

## **HYDRO ONE LIMITED**

### **CORPORATE GOVERNANCE GUIDELINES**

The board of directors (the “**Board**”) of Hydro One Limited (including its subsidiaries, the “**Company**”) and its management are committed to standards of corporate governance that are aligned with best practices. In these guidelines, “best practices” means procedures and practices that are consistent with the best practices of leading Canadian publicly listed companies, having regard to the Company’s ownership structure and the Governance Agreement between the Company and the Province of Ontario (as amended, revised or replaced from time to time, the “**Governance Agreement**”).

The Board has adopted the following guidelines to assist it in its corporate governance responsibilities.

#### **BOARD RESPONSIBILITIES**

##### **Board Mandate**

1. The Board has responsibility for the stewardship of the Company and has adopted a formal mandate setting out the Board’s responsibilities, including, without limitation, the Board’s responsibilities for supporting a culture of integrity, approving the capital and financial structure of the Company, strategic planning, risk management, appointment and oversight of management, board governance, and communications and reporting to stakeholders.

##### **Corporate Strategy**

2. The Board believes that management is responsible for the development of the Company’s corporate strategy, while the role of the Board is to review, question, validate and ultimately approve the strategy. The Board shall review the Company’s long term strategy not less than annually.

##### **Succession Planning**

3. The Board expects management succession planning to be an on-going activity to be periodically reviewed by the Human Resources Committee and reported on to the Board. This planning process shall include, on a continuing basis, the Chief Executive Officer’s recommendation of a successor in the event of an unexpected incapacitation of the Chief Executive Officer.

## **Board Communication with Stakeholders**

4. The Company is committed to understanding the interests of, and to maintaining and enhancing long-term relationships with, its owners, the Company's shareholders, as well as with other investors, regulators, governments, creditors, customers, suppliers and communities in which the Company operates and other stakeholders (together, "**stakeholders**"). As a result, the Board has adopted a Stakeholder Engagement Policy in order to promote open, effective and sustained dialogue with stakeholders consistent with the Company's Insider Trading Policy, Disclosure Policy and its obligations to provide fair disclosure and maintain effective disclosure controls and procedures. The Board, or an appropriate Committee of the Board, reviews the content of the Company's major communications to shareholders and the investing public, including, without limitation, quarterly and annual reports, earnings releases, management's discussion and analysis, information circulars, the annual information form and any registration statements or prospectuses that may be issued, filed or otherwise distributed.
5. The Board believes it is generally a function of management to speak for the Company in its communications with the investment community, the media other stakeholders and the general public. The Board oversees the discharge by management of its communication and engagement responsibilities. Management reports regularly to the Board on comments and feedback it receives. Directors, including the Board Chair, may also from time to time participate with management in initiatives to engage with shareholders and elicit shareholder views.
6. In addition, the Board Chair has a key role in stakeholder engagement generally and shareholder engagement in particular, including engaging with key institutional shareholders, including the Province of Ontario (as the Company's largest shareholder), from time to time to discuss governance and other related matters.

## **Corporate Governance**

7. The Governance Committee is responsible for developing and recommending improvements and other necessary adjustments to these corporate governance guidelines for implementation by the Board.

## **BOARD ORGANIZATION AND MEMBERSHIP**

### **Independence**

8. Other than the Chief Executive Officer, each director shall be “independent”: (a) within the meaning of all Canadian securities laws governing the disclosure of corporate governance practices as in effect and applicable to the Company from time to time and (b) of the Province of Ontario within the meaning of the Governance Agreement, and the Board shall satisfy stock exchange requirements prescribing a number or percentage of independent directors on a board of directors, as in effect and applicable to the Company from time to time.
9. The Board shall annually review the report of the Governance Committee on its review of the independence of each of the non-management directors.

### **Selection of Board Chair**

10. The Board Chair shall be an independent director and shall be nominated and confirmed annually by the Board, by a resolution of the Board passed by at least two-thirds of the votes cast at a meeting of the directors or consented to in writing by all of the directors (“**Special Board Resolution**”), in accordance with the Governance Agreement.
11. The Board has approved and shall periodically review a position description for the Board Chair. Among other responsibilities, the Board Chair shall provide leadership to the independent directors.

