

# HYDRO ONE LIMITED

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

For the three and six months ended June 30, 2023 and 2022

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars, except per share amounts)	2023	2022	2023	2022
<b>Revenues</b>				
Distribution (includes related party revenues of \$90 and \$177 (2022 - \$70 and \$142) for the three and six months ended June 30, respectively) (Note 23)	1,285	1,314	2,794	2,831
Transmission (includes related party revenues of \$554 and \$1,106 (2022 - \$513 and \$1,029) for the three and six months ended June 30, respectively) (Note 23)	559	516	1,114	1,035
Other	13	10	23	21
	<b>1,857</b>	<b>1,840</b>	<b>3,931</b>	<b>3,887</b>
<b>Costs</b>				
Purchased power (includes related party costs of \$362 and \$1,153 (2022 - \$413 and \$1,198) for the three and six months ended June 30, respectively) (Note 23)	798	852	1,808	1,866
Operation, maintenance and administration (Note 23)	336	286	664	574
Depreciation, amortization and asset removal costs (Note 4)	247	258	499	495
	<b>1,381</b>	<b>1,396</b>	<b>2,971</b>	<b>2,935</b>
<b>Income before financing charges and income tax expense</b>	<b>476</b>	<b>444</b>	<b>960</b>	<b>952</b>
Financing charges (Note 5)	144	119	280	236
<b>Income before income tax expense</b>	<b>332</b>	<b>325</b>	<b>680</b>	<b>716</b>
Income tax expense (Note 6)	65	68	129	147
<b>Net income</b>	<b>267</b>	<b>257</b>	<b>551</b>	<b>569</b>
Other comprehensive (loss) income (Note 7)	(8)	5	(12)	12
<b>Comprehensive income</b>	<b>259</b>	<b>262</b>	<b>539</b>	<b>581</b>
<b>Net income attributable to:</b>				
Noncontrolling interest	2	2	4	4
Common shareholders	265	255	547	565
	<b>267</b>	<b>257</b>	<b>551</b>	<b>569</b>
<b>Comprehensive income attributable to:</b>				
Noncontrolling interest	2	2	4	4
Common shareholders	257	260	535	577
	<b>259</b>	<b>262</b>	<b>539</b>	<b>581</b>
<b>Earnings per common share (Note 21)</b>				
Basic	\$0.44	\$0.43	\$0.91	\$0.94
Diluted	\$0.44	\$0.42	\$0.91	\$0.94
<b>Dividends per common share declared (Note 20)</b>	<b>\$0.30</b>	<b>\$0.28</b>	<b>\$0.58</b>	<b>\$0.55</b>

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

**HYDRO ONE LIMITED**  
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)**  
**At June 30, 2023 and December 31, 2022**

<i>As at (millions of Canadian dollars)</i>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	24	530
Accounts receivable (Note 8)	750	767
Due from related parties (Note 23)	296	282
Other current assets (Note 9)	201	281
	<b>1,271</b>	<b>1,860</b>
Property, plant and equipment (Note 10)	25,849	25,077
Other long-term assets:		
Regulatory assets (Note 12)	3,089	2,964
Deferred income tax assets	116	114
Intangible assets (Note 11)	624	608
Goodwill	373	373
Other assets (Note 13)	552	461
	<b>4,754</b>	<b>4,520</b>
<b>Total assets</b>	<b>31,874</b>	<b>31,457</b>
<b>Liabilities</b>		
Current liabilities:		
Short-term notes payable (Note 16)	1,101	1,374
Long-term debt payable within one year (Notes 16, 17)	700	733
Accounts payable and other current liabilities (Note 14)	1,336	1,274
Due to related parties (Note 23)	96	271
	<b>3,233</b>	<b>3,652</b>
Long-term liabilities:		
Long-term debt (Notes 16, 17)	13,377	13,030
Regulatory liabilities (Note 12)	1,226	1,123
Deferred income tax liabilities	891	715
Other long-term liabilities (Note 15)	1,566	1,545
	<b>17,060</b>	<b>16,413</b>
<b>Total liabilities</b>	<b>20,293</b>	<b>20,065</b>
<i>Contingencies and Commitments (Notes 25, 26)</i>		
<i>Subsequent Events (Note 28)</i>		
Noncontrolling interest subject to redemption	17	20
<b>Equity</b>		
Common shares (Note 19)	5,706	5,699
Additional paid-in capital	28	34
Retained earnings	5,764	5,562
Accumulated other comprehensive (loss) income	(1)	11
Hydro One shareholders' equity	<b>11,497</b>	<b>11,306</b>
Noncontrolling interest	67	66
<b>Total equity</b>	<b>11,564</b>	<b>11,372</b>
	<b>31,874</b>	<b>31,457</b>

