	14,774	13,532	16,529

Fair Value Measurements of Derivative Instruments

Fair Value Hedges

At March 31, 2021, Hydro One Inc. had interest-rate swaps with a total notional amount of $300 million (December 31, 2020 - $300 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 2% (December 31, 2020 - 2%) of its total long-term debt. At March 31, 2021, Hydro One Inc. had the following interest-rate swap designated as a fair value hedge:

- 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.

Cash Flow Hedges

At March 31, 2021, Hydro One Inc. had a total of $800 million in pay-fixed, receive-floating interest-rate swap agreements designated as cash flow hedges. These cash flow hedges are intended to offset the variability of interest rates on the issuances of short-term commercial paper between January 9, 2020 and March 9, 2023.

At March 31, 2021 and December 31, 2020, the Company had no derivative instruments classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at March 31, 2021 and December 31, 2020 is as follows:

As at March 31, 2021 *(millions of dollars)*	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Investments *(Note 13)*	7	7	—	—	7
Derivative instruments *(Note 10)*					
Fair value hedges	1	1	—	1	—
	8	8	—	1	7
Liabilities:					
Long-term debt, including current portion	13,030	14,774	—	14,774	—
Derivative instruments *(Notes 14, 15)*					
Cash flow hedges, including current portion	21	21	—	21	—
	13,051	14,795	—	14,795	—

As at December 31, 2020 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Investments *(Note 13)*	7	7	—	—	7
Derivative instruments *(Note 10)*					
Fair value hedges	3	3	—	3	—
	10	10	—	3	7
Liabilities:					
Long-term debt, including current portion	13,532	16,529	—	16,529	—
Derivative instruments *(Notes 14, 15)*					
Cash flow hedges, including current portion	25	25	—	25	—
	13,557	16,544	—	16,554	—

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

There were no transfers between any of the fair value levels during the three months ended March 31, 2021 or the year ended December 31, 2020.

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, 2021 and the year ended December 31, 2020:

(millions of dollars)	Three months ended March 31, 2021	Year ended December 31, 2020
Fair value of assets - beginning	7	2
Additions	—	5
Fair value of assets - ending	7	7

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 values, 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 or material foreign exchange risk.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company may utilize interest-rate swaps 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, such as cash flow hedges, to manage its exposure to short-term interest rates or to lock in interest-rate levels on forecasted financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the three months ended March 31, 2021 and 2020.

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, 2021 and 2020 were not material.

For derivative instruments that are designated and qualify as cash flow hedges, the unrealized gain or loss, after tax, on the derivative instrument is recorded as other comprehensive income (OCI) or other comprehensive loss (OCL) and is reclassified to results of operations in the same period during which the hedged transaction affects results of operations. During the three months ended March 31, 2021, a $1 million unrealized gain, after tax, was recorded in OCI (2020 - loss of $20 million), and a $2 million loss, after $1 million tax, was reclassified to financing charges (2020 - $nil). This resulted in an accumulated other comprehensive loss (AOCL) of $15 million related to cash flow hedges at March 31, 2021 (December 31, 2020 - $18 million). The Company estimates that the amount of AOCL, after tax, related to cash flow hedges to be reclassified to results of operations in the next 12 months is $7 million. Actual amounts reclassified to results of operations depend on the interest rate risk in effect until the derivative contracts mature. For all forecasted transactions, at March 31, 2021, the maximum term over which the Company is hedging exposures to the variability of cash flows is approximately two years.

The Pension Plan manages market risk by diversifying investments in accordance with the Pension Plan's Statement of Investment Policies and Procedures. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the Pension Plan's financial instruments. In addition, changes in interest rates can also impact discount rates which impact the valuation of the pension and post-retirements and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At March 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, there was no material accounts receivable balance due from any single customer.

At March 31, 2021, the Company's allowance for doubtful accounts was $49 million (December 31, 2020 - $46 million). The allowance for doubtful accounts reflects the Company's current lifetime expected credit losses for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At March 31, 2021, approximately 5% (December 31, 2020 - 4%) of the Company's net accounts receivable were outstanding for more than 60 days. Please see Note 9 - Accounts Receivable for additions to allowance for doubtful accounts related to the impact of the COVID-19 pandemic.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) 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 maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At March 31, 2021 and December 31, 2020, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At March 31, 2021, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, was with four financial institutions with investment grade credit ratings as counterparties.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade corporate and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions and by ensuring that exposure is diversified across 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, the Operating Credit Facilities, and anticipated levels of funds from operations are expected to be sufficient to fund the Company's operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

In April 2020, Hydro One Inc. filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At March 31, 2021, $2,800 million remained available for issuance under the MTN Program prospectus.

