Hydro One Reports Second Quarter Results

The Company's response to devastating storms demonstrates its commitment to energizing life for Ontarians while highlighting the need for continued investment to prepare for climate change.

TORONTO, August 9, 2022 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the second quarter ended June 30, 2022.

Second Quarter Highlights

- Second quarter basic earnings per share (EPS) of $0.43 was 7.5% higher compared to EPS of $0.40 for the same period in 2021.
- EPS for the quarter was higher year over year primarily due to approved rates for the transmission and distribution segments, and higher demand, partially offset by higher depreciation, amortization and asset removal costs and higher financing charges.
- Hydro One restores power to approximately 760,000 customers following the May 21, 2022 devastating storm.
- Hydro One released its annual sustainability report (www.hydroone.com/sustainability) that demonstrates continued progress in setting and meeting its sustainability goals.
- The Company announced that members of the Canadian Union of Skilled Workers (CUSW) ratified the renewal of the collective agreement.
- Hydro One won the Gold Best Practices Award in customer service from Chartwell Inc., a company that has been helping utilities improve customer experience and satisfaction as well as operational efficiency for 25 years.
- Hydro One earns 12th Emergency Response Award from the Edison Electric Institute for restoring power to more than half of affected customers within the first 24 hours following severe storm during the Easter long weekend.
- Hydro One was recognized again by Corporate Knights as a Best 50 Corporate Citizen in Canada.
- William (Bill) Sheffield appointed as Interim President and CEO following Mark Poweska's resignation to assume a leadership position at a utility closer to his family in Western Canada later this year. Mark remains with the Company as an advisor to support Bill with the transition.
- The Company's capital investments and in-service additions for the quarter were $612 million and $547 million, respectively, compared to $553 million and $300 million in 2021.
- Quarterly dividend declared at $0.2796 per share, payable September 29, 2022.

"I appreciate the patience demonstrated by our customers as our dedicated teams worked tirelessly to restore power during the recent major storms. Investing in our system to prepare for the effects of climate change and extreme weather is a key priority for Hydro One" said Bill Sheffield, Interim President and CEO of Hydro One. “Our sustainability report released today clearly outlines our goals and the progress we are making in standing up for people, the planet and the communities across Ontario."

Selected Consolidated Financial and Operating Highlights

(millions of Canadian dollars, except as otherwise noted)	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Revenues	1,840	1,722	3,887	3,533
Purchased power	852	838	1,866	1,732
Revenues, net of purchased power[1]	988	884	2,021	1,801
Net income attributable to common shareholders	255	238	565	506
Basic EPS	$0.43	$0.40	$0.94	$0.85
Diluted EPS	$0.42	$0.40	$0.94	$0.84
Net cash from operating activities	621	412	1,064	929
Capital investments	612	553	1,061	1,080
Assets placed in-service	547	300	776	457
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,167	19,448	20,422	19,693
Distribution: Electricity distributed to Hydro One customers (GWh)	6,754	6,750	15,649	14,906

[1] "Revenues, net of purchased power" is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under United States (US) generally accepted accounting principles (US GAAP) used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. See the section "Non-GAAP Financial Measures".

Key Financial Highlights

2022 Second Quarter Highlights

The Company reported net income attributable to common shareholders of $255 million during the quarter, compared to $238 million in the same period of 2021. This resulted in EPS of $0.43, compared to EPS of $0.40 in the prior year.

Revenues, net of purchased power[1] for the second quarter of $988 million were $104 million higher than revenues, net of purchased power[1] for the second quarter of 2021. The increase is mainly due to the impacts of the Ontario Energy Board (OEB) decision in April 2021 regarding the deferred tax asset (DTA) amounts previously allocated to ratepayers (DTA Implementation Decision), as well as revenues resulting from OEB-approved 2022 rates and higher peak demand. Pursuant to the DTA Implementation Decision, Hydro One is currently recovering deferred tax amounts allocated to rate payers and included in customer rates for the 2017 to 2021 period over a two-year period which began on July 1, 2021. Hydro One also adjusted the transmission revenue requirement and base distribution rates effective January 1, 2022 to remove any further allocation of deferred tax amounts. The impacts of the DTA Implementation Decision are offset by a higher tax expense, and therefore net income neutral in the period.

Operation, maintenance and administration costs in the second quarter of 2022 were lower than last year as lower corporate support costs and lower work program expenditures were partially offset by a higher allowance for doubtful accounts in the period.

Depreciation, amortization and asset removal costs for the second quarter were higher than last year primarily due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program, as well as higher asset removal costs associated with the storm in May of this year.

Financing charges for the second quarter were higher than last year mainly due to the recognition of carrying charges pursuant to the DTA Implementation Decision in the second quarter of 2021.

Income tax expense for the second quarter of 2022 was higher than the prior year primarily due to income tax expense pursuant to the DTA Implementation Decision and higher pre-tax earnings, partially offset by higher deductible timing differences compared to the second quarter of the prior year.

[1] Revenues, net of purchased power, is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under US GAAP used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. See the section "Non-GAAP Financial Measures".

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 $612 million during the second quarter of 2022 and placed $547 million of new assets in-service.

Selected Operating Highlights

Hydro One restored power to approximately 760,000 customers affected by the storm on May 21, 2022. The storm caused significant devastation that included approximately 2,500 broken poles and approximately 500 damaged transformers.

Hydro One won the Gold Best Practices Award in customer service from Chartwell Inc., for its continuous improvement program that was put in place in early 2021. The program delivered the following select benefits for customers, business and staff: a) approximately 25% increase in customer satisfaction; b) approximately 12% improvement in call handle time; both recovering from pandemic low points. The program also had approximately 50% of staff upskilled to improve flexibility, job enrichment and morale.

Hydro One released its sustainability report which provides a balanced account of its environmental, social and governance (ESG) performance against the sustainability targets released last year. Hydro One is committed to producing an annual sustainability update to continuously increase the transparency and accountability of our ESG disclosures. The sustainability report is available at www.hydroone.com/sustainability.

Members of the CUSW voted in favour of renewing their collective agreement. This new collective agreement covers approximately 1,000 employees in critical construction roles.

Hydro One was recognized on the annual list of Best 50 Corporate Citizens by Corporate Knights, an organization dedicated to setting high standards in sustainability across Canada. This is the 11th time Hydro One has appeared on the Best 50 Corporate Citizens in Canada list.

Common Share Dividends

Following the conclusion of the second quarter, on August 8, 2022, the Company declared a quarterly cash dividend to common shareholders of $0.2796 per share to be paid on September 29, 2022 to shareholders of record on September 14, 2022.

Supplemental Segment Information

(millions of Canadian dollars)	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Revenues				
Transmission	516	448	1,035	896
Distribution	1,314	1,263	2,831	2,617
Other	10	11	21	20
Total revenues	**1,840**	**1,722**	**3,887**	**3,533**
Revenues, net of purchased power[1]				
Transmission	516	448	1,035	896
Distribution	462	425	965	885
Other	10	11	21	20
Total revenues, net of purchased power[1]	**988**	**884**	**2,021**	**1,801**
Operation, maintenance and administration costs				
Transmission	97	101	196	199
Distribution	173	177	344	344
Other	16	11	34	28
Total operation, maintenance and administration costs	**286**	**289**	**574**	**571**
Income before financing charges and taxes				
Transmission	289	229	584	458
Distribution	163	143	385	336
Other	(8)	(2)	(17)	(12)
Total income before financing charges and taxes	**444**	**370**	**952**	**782**
Capital investments				
Transmission	311	365	588	713
Distribution	294	184	461	360
Other	7	4	12	7
Total capital investments	**612**	**553**	**1,061**	**1,080**
Assets placed in-service				
Transmission	295	147	415	195
Distribution	251	150	356	256
Other	1	3	5	6
Total assets placed in-service	**547**	**300**	**776**	**457**

[1] Revenues, net of purchased power, is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under US GAAP used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. See the section "Non-GAAP Financial Measures".

This press release should be read in conjunction with the Company's second quarter 2022 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, 2021 can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's second quarter 2022 results teleconference with the investment community will be held on August 9, 2022 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 go to this link (https://register.vevent.com/register/BIc855fafff2374ca385eabb1bbbd0d5ca) prior to the scheduled start time to access Hydro One's second quarter 2022 results call. 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 1.5 million valued customers, approximately $30.4 billion in assets as at December 31, 2021, and annual revenues in 2021 of approximately $7.2 billion.

Our team of approximately 9,300 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2021, Hydro One invested approximately $2.1 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.

Non-GAAP Financial Measures

Hydro One uses a number of financial measures to assess its performance. The Company presents "revenues, net of purchased power" to reflect revenues net of the cost of purchased power, which is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under GAAP used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under US GAAP.

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of purchased power. Revenues, net of purchased power is used internally by management to assess the impacts of revenue on net income and is considered useful because it excludes the cost of power that is fully recovered through revenues and therefore net income neutral.

The following table provides a reconciliation of GAAP (reported) Revenues to non-GAAP (adjusted) Revenues, Net of Purchased Power on a consolidated basis.

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	**2022**	**2021**	**2022**	**2021**
Revenues	1,840	1,722	3,887	3,533
Less: Purchased power	852	838	1,866	1,732
Revenues, net of purchased power	988	884	2,021	1,801

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 growing and evolving to stand up for people, the planet and communities across Ontario; sustainability goals; expectations related to an annual sustainability update; the Company's plans to improve reliability, including facilitating connectivity for new load customers and generation sources; the Company's ongoing and planned projects and expected capital investments, including anticipated outcomes and impacts; 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.