### **Principal Occupation Changes by Directors**

12. A non-management director who makes a major change in principal occupation shall submit his or her resignation to the Board for consideration. It is not intended that non-management directors who retire or whose professional positions change should necessarily leave the Board. Rather, the Board believes it is appropriate in such circumstances to conduct a review, with the assistance of the Governance Committee, of the continued appropriateness of Board membership under such circumstances. Whether that resignation is accepted shall be determined by the Board, taking into account the circumstances existing at that time.
13. When the Chief Executive Officer ceases to be an officer, he or she shall resign from the Board concurrent with ceasing to hold office with the Company. Absent exceptional circumstances, the former Chief Executive Officer shall not be eligible

to be considered for service on the Board until after five years have elapsed since serving as an officer.

### **Term Limits for Directors**

14. The Board is committed to a process of Board renewal and succession-planning for directors which seeks to bring fresh thinking and new perspectives to the Board while maintaining an appropriate degree of continuity and adequate opportunity for transition of Board and Board committee roles and responsibilities. In order to assist the Governance Committee and the Board in succession-planning for directors and appropriate Board renewal, the Board has adopted the following limits on Board service. These limits on Board service apply notwithstanding that a director has continued to receive solid annual performance evaluations, has needed skills and experience and meets other Board policies or legal requirements for Board service. There should be no expectation that a director will serve on the Board for the periods contemplated by these limits.
15. A non-executive director shall not stand for re-election at the first annual meeting of shareholders after 12 years following the date on which the director first began serving on the Board; provided that in special circumstances (including if necessary to facilitate orderly board renewal) on the recommendation of the Governance Committee a non-executive director may continue to stand for re-election so long as the director continues to receive solid annual performance assessments and meets other Board policies or legal requirements for Board service.
16. After a director has held the position of Committee Chair for a period of four years, the Governance Committee will review and consider whether a change to the committee chair would be appropriate.

### **Retirement Age for Directors**

17. Unless otherwise determined by the Board, no person shall be appointed or elected as a director after that person has reached 75 years of age.

### **Criteria for Board Membership; Diversity**

18. The Governance Committee is mandated to review annually the competencies, skills and personal qualities applicable to candidates to be considered for nomination to the Board. The objective of this review shall be to maintain the

composition of the Board in a way that, in the judgment of the Committee, provides the best mix of skills and experience to provide for the overall stewardship of the Company and that satisfies the Skills Matrix, the Board Diversity Policy and the requirements of the Governance Agreement.

19. The Company believes in diversity and values the benefits diversity can bring to the Board, including diversity of personal characteristics such as age, gender, ethnicity, and business experience. The composition of the Board is intended to reflect a diverse mix of skills, experience, knowledge and backgrounds, including an appropriate number of women directors. The Board has adopted a written Board Diversity Policy which, among other things, provides that the Board aspires towards a Board composition in which each gender shall comprises at least 40% of the directors on the Board.

### **Other Directorships**

20. The Company recognizes that the Board can benefit when a director also serves on the board of another company, so long as such service does not conflict with the Company's interests. A director's acceptance of additional positions as a corporate director with for-profit corporations is therefore subject to the Board's review. In general, unless otherwise determined by the Board, each non-management director is expected to hold no more than four public company directorships, and the Chief Executive Officer should not hold more than one such directorship, in each case excluding service on the Board of the Company. In addition, the Audit Committee Mandate provides that no member of the Audit Committee may serve on the audit committees of more than two other publicly-traded companies unless the Board has first determined that such simultaneous service would not impair the ability of the applicable director to serve on the Audit Committee.
21. The Board seeks to avoid having more than one board interlock at any given time. A "**board interlock**" is a circumstance where two or more directors on the Board serve on the board of directors of the same publicly-traded company, excluding the Company. Directors may not accept an invitation to join the board of another publicly-traded company, and new candidates for service on the Board will not be invited to join the Board, if it would result in there being more than one board interlock (or would increase the number of directors involved in the same board interlock), in each case unless the Governance Committee has reviewed the

matter and made a recommendation to the Board and the Board has thereafter approved it.

### **Selection of New Director Candidates**

22. The Governance Committee is mandated to manage and oversee the process for nominating new director candidates in accordance with the Governance Agreement, including confirming that the Province of Ontario's proposed nominees for election to the Board meet the required qualifications and proposing the Committee's nominees for election to the Board, in each case in accordance with the Governance Agreement. Directors are encouraged to identify potential candidates. The Board Chair and the Chief Executive Officer shall be consulted and have input into the process. Once the proposed nominees for election to the Board have been confirmed in accordance with the Governance Agreement, an invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the Board Chair or the Board Chair's delegate.