On August 20, 2020, Hydro One filed a 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 $2,000 million of debt, equity or other securities, or any combination thereof, during the 25-month period ending on September 20, 2022.

On December 17, 2020, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US to replace a previous prospectus that expired in December 2020. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3,000 million of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on January 17, 2023. At March 31, 2021, no securities have been issued under the US Debt Shelf Prospectus.

The Pension Plan's short-term liquidity is provided through cash and cash equivalents, contributions, investment income and proceeds from investment transactions. In the event that investments must be sold quickly to meet current obligations, the majority of the Pension Plan's assets are invested in securities that are traded in an active market and can be readily disposed of as liquidity needs arise.

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

The following table provides the components of the net periodic benefit costs for the three months ended March 31, 2021 and 2020:

Three months ended March 31 *(millions of dollars)*	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2021	2020	2021	2020
Current service cost	60	54	16	18
Interest cost	64	71	12	15
Expected return on plan assets, net of expenses[1]	(108)	(113)	—	—
Prior service cost amortization	1	—	1	—
Amortization of actuarial losses	31	24	1	1
Net periodic benefit costs	48	36	30	34
Charged to results of operations[2,3]	6	7	18	13

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2021 is 5.4% (2020 - 5.75%).

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three months ended March 31, 2021, pension costs of $17 million (2020 - $19 million) were attributed to labour, of which $6 million (2020 - $7 million) was charged to operations, and $11 million (2020 - $12 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

[3] In the 2020-2022 Transmission Decision, the OEB confirmed the recovery of the non-service cost component of post-retirement and post-employment benefits as part of operation, maintenance and administration costs for the Company's transmission business. Prior to the decision, these costs were tracked in a regulatory asset. As a result, during the three months ended March 31, 2021, additional other post-retirement and post-employment costs of $4 million (2020 - $nil) attributed to labour were charged to operations.

Transfers from Other Plans

In January 2021, Hydro One and Inergi LP executed a letter of understanding (LOU) for the transfer of certain Inergi LP employees (Transferred Employees) to Hydro One Networks over a period of time. The employees who will transfer relate to the information technology operations, Finance and Accounting, Payroll and certain Shared Services functions. The transfer is expected to be completed by January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) will become participants in the Hydro One Defined Benefit Pension Plan (Plan) upon transfer to Hydro One. Subject to all necessary regulatory approvals, the assets and liabilities of the Inergi Plan will transfer to the Plan. The values of assets and liabilities of the Inergi Plan to be transferred to the Plan will be determined at the date of transfer. In accordance with the LOU, Inergi LP and Hydro One Networks also agreed to transfer other post-employment benefits (OPEB) liabilities related to the Transferred Employees to Hydro One's post-retirement and post-employment benefit plans.

On March 1, 2021, Transferred Employees associated with information technology operations (ITO Employees) have transferred to Hydro One Networks, and the transfer of the OPEB liability of $28 million related to the ITO Employees was completed. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $27 million was transferred to Hydro One and recorded as an asset with an offset to OCI. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the expected average remaining service lifetime (EARSL) of the ITO Employees.

19. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have terms between three and seven years with renewal options of additional three- to five-year terms at prevailing market rates at the time of extension. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. Renewal options are included in the lease term when their exercise is reasonably certain. Other information related to the Company's operating leases was as follows:

Three months ended March 31 *(millions of dollars)*	2021	2020
Lease expense	3	2
Lease payments made	4	3

As at	March 31, 2021	December 31, 2020
Weighted-average remaining lease term[1] *(years)*	7	7
Weighted-average discount rate	2.7 %	2.6 %

[1] Includes renewal options that are reasonably certain to be exercised.

At March 31, 2021, future minimum operating lease payments were as follows:

(millions of dollars)	
Remainder of 2021	12
2022	13
2023	12
2024	12
2025	10
Thereafter	27
Total undiscounted minimum lease payments	86
Less: discounting minimum lease payments to present value	(8)
Total discounted minimum lease payments	78

At December 31, 2020, future minimum operating lease payments were as follows:

(millions of dollars)	
2021	16
2022	13
2023	12
2024	12
2025	10
Thereafter	27
Total undiscounted minimum lease payments	90
Less: discounting minimum lease payments to present value	(8)
Total discounted minimum lease payments	82

Hydro One presents its ROU assets and lease obligations on the consolidated balance sheets as follows:

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Other long-term assets *(Note 13)*	74	77
Accounts payable and other current liabilities *(Note 14)*	12	12
Other long-term liabilities *(Note 15)*	66	70

20. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At March 31, 2021, the Company had 597,800,163 (December 31, 2020 - 597,611,787) common shares issued and outstanding.

