

Hydro One Reports Positive Fourth Quarter Revenue and Operating Cost Trends

With operational transformation well underway, Hydro One completes first full year as a public company

Toronto, February 10, 2017 – Hydro One Limited, Ontario’s largest electricity transmission and distribution company, today announced its financial and operating results for the fourth quarter ended December 31, 2016.

- Adjusted EPS of \$0.22 compared to \$0.24 last year which included favorable tax adjustment.
- Placed \$699 million of capital into service to improve the reliability and performance of Ontario’s electric grid.
- Enhanced paperless billing and usage alert notification services introduced for customers.
- Winter Relief Program launched to help customers in hardship get electricity reconnected for winter.
- Completed the acquisition of Great Lakes Power Transmission.
- Completed \$950 million debt offering.
- \$0.21 per share quarterly dividend declared payable March 31, 2017.

“Our fourth quarter results demonstrate favorable revenue growth and operating cost control. This quarter also represents the conclusion of Hydro One’s first full year as a commercial and customer focused company following the initial public offering of late 2015,” said Mayo Schmidt, President and Chief Executive Officer, Hydro One. “During this period of significant change and adjustment for our employees, we’ve enhanced our executional capabilities, sharpened our focus on customer service and stronger engagement with First Nations and Métis communities, reduced costs and introduced operational efficiencies and acquisition integration expertise, and strengthened the leadership team. I would like to recognize and thank all Hydro One employees for embracing these changes. In 2017, our focus will be to continue our momentum on organizational excellence, accelerate our growth and continue to revitalize Ontario’s electric grid.”

Consolidated Financial Highlights and Statistics

<i>(amounts throughout in millions of Canadian dollars, except as otherwise noted)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Revenues	1,614	1,522	6,552	6,538
Revenues, net of purchased power	756	736	3,125	3,088
Net income attributable to common shareholders	128	143	721	690
Basic earnings per common share (EPS)	\$0.22	\$0.26	\$1.21	\$1.39
Diluted EPS	\$0.21	\$0.26	\$1.21	\$1.39
Basic Adjusted EPS ¹	\$0.22	\$0.24	\$1.21	\$1.16
Diluted Adjusted EPS ¹	\$0.21	\$0.24	\$1.21	\$1.16
Net cash from (used in) operating activities	474	(2,430)	1,656	(1,248)
Adjusted net cash from operating activities ²	474	380	1,656	1,562
Capital investments	477	451	1,697	1,663
Assets placed in-service	699	607	1,605	1,476
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,415	18,689	20,690	20,344
Distribution: Electricity distributed to Hydro One customers (GWh)	6,505	6,232	26,289	28,764

¹ 2015 Adjusted EPS is calculated using the number of common shares outstanding at December 31, 2016, versus a weighted average number of shares which includes the non-comparable pre-IPO share count.

² 2015 amounts exclude \$2,810 million non-cash impact of IPO-related tax adjustments.

Key Financial Highlights

Earnings comparisons to last year were affected by an IPO-related positive tax adjustment of \$19 million (\$0.03 earnings per share) in the fourth quarter of 2015. Excluding this adjustment, net income for the quarter increased by 3.2%. Revenues, net of purchased power, increased by 2.7% for the quarter, reflecting improved average monthly Ontario 60-minute peak demand that more than offset lower distribution revenues due to overall milder weather, and OEB-approved increases to transmission and distribution rates. Costs reduced by 4.7% due to lower project and inventory write-downs and lower storm restoration expenses that were partly offset by increased levels of vegetation management activity as the Company completed its work programs for the year.

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

Hydro One continued to invest to improve the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate new generation, and improve service to customers. The Company made capital investments of \$477 million during the fourth quarter and nearly \$1.7 billion for 2016, and placed over \$1.6 billion of new assets in-service for the full year.

Common Share Dividends

Following the conclusion of the fourth quarter, on February 9, 2017, the Company declared a quarterly cash dividend to common shareholders of \$0.21 per share to be paid on March 31, 2017 to shareholders of record on March 14, 2017.

Selected Operating Highlights

Hydro One introduced enhanced paperless billing and usage alert notification services for residential and small business customers. These customer service enhancements will reduce operational costs and at the same time provide the near-real-time account information customers have been asking for.

The Company launched its new Winter Relief Program to help customers in hardship get their electricity service reconnected. The program will benefit several hundred customers without electrical service due to previously unpaid balances by arranging reconnection for the remainder of the winter together with waiving reconnection fees, working with customers to determine affordable payment arrangements, and highlighting the numerous assistance programs that are available.

On October 31, 2016, the Company completed the previously announced acquisition of Great Lakes Power, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario. following receipt of approvals by the Ontario Energy Board. Upon completion of the transaction, Hydro One now operates approximately 98% of Ontario's transmission capacity. On January 16, 2016, Great Lakes Power's name was changed to Hydro One Sault Ste. Marie LP.