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

**HYDRO ONE LIMITED**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)**
**For the six months ended June 30, 2023 and 2022**

Six months ended June 30, 2023 (millions of Canadian dollars)	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non- controlling Interest	Total Equity
January 1, 2023	5,699	34	5,562	11	11,306	66	11,372
Net income	—	—	547	—	547	3	550
Other comprehensive loss (Note 7)	—	—	—	(12)	(12)	—	(12)
Distributions to noncontrolling interest	—	—	—	—	—	(2)	(2)
Dividends on common shares (Note 20)	—	—	(345)	—	(345)	—	(345)
Common shares issued	7	(7)	—	—	—	—	—
Stock-based compensation	—	1	—	—	1	—	1
<b>June 30, 2023</b>	<b>5,706</b>	<b>28</b>	<b>5,764</b>	<b>(1)</b>	<b>11,497</b>	<b>67</b>	<b>11,564</b>

Six months ended June 30, 2022 (millions of Canadian dollars)	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non- controlling Interest	Total Equity
January 1, 2022	5,688	38	5,174	(12)	10,888	68	10,956
Net income	—	—	565	—	565	3	568
Other comprehensive income (Note 7)	—	—	—	12	12	—	12
Distributions to noncontrolling interest	—	—	—	—	—	(5)	(5)
Dividends on common shares (Note 20)	—	—	(327)	—	(327)	—	(327)
Common shares issued	11	(8)	—	—	3	—	3
Stock-based compensation	—	3	—	—	3	—	3
<b>June 30, 2022</b>	<b>5,699</b>	<b>33</b>	<b>5,412</b>	<b>—</b>	<b>11,144</b>	<b>66</b>	<b>11,210</b>

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

**HYDRO ONE LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
For the three and six months ended June 30, 2023 and 2022

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	2023	2022	2023	2022
<b>Operating activities</b>				
Net income	267	257	551	569
Environmental expenditures	(10)	(11)	(24)	(19)
Adjustments for non-cash items:				
Depreciation and amortization (Note 4)	215	214	436	425
Regulatory assets and liabilities	22	(8)	(25)	21
Deferred income tax expense	52	62	106	135
Other	14	11	16	27
Changes in non-cash balances related to operations (Note 24)	92	96	(58)	(94)
<b>Net cash from operating activities</b>	<b>652</b>	<b>621</b>	<b>1,002</b>	<b>1,064</b>
<b>Financing activities</b>				
Long-term debt issued	—	—	1,050	—
Long-term debt repaid	(131)	(1)	(731)	(601)
Short-term notes issued	1,720	1,470	3,360	2,860
Short-term notes repaid	(1,425)	(1,364)	(3,635)	(2,470)
Dividends paid (Note 20)	(178)	(168)	(345)	(327)
Distributions paid to noncontrolling interest	(2)	(2)	(6)	(6)
Common shares issued	—	—	—	3
Costs to obtain financing	(1)	(4)	(6)	(4)
<b>Net cash used in financing activities</b>	<b>(17)</b>	<b>(69)</b>	<b>(313)</b>	<b>(545)</b>
<b>Investing activities</b>				
Capital expenditures (Note 24)				
Property, plant and equipment	(578)	(536)	(1,062)	(974)
Intangible assets	(35)	(27)	(59)	(53)
Change in future use assets	(41)	—	(74)	(5)
Capital contributions received	—	10	2	10
Other	—	(3)	(2)	(6)
<b>Net cash used in investing activities</b>	<b>(654)</b>	<b>(556)</b>	<b>(1,195)</b>	<b>(1,028)</b>
<b>Net change in cash and cash equivalents</b>	<b>(19)</b>	<b>(4)</b>	<b>(506)</b>	<b>(509)</b>
Cash and cash equivalents, beginning of period	43	35	530	540
<b>Cash and cash equivalents, end of period</b>	<b>24</b>	<b>31</b>	<b>24</b>	<b>31</b>

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

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

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). At June 30, 2023, the Province held approximately 47.1% (December 31, 2022 - 47.2%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

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

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, which include 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), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP).