For further information, please contact:

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

Media:
Jay Armitage
Vice President, Communications and Marketing
media.relations@hydroone.com
416-345-6868

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the unaudited condensed interim consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and six months ended June 30, 2022, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2021. 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 and six months ended June 30, 2022, based on information available to management as of August 8, 2022.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended June 30			Six months ended June 30		
(millions of dollars, except as otherwise noted)	2022	2021	Change	2022	2021	Change
Revenues	1,840	1,722	6.9%	3,887	3,533	10.0%
Purchased power	852	838	1.7%	1,866	1,732	7.7%
Revenues, net of purchased power[1]	988	884	11.8%	2,021	1,801	12.2%
Operation, maintenance and administration (OM&A) costs	286	289	(1.0%)	574	571	0.5%
Depreciation, amortization and asset removal costs	258	225	14.7%	495	448	10.5%
Financing charges	119	104	14.4%	236	220	7.3%
Income tax expense	68	26	161.5%	147	52	182.7%
Net income to common shareholders of Hydro One	**255**	**238**	**7.1%**	**565**	**506**	**11.7%**
Basic earnings per common share (EPS)	$0.43	$0.40	7.5%	$0.94	$0.85	10.6%
Diluted EPS	$0.42	$0.40	5.0%	$0.94	$0.84	11.9%
Net cash from operating activities	621	412	50.7%	1,064	929	14.5%
Funds from operations (FFO)[1]	523	441	18.6%	1,152	1,008	14.3%
Capital investments	612	553	10.7%	1,061	1,080	(1.8%)
Assets placed in-service	547	300	82.3%	776	457	69.8%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,167	19,448	3.7%	20,422	19,693	3.7%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,754	6,750	0.1%	15,649	14,906	5.0%

As at	June 30, 2022	December 31, 2021
Debt to capitalization ratio[2]	56.4%	56.5%

[1] The Company prepares and presents its financial statements in accordance with US GAAP. The Company also utilizes non-GAAP financial measures to assess its business and measure overall underlying business performance. FFO and Revenues, net of purchased power are non-GAAP financial measures. Non-GAAP financial measures do not have a standardized meaning under GAAP, which is used to prepare the Company's financial statements and might not be comparable to similar financial measures presented by other entities. See section "Non-GAAP Financial Measures" for a discussion of these non-GAAP financial measures and a reconciliation of such measures to the most directly comparable GAAP measure.

[2] Debt to capitalization ratio is a non-GAAP ratio. Non-GAAP ratios do not have a standardized meaning under GAAP, which is used to prepare the Company's financial statements and might not be comparable to similar financial measures presented by other entities. See section "Non-GAAP Financial Measures" for a discussion of this non-GAAP ratio and its component elements.

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, a limited partnership between Hydro One and the Saugeen Ojibway Nation, and an approximately 55% interest in Niagara Reinforcement Limited Partnership, a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation.

Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

The other segment consists principally of Hydro One's subsidiary, Acronym Solutions Inc., which provides telecommunications support for the Company's transmission and distribution businesses, as well as a comprehensive suite of Information Communications Technology solutions. The other segment also consists of other investments, including a joint venture that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network brand, as well as certain corporate activities, and is not rate-regulated.

For the six months ended June 30, 2022 and 2021, Hydro One's segments accounted for the Company's total revenues, net of purchased power[1], as follows:

Six months ended June 30	2022	2021
Transmission	51 %	50 %
Distribution	48 %	49 %
Other	1 %	1 %

At June 30, 2022 and December 31, 2021, Hydro One's segments accounted for the Company's total assets as follows:

As at	June 30, 2022	December 31, 2021
Transmission	61 %	60 %
Distribution	38 %	38 %
Other	1 %	2 %

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders of Hydro One for the quarter ended June 30, 2022 of $255 million is an increase of $17 million, or 7.1%, from the prior year. Significant influences on net income attributable to common shareholders of Hydro One included:

- higher revenues, net of purchased power,[1] resulting from:
    - an increase in transmission revenues due to Ontario Energy Board (OEB)-approved 2022 transmission rates and higher peak demand; and
    - an increase in distribution revenues, net of purchased power,[1] mainly due to OEB-approved 2022 distribution rates.
- lower OM&A costs as lower corporate support costs and lower work program expenditures were partially offset by a higher allowance for doubtful accounts.
- higher depreciation, amortization and asset removal costs due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program, as well as higher asset removal costs primarily resulting from storm restoration efforts.
- higher financing charges attributable to the recognition of carrying charges associated with the recovery of deferred tax asset (DTA) amounts previously shared with ratepayers (DTA Recovery Amounts) pursuant to the OEB's decision in April 2021 (DTA Implementation Decision) in the second quarter of 2021.
- higher income tax expense primarily attributable to:
    - higher pre-tax earnings adjusted for the DTA Implementation Decision; largely offset by
    - higher deductible timing differences compared to the prior year.

Revenue was also positively impacted by the DTA Implementation Decision. 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. In addition, the DTA Implementation Decision required that Hydro One adjust the transmission revenue requirement and base distribution rates effective January 1, 2022 to eliminate any further tax savings flowing to customers. These impacts are offset by a higher tax expense and are therefore net income neutral in the period. See section "Regulation" for additional details.

Net income attributable to common shareholders of Hydro One for the six months ended June 30, 2022 of $565 million is an increase of $59 million, or 11.7%, from the prior year. Year-to-date results were impacted by similar factors as noted above.

EPS

EPS was $0.43 and $0.94 for the three and six months ended June 30, 2022, compared to EPS of $0.40 and $0.85 in 2021. The increase in EPS was primarily driven by the impact of higher earnings year over year, as noted above.

[1] Revenues, net of purchased power, is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

Revenues

	Three months ended June 30			Six months ended June 30		
(millions of dollars, except as otherwise noted)	2022	2021	Change	2022	2021	Change
Transmission	516	448	15.2%	1,035	896	15.5%
Distribution	1,314	1,263	4.0%	2,831	2,617	8.2%
Other	10	11	(9.1%)	21	20	5.0%
Total revenues	1,840	1,722	6.9%	3,887	3,533	10.0%
Transmission	516	448	15.2%	1,035	896	15.5%
Distribution revenues, net of purchased power[1]	462	425	8.7%	965	885	9.0%
Other	10	11	(9.1%)	21	20	5.0%
Total revenues, net of purchased power[1]	988	884	11.8%	2,021	1,801	12.2%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	20,167	19,448	3.7%	20,422	19,693	3.7%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,754	6,750	0.1%	15,649	14,906	5.0%

[1] Revenues, net of purchased power, is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

Transmission Revenues

Transmission revenues increased by 15.2% during the quarter ended June 30, 2022, primarily due to the following:

- recovery of DTA amounts previously shared with ratepayers and the adjustment to transmission revenue requirement effective January 1, 2022 to cease sharing of DTA amounts going forward, pursuant to the DTA Implementation Decision;
- higher peak demand; and
- higher revenues resulting from OEB-approved 2022 rates.

Transmission revenues increased by 15.5% during the six months ended June 30, 2022, primarily due to similar factors as noted above.

Distribution Revenues, Net of Purchased Power[2]

Distribution revenues, net of purchased power,[2] increased by 8.7% during the quarter ended June 30, 2022, primarily due to the following:

- higher revenues resulting from OEB-approved 2022 rates; and
- recovery of DTA amounts previously shared with ratepayers and the adjustment to base distribution rates effective January 1, 2022 to cease sharing of DTA amounts going forward, pursuant to the DTA Implementation Decision.

Distribution revenues, net of purchased power,[2] increased by 9.0% during the six months ended June 30, 2022, primarily due to similar factors as noted above.

OM&A Costs

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2022	2021	Change	2022	2021	Change
Transmission	97	101	(4.0%)	196	199	(1.5%)
Distribution	173	177	(2.3%)	344	344	—%
Other	16	11	45.5%	34	28	21.4%
	286	289	(1.0%)	574	571	0.5%

Transmission OM&A Costs

Transmission OM&A costs decreased by 4.0% and 1.5% for the three and six months ended June 30, 2022, respectively, primarily due to:

- lower work program expenditures.

Distribution OM&A Costs

Distribution OM&A costs decreased by 2.3% for the quarter ended June 30, 2022, primarily due to:

- lower corporate support costs resulting from higher capital expenditures in the current period; and
- integration costs incurred in the prior year; partially offset by
- a higher allowance for doubtful accounts; and
- higher work program expenditures including increased forecast environmental expenses, partially offset by lower vegetation management costs.

[2] Revenues, net of purchased power, is a non-GAAP financial measure. See section "Non-GAAP Financial Measures"

Distribution OM&A costs during the six months ended June 30, 2022, remained in-line with the same period in the prior year largely due to similar factors noted above.

Depreciation, Amortization and Asset Removal Costs

Depreciation, amortization and asset removal costs increased by $33 million and $47 million for the three and six months ended June 30, 2022, respectively, primarily due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program, as well as higher asset removal costs primarily resulting from storm-related asset replacements.

Financing Charges

Financing charges increased by $15 million and $16 million for the three and six months ended June 30, 2022, respectively, primarily due to:

- the recognition of carrying charges associated with the DTA Recovery Amounts pursuant to the DTA Implementation Decision in the second quarter of 2021; and
- higher weighted-average interest rates on short-term notes.

Income Tax Expense

Income tax expense was $68 million and $147 million for the three and six months ended June 30, 2022, respectively, compared to $26 million and $52 million in the comparable periods last year. The $42 million and $95 million increase in income tax expense for the three and six months ended June 30, 2022, respectively, was primarily attributable to:

- tax expense relating to the DTA Implementation Decision which is offset by a corresponding increase in revenue and is net income neutral; as well as
- higher pre-tax earnings adjusted for the DTA Implementation Decision; partially offset by
- higher deductible timing differences compared to the prior year.

The Company realized an effective tax rate (ETR) of approximately 20.9% and 20.5% for the three and six months ended June 30, 2022, respectively, compared to approximately 9.8% and 9.3% realized in the same periods last year. The increase in each respective period was primarily attributable to the impacts of the DTA Implementation Decision.

Common Share Dividends

In 2022, 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 24, 2022	March 16, 2022	March 31, 2022	$0.2663	159
May 4, 2022	June 8, 2022	June 30, 2022	$0.2796	168
				327

Following the conclusion of the second quarter of 2022, 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)*
August 8, 2022	September 14, 2022	September 29, 2022	$0.2796	167

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of dollars, except EPS and ratio)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Revenues	1,840	2,047	1,779	1,913	1,722	1,811	1,867	1,903
Purchased power	852	1,014	914	933	838	894	1,046	993
Revenues, net of purchased power[1]	988	1,033	865	980	884	917	821	910
Net income to common shareholders	255	310	159	300	238	268	161	281
Basic EPS	$0.43	$0.52	$0.27	$0.50	$0.40	$0.45	$0.27	$0.47
Diluted EPS	$0.42	$0.52	$0.26	$0.50	$0.40	$0.45	$0.27	$0.47
Earnings coverage ratio[2]	3.3	3.2	3.1	3.1	3.0	2.9	2.8	2.9

[1] Revenues, net of purchased power is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

[2] Earnings coverage ratio is a non-GAAP ratio. Non-GAAP ratios do not have a standardized meaning under GAAP, which is used to prepare the Company's financial statements and might not be comparable to similar financial measures presented by other entities. See section "Non-GAAP Financial Measures" for a discussion of this non-GAAP ratio and its component elements.

