

**HYDRO ONE INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)**
**For the three and nine months ended September 30, 2021 and 2020**

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars, except per share amounts)	2021	2020	2021	2020
<b>Revenues</b>				
Distribution (includes related party revenues of \$71 and \$214 (2020 - \$70 and \$212) for the three and nine months ended September 30, respectively) (Note 24)	1,395	1,410	4,012	4,050
Transmission (includes related party revenues of \$503 and \$1,389 (2020 - \$479 and \$1,327) for the three and nine months ended September 30, respectively) (Note 24)	508	484	1,405	1,343
	<b>1,903</b>	<b>1,894</b>	<b>5,417</b>	<b>5,393</b>
<b>Costs</b>				
Purchased power (includes related party costs of \$531 and \$1,567 (2020 - \$561 and \$1,705) for the three and nine months ended September 30, respectively) (Note 24)	933	993	2,665	2,808
Operation, maintenance and administration (Note 24)	254	255	808	772
Depreciation, amortization and asset removal costs (Note 5)	225	218	669	639
	<b>1,412</b>	<b>1,466</b>	<b>4,142</b>	<b>4,219</b>
<b>Income before financing charges and income tax expense</b>	<b>491</b>	<b>428</b>	<b>1,275</b>	<b>1,174</b>
Financing charges (Note 6)	116	114	331	352
<b>Income before income tax expense</b>	<b>375</b>	<b>314</b>	<b>944</b>	<b>822</b>
Income tax expense (recovery) (Note 7)	71	22	125	(812)
<b>Net income</b>	<b>304</b>	<b>292</b>	<b>819</b>	<b>1,634</b>
Other comprehensive income (loss) (Note 8)	2	4	8	(30)
<b>Comprehensive income</b>	<b>306</b>	<b>296</b>	<b>827</b>	<b>1,604</b>
<b>Net income attributable to:</b>				
Noncontrolling interest	2	2	6	6
Common shareholder	302	290	813	1,628
	<b>304</b>	<b>292</b>	<b>819</b>	<b>1,634</b>
<b>Comprehensive income attributable to:</b>				
Noncontrolling interest	2	2	6	6
Common shareholder	304	294	821	1,598
	<b>306</b>	<b>296</b>	<b>827</b>	<b>1,604</b>
<b>Earnings per common share (Note 22)</b>				
Basic	\$2,123	\$2,039	\$5,716	\$11,446
Diluted	\$2,123	\$2,039	\$5,716	\$11,446
<b>Dividends per common share declared (Note 21)</b>	<b>\$1,111</b>	<b>\$0</b>	<b>\$3,262</b>	<b>\$0</b>

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

**HYDRO ONE INC.**  
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)**  
**At September 30, 2021 and December 31, 2020**

<i>As at (millions of Canadian dollars)</i>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	413	712
Accounts receivable (Note 9)	738	719
Due from related parties (Note 24)	366	422
Other current assets (Note 10)	313	181
	<b>1,830</b>	<b>2,034</b>
Property, plant and equipment (Note 11)	23,479	22,548
Other long-term assets:		
Regulatory assets (Note 12)	4,648	4,571
Deferred income tax assets	16	16
Intangible assets (net of accumulated amortization - \$642; 2020 - \$586)	552	512
Goodwill	373	373
Other assets (Note 13)	73	79
	<b>5,662</b>	<b>5,551</b>
<b>Total assets</b>	<b>30,971</b>	<b>30,133</b>
<b>Liabilities</b>		
Current liabilities:		
Short-term notes payable (Note 16)	960	800
Long-term debt payable within one year (includes \$nil measured at fair value; 2020 - \$303) (Notes 16, 17)	603	806
Accounts payable and other current liabilities (Note 14)	1,050	1,026
Due to related parties (Note 24)	95	328
	<b>2,708</b>	<b>2,960</b>
Long-term liabilities:		
Long-term debt (Notes 16, 17)	12,595	12,302
Regulatory liabilities (Note 12)	280	231
Deferred income tax liabilities	317	56
Other long-term liabilities (Note 15)	3,822	3,686
	<b>17,014</b>	<b>16,275</b>
<b>Total liabilities</b>	<b>19,722</b>	<b>19,235</b>
<i>Contingencies and Commitments (Notes 26, 27)</i>		
<i>Subsequent Events (Note 29)</i>		
Noncontrolling interest subject to redemption	20	22
<b>Equity</b>		
Common shares (Note 20)	2,957	2,957
Retained earnings	8,226	7,877
Accumulated other comprehensive loss	(22)	(30)
Hydro One shareholder's equity	11,161	10,804
Noncontrolling interest	68	72
<b>Total equity</b>	<b>11,229</b>	<b>10,876</b>
	<b>30,971</b>	<b>30,133</b>

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

**HYDRO ONE INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)**
**For the nine months ended September 30, 2021 and 2020**

<b>Nine months ended September 30, 2021</b> <i>(millions of Canadian dollars)</i>	<b>Common Shares</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Hydro One Shareholder's Equity</b>	<b>Non- controlling Interest</b>	<b>Total Equity</b>
January 1, 2021	2,957	7,877	(30)	10,804	72	10,876
Net income	—	813	—	813	5	818
Other comprehensive income <i>(Note 8)</i>	—	—	8	8	—	8
Distributions to noncontrolling interest	—	—	—	—	(9)	(9)
Dividends on common shares	—	(464)	—	(464)	—	(464)
<b>September 30, 2021</b>	<b>2,957</b>	<b>8,226</b>	<b>(22)</b>	<b>11,161</b>	<b>68</b>	<b>11,229</b>