On November 15, 2016, the Company announced the pricing of a \$950 million debt offering by its fully owned subsidiary, Hydro One Inc. The offering consisted of \$500 million notes due 2019 and \$450 million notes due 2047. Proceeds of the transaction were principally used to repay maturing long-term and short-term debt and for general corporate purposes.

Supplemental Segment Information

<i>(millions of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Revenues				
Transmission	373	361	1,584	1,536
Distribution	1,228	1,148	4,915	4,949
Other	13	13	53	53
Total revenues	1,614	1,522	6,552	6,538
Revenues, net of purchased power				
Transmission	373	361	1,584	1,536
Distribution	370	362	1,488	1,499
Other	13	13	53	53
Total revenues, net of purchased power	756	736	3,125	3,088
Income (loss) before financing charges and taxes				
Transmission	170	140	812	748
Distribution	111	119	501	486
Other	(16)	(17)	(35)	(40)
Total income before financing charges and taxes	265	242	1,278	1,194
Capital Investments				
Transmission	274	251	988	943
Distribution	201	198	703	711
Other	2	2	6	9
Total capital Investments	477	451	1,697	1,663

Summary of Fourth Quarter Results of Operations

Net Income

Net income attributable to common shareholders for the quarter ended December 31, 2016 of \$128 million is a decrease of \$15 million or 10.5% from the prior year. Excluding the effect of an IPO-related positive tax adjustment of \$19 million in the fourth quarter of 2015, net income for the quarter increased by 3.2%.

Revenues

The quarterly increase of \$12 million or 3.3% in transmission revenues was primarily due to higher average monthly Ontario 60-minute peak demand as several extremely cold days during the quarter increased peak transmission demand and OEB-approved transmission rate increases.

The quarterly increase of \$80 million or 7.0% in distribution revenues was primarily due to higher power costs from generators that are passed on to customers and increased OEB-approved distribution rates for 2016, partially offset by lower energy consumption resulting from milder weather.

Operation, Maintenance and Administration (OM&A) Costs

<i>(millions of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Transmission	98	126	382	414
Distribution	163	146	608	633
Other	26	29	79	88
	287	301	1,069	1,135

The quarterly decrease of \$28 million or 22.2% in transmission OM&A costs was primarily due to lower project cost and inventory write-downs and lower expenditures related to forestry control and line clearing on the Company's transmission rights-of-way.

The quarterly increase of \$17 million or 11.6% in distribution OM&A costs was primarily due to higher volume of vegetation management activities, partially offset by lower costs related to restoring power services and storm response.

Depreciation and Amortization

The increase of \$11 million or 5.7% in depreciation and amortization costs for the fourth quarter of 2016 was mainly due to the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Financing Charges

The quarterly increase of \$7 million or 7.4% in financing charges was primarily due to an increase in interest expense on long-term debt resulting from the increase in weighted average long-term debt outstanding during the quarter.

Income Tax Expense

Income tax expense for the fourth quarter of 2016 increased by \$28 million compared to 2015, and the Company realized an effective tax rate of approximately 17.7% in the fourth quarter of 2016 compared to approximately 0.7% in 2015. The increase in tax expense is primarily due to the effect of an IPO-related positive tax adjustment of \$19 million in the fourth quarter of 2015.

Capital Investments

During the fourth quarter of 2016, the Company made capital investments totalling \$477 million and placed \$699 million of new assets in-service as it continued to execute on various initiatives associated with improving the reliability and performance of Ontario's electric grid.

The increase in transmission capital investments during the fourth quarter was primarily due to an increased volume of work on insulator and integrated station component replacements, together with demand work associated with equipment failures and spare transformer equipment purchases; partially offset by reduced work on the Clarington Transmission Station as the project nears completion.

The increase in distribution capital investments during the fourth quarter was primarily due to increased investments related to information technology infrastructure, customer programs, and upgrade and enhancement projects, higher volume of facility upgrades and construction of new operation centres, as well as work associated with joint-use assets and relocation of poles, partially offset higher storm restoration work in the prior year primarily as a result of two significant wind storms during the fourth quarter of 2015.

Consolidated Income Statements

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<i>(millions of dollars, except per share amounts)</i>				
Revenues				
Distribution	1,228	1,148	4,915	4,949
Transmission	373	361	1,584	1,536
Other	13	13	53	53
	1,614	1,522	6,552	6,538
Costs				
Purchased power	858	786	3,427	3,450
Operation, maintenance and administration	287	301	1,069	1,135
Depreciation and amortization	204	193	778	759
	1,349	1,280	5,274	5,344
Income before financing charges and taxes	265	242	1,278	1,194
Financing charges	101	94	393	376
Income before taxes	164	148	885	818
Income tax expense	29	1	139	105
Net income	135	147	746	713
Other comprehensive income	–	1	–	1
Comprehensive income	135	148	746	714
Net income attributable to:				
Noncontrolling interest	2	4	6	10
Preferred shareholders	5	–	19	13
Common shareholders	128	143	721	690
	135	147	746	713
Comprehensive income attributable to:				
Noncontrolling interest	2	4	6	10
Preferred shareholders	5	–	19	13
Common shareholders	128	144	721	691
	135	148	746	714
Basic EPS	\$0.22	\$0.26	\$1.21	\$1.39
Diluted EPS	\$0.21	\$0.26	\$1.21	\$1.39
Basic Adjusted EPS	\$0.22	\$0.24	\$1.21	\$1.16
Diluted Adjusted EPS	\$0.21	\$0.24	\$1.21	\$1.16