### **Director Orientation and Education**

23. The Governance Committee is mandated to oversee an orientation, education and training program for new directors and ongoing educational and training opportunities for all directors.
24. The Company also supports continuing education opportunities outside the Company and each director is encouraged to attend external forums, conferences, seminars, and education programs dealing with subject matters that are applicable to the member's role on the Board or its committees or to increase the member's knowledge of the Company's industry and other areas of interest relevant to the Company's businesses and affairs. Approval by the Board Chair or the Chair of the Governance Committee is required to attend such programs with the financial support of the Company.

## **BOARD COMMITTEES**

### **Board Committees**

25. The Board has determined that there should be four Board committees: (a) the Audit Committee; (b) the Governance Committee; (c) the Human Resources Committee; and (c) the Health, Safety, Environment and Indigenous Peoples Committee. This structure may change as the Board considers from time to time

which of its responsibilities can best be fulfilled through detailed review of matters in committee.

26. Each committee shall operate in a manner that is aligned with best practices and according to a Board-approved written mandate outlining the Board's duties and responsibilities and the responsibilities of the committees. These responsibilities will include, without limitation:
- (a) in the case of the Audit Committee, selection and oversight of qualified and independent external auditors, appointment and oversight of internal auditors, monitoring of audits, review of accounting principles and practices, monitoring of internal controls, monitoring of financial reporting and disclosure, finance matters, review of the financial impact of regulatory initiatives and oversight of the Company's Code of Business Conduct and Whistleblower Policy;
  - (b) in the case of the Governance Committee, managing and overseeing the director nomination process in accordance with the Governance Agreement, and oversight with respect to corporate governance (including monitoring compliance by the Company with the provisions of the Governance Agreement relating to corporate governance), Board composition, the position descriptions for the Board Chair and Committee Chairs and Committee mandates, Board succession planning, director orientation and continuing education, Board evaluations, corporate governance disclosure, director compensation and protection, corporate social responsibility, public policy and the framework for monitoring compliance matters;
  - (c) in the case of the Human Resources Committee, oversight with respect to compensation and retention of the Chief Executive Officer and other senior officers, administration of compensation policies, pension responsibilities, assessment of compensation risks, succession planning for senior officers, compensation disclosure, policies on corporate culture and integrity, and collective bargaining matters; and
  - (d) in the case of the Health, Safety, Environment and Indigenous Peoples Committee, oversight of the occupational and public health and safety and environmental policies of the Company and monitoring the performance of

such policies, and oversight of the Company's relationships with Indigenous Peoples' communities.

### **Membership of Committees**

27. The Board has determined that the Audit Committee, the Governance Committee, the Human Resources Committee and the Health, Safety, Environment and Indigenous Peoples Committee shall be composed entirely of independent directors.
28. After receipt of recommendations from the Governance Committee, the Board shall appoint the members of the committees annually, and as necessary to fill vacancies, and generally shall appoint the chair of each committee. Members of the committees shall hold office at the pleasure of the Board.

### **Committee Powers**

29. Each Board committee has the following powers:
  - (a) *Access* – each committee is entitled to full access to all books, records, facilities and personnel of the Company and its subsidiaries and may require such officers, director and employees of the Company and its subsidiaries and others as it may see fit from time to time to provide any information about the Company and its subsidiaries;
  - (b) *Delegation* – each committee may delegate from time to time to any person or committee any of the committee's responsibilities that may lawfully be delegated; and
  - (c) *Adoption of Policies and Procedures* – each committee may adopt policies and procedures for carrying out its responsibilities.

### **Committee Procedures**

30. Except as provided for in the mandate of the applicable committee, the procedures for the meetings of the Board committees shall be the same as those for the Board provided for under the heading "Board Meetings and Materials" below, with necessary modifications, including that references to the Board Chair will be to the chair of the applicable committee.

31. The Board Chair may attend all meetings of the Board committees, whether or not the Board Chair is a member of the applicable Board committee.

### **Oversight of Committee Functions**

32. The purpose of Board committees is to assist the Board in discharging its responsibilities. Notwithstanding the delegation of responsibilities to a Board committee, the Board is ultimately responsible for matters assigned to the committee and its determinations. The role of the Board committees is to review and make recommendations to the Board with respect to the approval of matters delegated to and considered by the committee except as may be explicitly provided in a resolution of the Board or in the mandate of the committee (including, in the case of the Governance Committee, making determinations in connection with the review and nomination of candidates for director in accordance with the Governance Agreement).