<b>Nine months ended September 30, 2020</b> <i>(millions of Canadian dollars)</i>	<b>Common Shares</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Hydro One Shareholder's Equity</b>	<b>Non- controlling Interest</b>	<b>Total Equity</b>
January 1, 2020	3,564	6,086	(6)	9,644	59	9,703
Net income	—	1,628	—	1,628	5	1,633
Other comprehensive loss	—	—	(30)	(30)	—	(30)
Distributions to noncontrolling interest	—	—	—	—	(2)	(2)
Contributions from sale of noncontrolling interest	—	—	—	—	9	9
Return of stated capital	(454)	—	—	(454)	—	(454)
<b>September 30, 2020</b>	<b>3,110</b>	<b>7,714</b>	<b>(36)</b>	<b>10,788</b>	<b>71</b>	<b>10,859</b>

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

**HYDRO ONE INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
For the three and nine months ended September 30, 2021 and 2020

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	2021	2020	2021	2020
<b>Operating activities</b>				
Net income	304	292	819	1,634
Environmental expenditures	(7)	(4)	(24)	(15)
Adjustments for non-cash items:				
Depreciation and amortization (Note 5)	201	192	591	567
Regulatory assets and liabilities	(18)	37	34	35
Deferred income tax expense (recovery)	63	12	96	(841)
Other	2	2	38	31
Changes in non-cash balances related to operations (Note 25)	(5)	144	(100)	163
<b>Net cash from operating activities</b>	<b>540</b>	<b>675</b>	<b>1,454</b>	<b>1,574</b>
<b>Financing activities</b>				
Long-term debt issued	900	—	900	1,100
Long-term debt repaid	—	—	(802)	(652)
Short-term notes issued	960	985	3,105	3,130
Short-term notes repaid	(1,330)	(860)	(2,945)	(3,288)
Short-term debt repaid	—	(20)	—	(20)
Return of stated capital	—	(154)	—	(454)
Dividends paid	(158)	—	(464)	—
Distributions paid to noncontrolling interest	(2)	(1)	(6)	(2)
Contributions received from sale of noncontrolling interest (Note 4)	—	—	—	9
Change in bank indebtedness	—	(2)	—	3
Costs to obtain financing	(5)	—	(7)	(5)
<b>Net cash from (used in) financing activities</b>	<b>365</b>	<b>(52)</b>	<b>(219)</b>	<b>(179)</b>
<b>Investing activities</b>				
Capital expenditures (Note 25)				
Property, plant and equipment	(469)	(456)	(1,457)	(1,180)
Intangible assets	(26)	(37)	(97)	(88)
Capital contributions received	—	—	9	—
Acquisitions (Note 4)	—	(126)	—	(126)
Other	2	(4)	11	(8)
<b>Net cash used in investing activities</b>	<b>(493)</b>	<b>(623)</b>	<b>(1,534)</b>	<b>(1,402)</b>
<b>Net change in cash and cash equivalents</b>	<b>412</b>	<b>—</b>	<b>(299)</b>	<b>(7)</b>
Cash and cash equivalents, beginning of period	1	—	712	7
<b>Cash and cash equivalents, end of period</b>	<b>413</b>	<b>—</b>	<b>413</b>	<b>—</b>

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

## **1. DESCRIPTION OF THE BUSINESS**

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly-owned by Hydro One Limited. 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 its subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners).

Hydro One's distribution business consists of the distribution system operated by its subsidiaries, Hydro One Networks, inclusive of the distribution system of Orillia Power Distribution Corporation and the business and distribution assets of Peterborough Distribution Inc., 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 (ODC Decision) on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). See Note 12 - Regulatory Assets and Liabilities for additional details.

### Hydro One Remote Communities

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Consolidation and Presentation**

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

### **Basis of Accounting**

These Consolidated Financial Statements are prepared and presented in accordance with United States (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, 2020, with the exception of the adoption of new accounting standards as described in Note 3. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2020.

### **Management Estimates**

The impact of the COVID-19 pandemic (COVID-19 or the pandemic) as at and for the nine months ended September 30, 2021 has been reflected in the Consolidated Financial Statements. The Company has analyzed the impact of the pandemic on its estimates and assumptions that affect its financial results as at and for the nine months ended September 30, 2021 and has determined that there was no material impact. As the duration of the pandemic remains uncertain, the Company continues to assess its impact to the Company's financial results and operations.

### 3. NEW ACCOUNTING PRONOUNCEMENTS

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

#### Recently Adopted Accounting Guidance

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

#### Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Hydro One
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	Under assessment
ASU 2021-08	October 2021	The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination.	January 1, 2023	Under assessment

### 4. BUSINESS COMBINATIONS

#### NRLP

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

#### Acquisition of Peterborough Distribution Assets

On August 1, 2020, Hydro One completed the acquisition of the business and distribution assets of Peterborough Distribution, an electricity distribution company located in east central Ontario, from the City of Peterborough, for a purchase price of \$104 million, including the assumption of agreed upon liabilities and closing adjustments. The purchase price is comprised of a cash payment of \$105 million, including a deposit of \$4 million paid in 2018 and \$101 million paid on closing of the transaction, partially offset by a purchase price adjustment of \$1 million.