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

### **Rate Setting**

#### Hydro One Networks

On August 15, 2021, Hydro One Networks filed a custom Joint Rate Application (JRAP) for distribution rates and transmission revenue requirement for the period from 2023-2027. On November 29, 2022, the Ontario Energy Board (OEB) issued a Decision and Order approving the application and issued its final rate order for 2023-2027 transmission and distribution rates. As part of this decision, the OEB approved revenue requirement of \$1,952 million for 2023, \$2,073 million for 2024, \$2,168 million for 2025, \$2,277 million for 2026 and \$2,362 million for 2027 for the Transmission Business. The OEB also approved revenue requirement of \$1,727 million for 2023, \$1,813 million for 2024, \$1,886 million for 2025, \$1,985 million for 2026 and \$2,071 million for 2027 for the Distribution Business.

#### Deferred Tax Asset (DTA)

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

#### Hydro One Remotes

On August 31, 2022, Hydro One Remotes filed its distribution rate application for 2023-2027. On March 2, 2023, the OEB approved Hydro One Remote Communities' 2023 revenue requirement of \$128 million with a price cap escalator index for 2023-2027, and a 3.72% rate increase effective May 1, 2023.

## **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, 2022, 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, 2022.

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

### 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 2021-08	October 2021	The amendments address how to determine whether a contractual obligation represents a liability to be recognized by the acquirer in a business combination.	January 1, 2023	No impact upon adoption
ASU 2022-02	March 2022	The amendments eliminate the troubled debt restructuring (TDR) accounting model for entities that have adopted Topic 326 Financial Instrument – Credit Losses and modifies the guidance on vintage disclosure requirements to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023	No impact upon adoption

### 4. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Depreciation of property, plant and equipment	186	184	374	367
Amortization of intangible assets	19	19	38	39
Amortization of regulatory assets	10	11	24	19
Depreciation and amortization	215	214	436	425
Asset removal costs	32	44	63	70
	247	258	499	495

### 5. FINANCING CHARGES

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Interest on long-term debt	144	125	282	248
Interest on short-term notes	10	4	22	5
Interest on regulatory accounts	5	1	9	2
Realized (gain) loss on cash flow hedges (interest-rate swap agreements) (Notes 7, 17)	—	1	(2)	4
Other	5	4	9	8
Less: Interest capitalized on construction and development in progress	(18)	(16)	(33)	(31)
Interest earned on cash and cash equivalents	(2)	(1)	(7)	(1)
DTA carrying charges	—	1	—	1
	144	119	280	236

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

**6. INCOME TAXES**

As a rate regulated utility company, the Company recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated business. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable from, or refundable to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax recovery or expense, respectively. The Company's consolidated tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recovered from, or refunded to, customers in future rates. Thus, the Company's income tax expense or recovery differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate.

The reconciliation between the statutory and the effective tax rates is provided as follows:

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Income before income tax expense	332	325	680	716
Income tax expense at statutory rate of 26.5% (2022 - 26.5%)	88	86	180	190
Increase (decrease) resulting from:				
Net temporary differences recoverable in future rates charged to customers:				
Capital cost allowance in excess of depreciation and amortization	(28)	(24)	(60)	(52)
Impact of DTA Implementation Decision <sup>1</sup>	24	24	48	48
Overheads capitalized for accounting but deducted for tax purposes	(8)	(6)	(18)	(13)
Pension and post-retirement benefit contributions in excess of pension expense	(5)	(4)	(10)	(10)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)	(9)	(9)
Environmental expenditures	(3)	(4)	(4)	(7)
Other	—	—	1	(1)
Net temporary differences attributable to regulated business	(24)	(18)	(52)	(44)
Net permanent differences	1	—	1	1
Total income tax expense	65	68	129	147
Effective income tax rate	19.6%	20.9%	19.0%	20.5%

<sup>1</sup> Pursuant to the DTA Implementation Decision, the amounts represent the recovery of DTA amounts that were previously shared with ratepayers. See Note 12 - Regulatory Assets and Liabilities.

**7. OTHER COMPREHENSIVE INCOME (LOSS)**

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Gain (loss) on cash flow hedges (interest-rate swap agreements) (Notes 5, 17) <sup>1</sup>	—	4	(4)	10
Gain (loss) on transfer of other post-employment benefits (OPEB) (Note 18)	(8)	1	(8)	2
	(8)	5	(12)	12

<sup>1</sup> No realized gain for the three months ended June 30, 2023 (2022 - after-tax \$1 million loss and before-tax \$1 million loss) and \$2 million after-tax realized gain (2022 - \$2 million loss) and \$2 million before-tax realized gain (2022 - \$4 million loss) on cash flow hedges reclassified to financing charges for six months ended June 30, 2023.