## **BOARD MEETINGS AND MATERIALS**

### **Frequency, Time and Place of Meetings**

33. Meetings of the Board shall be held at least once per fiscal quarter, and shall be called and held in the manner and in the location contemplated by the Company's by-laws.

### **Quorum**

34. The quorum necessary for the transaction of business at a meeting of the Board shall be a majority of the number of directors then in office.

### **Voting; Conflicts of Interest**

35. Each member of the Board shall have the right to vote on matters that come before the Board. Any director that faces an actual or potential conflict of interest in a particular matter, other than matters relating to the compensation of directors, must disclose his or her interest to the Board Chair, the Executive Vice President and Chief Legal Officer, and the Vice President, Corporate Secretary and Chief Ethics Officer. If the Board Chair concurs that there is an actual or potential conflict of interest, the applicable director will disclose his or her interest to the Board and will neither participate in consideration of, nor vote on, such matter. A director has a "**conflict of interest**" in any situation in which a director has a personal or financial interest in a matter which is the subject of an action or decision by the

Company that may reasonably be perceived to: (a) affect the objectivity of the director in carry out his or her responsibilities and duties; or (b) represent an advantage or gain to the director or other persons with whom the director does not deal at arm's length.

### **Secretary of the Meeting; Minutes**

36. Subject to the Company's by-laws, the Board Chair will designate a person, who need not be a director, to act as secretary for each meeting or, if the Board Chair fails to designate such a person, the Corporate Secretary will be secretary of the applicable meeting. The secretary of each meeting shall keep minutes of the meeting. Minutes shall be maintained in a minute book kept for that purpose and distributed to all directors.

### **Meeting Agendas**

37. The Board Chair and the Chief Executive Officer, in consultation with the Corporate Secretary, shall develop the agenda for each Board meeting.

### **Meeting Materials**

38. Meeting materials shall be provided to directors before each Board meeting in sufficient time to ensure adequate opportunity exists for review. It is recognized that under some circumstances, due to the urgency or confidential nature of matters to be discussed at a meeting or otherwise, it would not be prudent or appropriate or otherwise reasonably feasible to distribute written materials in advance.

### **Non-Directors at Board Meetings**

39. The Board believes there is value in having certain members of senior management and/or outside consultants or advisors attend Board meetings to provide information and opinion to assist the directors in their deliberations. Attendance by senior management and/or outside consultants or advisors shall be determined by the Board Chair generally after consultation with the Chief Executive Officer. Such attendees shall be excused for any agenda items that are reserved for discussion among directors only.

### **Executive Sessions of Directors and Independent Directors**

40. The Board has determined that an *in camera* meeting (also known as an "**executive session**") of the directors and an executive session of the

independent directors shall be held in conjunction with all meetings of the Board, unless otherwise determined by the Board Chair, and that an executive session of the independent directors shall be held in conjunction with all meetings of each Board committee, unless otherwise determined by the applicable Committee Chair.

## **SAY ON PAY**

41. The Company strives to compensate its executives in a way that is fair, competitive and linked to performance. The Human Resources Committee oversees the Company's approach to executive compensation.
42. Annually, the Company discloses its approach to executive compensation in its management information circular for its annual meeting of shareholders, and strives to provide executive compensation disclosure which exceeds legal requirements, is aligned with best practices and is complete, clear and understandable and in sufficient detail to assist shareholders in forming a reasoned judgment about the matter. The Board believes that it is important that shareholders have the opportunity to make their views on the Company's approach to executive compensation known to the Board and the practice of affording shareholders a formal opportunity to express their views via an annual say on pay vote.
43. Shareholders will be asked to consider an annual non-binding advisory resolution in the following form which will require an affirmative vote of a majority of the votes cast:

*Resolved, on an advisory basis and not to diminish the role and responsibilities of the board of directors, that the shareholders accept the approach to executive compensation disclosed in the Corporation's management information circular delivered in advance of the [insert year] annual meeting of shareholders.*

44. While shareholders will provide their collective advisory vote, the directors of the corporation remain responsible for overseeing the corporation's executive compensation practices and are not relieved of these responsibilities by a positive advisory vote by shareholders.

## **DIRECTOR COMPENSATION**

45. The Board has determined that the directors should be compensated for their service on the Board and on committees of the Board, if applicable, in a form and amount which is appropriate and which is customary for comparable companies, having regard for such matters as time commitment, responsibility, trends and best

practices in director compensation. The Governance Committee is mandated to review the compensation of the directors on this basis annually. Such review shall include consideration of all forms of compensation which a director receives, directly or indirectly, including consulting contracts or charitable contributions which are made to organizations to which a director is affiliated.