#### Acquisition of Orillia Power

On September 1, 2020, Hydro One completed the acquisition of Orillia Power, an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for a purchase price of \$28 million, including closing adjustments. The purchase price is comprised of a cash payment of \$26 million, including a deposit of \$1 million paid in 2016, \$25 million paid on closing of the transaction, as well as a purchase price adjustment of \$2 million.

**5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS**

	Three months ended September 30		Nine months ended September 30	
<i>(millions of dollars)</i>	2021	2020	2021	2020
Depreciation of property, plant and equipment	175	172	511	504
Amortization of intangible assets	19	16	56	48
Amortization of regulatory assets	7	4	24	15
Depreciation and amortization	201	192	591	567
Asset removal costs	24	26	78	72
	225	218	669	639

**6. FINANCING CHARGES**

	Three months ended September 30		Nine months ended September 30	
<i>(millions of dollars)</i>	2021	2020	2021	2020
Interest on long-term debt	124	122	371	369
Realized loss on cash flow hedges (interest-rate swap agreements) <i>(Notes 8, 17)</i>	3	3	9	4
Interest on short-term notes	—	2	1	8
Other	4	1	8	10
Less: Interest capitalized on construction and development in progress	(15)	(14)	(44)	(36)
DTA carrying charges <i>(Note 12)</i>	1	—	(12)	—
Interest earned on cash and cash equivalents	(1)	—	(2)	(3)
	116	114	331	352

## 7. INCOME TAXES

As a rate regulated utility company, the Company recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated business. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable from, or refundable to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax 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 September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Income before income tax expense	375	314	944	822
Income tax expense at statutory rate of 26.5% (2020 - 26.5%)	99	83	250	218
Increase (decrease) resulting from:				
Net temporary differences recoverable in future rates charged to customers:				
Capital cost allowance in excess of depreciation and amortization	(26)	(34)	(72)	(86)
Impact of tax deductions from deferred tax asset sharing <sup>1</sup>	(12)	(13)	(32)	(35)
Impact of tax recovery from deferred tax asset sharing <sup>2</sup>	24	—	24	—
Overheads capitalized for accounting but deducted for tax purposes	(7)	(6)	(19)	(16)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)	(13)	(11)
Pension and post-retirement benefit contributions in excess of pension expense	(4)	(5)	(10)	(8)
Environmental expenditures	(2)	(2)	(6)	(6)
Other	2	2	—	(3)
Net temporary differences attributable to regulated business	(29)	(62)	(128)	(165)
Net permanent differences	1	1	3	2
Recognition of deferred income tax regulatory asset	—	—	—	(867)
Total income tax expense (recovery)	71	22	125	(812)
Effective income tax rate	18.9 %	7.0%	13.2 %	(98.8%)

<sup>1</sup> Prior to the ODC Decision, the impact represents tax deductions from deferred asset tax sharing given to ratepayers as previously mandated by the OEB. Subsequent to the ODC Decision, and pursuant to the DTA Implementation Decision, the impact represents the additional amounts shared in respect of the fiscal period that is recoverable from ratepayers. See Note 12 - Regulatory Assets and Liabilities.

<sup>2</sup> Pursuant to the DTA Implementation Decision, the impact represents the amounts recovered from ratepayers in respect of tax deductions previously shared with ratepayers. See Note 12 - Regulatory Assets and Liabilities.

## 8. OTHER COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Gain (loss) on cash flow hedges (interest-rate swap agreements) (Notes 6, 17) <sup>1</sup>	2	2	8	(21)
Gain (loss) on transfer of other post-employment benefits (OPEB) (Note 18)	—	2	—	(7)
Loss on cash flow hedges (bond forward agreements) (Note 17)	—	—	—	(2)
	2	4	8	(30)

<sup>1</sup> Includes \$2 million after-tax realized loss (2020 - \$2 million), \$3 million before-tax (2020 - \$3 million), and \$6 million after-tax realized loss (2020 - \$3 million), \$9 million before-tax (2020 - \$4 million), on cash flow hedges reclassified to financing charges for the three and nine months ended September 30, 2021, respectively.



**9. ACCOUNTS RECEIVABLE**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Accounts receivable - billed	411	344
Accounts receivable - unbilled	385	421
Accounts receivable, gross	796	765
Allowance for doubtful accounts	(58)	(46)
Accounts receivable, net	738	719

The following table shows the movements in the allowance for doubtful accounts for the nine months ended September 30, 2021 and the year ended December 31, 2020:

<i>(millions of dollars)</i>	Nine months ended September 30, 2021	Year ended December 31, 2020
Allowance for doubtful accounts – beginning	(46)	(22)
Write-offs	9	11
Additions to allowance for doubtful accounts <sup>1</sup>	(21)	(35)
Allowance for doubtful accounts – ending	(58)	(46)

<sup>1</sup> Additions to allowance for doubtful accounts for the year ended December 31, 2020 included an incremental \$14 million related to the COVID-19 pandemic. There were no additional COVID-19 related amounts included in the allowance for doubtful accounts for the nine months ended September 30, 2021.