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 additions to both 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 and six months ended June 30, 2022 and 2021:

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2022	2021	Change	2022	2021	Change
Transmission	295	147	100.7%	415	195	112.8%
Distribution	251	150	67.3%	356	256	39.1%
Other	1	3	(66.7%)	5	6	(16.7%)
Total assets placed in-service	547	300	82.3%	776	457	69.8%

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

Transmission assets placed in-service increased by $148 million, or 100.7%, in the second quarter of 2022, primarily due to the following:

- the new Lakeshore transmission station; and
- higher spend on transmission line refurbishments and replacements; partially offset by
- timing of assets placed in-service for station refurbishments and replacements; and
- lower volume of wood pole replacements.

Transmission assets placed in-service increased by $220 million, or 112.8%, in the six months ended June 30, 2022, primarily due to similar factors as noted above and investment placed in-service for the East-West Tie connection project.

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

Distribution assets placed in-service increased by $101 million, or 67.3%, in the second quarter of 2022, primarily due to the following:

- higher volume of storm related asset replacements following the storm in May 2022; partially offset by
- timing of assets placed in-service for system capability reinforcement projects; and
- lower volume of wood pole replacements.

Distribution assets placed in-service increased by $100 million, or 39.1%, in the six months ended June 30, 2022, primarily due to similar factors as noted above.

Capital Investments

The following table presents Hydro One's capital investments during the three and six months ended June 30, 2022 and 2021:

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2022	2021	Change	2022	2021	Change
Transmission						
Sustaining	239	248	(3.6%)	445	492	(9.6%)
Development	53	84	(36.9%)	98	156	(37.2%)
Other	19	33	(42.4%)	45	65	(30.8%)
	311	365	(14.8%)	588	713	(17.5%)
Distribution						
Sustaining	184	79	132.9%	251	156	60.9%
Development	89	73	21.9%	172	140	22.9%
Other	21	32	(34.4%)	38	64	(40.6%)
	294	184	59.8%	461	360	28.1%
Other	7	4	75.0%	12	7	71.4%
Total capital investments	612	553	10.7%	1,061	1,080	(1.8%)

Transmission Capital Investments

Transmission capital investments decreased by $54 million, or 14.8%, in the second quarter of 2022 compared to the second quarter of 2021. Principal impacts on the levels of capital investments included:

- investments in the new Ontario grid control centre in the City of Orillia and the new Lakeshore transmission station in the prior year;
- lower volume of station refurbishments and replacements; and
- lower volume of work on customer connections; partially offset by
- higher volume of transmission lines refurbishments and replacements; and
- higher spend on spare transformer purchases.

Transmission capital investments decreased by $125 million, or 17.5%, in the in the six months ended June 30, 2022 compared to the six months ended June 30, 2021, primarily due to similar factors as noted above as well as lower volume of wood pole replacements.

Distribution Capital Investments

Distribution capital investments increased by $110 million, or 59.8%, in the second quarter of 2022 compared to the second quarter of 2021. Principal impacts on the levels of capital investments included:

- higher spend on storm related asset replacements following the storm in May 2022; and
- higher spend on system capability reinforcement projects; partially offset by
- investment in the new Ontario grid control centre in the City of Orillia in the prior year; and
- lower volume of wood pole replacements.

Distribution capital investments increased by $101 million, or 28.1%, in the in the six months ended June 30, 2022 compared to the six months ended June 30, 2021, primarily due to similar factors as noted above as well as higher volume of work on customer connections partially offset by lower spend on information technology (IT) initiatives.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects at June 30, 2022:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
			(year)	*(millions of dollars)*	
Development Projects:					
Lakeshore Transmission Station[1]	Lakeshore Southwestern Ontario	New transmission station	2022	174	152
Wataynikaneyap Power LP Line Connection	Pickle Lake Northwestern Ontario	New stations and transmission connection	2022	33	20
East-West Tie Station Expansion[2]	Northern Ontario	New transmission connection and station expansion	2023	181	180
Barrie Area Transmission Upgrade	Barrie-Innisfil Southern Ontario	Upgraded transmission line and stations	2023	125	52
Waasigan Transmission Line[3]	Thunder Bay-Atikokan-Dryden Northwestern Ontario	New transmission line	2024	68	23
Chatham to Lakeshore Transmission Line[1]	Southwestern Ontario	New transmission line and station expansion	2025	268	19
St. Clair Transmission Line[4]	Southwestern Ontario	New transmission line and station expansion	2025	38	4
Longwood to Lakeshore Transmission Line[5]	Southwestern Ontario	New transmission line and station expansion	TBD	TBD	TBD
Second Longwood to Lakeshore Transmission Line[5]	Southwestern Ontario	New transmission line and station expansion	TBD	TBD	TBD
Lakeshore to Windsor Transmission Line[5]	Southwestern Ontario	New transmission line and station expansion	TBD	TBD	TBD
Sustainment Projects:					
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2023	135	108
Cherrywood Transmission Station Circuit Breaker Replacement	Pickering Central Ontario	Station sustainment	2023	115	86
Bruce B Switching Station Circuit Breaker Replacement	Tiverton Southwestern Ontario	Station sustainment	2024	185	154
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	113	105
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2026	152	109
Esplanade x Terauley Underground Cable Replacement	Toronto Southwestern Ontario	Line sustainment	2026	117	8

[1] The Lakeshore Transmission Station and Chatham to Lakeshore Transmission Line projects were previously included as part of the Leamington Area Transmission Reinforcement Project. The Chatham to Lakeshore Transmission Line project includes the line and associated facilities and is further discussed in section "Other Developments - Supporting Critical Infrastructure in Southwestern Ontario".

[2] Due to a revised timeline of project activities, the East-West Tie Station Expansion project is being placed in-service in phases, with the first phase placed in-service in 2021. Hydro One expects that a significant portion of the project will be placed in-service in 2022, with final project in-service expected in 2023.

[3] 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 only. On May 4, 2022, Hydro One entered into an agreement with First Nations communities that provides them the opportunity to acquire 50% ownership in the project. Completion of the line remains subject to stakeholder consultation and regulatory approvals.

[4] The estimated cost of the St. Clair 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 only. Completion of the line remains subject to stakeholder consultation and regulatory approvals.

[5] The scope and timing of these Southwestern Ontario transmission reinforcements are currently under review.

Future Capital Investments

The Company estimates future capital investments based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework.

The 2022 to 2027 capital estimates differ from prior disclosures, reflecting the refined estimates of the Chatham by Lakeshore Line filed with the OEB on May 9, 2022 through a leave-to-construct application (see section "Other Developments - Supporting Critical Infrastructure in Southwestern Ontario" for further details) as well as an updated regional and system growth outlook which includes capital expenditures associated with restoration efforts of the storm in May 2022. The projections and timing of transmission and distribution expenditures included in Hydro One's rate application for years 2023 to 2027 are subject to approval of the OEB.

The following tables summarize Hydro One's annual projected capital investments for 2022 to 2027 by business segment and by category:

By business segment: *(millions of dollars)*	2022	2023	2024	2025	2026	2027
Transmission[1]	1,188	1,678	1,663	1,649	1,644	1,549
Distribution	833	1,079	1,103	1,197	1,145	1,141
Other	24	17	13	11	11	14
Total capital investments[3]	2,045	2,774	2,779	2,857	2,800	2,704

By category: *(millions of dollars)*	2022	2023	2024	2025	2026	2027
Sustainment	1,308	1,842	1,892	1,922	1,926	1,893
Development[1]	550	644	646	694	625	585
Other[2]	187	288	241	241	249	226
Total capital investments[3]	2,045	2,774	2,779	2,857	2,800	2,704

[1] Figures include investments in certain development projects of Hydro One Networks not included in the investment plan filed in support of the Joint Rate Application (JRAP).

[2] "Other" capital expenditures include investments in fleet, real estate, IT, and operations technology and related functions.

[3] 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 (the St Clair Line) to support agricultural growth in Southwestern Ontario. On March 31, 2022, the Minister of Energy directed the OEB to amend Hydro One Networks' transmission licence to require it to develop and seek approvals for this and three other priority transmission lines to meet growing demand in Southwestern Ontario (see section "Other Developments"). The future capital investments presented do not include capital expenditures of the three additional lines, as 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 June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Cash provided by operating activities	621	412	1,064	929
Cash provided by (used in) financing activities	(69)	50	(545)	(589)
Cash used in investing activities	(556)	(537)	(1,028)	(1,051)
Decrease in cash and cash equivalents	(4)	(75)	(509)	(711)

Cash provided by operating activities

Cash from operating activities increased by $209 million for the second quarter of 2022 compared to the second quarter of 2021. The increase was impacted by various factors, including the following:

- increase in net working capital deficiency primarily attributable to higher accrued liabilities mainly related to the May storm, lower accounts receivable balances, and higher payables to embedded generators, partially offset by lower cost of power payable to the IESO and higher receivables from the IESO associated with rebates for green energy purchases.
- higher pre-tax earnings; and
- the impacts of the DTA Implementation Decision recognized in the quarter.

Cash from operating activities increased by $135 million for the six months ended June 30, 2022 compared to the same period in 2021. The increase was impacted by various factors, including the following:

- higher pre-tax earnings; and
- the impacts of the DTA Implementation Decision recognized in the first six months of the year; partially offset by
- changes to certain regulatory accounts; and
- decrease in net working capital deficiency primarily attributable to higher receivables from the IESO associated with provincial funding programs, partially offset by higher cost of power payable to the IESO due to a higher Global Adjustment rate.

Cash provided by (used in) financing activities

Cash provided by financing activities decreased by $119 million and cash used in financing activities decreased by $44 million for the three and six months ended June 30, 2022, respectively, compared to 2021. This was impacted by various factors, including the following:

Sources of cash

- the Company received proceeds of $1,470 million and $2,860 million from the issuance of short-term notes in the three and six months ended June 30, 2022, respectively, compared to $1,330 million and $2,145 million received in the same periods last year.

Uses of cash

- the Company repaid $1,364 million and $2,470 million of short-term notes in the three and six months ended June 30, 2022, respectively, compared to $815 million and $1,615 million repaid in the same periods last year.
- the Company repaid $1 million and $601 million of long-term debt in the three and six months ended June 30, 2022, respectively, compared to $302 million and $802 million repaid in the same periods last year.
- common share dividends paid in the three and six months ended June 30, 2022 were $168 million and $327 million, respectively, compared to dividends of $159 million and $311 million, paid in the same periods last year.