Consolidated Balance Sheets

<i>(millions of dollars)</i>	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	50	94
Accounts receivable	838	776
Due from related parties	158	191
Other current assets	102	105
	<u>1,148</u>	<u>1,166</u>
Property, plant and equipment	19,140	17,968
Other long-term assets:		
Regulatory assets	3,145	3,015
Deferred income tax assets	1,235	1,636
Intangible assets	349	336
Goodwill	327	163
Other assets	7	10
	<u>5,063</u>	<u>5,160</u>
Total assets	25,351	24,294
Liabilities		
Current liabilities:		
Short-term notes payable	469	1,491
Long-term debt payable within one year	602	500
Accounts payable and other current liabilities	945	868
Due to related parties	147	138
	<u>2,163</u>	<u>2,997</u>
Other long-term liabilities:		
Long-term debt	10,078	8,207
Regulatory liabilities	209	236
Deferred income tax liabilities	60	207
Other long-term accounts liabilities	2,752	2,723
	<u>13,099</u>	<u>11,373</u>
Total liabilities	15,262	14,370
Noncontrolling interest subject to redemption	22	23
Equity		
Common shares	5,623	5,623
Preferred shares	418	418
Additional paid-in capital	34	10
Retained earnings	3,950	3,806
Accumulated other comprehensive loss	(8)	(8)
Hydro One shareholders' equity	<u>10,017</u>	<u>9,849</u>
Noncontrolling interest	50	52
Total equity	10,067	9,901
	25,351	24,294

Consolidated Statements of Cash Flows

<i>(millions of dollars)</i>	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Operating activities				
Net income	135	147	746	713
Environmental expenditures	(5)	(6)	(20)	(19)
Adjustments for non-cash items:				
Depreciation and amortization	182	168	688	668
Regulatory assets and liabilities	12	(157)	(16)	(3)
Deferred income taxes	24	(2,844)	114	(2,844)
Other	4	19	10	24
Changes in non-cash balances related to operations	122	243	134	213
Net cash from (used in) operating activities	474	(2,430)	1,656	(1,248)
Financing activities				
Long-term debt issued	950	–	2,300	350
Long-term debt repaid	(52)	(17)	(502)	(585)
Short-term notes issued	596	2,141	3,031	2,891
Short-term notes repaid	(1,245)	(1,100)	(4,053)	(1,400)
Common shares issued	–	2,600	–	2,600
Dividends paid	(130)	(800)	(596)	(888)
Distributions paid to noncontrolling interest	(2)	(1)	(9)	(5)
Change in bank indebtedness	–	(27)	–	(2)
Other	(4)	(6)	(10)	(7)
Net cash from financing activities	113	2,790	161	2,954
Investing activities				
Capital expenditures				
Property, plant and equipment	(444)	(426)	(1,600)	(1,595)
Intangible assets	(18)	(15)	(61)	(37)
Capital contributions received	6	57	21	57
Acquisitions	(221)	(32)	(224)	(90)
Investment in Hydro One Brampton	–	–	–	(53)
Other	–	5	3	6
Net cash used in investing activities	(677)	(411)	(1,861)	(1,712)
Net change in cash and cash equivalents	(90)	(51)	(44)	(6)
Cash and cash equivalents, beginning of period	140	145	94	100
Cash and cash equivalents, end of period	50	94	50	94

This press release should be read in conjunction with the Company's 2016 Consolidated Financial Statements and Management's Discussion and Analysis (MD&A). These statements and MD&A together with additional information about Hydro One, can be accessed at www.sedar.com and www.HydroOne.com/Investors.

Quarterly Investment Community Teleconference

The Company's fourth quarter 2016 results teleconference with the investment community will be held on February 10, 2017 at 8:00 a.m. Eastern Time, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's fourth quarter 2016 results call, conference ID 48458662 (international callers may dial 1-440-996-5689). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available following the call. Additionally, investors should note that from time to time

Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One

We are Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, \$25 billion in assets and annual revenues of over \$6.5 billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only four utility companies in Canada to achieve the Sustainable Energy Company designation from the Canadian Electrical Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fibre optic network. Hydro One's common shares are listed on the Toronto Stock Exchange (TSX: H).

For More Information

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

Forward-Looking Statements and Information

This press release may contain "forward-looking information" within the meaning of applicable securities laws. Such information includes, but is not limited to: statements related to strategy, growth, organizational excellence, customer service, performance, reliability, operational costs, ongoing and planned investments, debt maturity, dividends, and the Company's Winter Relief Program. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will," "can," "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on SEDAR at www.sedar.com. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

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