**10. OTHER CURRENT ASSETS**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Regulatory assets (Note 12)	233	105
Prepaid expenses and other assets	58	50
Materials and supplies	22	23
Derivative assets (Note 17)	—	3
	313	181

**11. PROPERTY, PLANT AND EQUIPMENT**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Property, plant and equipment	34,015	33,166
Less: accumulated depreciation	(12,383)	(11,922)
	21,632	21,244
Construction in progress	1,668	1,129
Future use land, components and spares	179	175
	23,479	22,548

**12. REGULATORY ASSETS AND LIABILITIES**

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

As at (millions of dollars)	September 30, 2021	December 31, 2020
<b>Regulatory assets:</b>		
Deferred income tax regulatory asset	2,489	2,343
Pension benefit regulatory asset	1,749	1,660
Deferred tax asset sharing	227	204
Post-retirement and post-employment benefits - non-service cost	124	113
Environmental	110	133
Post-retirement and post-employment benefits	60	59
Stock-based compensation	37	41
Foregone revenue deferral	34	63
Conservation and Demand Management (CDM) variance	10	16
Debt premium	8	12
Other	33	32
Total regulatory assets	4,881	4,676
Less: current portion	(233)	(105)
	4,648	4,571
<b>Regulatory liabilities:</b>		
Retail settlement variance account	84	92
Tax rule changes variance	82	70
Asset removal costs cumulative variance	32	19
Pension cost differential	30	31
Earnings sharing mechanism deferral	20	37
External revenue variance	20	7
Green energy expenditure variance	15	22
Distribution rate riders	7	1
Deferred income tax regulatory liability	4	4
Other	15	14
Total regulatory liabilities	309	297
Less: current portion	(29)	(66)
	280	231

**Deferred Tax Asset Sharing**

On October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court which required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. On April 8, 2021, the OEB rendered the DTA Implementation Decision, in which the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period, plus DTA carrying charges over a two-year period, commencing on July 1, 2021. In addition, Hydro One was approved to adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further amounts of future tax savings flowing to customers. As at September 30, 2021, Hydro One has a regulatory asset of \$227 million for the cumulative DTA amounts shared with ratepayers since 2017 to date, net of the amount recovered from ratepayers pursuant to the DTA Implementation Decision. The regulatory asset of \$227 million consists of \$80 million and \$147 million for Hydro One Networks' distribution and transmission segments, respectively. As a result of the OEB's procedural order, the \$227 million regulatory asset relating to the cumulative DTA amounts allocated to ratepayers since 2017 has been separately presented from the deferred income tax regulatory asset. The balance of this regulatory account will continue to decrease as amounts are recovered, net of incremental amounts shared with ratepayers through December 31, 2021.

**Distribution Rate Riders**

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

**COVID-19 Emergency Deferral**

On June 17, 2021, the OEB issued its Report: Regulatory Treatment of Impact Arising from the COVID-19 Emergency which outlines the OEB's final guidance on the rules and operation of the deferral account established for utilities to track the impacts arising from the COVID-19 pandemic. The OEB has determined that eligibility for recovery of most balances recorded in the account will be subject to a means test based on a utility's achieved regulatory return on equity (ROE). Based on management's assessment of the OEB's final guidance, no amounts related to the COVID-19 pandemic have been recognized as regulatory assets.

**13. OTHER LONG-TERM ASSETS**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Right-of-Use (ROU) assets (Note 19)	64	71
Other long-term assets	9	8
	<b>73</b>	<b>79</b>

**14. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Accrued liabilities	640	557
Accounts payable	192	232
Accrued interest	135	116
Environmental liabilities	32	33
Regulatory liabilities (Note 12)	29	66
Lease obligations (Note 19)	11	11
Derivative liabilities (Note 17)	11	11
	<b>1,050</b>	<b>1,026</b>

**15. OTHER LONG-TERM LIABILITIES**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Post-retirement and post-employment benefit liability (Note 18)	1,870	1,781
Pension benefit liability (Note 18)	1,749	1,660
Environmental liabilities	78	100
Lease obligations (Note 19)	58	65
Due to related parties (Note 24)	29	32
Asset retirement obligations	13	13
Derivative liabilities (Note 17)	3	14
Long-term accounts payable	4	5
Other long-term liabilities	18	16
	<b>3,822</b>	<b>3,686</b>

**16. DEBT AND CREDIT AGREEMENTS****Short-Term Notes and Credit Facilities**

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under its 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 the Company's committed and unsecured revolving standby credit facilities totalling \$2,300 million (Operating Credit Facilities). On June 1, 2021, the maturity date for the Operating Credit Facilities was extended from 2024 to 2026. At September 30, 2021, no amounts have been drawn on the Operating Credit Facilities.

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

**Long-Term Debt**

The following table presents long-term debt outstanding at September 30, 2021 and December 31, 2020:

As at (millions of dollars)	September 30, 2021	December 31, 2020
Hydro One long-term debt (a)	13,095	12,995
HOSSM long-term debt (b)	145	151
	13,240	13,146
Add: Net unamortized debt premiums	9	10
Add: Unrealized mark-to-market loss <sup>1</sup>	—	3
Less: Unamortized deferred debt issuance costs	(51)	(51)
<b>Total long-term debt</b>	<b>13,198</b>	<b>13,108</b>
 Less: Long-term debt payable within one year	 (603)	 (806)
	12,595	12,302

<sup>1</sup> At September 30, 2021, there was no unrealized mark-to-market loss. At December 31, 2020, the unrealized mark-to-market net loss of \$3 million related to \$300 million Series 39 notes repaid in June 2021. At December 31, 2020, the unrealized mark-to-market net loss was offset by a \$3 million unrealized mark-to-market net gain on the related fixed-to-floating interest-rate swap agreements, which were accounted for as fair value hedges.