46. In order to align director and shareholder interests, each Director is required to retain a minimum holding of Hydro One Limited shares or deferred share units equal to three times (3X) the annual board membership retainer by December 31, 2020. New directors will have six (6) years from their date of appointment to meet the share ownership requirement.
47. Each director's share ownership will be calculated as at December 31 (based on the original grant value or acquisition cost) and compared to the share ownership requirement.
48. Directors are expected to continue to satisfy their share ownership requirement (or their existing level of share ownership if lower) for one year after they cease to be on the Board. The value of a retired director's share ownership for purposes of such determination will be calculated based on the original grant value or acquisition cost.

## **BOARD'S RELATIONSHIP WITH MANAGEMENT**

### **Board Relationship with Management**

49. The Board shall support and encourage the members of management in the performance of their duties. Management shall make appropriate use of the Board's skills before decisions are made on key issues. The Governance Committee shall review and assess the Board's relationship with management.

### **Limits to Management Authority**

50. The Board has established general authority guidelines that delegate to senior management the authority to enter into transactions, subject to specified limits, while reserving to the Board authority to review and approve transactions above the specified limits, material transactions outside the ordinary course of business and material capital expenditures.

## **Chief Executive Officer**

51. The appointment of a new Chief Executive Officer must be approved by a Special Board Resolution in accordance with the Governance Agreement. The Chief Executive Officer must be confirmed annually by Special Board Resolution in accordance with the Governance Agreement. If a current Chief Executive Officer fails to obtain approval by Special Board Resolution, the Board shall remove the Chief Executive Officer and the Chief Executive Officer shall resign as a director of the Company.
52. The Human Resources Committee shall conduct an annual review of the performance of the Chief Executive Officer against goals and objectives which have been established by the committee and shall review, assess and recommend the compensation of the Chief Executive Officer to the Board for approval. The results of the review shall be communicated to the Chief Executive Officer by the Board Chair or the Committee Chair.

## **Director Access to Management**

53. All directors shall have open access to the Company's senior management for relevant information. Written communications from directors to members of management shall be copied to the Chief Executive Officer or, in the case of accounting and financial matters, the Chief Financial Officer. Individual directors are encouraged to make themselves available for consultations with management outside Board meetings in order to provide specific advice and counsel on subjects where such directors have special knowledge and experience.

## **DIRECTOR RESPONSIBILITIES AND PERFORMANCE**

### **Director Responsibilities**

54. Directors are expected to use their skill and experience to provide oversight to the business of the Company. Directors have a duty to act honestly and in good faith with a view to the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would in comparable circumstances.
55. Directors are expected to attend all Board and committee meetings in person. It is acceptable, on an infrequent basis, for directors to participate in such meetings by conference call if attendance in person is not possible. A director shall notify the

Board Chair or Committee Chair, as applicable, or the Corporate Secretary if the director will not be able to attend or participate in a meeting.

56. Directors are expected to review and be familiar with Board and committee materials which have been provided in sufficient time for review prior to a meeting. Directors are to advise the Board Chair or Committee Chair, as applicable, of matters which they believe should be added to a meeting agenda.

### **Outside Advisors for Individual Directors**

57. The Board has determined that any director who wishes to engage a non-management advisor to assist on matters involving the responsibilities as a director at the expense of the Company should review the request with, and obtain the authorization of, the Governance Committee.

### **Assessment of Board and Individual Director Performance**

58. The Governance Committee is responsible for overseeing the annual assessment of the effectiveness of the Board as a whole, and each Board committee, the Board Chair, each Committee Chair and each individual director, including reporting on the results of such assessments and making recommendations to the Board. The objective of the assessments is to ensure the continued effectiveness of the Board in the execution of its responsibilities and to contribute to a process of continuing improvement.

### **ETHICS AND CONFLICTS OF INTEREST**

59. The Board expects directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Company's Code of Business Conduct, which shall be reviewed at least annually by the Board. Although it is the Board's policy to not permit any waivers of any ethics policy, to the extent circumstances arise which necessitate such a waiver, the Company must disclose such waiver in accordance with applicable laws.

60. In addition to the statutory responsibilities of directors to disclose all actual or potential conflicts of interest and generally to refrain from voting on matters in which the director has a conflict of interest, the director shall recuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

**Approved by the Board on February 13, 2018.**