Cash used in investing activities

Cash used in investing activities increased by $19 million and decreased by $23 million for the three and six months ended June 30, 2022, respectively, compared to the same periods in the prior year as a result of higher capital investments in the current quarter and lower capital investments in the year-to-date period. See section "Capital Investments" for comparability of capital investments made by the Company during the three and six months ended June 30, 2022 compared to the same periods last year.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through FFO,[3] 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 June 30, 2022, Hydro One Inc. had $1,432 million in commercial paper borrowings outstanding, compared to $1,045 million outstanding at December 31, 2021. The Company also has revolving bank credit facilities (Operating Credit Facilities) with a total available balance of $2,550 million at June 30, 2022. In January 2022, Hydro One successfully amended its Operating Credit Facilities to incorporate environmental, social and governance targets. The facilities now include a pricing adjustment which can increase or decrease Hydro One's cost of funding based on its performance on certain Sustainability Performance Measures, which are related to Hydro One's sustainability goals. On June 1, 2022, the maturity date for the Operating Credit Facilities was extended from 2026 to 2027. No amounts were drawn on the Operating Credit Facilities at June 30, 2022 or December 31, 2021. 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[3] are expected to be sufficient to fund the Company's operating requirements.

At June 30, 2022, the Company had long-term debt outstanding in the principal amount of $13,053 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 $133 million issued by HOSSM. The long-term debt issued by Hydro One was issued under its short form 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 Company's total long-term debt consists of notes and debentures that mature between 2023 and 2064, and at June 30, 2022, had a weighted-average term to maturity of approximately 15.0 years (December 31, 2021 - 14.8 years) and a weighted-average coupon rate of 3.8% (December 31, 2021 - 3.8%).

In June 2022, Hydro One Inc. filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, and expires in July 2024. At June 30, 2022, $4,000 million remained available for issuance under the MTN Program prospectus.

In August 2020, Hydro One filed the 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, and expires in September 2022. At June 30, 2022, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus. A new Universal Base Shelf prospectus is expected to be filed in the third quarter of 2022.

In December 2020, Hydro One Holdings Limited (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, expiring in January 2023. At June 30, 2022, no securities have been issued under the US Debt Shelf Prospectus.

Compliance

At June 30, 2022, 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.

[3] FFO is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

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 June 30, 2022 *(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	13,053	733	1,450	500	10,370
Long-term debt - interest payments	8,173	497	952	885	5,839
Short-term notes payable	1,432	1,432	—	—	—
Pension contributions	614	107	220	228	59
Environmental and asset retirement obligations	148	43	42	24	39
Outsourcing and other agreements	159	93	47	5	14
Lease obligations	65	15	22	18	10
Long-term software/meter agreement	34	8	18	6	2
Total contractual obligations	23,678	2,928	2,751	1,666	16,333
Other commercial commitments *(by year of expiry)*					
Operating Credit Facilities	2,550	—	—	2,550	—
Letters of credit[1]	169	169	—	—	—
Guarantees[2]	517	517	—	—	—
Total other commercial commitments	3,236	686	—	2,550	—

[1] Letters of credit consist of $160 million letters of credit related to retirement compensation arrangements, a $2 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 $475 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) and ONroute of $7 million and $30 million respectively, relating to 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 August 8, 2022, Hydro One had 598,714,580 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At August 8, 2022, 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 were vested and exercised at August 8, 2022 was 2,310,235.

REGULATION

Electricity Rates - Joint Rate Application

In March 2018, the OEB issued a letter (OEB Letter) requesting Hydro One file a single application for distribution rates and transmission revenue requirement for the period from 2023 to 2027. The OEB Letter had indicated that Hydro One Remote Communities should be included in the single application, however, this requirement was later removed by the OEB.

On August 5, 2021, Hydro One Networks filed a custom JRAP for 2023-2027. The JRAP includes a proposed investment plan supporting the transmission and distribution revenue requirements. On March 31, 2022, Hydro One Networks filed updated evidence reflecting the impacts of updated inflation assumptions on the proposed investment plan as well as updated load forecasts. A decision is anticipated in the first quarter of 2023. The following table summarizes the key elements of Hydro One Networks' updated JRAP evidence filed with the OEB:

	Hydro One Networks - Transmission		Hydro One Networks - Distribution	
Year	Rate Base (Forecast)	Revenue Requirement[1]	Rate Base (Forecast)	Revenue Requirement[1]
2023	$14,612 million	$1,849 million	$9,395 million	$1,669 million
2024	$15,517 million	$1,968 million	$10,031 million	$1,753 million
2025	$16,585 million	$2,063 million	$10,764 million	$1,832 million
2026	$17,603 million	$2,182 million	$11,478 million	$1,935 million
2027	$18,534 million	$2,267 million	$12,105 million	$2,025 million

[1] Revenue requirement for 2023 to 2027 represents filing estimates utilizing the OEB's 2021 Allowed ROE of 8.34%. The ROE is calculated based on the Cost of Capital Parameters released by the OEB on November 9, 2020. ROE will be finalized towards the end of 2022.

Deferred Tax Asset

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 (ODC) with respect to the DTA Decision.

On July 16, 2020, the ODC rendered its decision (ODC Decision) in which it agreed with the submissions of Hydro One that the DTA should be allocated to shareholders in its entirety.

On April 8, 2021, the OEB rendered its 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 the previously shared DTA amounts plus carrying charges is expected to result in FFO[4] of approximately $135 million and $65 million in 2022 and 2023, respectively. In addition, the DTA Implementation Decision required 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 result in additional FFO[4] of approximately $50 million in 2022, but will decline over time. The DTA Implementation Decision is also expected to result in an ETR of 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, 2021, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2.2% increase to 2021 base rates, effective May 1, 2022. The application was subsequently updated to request a 3.3% increase to 2021 base rates to reflect the OEB's annually updated inflation parameters for electricity distributors for 2022. On March 24, 2022, the OEB approved the application for rates and other charges which became effective on May 1, 2022.

[4] FFO is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

OTHER DEVELOPMENTS

Collective Agreements

The prior collective agreement with the Canadian Union of Skilled Workers (CUSW) expired on April 30, 2022. In March 2022, Hydro One and the CUSW commenced collective bargaining with the official exchange of bargaining agendas. The agreement was ratified by the CUSW membership in May. The term of the agreement is for four years ending on April 30, 2026.

In addition, Hydro One's collective agreement with the Power Workers' Union for Customer Service Operations expires on September 30, 2022. Planning for collective bargaining to renew this agreement is currently underway.

Exemptive Relief

On July 28, 2022, the Canadian securities regulatory authorities granted (i) the Minister of Energy, (ii) Ontario Power Generation Inc. (on behalf of itself and the segregated funds established as required by the Nuclear Fuel Waste Act) and (iii) agencies of the Crown, provincial Crown corporations and other provincial entities (collectively, the Non-Aggregated Holders) exemptive relief, subject to certain conditions, to enable each Non-Aggregated Holder to treat securities of Hydro One and debt securities of Hydro One Inc. and Hydro One Holdings Limited that it owns or controls separately from securities of Hydro One and debt securities of Hydro One Inc. and Hydro One Holdings Limited owned or controlled by the other Non-Aggregated Holders for purposes of certain take-over bid, early warning reporting, insider reporting and control person distribution rules and certain distribution restrictions under Canadian securities laws. Hydro One was also granted relief permitting it to rely solely on insider reports and early warning reports filed by Non-Aggregated Holders when reporting beneficial ownership or control or direction over securities of Hydro One and debt securities of Hydro One Inc. and Hydro One Holdings Limited in any information circular or annual information form in respect of such securities beneficially owned or controlled by any Non-Aggregated Holder, subject to certain conditions. Substantially similar relief had previously been granted on June 6, 2017, which terminated in 2022.

Supporting Broadband and Infrastructure Expansion Act, 2021

On March 4, 2021, the Province 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 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 Province 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. The Building Broadband Faster Act (BBFA) Guideline and regulations informing the legislative changes were published on November 30, 2021. The regulation regarding electricity infrastructure and designated broadband projects under the OEB Act came into force on April 21, 2022. The Company continues to be engaged with the Province on implementing an appropriate regulatory framework to support the published BBFA Guideline and regulations, including arrangements to sustain the Company's revenues and recovery of reasonable associated costs. On December 16, 2021, the OEB issued a decision and order that lowered the annual wireline attachment rate for telecommunications carriers from $44.50 per attacher per pole to $34.76 per attacher per pole. On March 7, 2022, the Province introduced Bill 93 (*Getting Ontario Connected Act, 2022*). Bill 93 received Royal Assent on April 14, 2022. Bill 93 amends the BBFA to ensure that organizations that own underground utility infrastructure near a designated high-speed internet project provide timely access to their infrastructure data, which would allow internet service providers to quickly start work on laying down underground high-speed internet infrastructure. On July 7, 2022, the OEB established a deferral account for rate-regulated distributors to record incremental costs associated with carrying out activities pertaining to designated broadband projects. The Company will continue to assess the impact as more details become available.

Supporting Critical Transmission Infrastructure in Southwestern Ontario

On March 31, 2022, the Minister of Energy directed the OEB to amend Hydro One Networks' licence to require it to develop and seek approvals for four priority transmission line projects to meet growing electricity demand in Southwestern Ontario: the St. Clair Line (a 230kV line from Lambton Transformer Station (TS) to Chatham Switching Station (SS)); two 500 kV lines from Longwood TS to Lakeshore TS; and a 230kV line connecting the Windsor area to the Lakeshore TS.

On May 9, 2022, Hydro One filed a leave-to-construct application seeking OEB approval for the Chatham to Lakeshore Transmission Line project in Southwestern Ontario. In December 2020, the Minister of Energy issued a directive to the OEB to amend Hydro One Networks' transmission licence to include a requirement that Hydro One proceed to develop and seek all necessary approvals for the project. The cost of this project is estimated at $268 million (see section "Major Transmission Capital Investment Projects").

Sustainability Report

The Hydro One 2021 Sustainability Report entitled "Energizing life for people & communities" is available on the Company's website at www.hydroone.com/sustainability.

The 2021 Sustainability Report discloses the Company's environmental, social and governance performance and provides a better understanding of how Hydro One manages the opportunities and challenges associated with its business. The report also includes disclosure relating to the Company's current efforts in its priority areas of People, Planet and Community.

HYDRO ONE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

Effective June 8, 2022, Jessica McDonald was no longer a director of the Board. On June 8, 2022, Mark Podlasly was elected to the Board.

On June 21, 2022, Mark Poweska, former President and Chief Executive Officer, resigned as a director and officer of Hydro One. On the same date, Hydro One announced the appointment of William (Bill) Sheffield as Interim President and Chief Executive Officer.