**(a) Hydro One long-term debt**

At September 30, 2021, long-term debt of \$13,095 million (December 31, 2020 - \$12,995 million) was outstanding, the majority of which was issued under Hydro One's Medium Term Note (MTN) Program. In April 2020, Hydro One filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of \$4,000 million, expiring in May 2022. At September 30, 2021, \$1,900 million remained available for issuance under the MTN Program prospectus. During the three and nine months ended September 30, 2021, Hydro One issued long-term debt totalling \$900 million (2020 - \$nil and \$1,100 million, respectively) under its MTN Program as follows:

- \$450 million Series 50 notes with a maturity date of September 17, 2031 and a coupon rate of 2.23%; and
- \$450 million Series 51 notes with a maturity date of September 15, 2051 and a coupon rate of 3.10%.

During the three and nine months ended September 30, 2021, long-term debt of \$nil and \$800 million (2020 - \$nil and \$650 million, respectively) was repaid, respectively, under the MTN Program.

**(b) HOSSM long-term debt**

At September 30, 2021, HOSSM long-term debt of \$145 million (December 31, 2020 - \$151 million) with a principal amount of \$136 million (December 31, 2020 - \$138 million) was outstanding. During the three and nine months ended September 30, 2021, no long-term debt was issued (2020 - \$nil) and in the nine month period \$2 million of long-term debt was repaid (2020 - \$2 million), all in the second quarter.

**Principal and Interest Payments**

At September 30, 2021, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments (millions of dollars)	Interest Payments (millions of dollars)	Weighted-Average Interest Rate (%)
Year 1	603	501	3.2
Year 2	733	488	1.7
Year 3	700	479	2.5
Year 4	750	457	2.3
Year 5	500	437	2.8
	3,286	2,362	2.5
Years 6-10	2,200	2,069	3.2
Thereafter	7,745	4,105	4.6
	13,231	8,536	3.9

## 17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

## Non-Derivative Financial Assets and Liabilities

At September 30, 2021 and December 31, 2020, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

## Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at September 30, 2021 and December 31, 2020 are as follows:

As at (millions of dollars)	September 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt measured at fair value - \$300 million MTN Series 39 notes	—	—	303	303
Other notes and debentures	13,198	14,765	12,805	15,795
Long-term debt, including current portion	13,198	14,765	13,108	16,098

## Fair Value Measurements of Derivative Instruments

## Fair Value Hedges

At September 30, 2021, Hydro One had no fair value hedges. At December 31, 2020, Hydro One had interest-rate swaps with a total notional amount of \$300 million that were used to convert fixed-rate debt to floating-rate debt. These swaps were classified as fair value hedges. Hydro One's fair value hedge exposure at December 31, 2020 was approximately 2% of its total long-term debt.

## Cash Flow Hedges

At September 30, 2021 and December 31, 2020, Hydro One 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 September 30, 2021 and December 31, 2020, the Company had no derivative instruments classified as undesignated contracts.

## Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at September 30, 2021 and December 31, 2020 is as follows:

As at September 30, 2021 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Liabilities:</b>					
Long-term debt, including current portion	13,198	14,765	—	14,765	—
Derivative instruments (Notes 14, 15)					
Cash flow hedges, including current portion	14	14	—	14	—
	13,212	14,779	—	14,779	—
<b>As at December 31, 2020 (millions of dollars)</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Derivative instruments (Note 10)					
Fair value hedges	3	3	—	3	—
	3	3	—	3	—
<b>Liabilities:</b>					
Long-term debt, including current portion	13,108	16,098	—	16,098	—
Derivative instruments (Notes 14, 15)					
Cash flow hedges, including current portion	25	25	—	25	—
	13,133	16,123	—	16,123	—

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

There were no transfers between any of the fair value levels during the nine months ended September 30, 2021 or the year ended December 31, 2020.

## **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 ROE 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 nine months ended September 30, 2021 and 2020.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the consolidated statements of operations and comprehensive income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three and nine months ended September 30, 2021 and 2020 were not material.

For derivative instruments that are designated and qualify as cash flow hedges, the unrealized gain or loss, after tax, on the derivative instrument is recorded as other comprehensive income (OCI) or other comprehensive loss (OCL) and is reclassified to results of operations in the same period during which the hedged transaction affects results of operations. During the three months ended September 30, 2021, \$nil after-tax unrealized loss (2020 - \$1 million loss), \$nil before-tax (2020 - \$2 million), was recorded in OCI, and a \$2 million after-tax realized loss (2020 - \$2 million), \$3 million before-tax (2020 - \$3 million), was reclassified to financing charges. During the nine months ended September 30, 2021, a \$2 million after-tax unrealized gain (2020 - \$27 million loss), \$2 million before-tax (2020 - \$37 million), was recorded in OCI, and a \$6 million after-tax realized loss (2020 - \$3 million), \$9 million before-tax (2020 - \$4 million), was reclassified to financing charges. This resulted in an accumulated other comprehensive loss (AOCL) of \$10 million related to cash flow hedges at September 30, 2021 (December 31, 2020 - \$18 million). The Company estimates that the amount of AOCL, after tax, related to cash flow hedges to be reclassified to results of operations in the next 12 months is \$8 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 September 30, 2021, the maximum term over which the Company is hedging exposures to the variability of cash flows is approximately 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-retirements and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments.

### Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At September 30, 2021 and December 31, 2020, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At September 30, 2021 and December 31, 2020, there was no material accounts receivable balance due from any single customer.

At September 30, 2021, the Company's allowance for doubtful accounts was \$58 million (December 31, 2020 - \$46 million). The allowance for doubtful accounts reflects the Company's current lifetime expected credit losses for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At September 30, 2021, approximately 5% (December 31, 2020 - 4%) of the Company's net accounts receivable were outstanding for more than 60 days. Please see Note 9 - Accounts Receivable for additions to allowance for doubtful accounts related to the impact of the COVID-19 pandemic.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) monitoring the financial condition of counterparties. The

Company monitors current credit exposure to counterparties on both an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the consolidated balance sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At September 30, 2021 and December 31, 2020, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At September 30, 2021, 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 April 2020, Hydro One filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of \$4,000 million, expiring in May 2022. At September 30, 2021, \$1,900 million remained available for issuance under the MTN Program prospectus.

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

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

The following table provides the components of the net periodic benefit costs for the three and nine months ended September 30, 2021 and 2020:

Three months ended September 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2021	2020	2021	2020
Current service cost	60	54	17	17
Interest cost	64	71	13	14
Expected return on plan assets, net of expenses <sup>1</sup>	(107)	(112)	—	—
Prior service cost amortization	—	1	2	1
Amortization of actuarial losses	32	24	—	—
Net periodic benefit costs	49	38	32	32
Charged to results of operations <sup>2,3</sup>	6	6	16	20



# HYDRO ONE INC.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

For the three and nine months ended September 30, 2021 and 2020

Nine months ended September 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2021	2020	2021	2020
Current service cost	180	162	50	52
Interest cost	192	213	38	43
Expected return on plan assets, net of expenses <sup>1</sup>	(323)	(338)	—	—
Prior service cost amortization	2	2	5	2
Amortization of actuarial losses	94	72	2	2
Net periodic benefit costs	145	111	95	99
Charged to results of operations <sup>2,3</sup>	19	18	52	56

<sup>1</sup> The expected long-term rate of return on pension plan assets for the year ending December 31, 2021 is 5.40% (2020 - 5.75%).

<sup>2</sup> The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and nine months ended September 30, 2021, pension costs of \$17 million (2020 - \$18 million) and \$53 million (2020 - \$52 million), respectively, were attributed to labour, of which \$6 million (2020 - \$6 million) and \$19 million (2020 - \$18 million), respectively, was charged to operations, and \$11 million (2020 - \$12 million) and \$34 million (2020 - \$34 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets.

<sup>3</sup> 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 nine months ended September 30, 2021, additional other post-retirement and post-employment costs of \$12 million (2020 - \$17 million) attributed to labour were charged to operations.

### Transfers from Other Plans

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

### 19. LEASES

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

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Lease expense	4	4	10	10
Lease payments made	3	3	9	8
As at			September 30, 2021	December 31, 2020
Weighted-average remaining lease term <sup>1</sup> (years)			6	7
Weighted-average discount rate			2.6 %	2.6 %

<sup>1</sup> Includes renewal options that are reasonably certain to be exercised.



At September 30, 2021, future minimum operating lease payments were as follows:

<i>(millions of dollars)</i>	
Remainder of 2021	4
2022	12
2023	11
2024	11
2025	10
Thereafter	27
Total undiscounted minimum lease payments	75
Less: discounting minimum lease payments to present value	(6)
Total discounted minimum lease payments	69

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

<i>(millions of dollars)</i>	
2021	14
2022	12
2023	11
2024	11
2025	10
Thereafter	27
Total undiscounted minimum lease payments	85
Less: discounting minimum lease payments to present value	(8)
Total discounted minimum lease payments	77

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

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Other long-term assets <i>(Note 13)</i>	64	71
Accounts payable and other current liabilities <i>(Note 14)</i>	11	11
Other long-term liabilities <i>(Note 15)</i>	58	65

## 20. SHARE CAPITAL

### Common Shares

The Company is authorized to issue an unlimited number of common shares. At September 30, 2021 and December 31, 2020, the Company had 142,239 common shares issued and outstanding. No return of stated capital was paid in 2021. During the three and nine months ended September 30, 2020, a return of stated capital in the amount of \$154 million and \$454 million was paid, respectively.

The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors 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 of Directors may consider relevant.

### Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At September 30, 2021 and December 31, 2020, the Company had no preferred shares issued and outstanding.

## 21. DIVIDENDS

During the three months ended September 30, 2021, common share dividends in the amount of \$158 million (2020 - \$nil) were declared and paid and no preferred share dividends (2020 - \$nil) were paid.

During the nine months ended September 30, 2021, common share dividends in the amount of \$464 million (2020 - \$nil) were declared and paid and no preferred share dividends (2020 - \$nil) were paid. See Note 29 - Subsequent Events for dividends declared subsequent to September 30, 2021.

**22. EARNINGS PER COMMON SHARE**

Basic and diluted earnings per common share is calculated by dividing net income attributable to common shareholder of Hydro One by the weighted-average number of common shares outstanding. The weighted-average number of common shares outstanding during the three and nine months ended September 30, 2021 and 2020 were 142,239. There were no dilutive securities during the three and nine months ended September 30, 2021 and 2020.