The following table presents the changes to common shares during the three months ended March 31, 2021:

(number of shares)	
Common shares - December 31, 2020	597,611,787
Common shares issued - LTIP[1]	188,376
Common shares - March 31, 2021	597,800,163

1 During the three months ended March 31, 2021, Hydro One issued from treasury 188,376 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP). See Note 29 - Subsequent Events for common shares issued subsequent to March 31, 2021.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At March 31, 2021 and December 31, 2020, the Company had no preferred shares issued and outstanding.

21. DIVIDENDS

During the three months ended March 31, 2021, common share dividends in the amount of $152 million (2020 - $144 million) were declared and paid and no preferred share dividends (2020 - $5 million) were paid. See Note 29 - Subsequent Events for dividends declared subsequent to March 31, 2021.

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	2021	2020
Net income attributable to common shareholders *(millions of dollars)*	268	225
Weighted-average number of shares		
Basic	597,665,695	596,983,560
Effect of dilutive stock-based compensation plans	2,491,520	2,663,999
Diluted	600,157,215	599,647,559
EPS		
Basic	$0.45	$0.38
Diluted	$0.45	$0.38

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, 2021 and 2020. See Note 29 - Subsequent Events for common shares issued in April 2021.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three months ended March 31, 2021 and 2020 is presented below:

Three months ended March 31 *(number of DSUs)*	2021	2020
DSUs outstanding - beginning	65,240	52,620
Granted	5,349	5,859
DSUs outstanding - ending	70,589	58,479

At March 31, 2021, a liability of $2 million (December 31, 2020 - $2 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of $29.27 (December 31, 2020 - $28.65). This liability is included in other long-term 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, 2021 and 2020 is presented below:

Three months ended March 31 *(number of DSUs)*	2021	2020
DSUs outstanding - beginning	61,880	52,186
Granted	26,076	20,277
Paid	—	(5,411)
DSUs outstanding - ending	87,956	67,052

At March 31, 2021, a liability of $3 million (December 31, 2020 - $2 million) related to Management DSUs has been recorded at the closing price of the Company's common shares of $29.27 (December 31, 2020 - $28.65). This liability is included in other long-term liabilities on the consolidated balance sheets.

Long-term Incentive Plan (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, 2021 and 2020 is presented below:

	PSUs		RSUs	
Three months ended March 31 *(number of units)*	**2021**	**2020**	**2021**	**2020**
Units outstanding - beginning	111,920	171,344	139,730	206,993
Vested and issued	(111,920)	(47,950)	(104,970)	—
Forfeited	—	(377)	—	(565)
Settled	—	—	(34,760)	(56,410)
Units outstanding - ending[1]	—	123,017	—	150,018

[1] Units outstanding at March 31, 2021 did not have any PSUs or RSUs (2020 - 7,740 PSUs and 39,920 RSUs) that may be settled in cash if certain conditions are met. At March 31, 2021, no liability (2020 - $1 million) has been recorded with respect to these awards.

No awards were granted during the three months ended March 31, 2021 and 2020. The compensation expense related to the PSU and RSU awards recognized by the Company during the three months ended March 31, 2021 was less than $1 million (2020 - $1 million).

Stock Options

A summary of stock options activity during the three months ended March 31, 2021 and 2020 is presented below:

Three months ended March 31 *(number of stock options)*	**2021**	**2020**
Stock options outstanding - beginning[1]	108,710	403,550
Exercised	—	(240,840)
Stock options outstanding - ending[1]	108,710	162,710

[1] All stock options outstanding as at January 1, 2021 and March 31, 2021, were vested and exercisable (2020 - all stock options were vested and exercisable).

24. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.2% ownership at March 31, 2021. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy. The following is a summary of the Company's related party transactions during the three months ended March 31, 2021 and 2020:

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

Related Party	Transaction	2021	2020
Province	Dividends paid	72	73
IESO	Power purchased	639	776
	Revenues for transmission services	442	395
	Amounts related to electricity rebates	306	433
	Distribution revenues related to rural rate protection	62	59
	Distribution revenues related to supply of electricity to remote northern communities	9	9
	Funding received related to CDM programs	—	9
OPG[1]	Power purchased	4	2
	Revenues related to provision of services and supply of electricity	2	2
	Capital contribution received from OPG	2	—
	Costs related to the purchase of services	—	1
OEB	OEB fees	2	2

[1] OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee. See Note 27 - Commitments for details related to the OCN Guarantee.