NON-GAAP FINANCIAL MEASURES

Hydro One uses a number of financial measures to assess its performance. The Company presents FFO or "funds from operations" to reflect a measure of the Company's cash flow; and revenues, net of purchased power to reflect revenues net of the cost of purchased power. FFO and revenues, net of purchased power are non-GAAP financial measures which do not have a standardized meaning prescribed by GAAP and might not be comparable to similar measures presented by other entities. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under GAAP.

Hydro One also uses financial ratios that are non-GAAP ratios such as debt to capitalization ratio and earnings coverage ratio. Non-GAAP ratios do not have a standardized meaning prescribed by GAAP and might not be comparable to similar measures presented by other entities. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under GAAP.

Funds From Operations

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.

The following table provides a reconciliation of GAAP (reported) results to non-GAAP (adjusted) results on a consolidated basis.

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Net cash from operating activities	621	412	1,064	929
Changes in non-cash balances related to operations	(96)	31	94	83
Distributions to noncontrolling interest	(2)	(2)	(6)	(4)
FFO	523	441	1,152	1,008

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of purchased power; distribution revenues, net of purchased power is defined as distribution revenues less the cost of purchased power. These measures are used internally by management to assess the impacts of revenue on net income and are considered useful because they exclude the cost of power that is fully recovered through revenues and therefore net income neutral.

The following tables provide a reconciliation of GAAP (reported) revenues to non-GAAP (adjusted) revenues, net of purchased power on a consolidated basis.

Quarter ended *(millions of dollars)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Revenues	1,840	2,047	1,779	1,913	1,722	1,811	1,867	1,903
Less: Purchased power	852	1,014	914	933	838	894	1,046	993
Revenues, net of purchased power	988	1,033	865	980	884	917	821	910

Quarter ended *(millions of dollars)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Distribution revenues	1,314	1,517	1,347	1,395	1,263	1,354	1,457	1,410
Less: Purchased power	852	1,014	914	933	838	894	1,046	993
Distribution revenues, net of purchased power	462	503	433	462	425	460	411	417

Debt to Capitalization Ratio

The Company believes that the debt to capitalization ratio is an important non-GAAP ratio in the management of its debt levels. This non-GAAP ratio does not have a standardized meaning under US GAAP and may not be comparable to similar measures presented by other entities. Debt to capitalization ratio 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.

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Short-term notes payable	1,432	1,045
Less: cash and cash equivalents	(31)	(540)
Long-term debt (current portion)	738	603
Long-term debt (long-term portion)	12,280	13,017
Total debt (A)	**14,419**	**14,125**
Shareholders' equity (excluding noncontrolling interest)	11,144	10,888
Total debt plus shareholders' equity (B)	**25,563**	**25,013**
Debt-to-capitalization ratio (A/B)	**56.4 %**	**56.5 %**

Earnings Coverage Ratio

Earnings coverage ratio is defined as earnings before income taxes and financing charges attributable to shareholders, divided by the sum of financing charges and capitalized interest, and is calculated on a rolling twelve-month basis. The Company believes that the earnings coverage ratio is an important non-GAAP measure in the management of its liquidity. This non-GAAP ratio does not have a standardized meaning under US GAAP and may not be comparable to similar measures presented by other entities.

Quarter ended *(millions of dollars)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Year-to-date net income to preferred shareholder	—	—	—	—	—	—	18	18
Year-to-date net income to common shareholder	565	310	965	806	506	268	1,770	1,609
	565	**310**	**965**	**806**	**506**	**268**	**1,788**	**1,627**
Year-to-date income tax expense	147	79	178	123	52	26	(785)	(812)
Year-to-date financing charges	236	117	461	338	220	116	471	352
Earnings before income taxes and financing charges attributable to common shareholders and preferred shareholder	948	506	1,604	1,267	778	410	1,474	1,167

Twelve months ended *(millions of dollars)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Earnings before income taxes and financing charges attributable to common shareholders and preferred shareholder (A)	**1,774**	**1,700**	**1,604**	**1,574**	**1,511**	**1,520**	**1,474**	**1,501**

Quarter ended *(millions of dollars)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Financing charges	236	117	461	338	220	116	471	352
Capitalized interest	31	15	60	44	29	13	49	36
Financing charges and capitalized interest	267	132	521	382	249	129	520	388

Twelve months ended *(millions of dollars)*	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Financing charges and capitalized interest (B)	**539**	**524**	**521**	**514**	**509**	**520**	**520**	**516**
Earnings coverage ratio = A/B	**3.3**	**3.2**	**3.1**	**3.1**	**3.0**	**2.9**	**2.8**	**2.9**

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.2% ownership at June 30, 2022. The IESO, OPG, Ontario Electricity Financial Corporation (OEFC), and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy. OCN LP is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2022 and 2021:

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	Transaction	2022	2021	2022	2021
Province	Dividends paid	79	75	154	147
IESO	Power purchased	408	392	1,186	1,031
	Revenues for transmission services	512	443	1,028	885
	Amounts related to electricity rebates	243	242	544	548
	Distribution revenues related to rural rate protection	60	60	121	122
	Distribution revenues related to supply of electricity to remote northern communities	9	9	18	18
OPG[1]	Power purchased	5	1	11	5
	Revenues related to provision of services and supply of electricity	2	1	4	3
	Capital contribution received from OPG	—	—	2	2
	Costs related to the purchase of services	1	1	1	1
OEFC	Power purchased from power contracts administered by the OEFC	—	—	1	—
OEB	OEB fees	3	2	5	4
OCN LP[2]	Investment in OCN LP	1	—	1	—

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

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

RISK MANAGEMENT AND RISK FACTORS

Hydro One is subject to numerous risks and uncertainties. Critical to Hydro One's success is the identification, management, and to the extent possible, mitigation of these risks. Hydro One's Enterprise Risk Management program assists decision-makers throughout the organization with the management of key business risks, including new and emerging risks and opportunities.

A discussion of the material risks relating to Hydro One and its business that the Company believes would be the most likely to influence an investor's decision to purchase Hydro One's securities can be found under the heading "Risk Management and Risk Factors" in the 2021 MD&A.

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 June 30, 2022 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 2020-06	August 2020	The update addresses the complexity associated with applying US GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments reduce the number of accounting models for convertible debt instruments and convertible preferred stock.	January 1, 2022	No impact upon adoption
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	No impact upon adoption
ASU 2021-10	November 2021	The update addresses diversity on the recognition, measurement, presentation and disclosure of government assistance received by business entities.	January 1, 2022	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Hydro One
ASU 2021-08	October 2021	The amendments address how to determine whether a contractual obligation represents a liability to be recognized by the acquirer in a business combination.	January 1, 2023	Under assessment
ASU 2022-02	March 2022	The amendments eliminate the troubled debt restructuring (TDR) accounting model for entities that have adopted Topic 326 Financial Instrument – Credit Losses and modifies the guidance on vintage disclosure requirements to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023	Upon adoption, the Company will disclose the current period gross write-offs by year of origination relating to its accounts receivable

HYDRO ONE HOLDINGS LIMITED - CONSOLIDATING SUMMARY FINANCIAL INFORMATION

Hydro One Limited fully and unconditionally guarantees the payment obligations of its wholly-owned subsidiary, 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 at June 30, 2022 and December 31, 2021 and for the three and six months ended June 30, 2022 and June 30, 2021 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 June 30 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenue	168	160	—	—	2,035	1,904	(363)	(342)	1,840	1,722
Net Income (Loss) Attributable to Common Shareholders	167	160	—	—	434	417	(346)	(339)	255	238

Six months ended June 30 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Revenue	327	311	—	—	4,273	3,908	(713)	(686)	3,887	3,533
Net Income (Loss) Attributable to Common Shareholders	326	311	—	—	920	861	(681)	(666)	565	506

As at June 30, 2022 and December 31, 2021 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Jun. 2022	Dec.2021	Jun. 2022	Dec.2021	Jun. 2022	Dec.2021	Jun. 2022	Dec.2021	Jun. 2022	Dec.2021
Current Assets	108	97	—	—	2,239	2,742	(1,037)	(1,013)	1,310	1,826
Non-Current Assets	3,459	3,450	—	—	45,108	45,019	(19,320)	(19,912)	29,247	28,557
Current Liabilities	491	475	—	—	3,919	3,507	(1,024)	(1,004)	3,386	2,978
Non-Current Liabilities	425	425	—	—	27,813	28,892	(12,297)	(12,888)	15,941	16,429

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 including the JRAP and its proposed investment plan, 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; 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; contractual obligations and other commercial commitments; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans; collective bargaining and agreements, including the expiry thereof; Bill 257 and Bill 93, related regulations and the expected timing and impacts; future pension contributions; dividends; non-GAAP financial measures; internal controls over financial reporting and disclosure; recent accounting-related guidance and anticipated impacts; the MTN Program; the Universal Base Shelf Prospectus, including the expected timing for filing of a new 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, including the spread of its variants, 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 (as defined in the *Indian Act* (Canada)) (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 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;
- 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;
- 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 2021 MD&A.

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

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three and six months ended June 30, 2022 and 2021

(millions of Canadian dollars, except per share amounts)	Three months ended June 30 2022	Three months ended June 30 2021	Six months ended June 30 2022	Six months ended June 30 2021
Revenues				
Distribution (includes related party revenues of $70 and $142 (2021 - $70 and $143) for the three and six months ended June 30, respectively) *(Note 22)*	1,314	1,263	2,831	2,617
Transmission (includes related party revenues of $513 and $1,029 (2021 - $443 and $885) for the three and six months ended June 30, respectively) *(Note 22)*	516	448	1,035	896
Other	10	11	21	20
	1,840	1,722	3,887	3,533
Costs				
Purchased power (includes related party costs of $413 and $1,198 (2021 - $393 and $1,036) for the three and six months ended June 30, respectively) *(Note 22)*	852	838	1,866	1,732
Operation, maintenance and administration *(Note 22)*	286	289	574	571
Depreciation, amortization and asset removal costs *(Note 4)*	258	225	495	448
	1,396	1,352	2,935	2,751
Income before financing charges and income tax expense	**444**	**370**	**952**	**782**
Financing charges *(Note 5)*	119	104	236	220
Income before income tax expense	**325**	**266**	**716**	**562**
Income tax expense *(Note 6)*	68	26	147	52
Net income	**257**	**240**	**569**	**510**
Other comprehensive income *(Note 7)*	5	3	12	6
Comprehensive income	**262**	**243**	**581**	**516**
Net income attributable to:				
Noncontrolling interest	2	2	4	4
Common shareholders	255	238	565	506
	257	**240**	**569**	**510**
Comprehensive income attributable to:				
Noncontrolling interest	2	2	4	4
Common shareholders	260	241	577	512
	262	**243**	**581**	**516**
Earnings per common share *(Note 20)*				
Basic	$0.43	$0.40	$0.94	$0.85
Diluted	$0.42	$0.40	$0.94	$0.84
Dividends per common share declared *(Note 19)*	$0.28	$0.27	$0.55	$0.52