**23. STOCK-BASED COMPENSATION****Share Grant Plans**

Hydro One Limited has two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (the PWU Share Grant Plan) and one for the benefit of certain members of the Society of United Professionals (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and nine months ended September 30, 2021 and 2020 is presented below:

(number of share grants)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Share grants outstanding - beginning	2,689,944	3,176,530	3,100,165	3,611,178
Vested and issued <sup>1</sup>	(131)	—	(410,352)	(434,648)
Share grants outstanding - ending	2,689,813	3,176,530	2,689,813	3,176,530

<sup>1</sup> During the nine months ended September 30, 2021, Hydro One Limited issued from treasury 410,352 (2020 - 434,648) common shares 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 nine months ended September 30, 2021 and 2020 is presented below:

(number of DSUs)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
DSUs outstanding - beginning	70,547	64,326	65,240	52,620
Granted	5,320	5,370	15,942	17,076
Paid	—	(9,861)	(5,315)	(9,861)
DSUs outstanding - ending	75,867	59,835	75,867	59,835

At September 30, 2021, a liability of \$2 million (December 31, 2020 - \$2 million) related to Directors' DSUs has been recorded at the closing price of Hydro One Limited common shares of \$29.94 (December 31, 2020 - \$28.65). This liability is included in other long-term liabilities on the consolidated balance sheets.

**Management DSU Plan**

A summary of DSU awards activity under the Management DSU Plan during the three and nine months ended September 30, 2021 and 2020 is presented below:

(number of DSUs)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
DSUs outstanding - beginning	88,721	67,740	61,880	52,186
Granted	752	627	27,593	21,592
Paid	—	(7,027)	—	(12,438)
DSUs outstanding - ending	89,473	61,340	89,473	61,340

At September 30, 2021, a liability of \$1 million (December 31, 2020 - \$2 million) related to Management DSUs has been recorded at the closing price of Hydro One Limited common shares of \$29.94 (December 31, 2020 - \$28.65). This liability is included in other long-term liabilities on the consolidated balance sheets.

**Long-term Incentive Plan (LTIP)**Performance Share Units (PSU) and Restricted Share Units (RSU)

A summary of PSU and RSU awards activity under the LTIP during the three and nine months ended September 30, 2021 and 2020 is presented below:

<u>Three months ended September 30 (number of units)</u>	PSUs		RSUs	
	2021	2020	2021	2020
Units outstanding - beginning	—	111,620	—	138,870
Vested and issued	—	—	—	—
Forfeited	—	(3,670)	—	(2,420)
Units outstanding - ending	—	107,950	—	136,450

<u>Nine months ended September 30 (number of units)</u>	PSUs		RSUs	
	2021	2020	2021	2020
Units outstanding - beginning	106,070	162,344	133,620	200,883
Vested and issued	(106,070)	(49,477)	(98,860)	(3,728)
Forfeited	—	(4,917)	—	(4,295)
Settled	—	—	(34,760)	(56,410)
Units outstanding - ending	—	107,950	—	136,450

No awards were granted during the three and nine months ended September 30, 2021 and 2020. The compensation expense related to the PSU and RSU awards recognized by the Company during the three and nine months ended September 30, 2021 was \$nil and less than \$1 million (2020 - \$2 million and \$3 million).

At September 30, 2021, there were no amounts (December 31, 2020 - \$9 million) payable to Hydro One Limited included in due to related parties on the consolidated balance sheets relating to PSU and RSU awards.

Stock Options

A summary of stock options activity during the three and nine months ended September 30, 2021 and 2020 is presented below:

<u>(number of stock options)</u>	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Stock options outstanding - beginning <sup>1</sup>	108,710	162,710	108,710	403,550
Exercised	—	—	—	(240,840)
Stock options outstanding - ending <sup>1</sup>	108,710	162,710	108,710	162,710

<sup>1</sup> All stock options outstanding as at January 1, 2021 and September 30, 2021, were vested and exercisable (2020 - all stock options were vested and exercisable).

**24. RELATED PARTY TRANSACTIONS**

Hydro One is owned by Hydro One Limited. The Province of Ontario is a shareholder of Hydro One Limited with approximately 47.2% ownership at September 30, 2021. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), the OEB and Acronym Solutions Inc., formerly Hydro One Telecom Inc. (Acronym Solutions) are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy or by Hydro One Limited. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2021 and 2020:

(millions of dollars)		Three months ended September 30		Nine months ended September 30	
Related Party	Transaction	2021	2020	2021	2020
<b>IESO</b>	Power purchased	527	560	1,558	1,700
	Revenues for transmission services	502	478	1,387	1,325
	Amounts related to electricity rebates	267	402	815	1,172
	Distribution revenues related to rural rate protection	62	61	184	181
	Distribution revenues related to supply of electricity to remote northern communities	8	8	26	26
	Funding received related to CDM programs	1	4	1	21
<b>OPG</b>	Power purchased	3	1	8	4
	Revenues related to provision of services and supply of electricity	1	1	4	5
	Capital contribution received from OPG	1	—	3	—
	Costs related to the purchase of services	—	—	1	1
<b>OEFC</b>	Power purchased from power contracts administered by the OEFC	1	—	1	1
<b>OEB</b>	OEB fees	2	3	6	7
<b>Hydro One Limited</b>	Return of stated capital	—	154	—	454
	Dividends paid	158	—	464	—
	Stock-based compensation costs	3	4	6	9
	Cost recovery for services provided	2	2	5	6
<b>Acronym Solutions</b>	Services received – costs expensed	7	6	18	16
	Revenues for services provided	1	1	2	2