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. Invoices are issued monthly, and amounts are due and paid on a monthly basis.

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)*	2021	2020
Accounts receivable *(Note 9)*	(1)	(10)
Due from related parties	29	110
Prepaid expenses and other assets *(Note 10)*	(6)	(18)
Other long-term assets *(Note 13)*	1	1
Accounts payable *(Note 14)*	(20)	(12)
Accrued liabilities *(Note 14)*	80	38
Due to related parties	(176)	(97)
Accrued interest *(Note 14)*	20	36
Long-term accounts payable and other long-term liabilities *(Note 15)*	—	1
Post-retirement and post-employment benefit liability *(Note 15)*	21	13
	(52)	62

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, 2021 and 2020. The reconciling items include net change in accruals and capitalized depreciation.

Three months ended March 31, 2021 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(493)	(34)	(527)
Reconciling items	14	(3)	11
Cash outflow for capital expenditures	(479)	(37)	(516)

Three months ended March 31, 2020 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(350)	(22)	(372)
Reconciling items	11	—	11
Cash outflow for capital expenditures	(339)	(22)	(361)

Supplementary Information

Three months ended March 31 *(millions of dollars)*	2021	2020
Net interest paid	106	90
Income taxes paid	6	13

26. CONTINGENCIES

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.

27. COMMITMENTS

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

As at March 31, 2021 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	126	59	54	10	2	15
Long-term software/meter agreement	9	9	4	3	2	7

Outsourcing and Other Agreements

In February 2021, Hydro One entered into an agreement for information technology services with Capgemini Canada Inc., which expires on February 29, 2024, and includes an option to extend for two additional one-year terms at Hydro One's discretion. This agreement resulted in commitment of $143 million over the initial term of the agreement.

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

As at March 31, 2021 *(millions of dollars)*	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**
Operating Credit Facilities	—	—	—	2,550	—	—
Letters of credit[1]	174	11	—	—	—	—
Guarantees[2]	496	—	—	—	—	—

[1] Letters of credit consist of $167 million letters of credit related to retirement compensation arrangements, a $11 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.

[2] Guarantees consist of $484 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees provided by Hydro One to the Minister of Natural Resources (Canada) of $7 million relating to OCN LP (OCN Guarantee) and $5 million relating to Aux Energy Inc., the Company's indirect subsidiary. OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee.

28. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting 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 Other Segment includes a portion of the DTA which arose from the revaluation of the tax bases of Hydro One's assets to fair market value when the Company transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of Hydro One's initial public offering in 2015. This DTA is not required to be shared with ratepayers, the Company considers it to not be part of the regulated transmission and distribution segment assets, and it is included in the other segment.

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 tax expense from continuing operations (excluding certain allocated corporate governance costs).

Three months ended March 31, 2021 *(millions of dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	448	1,354	9	1,811
Purchased power	—	894	—	894
Operation, maintenance and administration	98	167	17	282
Depreciation, amortization and asset removal costs	121	100	2	223
Income (loss) before financing charges and income tax expense	229	193	(10)	412
Capital investments	348	176	3	527

Three months ended March 31, 2020 *(millions of dollars)*	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	400	1,439	11	1,850
Purchased power	—	1,007	—	1,007
Operation, maintenance and administration	102	148	15	265
Depreciation, amortization and asset removal costs	112	98	2	212
Income (loss) before financing charges and income tax expense	186	186	(6)	366
Capital investments	236	135	1	372

Total Assets by Segment:

As at *(millions of dollars)*	**March 31, 2021**	**December 31, 2020**
Transmission	17,924	17,761
Distribution	11,608	11,387
Other	503	1,146
Total assets	30,035	30,294

Total Goodwill by Segment:

As at *(millions of dollars)*	March 31, 2021	December 31, 2020
Transmission	157	157
Distribution	216	216
Total goodwill	373	373

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 6, 2021, common share dividends of $159 million ($0.2663 per common share) were declared.

Share Grant Plans

On April 1, 2021, Hydro One issued from treasury 417,020 common shares to eligible employees in accordance with provisions of the Share Grant Plans.

Deferred Tax Asset Sharing

On April 8, 2021, the OEB rendered the DTA Implementation Decision. In its decision, the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period plus carrying charges over a two-year period commencing on July 1, 2021. In addition, Hydro One shall adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further amounts of future tax savings flowing to customers. The impact of the DTA Implementation Decision has been determined to be a Type II subsequent event under US GAAP and as such the impact will be reflected prospectively in the Company's financial statements.