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At June 30, 2022 and December 31, 2021

As at *(millions of Canadian dollars)*	**June 30, 2022**	**December 31, 2021**
Assets		
Current assets:		
Cash and cash equivalents	31	540
Accounts receivable *(Note 8)*	681	699
Due from related parties *(Note 22)*	303	284
Other current assets *(Note 9)*	295	303
	1,310	1,826
Property, plant and equipment *(Note 10)*	24,453	23,842
Other long-term assets:		
Regulatory assets *(Note 11)*	3,614	3,561
Deferred income tax assets	114	118
Intangible assets (net of accumulated amortization - $701; 2021 - $662)	590	570
Goodwill	373	373
Other assets *(Note 12)*	103	93
	4,794	4,715
Total assets	**30,557**	**30,383**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 15)*	1,432	1,045
Long-term debt payable within one year *(Notes 15, 16)*	738	603
Accounts payable and other current liabilities *(Note 13)*	1,089	1,064
Due to related parties *(Note 22)*	127	266
	3,386	2,978
Long-term liabilities:		
Long-term debt *(Notes 15, 16)*	12,280	13,017
Regulatory liabilities *(Note 11)*	378	362
Deferred income tax liabilities	558	367
Other long-term liabilities *(Note 14)*	2,725	2,683
	15,941	16,429
Total liabilities	**19,327**	**19,407**
Contingencies and Commitments (Notes 24, 25)		
Subsequent Events (Note 27)		
Noncontrolling interest subject to redemption	20	20
Equity		
Common shares *(Note 18)*	5,699	5,688
Additional paid-in capital *(Note 21)*	33	38
Retained earnings	5,412	5,174
Accumulated other comprehensive loss	—	(12)
Hydro One shareholders' equity	11,144	10,888
Noncontrolling interest	66	68
Total equity	**11,210**	**10,956**
	30,557	**30,383**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the six months ended June 30, 2022 and 2021

Six months ended June 30, 2022 *(millions of Canadian dollars)*	**Common Shares**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Hydro One Shareholders' Equity**	**Non-controlling Interest**	**Total Equity**
January 1, 2022	5,688	38	5,174	(12)	10,888	68	10,956
Net income	—	—	565	—	565	3	568
Other comprehensive income *(Note 7)*	—	—	—	12	12	—	12
Distributions to noncontrolling interest	—	—	—	—	—	(5)	(5)
Dividends on common shares *(Note 19)*	—	—	(327)	—	(327)	—	(327)
Common shares issued	11	(8)	—	—	3	—	3
Stock-based compensation	—	3	—	—	3	—	3
June 30, 2022	**5,699**	**33**	**5,412**	**—**	**11,144**	**66**	**11,210**

Six months ended June 30, 2021 *(millions of Canadian dollars)*	**Common 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	—	—	506	—	506	3	509
Other comprehensive income *(Note 7)*	—	—	—	6	6	—	6
Distributions to noncontrolling interest	—	—	—	—	—	(7)	(7)
Dividends on common shares *(Note 19)*	—	—	(311)	—	(311)	—	(311)
Common shares issued	10	(10)	—	—	—	—	—
Stock-based compensation	—	(1)	—	—	(1)	—	(1)
June 30, 2021	**5,688**	**36**	**5,033**	**(23)**	**10,734**	**68**	**10,802**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three and six months ended June 30, 2022 and 2021

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	**2022**	**2021**	**2022**	**2021**
Operating activities				
Net income	257	240	569	510
Environmental expenditures	(11)	(9)	(19)	(17)
Adjustments for non-cash items:				
Depreciation and amortization *(Note 4)*	214	196	425	394
Regulatory assets and liabilities	(8)	(8)	21	52
Deferred income tax expense	62	13	135	32
Other	11	11	27	41
Changes in non-cash balances related to operations *(Note 23)*	96	(31)	(94)	(83)
Net cash from operating activities	**621**	**412**	**1,064**	**929**
Financing activities				
Long-term debt repaid	(1)	(302)	(601)	(802)
Short-term notes issued	1,470	1,330	2,860	2,145
Short-term notes repaid	(1,364)	(815)	(2,470)	(1,615)
Dividends paid *(Note 19)*	(168)	(159)	(327)	(311)
Distributions paid to noncontrolling interest	(2)	(2)	(6)	(4)
Common shares issued	—	—	3	—
Costs to obtain financing	(4)	(2)	(4)	(2)
Net cash from (used in) financing activities	**(69)**	**50**	**(545)**	**(589)**
Investing activities				
Capital expenditures *(Note 23)*				
Property, plant and equipment	(536)	(516)	(974)	(995)
Intangible assets	(27)	(34)	(53)	(71)
Capital contributions received	10	7	10	9
Other	(3)	6	(11)	6
Net cash used in investing activities	**(556)**	**(537)**	**(1,028)**	**(1,051)**
Net change in cash and cash equivalents	(4)	(75)	(509)	(711)
Cash and cash equivalents, beginning of period	35	121	540	757
Cash and cash equivalents, end of period	**31**	**46**	**31**	**46**

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 June 30, 2022, the Province held approximately 47.2% (December 31, 2021 - 47.2%) 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, a limited partnership between Hydro One and the Saugeen Ojibway Nation, and an approximately 55% interest in Niagara Reinforcement Limited Partnership, a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation.

Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

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 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 (DTA Implementation Decision). See Note 11 - Regulatory Assets and Liabilities for additional details.

Hydro One Remote Communities

On November 3, 2021, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2.2% increase to 2021 base rates, effective May 1, 2022. The application was subsequently updated to request a 3.3% increase to 2021 base rates to reflect the OEB's annually updated inflation parameters for electricity distributors for 2022. On March 24, 2022, the OEB approved the application for rates and other charges which became effective on May 1, 2022.

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 (US) Generally Accepted Accounting Principles (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, 2021, 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, 2021.

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 2020-06	August 2020	The update addresses the complexity associated with applying US GAAP for certain financial instruments with characteristics of liabilities and equity. The amendments reduce the number of accounting models for convertible debt instruments and convertible preferred stock.	January 1, 2022	No impact upon adoption
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	No impact upon adoption
ASU 2021-10	November 2021	The update addresses diversity on the recognition, measurement, presentation and disclosure of government assistance received by business entities.	January 1, 2022	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Hydro One
ASU 2021-08	October 2021	The amendments address how to determine whether a contractual obligation represents a liability to be recognized by the acquirer in a business combination.	January 1, 2023	Under assessment
ASU 2022-02	March 2022	The amendments eliminate the troubled debt restructuring (TDR) accounting model for entities that have adopted Topic 326 Financial Instrument – Credit Losses and modifies the guidance on vintage disclosure requirements to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023	Upon adoption, the Company will disclose the current period gross write-offs by year of origination relating to its accounts receivable

4. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Depreciation of property, plant and equipment	184	169	367	340
Amortization of intangible assets	19	18	39	37
Amortization of regulatory assets	11	9	19	17
Depreciation and amortization	214	196	425	394
Asset removal costs	44	29	70	54
	258	225	495	448

5. FINANCING CHARGES

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Interest on long-term debt	125	126	248	250
Interest on short-term notes	4	1	5	1
Realized loss on cash flow hedges (interest-rate swap agreements) *(Notes 7, 16)*	1	3	4	6
Interest on regulatory accounts	1	—	2	1
Other	4	3	8	5
Less: Interest capitalized on construction and development in progress	(16)	(16)	(31)	(29)
DTA carrying charges *(Note 11)*	1	(13)	1	(13)
Interest earned on cash and cash equivalents	(1)	—	(1)	(1)
	119	104	236	220

6. 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 recovery or expense, respectively. 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 June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Income before income tax expense	325	266	716	562
Income tax expense at statutory rate of 26.5% (2021 - 26.5%)	86	71	190	149
Increase (decrease) resulting from:				
Net temporary differences recoverable in future rates charged to customers:				
Capital cost allowance in excess of depreciation and amortization	(24)	(21)	(52)	(46)
Impact of DTA Implementation Decision[1]	24	(8)	48	(20)
Overheads capitalized for accounting but deducted for tax purposes	(6)	(5)	(13)	(12)
Pension and post-retirement benefit contributions in excess of pension expense	(4)	(2)	(10)	(6)
Interest capitalized for accounting but deducted for tax purposes	(4)	(5)	(9)	(9)
Environmental expenditures	(4)	(2)	(7)	(4)
Other	—	(3)	(1)	(2)
Net temporary differences attributable to regulated business	(18)	(46)	(44)	(99)
Net permanent differences	—	1	1	2
Total income tax expense	68	26	147	52
Effective income tax rate	20.9%	9.8%	20.5%	9.3%

[1] Pursuant to the DTA Implementation Decision, the 2021 impact represents the sharing of tax deductions from deferred tax asset (DTA Sharing) given to ratepayers, offset by the recovery of DTA amounts previously shared effective July 1, 2021. For 2022, the impact represents the recovery of DTA amounts previously shared from ratepayers. See Note 11 - Regulatory Assets and Liabilities.

7. OTHER COMPREHENSIVE INCOME

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Gain on cash flow hedges (interest-rate swap agreements) *(Notes 5, 16)*[1]	4	3	10	6
Gain on transfer of other post-employment benefits (OPEB) *(Note 17)*	1	—	2	—
	5	3	12	6

[1] Includes less than $1 million after-tax realized loss (2021 - $2 million), $1 million before-tax realized loss (2021 - $3 million), and includes $2 million after-tax realized loss (2021 - $4 million) and $4 million before-tax realized loss (2021 - $6 million) on cash flow hedges reclassified to financing charges for the three and six months ended June 30, 2022, respectively.