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

**25. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

(millions of dollars)		Three months ended September 30		Nine months ended September 30	
		2021	2020	2021	2020
Accounts receivable		(27)	(38)	(28)	68
Due from related parties		18	14	56	116
Materials and supplies (Note 10)		—	—	1	1
Prepaid expenses and other assets (Note 10)		(2)	(1)	(8)	(16)
Other long-term assets (Note 13)		—	2	1	1
Accounts payable		(3)	30	(43)	(13)
Accrued liabilities (Note 14)		3	12	83	53
Due to related parties		(31)	79	(232)	(147)
Accrued interest (Note 14)		21	25	19	31
Long-term accounts payable and other long-term liabilities (Note 15)		3	—	1	1
Post-retirement and post-employment benefit liability		13	21	50	68
		(5)	144	(100)	163

**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 nine months ended September 30, 2021 and 2020. The reconciling items include net change in accruals and capitalized depreciation.

(millions of dollars)	Three months ended September 30, 2021			Nine months ended September 30, 2021		
	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(477)	(33)	(510)	(1,483)	(100)	(1,583)
Reconciling items	8	7	15	26	3	29
Cash outflow for capital expenditures	(469)	(26)	(495)	(1,457)	(97)	(1,554)

(millions of dollars)	Three months ended September 30, 2020			Nine months ended September 30, 2020		
	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(463)	(36)	(499)	(1,213)	(85)	(1,298)
Reconciling items	7	(1)	6	33	(3)	30
Cash outflow for capital expenditures	(456)	(37)	(493)	(1,180)	(88)	(1,268)

**Supplementary Information**

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Net interest paid	105	102	356	349
Income taxes paid	—	14	13	27

**26. CONTINGENCIES**

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

**27. COMMITMENTS**

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

As at September 30, 2021 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	74	50	23	4	2	13
Long-term software/meter agreement	3	2	3	2	2	6

**Outsourcing and Other Agreements**

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

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

As at September 30, 2021 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities <sup>1</sup>	—	—	—	—	2,300	—
Letters of credit <sup>2</sup>	173	4	—	—	—	—
Guarantees <sup>3</sup>	475	—	—	—	—	—

<sup>1</sup> On June 1, 2021, the maturity date for the Operating Credit Facilities was extended to 2026.

<sup>2</sup> Letters of credit consist of \$164 million letters of credit related to retirement compensation arrangements, a \$6 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.

<sup>3</sup> Guarantees consist of \$475 million prudential support provided to the IESO by Hydro One on behalf of its subsidiaries.

## 28. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Segment, which includes certain corporate activities. The Other Segment includes a portion of the DTA which arose from the revaluation of the tax bases of Hydro One's assets to fair market value when the Company transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of Hydro One's initial public offering in 2015. This DTA is not required to be shared with ratepayers, the Company considers it to not be part of the regulated transmission and distribution segment assets, and it is included in the other segment.

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

Three months ended September 30, 2021 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	508	1,395	—	1,903
Purchased power	—	933	—	933
Operation, maintenance and administration	101	154	(1)	254
Depreciation, amortization and asset removal costs	116	109	—	225
<b>Income before financing charges and income tax expense</b>	<b>291</b>	<b>199</b>	<b>1</b>	<b>491</b>
<b>Capital investments</b>	<b>304</b>	<b>206</b>	<b>—</b>	<b>510</b>

Three months ended September 30, 2020 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	484	1,410	—	1,894
Purchased power	—	993	—	993
Operation, maintenance and administration	106	146	3	255
Depreciation, amortization and asset removal costs	113	105	—	218
<b>Income (loss) before financing charges and income tax expense</b>	<b>265</b>	<b>166</b>	<b>(3)</b>	<b>428</b>
<b>Capital investments</b>	<b>309</b>	<b>190</b>	<b>—</b>	<b>499</b>

Nine months ended September 30, 2021 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,405	4,012	—	5,417
Purchased power	—	2,665	—	2,665
Operation, maintenance and administration	307	501	—	808
Depreciation, amortization and asset removal costs	355	314	—	669
<b>Income before financing charges and income tax expense</b>	<b>743</b>	<b>532</b>	<b>—</b>	<b>1,275</b>
<b>Capital investments</b>	<b>1,017</b>	<b>566</b>	<b>—</b>	<b>1,583</b>

Nine months ended September 30, 2020 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,343	4,050	—	5,393
Purchased power	—	2,808	—	2,808
Operation, maintenance and administration	329	437	6	772
Depreciation, amortization and asset removal costs	334	305	—	639
<b>Income (loss) before financing charges and income tax expense</b>	<b>680</b>	<b>500</b>	<b>(6)</b>	<b>1,174</b>
<b>Capital investments</b>	<b>796</b>	<b>502</b>	<b>—</b>	<b>1,298</b>

**Total Assets by Segment:**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Transmission	18,334	17,620
Distribution	11,854	11,294
Other	783	1,219
<b>Total assets</b>	<b>30,971</b>	<b>30,133</b>

**Total Goodwill by Segment:**

<i>As at (millions of dollars)</i>	September 30, 2021	December 31, 2020
Transmission	157	157
Distribution	216	216
<b>Total goodwill</b>	<b>373</b>	<b>373</b>

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

**29. SUBSEQUENT EVENTS****Dividends**

On November 8, 2021, common share dividends of \$156 million were declared.