8. ACCOUNTS RECEIVABLE

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Accounts receivable - billed	363	346
Accounts receivable - unbilled	390	409
Accounts receivable, gross	753	755
Allowance for doubtful accounts	(72)	(56)
Accounts receivable, net	681	699

The following table shows the movements in the allowance for doubtful accounts for the six months ended June 30, 2022 and the year ended December 31, 2021:

(millions of dollars)	Six months ended June 30, 2022	Year ended December 31, 2021
Allowance for doubtful accounts – beginning	(56)	(46)
Write-offs	10	15
Additions to allowance for doubtful accounts	(26)	(25)
Allowance for doubtful accounts – ending	(72)	(56)

9. OTHER CURRENT ASSETS

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Regulatory assets *(Note 11)*	198	226
Prepaid expenses and other assets	68	55
Materials and supplies	23	22
Derivative assets *(Note 16)*	6	—
	295	303

10. PROPERTY, PLANT AND EQUIPMENT

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Property, plant and equipment	35,653	34,943
Less: accumulated depreciation	(13,030)	(12,698)
	22,623	22,245
Construction in progress	1,645	1,417
Future use land, components and spares	185	180
	24,453	23,842

11. REGULATORY ASSETS AND LIABILITIES

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

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Regulatory assets:		
Deferred income tax regulatory asset	2,633	2,509
Pension benefit regulatory asset	701	713
Deferred tax asset sharing	139	204
Post-retirement and post-employment benefits - non-service cost	134	125
Environmental	110	122
Stock-based compensation	32	38
Foregone revenue deferral	12	25
Debt premium	5	7
Conservation and Demand Management variance	4	8
Other	42	36
Total regulatory assets	3,812	3,787
Less: current portion	(198)	(226)
	3,614	3,561
Regulatory liabilities:		
Tax rule changes variance	92	86
Retail settlement variance account	67	58
External revenue variance	51	52
Earnings sharing mechanism deferral	42	42
Asset removal costs cumulative variance	40	36
Post-retirement and post-employment benefits	33	33
Pension cost differential	30	30
Green energy expenditure variance	9	13
Deferred income tax regulatory liability	4	4
Other	17	18
Total regulatory liabilities	385	372
Less: current portion	(7)	(10)
	378	362

Deferred Tax Asset Sharing

At June 30, 2022, Hydro One has a net regulatory asset of $139 million representing the cumulative DTA amounts shared with ratepayers since 2017 to 2021, net of the amount recovered from ratepayers since July 1, 2021 pursuant to the DTA Implementation Decision. The net regulatory asset of $139 million (December 31, 2021 - $204 million) consists of $49 million (December 31, 2021 - $72 million) and $90 million (December 31, 2021 - $132 million) for Hydro One Networks' distribution and transmission segments, respectively. The balance of this regulatory account will continue to decrease as amounts are recovered over the next 12 months.

12. OTHER LONG-TERM ASSETS

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Right-of-Use assets	60	57
Investments	29	22
Other long-term assets	14	14
	103	93

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Accrued liabilities	693	619
Accounts payable	221	255
Accrued interest	112	124
Environmental liabilities	43	34
Lease obligations	13	14
Regulatory liabilities *(Note 11)*	7	10
Derivative liabilities *(Note 16)*	—	8
	1,089	1,064

14. OTHER LONG-TERM LIABILITIES

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Post-retirement and post-employment benefit liability *(Note 17)*	1,852	1,800
Pension benefit liability *(Note 17)*	701	713
Environmental liabilities	81	88
Lease obligations	48	46
Asset retirement obligations	14	14
Long-term accounts payable	3	3
Other long-term liabilities	26	19
	2,725	2,683

15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.’s Commercial Paper Program which has a maximum authorized amount of $2,300 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 totaling $2,300 million.

At June 30, 2022, Hydro One’s consolidated committed and unsecured credit facilities (Operating Credit Facilities) totaling $2,550 million included Hydro One's credit facilities of $250 million and Hydro One Inc.'s credit facilities of $2,300 million. In January 2022, Hydro One successfully amended its Operating Credit Facilities to incorporate environmental, social and governance targets. On June 1, 2022, the maturity date for the Operating Credit Facilities was extended from 2026 to 2027. At June 30, 2022, 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 June 30, 2022, no debt securities have been issued by HOHL.

Long-Term Debt

The following table presents long-term debt outstanding at June 30, 2022 and December 31, 2021:

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Hydro One Inc. long-term debt (a)	12,495	13,095
Hydro One long-term debt (b)	425	425
HOSSM long-term debt (c)	138	142
	13,058	13,662
Add: Net unamortized debt premiums	8	9
Less: Unamortized deferred debt issuance costs	(48)	(51)
Total long-term debt	13,018	13,620
Less: Long-term debt payable within one year	(738)	(603)
	12,280	13,017

(a) Hydro One Inc. long-term debt

At June 30, 2022, long-term debt of $12,495 million (December 31, 2021 - $13,095 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. In June 2022, Hydro One Inc. filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, and expires in July 2024. At June 30, 2022, $4,000 million remained available for issuance under the MTN Program prospectus. During the three and six months ended June 30, 2022 and 2021, no long-term debt was issued and long-term debt of $nil (2021 - $300 million) and $600 million (2021 - $800 million) was repaid, respectively, under the MTN Program.

(b) Hydro One long-term debt

At June 30, 2022, long-term debt of $425 million (December 31, 2021 - $425 million) was outstanding under Hydro One's short form base shelf prospectus (Universal Base Shelf Prospectus). In August 2020, Hydro One filed the 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, and expires in September 2022. At June 30, 2022, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus. During the three and six months ended June 30, 2022 and 2021, no long-term debt was issued or repaid.

(c) HOSSM long-term debt

At June 30, 2022, HOSSM long-term debt of $138 million (December 31, 2021 - $142 million) with a principal amount of $133 million (December 31, 2021 - $134 million) was outstanding. During the three and six months ended June 30, 2022 and 2021, no long-term debt was issued and $1 million (2021 - $2 million) of long-term debt was repaid.

Principal and Interest Payments

At June 30, 2022, 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	733	497	1.7
Year 2	700	485	2.5
Year 3	750	467	2.3
Year 4	500	449	2.8
Year 5	—	436	—
	2,683	2,334	2.3
Years 6-10	3,125	2,014	3.6
Thereafter	7,245	3,825	4.5
	13,053	8,173	3.8

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021 are as follows:

As at *(millions of dollars)*	June 30, 2022 Carrying Value	June 30, 2022 Fair Value	December 31, 2021 Carrying Value	December 31, 2021 Fair Value
Long-term debt, including current portion	13,018	12,293	13,620	15,573

Fair Value Measurements of Derivative Instruments

Fair Value Hedges

At June 30, 2022 and December 31, 2021, Hydro One Inc. had no fair value hedges.

Cash Flow Hedges

At June 30, 2022 and December 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 June 30, 2022 and December 31, 2021, the Company had no derivative instruments classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at June 30, 2022 and December 31, 2021 is as follows:

As at June 30, 2022 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instruments *(Note 9)*					
Cash flow hedges, including current portion	6	6	—	6	—
Liabilities:					
Long-term debt, including current portion	13,018	12,293	—	12,293	—

As at December 31, 2021 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	13,620	15,573	—	15,573	—
Derivative instruments *(Note 13)*					
Cash flow hedges, including current portion	8	8	—	8	—
	13,628	15,581	—	15,581	—

The fair value 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 six months ended June 30, 2022 or the year ended December 31, 2021.

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 and six months ended June 30, 2022 and 2021.

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 June 30, 2022, a $4 million after-tax unrealized gain (2021 - $1 million), $5 million before-tax (2021 - $1 million), was recorded in OCI, and less than $1 million after-tax realized loss (2021 - $2 million), $1 million before-tax (2021 - $3 million), was reclassified to financing charges. During the six months ended June 30, 2022, a $8 million after-tax unrealized gain (2021 - $2 million), $11 million before-tax (2021 - $3 million), was recorded in OCI, and a $2 million after-tax realized loss (2021- $4 million), $4 million before-tax (2021 - $6 million), was reclassified to financing charges. This resulted in accumulated other comprehensive income (AOCI) of $4 million related to cash flow hedges at June 30, 2022 (December 31, 2021 - accumulated other comprehensive loss (AOCL)- $6 million). The Company estimates that the amount of AOCI, after tax, related to cash flow hedges to be reclassified to results of operations in the next 12 months is $4 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 June 30, 2022, the maximum term over which the Company is hedging exposures to the variability of cash flows is less than one year.

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-retirement 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. See Note 17 - Pension and Post-Retirement and Post-Employment Benefits for further details.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021, there was no material accounts receivable balance due from any single customer.

At June 30, 2022, the Company's allowance for doubtful accounts was $72 million (December 31, 2021 - $56 million). The allowance for doubtful accounts reflects the Company's current lifetime expected credit losses (CECL) for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At June 30, 2022, approximately 4% (December 31, 2021 - 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including (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 in an asset position at the reporting date. At June 30, 2022 and December 31, 2021, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At June 30, 2022, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, was with two 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 June 2022, Hydro One Inc. filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, and expires in July 2024. At June 30, 2022, $4,000 million remained available for issuance under the MTN Program prospectus.

In August 2020, Hydro One filed the 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, and expires in September 2022. At June 30, 2022, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus.

In December 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, expiring in January 2023. At June 30, 2022, 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.

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

The following table provides the components of the net periodic benefit costs for the three and six months ended June 30, 2022 and 2021:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended June 30 *(millions of dollars)*	**2022**	**2021**	**2022**	**2021**
Current service cost	54	60	16	17
Interest cost	71	64	15	13
Expected return on plan assets, net of expenses[1]	(127)	(108)	—	—
Prior service cost amortization	—	1	2	2
Amortization of actuarial losses	15	31	—	1
Net periodic benefit costs	13	48	33	33
Charged to results of operations[2,3]	9	8	22	19

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Six months ended June 30 *(millions of dollars)*	**2022**	**2021**	**2022**	**2021**
Current service cost	108	120	32	33
Interest cost	142	128	30	25
Expected return on plan assets, net of expenses[1]	(254)	(216)	—	—
Prior service cost amortization	1	2	7	3
Amortization of actuarial losses	30	62	1	2
Net periodic benefit costs	27	96	70	63
Charged to results of operations[2,3]	16	14	41	37

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2022 is 6.00% (2021 - 5.40%).

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and six months ended June 30, 2022, pension costs of $21 million (2021 - $20 million) and $39 million (2021 - $37 million), respectively were attributed to labour, of which $9 million (2021 - $8 million) and $16 million (2021 - $14 million), respectively, was charged to operations, and $12 million (2021 - $12 million) and $23 million (2021 - $23 million), respectively, 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 six months ended June 30, 2022, additional other post-retirement and post-employment costs of $9 million (2021 - $8 million) attributed to labour were charged to operations.

Future Transfers from Other Plans

Hydro One and Inergi LP agreed to transfer the employment of certain Inergi LP employees (Transferred Employees) to Hydro One Networks. Employees related to the Information Technology Operations, Finance and Accounting, Payroll, Source to Pay, Settlements and certain Shared Services functions transferred over a period ending January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) became participants in the Hydro One Pension Plan upon transfer to Hydro One Networks. 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, which is expected to occur sometime in 2023. Inergi and Hydro One Networks also agreed to transfer 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) 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.

On November 1, 2021, Transferred Employees associated with source to pay operations (S2P Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $6 million related to the S2P Employees was completed. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $6 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 EARSL of the S2P Employees.

The transfer of Finance and Accounting, Payroll and certain Shared Services functions occurred on January 1, 2022 and the transfer of the OPEB liability of $9 million related to these Employees was completed in the first quarter. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $10 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 EARSL of the Finance and Accounting, Payroll and certain Shared Services employees.

18. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At June 30, 2022, the Company had 598,714,580 (December 31, 2021 - 598,217,549) common shares issued and outstanding.

The following table presents the changes to common shares during the six months ended June 30, 2022:

(number of shares)	
Common shares - December 31, 2021	598,217,549
Common shares issued - LTIP[1]	108,710
Common shares issued - share grants[2]	388,321
Common shares - June 30, 2022	598,714,580

[1] During the six months ended June 30, 2022, Hydro One issued from treasury 108,710 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP), related to stock options exercised on December 30, 2021.

[2] During the six months ended June 30, 2022, Hydro One issued from treasury 388,321 common shares in accordance with provisions of the Power Workers' Union (PWU) and the Society of United Professionals (Society) Share Grant Plans.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At June 30, 2022 and December 31, 2021, the Company had no preferred shares issued and outstanding.

19. DIVIDENDS

During the three months ended June 30, 2022, common share dividends in the amount of $168 million (2021 - $159 million) were declared and paid.

During the six months ended June 30, 2022, common share dividends in the amount of $327 million (2021 - $311 million) were declared and paid. See Note 27 - Subsequent Events for dividends declared subsequent to June 30, 2022.

20. 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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Net income attributable to common shareholders *(millions of dollars)*	255	238	565	506
Weighted-average number of shares				
Basic	598,710,144	598,212,600	598,516,859	597,940,658
Effect of dilutive stock-based compensation plans	2,042,012	2,276,575	2,112,440	2,408,032
Diluted	600,752,156	600,489,175	600,629,299	600,348,690
EPS				
Basic	$0.43	$0.40	$0.94	$0.85
Diluted	$0.42	$0.40	$0.94	$0.84

21. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (the PWU Share Grant Plan) and one for the benefit of certain members of the Society (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and six months ended June 30, 2022 and 2021 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of share grants)	2022	2021	2022	2021
Share grants outstanding - beginning	2,662,000	3,154,805	2,662,000	3,154,805
Vested and issued[1]	(388,321)	(417,020)	(388,321)	(417,020)
Share grants outstanding - ending	2,273,679	2,737,785	2,273,679	2,737,785

[1] During the three and six months ended June 30, 2022, Hydro One issued 388,321 (2021 - 417,020) common shares from treasury to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three and six months ended June 30, 2022 and 2021 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	2022	2021	2022	2021
DSUs outstanding - beginning	85,973	70,589	80,813	65,240
Granted	5,026	5,273	10,186	10,622
Paid	—	(5,315)	—	(5,315)
DSUs outstanding - ending	90,999	70,547	90,999	70,547

At June 30, 2022, a liability of $3 million (December 31, 2021 - $3 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of $34.61 (December 31, 2021 - $32.91). 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 and six months ended June 30, 2022 and 2021 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	2022	2021	2022	2021
DSUs outstanding - beginning	124,849	87,956	90,240	61,880
Granted	1,017	765	35,626	26,841
DSUs outstanding - ending	125,866	88,721	125,866	88,721

At June 30, 2022, a liability of $4 million (December 31, 2021 - $3 million) related to Management DSUs has been recorded at the closing price of the Company's common shares of $34.61 (December 31, 2021 - $32.91). 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)

There was no activity during the three months ended June 30, 2022 and 2021. A summary of PSU and RSU awards activity under the LTIP during the six months ended June 30, 2022 and 2021 is presented below:

	PSUs		RSUs	
Six months ended June 30 *(number of units)*	2022	2021	2022	2021
Units outstanding - beginning	—	111,920	—	139,730
Vested and issued	—	(111,920)	—	(104,970)
Settled	—	—	—	(34,760)
Units outstanding - ending	—	—	—	—

No awards were granted during the three and six months ended June 30, 2022 and 2021. The compensation expense related to the PSU and RSU awards recognized by the Company during the three and six months ended June 30, 2022 was $nil (2021 - $nil and less than $1 million).

Society RSU Plan

A summary of RSU awards activity under the Society RSU Plan during the three and six months ended June 30, 2022 and 2021 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of RSUs)	2022	2021	2022	2021
RSUs outstanding - beginning	36,556	—	71,053	—
Granted	—	—	1,667	—
Vested and issued	—	—	(34,346)	—
Settled	—	—	(1,106)	—
Forfeited	—	—	(712)	—
RSUs outstanding - ending	36,556	—	36,556	—

Stock Options

A summary of stock options activity during the three and six months ended June 30, 2022 and 2021 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of stock options)	2022	2021	2022	2021
Stock options outstanding - beginning	—	108,710	—	108,710
Stock options outstanding - ending	—	108,710	—	108,710

22. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.2% ownership at June 30, 2022. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy. Ontario Charging Network (OCN LP) is a joint-venture limited partnership between OPG and a subsidiary of Hydro One. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2022 and 2021:

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	Transaction	2022	2021	2022	2021
Province	Dividends paid	79	75	154	147
IESO	Power purchased	408	392	1,186	1,031
	Revenues for transmission services	512	443	1,028	885
	Amounts related to electricity rebates	243	242	544	548
	Distribution revenues related to rural rate protection	60	60	121	122
	Distribution revenues related to supply of electricity to remote northern communities	9	9	18	18
OPG[1]	Power purchased	5	1	11	5
	Revenues related to provision of services and supply of electricity	2	1	4	3
	Capital contribution received from OPG	—	—	2	2
	Costs related to the purchase of services	1	1	1	1
OEFC	Power purchased from power contracts administered by the OEFC	—	—	1	—
OEB	OEB fees	3	2	5	4
OCN LP[2]	Investment in OCN LP	1	—	1	—

[1] OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee. See Note 25 - Commitments for details related to the OCN Guarantee.
[2] OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest-free and settled in cash. Invoices are issued monthly, and amounts are due and paid on a monthly basis.

23. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2022	2021	2022	2021
Accounts receivable	70	3	14	2
Due from related parties	6	12	(19)	41
Materials and supplies *(Note 9)*	—	1	(1)	1
Prepaid expenses and other assets *(Note 9)*	—	1	(13)	(5)
Other long-term assets *(Note 12)*	—	—	(1)	1
Accounts payable	(10)	(23)	(52)	(43)
Accrued liabilities *(Note 13)*	121	(2)	88	78
Due to related parties	(93)	(18)	(139)	(194)
Accrued interest *(Note 13)*	(20)	(23)	(12)	(3)
Long-term accounts payable and other long-term liabilities *(Note 14)*	3	—	7	—
Post-retirement and post-employment benefit liability	19	18	34	39
	96	(31)	(94)	(83)

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the consolidated statements of cash flows for the three and six months ended June 30, 2022 and 2021. The reconciling items include net change in accruals and capitalized depreciation.

	Three months ended June 30, 2022			Six months ended June 30, 2022		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(579)	(33)	(612)	(1,001)	(60)	(1,061)
Reconciling items	43	6	49	27	7	34
Cash outflow for capital expenditures	(536)	(27)	(563)	(974)	(53)	(1,027)

	Three months ended June 30, 2021			Six months ended June 30, 2021		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(520)	(33)	(553)	(1,013)	(67)	(1,080)
Reconciling items	4	(1)	3	18	(4)	14
Cash outflow for capital expenditures	(516)	(34)	(550)	(995)	(71)	(1,066)

Supplementary Information

	Three months ended June 30		Six months ended June 30	
millions of dollars)	2022	2021	2022	2021
Net interest paid	147	148	264	254
Income taxes paid	8	7	22	13

24. 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.

25. 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 June 30, 2022 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	93	41	6	2	3	14
Long-term software/meter agreement	8	11	7	3	3	2

Outsourcing and Other Agreements

In February 2021, Hydro One entered into a three-year 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 commitments of $143 million over the initial three-year 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 June 30, 2022 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities	—	—	—	2,550	—	—
Letters of credit[1]	169	—	—	—	—	—
Guarantees[2]	517	—	—	—	—	—

[1] Letters of credit consist of $160 million letters of credit related to retirement compensation arrangements, a $2 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 $475 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, as well as guarantees provided by Hydro One to the Minister of Natural Resources (Canada) and ONroute of $7 million and $30 million, respectively, 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.

26. 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, investments including a joint venture that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network brand, 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 not to 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 June 30, 2022 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	516	1,314	10	1,840
Purchased power	—	852	—	852
Operation, maintenance and administration	97	173	16	286
Depreciation, amortization and asset removal costs	130	126	2	258
Income (loss) before financing charges and income tax expense	289	163	(8)	444
Capital investments	311	294	7	612

Three months ended June 30, 2021 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	448	1,263	11	1,722
Purchased power	—	838	—	838
Operation, maintenance and administration	101	177	11	289
Depreciation, amortization and asset removal costs	118	105	2	225
Income (loss) before financing charges and income tax expense	229	143	(2)	370
Capital investments	365	184	4	553

Six months ended June 30, 2022 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,035	2,831	21	3,887
Purchased power	—	1,866	—	1,866
Operation, maintenance and administration	196	344	34	574
Depreciation, amortization and asset removal costs	255	236	4	495
Income (loss) before financing charges and income tax expense	584	385	(17)	952
Capital investments	588	461	12	1,061

Six months ended June 30, 2021 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	896	2,617	20	3,533
Purchased power	—	1,732	—	1,732
Operation, maintenance and administration	199	344	28	571
Depreciation, amortization and asset removal costs	239	205	4	448
Income (loss) before financing charges and income tax expense	458	336	(12)	782
Capital investments	713	360	7	1,080

Total Assets by Segment:

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
Transmission	18,503	18,138
Distribution	11,784	11,487
Other	270	758
Total assets	30,557	30,383

Total Goodwill by Segment:

As at *(millions of dollars)*	June 30, 2022	December 31, 2021
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.

27. SUBSEQUENT EVENTS

Dividends

On August 8, 2022, common share dividends of $167 million ($0.2796 per common share) were declared.