**8. ACCOUNTS RECEIVABLE**

As at (millions of dollars)	June 30, 2023	December 31, 2022
Accounts receivable - billed	388	357
Accounts receivable - unbilled	426	473
Accounts receivable, gross	814	830
Allowance for doubtful accounts	(64)	(63)
Accounts receivable, net	750	767

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

The following table shows the movements in the allowance for doubtful accounts for the six months ended June 30, 2023 and the year ended December 31, 2022:

<i>(millions of dollars)</i>	June 30, 2023	December 31, 2022
Allowance for doubtful accounts – beginning	(63)	(56)
Write-offs	10	25
Additions to allowance for doubtful accounts	(11)	(32)
Allowance for doubtful accounts – ending	(64)	(63)

## 9. OTHER CURRENT ASSETS

<i>As at (millions of dollars)</i>	June 30, 2023	December 31, 2022
Regulatory assets <i>(Note 12)</i>	76	189
Materials and supplies	42	25
Prepaid expenses and other assets	83	62
Derivative assets <i>(Note 17)</i>	—	5
	201	281

## 10. PROPERTY, PLANT AND EQUIPMENT

<i>As at (millions of dollars)</i>	June 30, 2023	December 31, 2022
Property, plant and equipment	37,857	37,218
Less: accumulated depreciation	(13,691)	(13,371)
	24,166	23,847
Construction in progress	1,683	1,230
	25,849	25,077

## 11. INTANGIBLE ASSETS

<i>As at (millions of dollars)</i>	June 30, 2023	December 31, 2022
Intangible assets	1,194	1,184
Less: accumulated depreciation	(781)	(743)
	413	441
Development in progress	211	167
	624	608



**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

**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:

<i>As at (millions of dollars)</i>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
<b>Regulatory assets:</b>		
Deferred income tax regulatory asset	2,866	2,724
Post-retirement and post-employment benefits - non-service cost	117	141
Environmental	70	93
Rural and Remote Rate Protection variance	30	25
Stock-based compensation	28	34
Conservation and Demand Management variance	12	25
Deferred tax asset sharing	5	73
Other	37	38
<b>Total regulatory assets</b>	<b>3,165</b>	<b>3,153</b>
Less: current portion	(76)	(189)
	<b>3,089</b>	<b>2,964</b>
<b>Regulatory liabilities:</b>		
Post-retirement and post-employment benefits	506	506
Pension benefit regulatory liability	451	358
Distribution rate riders	126	2
Earnings sharing mechanism deferral (ESM)	61	75
Tax rule changes variance	42	100
External revenue variance	40	50
Asset removal costs cumulative variance	32	41
Capitalized overhead tax variance	17	16
Deferred income tax regulatory liability	4	4
Pension cost differential	2	26
Green energy expenditure variance	—	5
Retail settlement variance account (RSVA)	10	53
Other	28	26
<b>Total regulatory liabilities</b>	<b>1,319</b>	<b>1,262</b>
Less: current portion	(93)	(139)
	<b>1,226</b>	<b>1,123</b>

**Deferred Tax Asset Sharing**

At June 30, 2023, Hydro One has a regulatory asset of \$5 million (December 31, 2022 - \$73 million) representing the interest accrued within the Transmission Business on the cumulative DTA amounts shared with ratepayers over the 2017 to 2021 period, net of the amount recovered from ratepayers since July 1, 2021 pursuant to the DTA Implementation Decision. At December 31, 2022, the regulatory asset of \$73 million consists of \$24 million and \$49 million for Hydro One Networks' distribution and transmission segments, respectively. The principal balance of this regulatory account was fully recovered as at June 30, 2023. The Company will seek recovery of the remaining interest balance in the next rate application.

**Post-Retirement and Post-Employment Benefits - Non-Service Cost**

This balance includes the rider established for the disposition of the approved balances from Hydro One Networks' JRAP for 2023-2027 rates.

**Distribution Rate Riders**

As part of the decision received in November 2022 for Hydro One Networks' JRAP, the OEB approved the disposition of certain deferral and variance account balances as at December 31, 2020, including accrued interest. These approved balances, including those for RSVA, tax rule changes variance, pension cost differential, and ESM were accumulated in distribution rate riders which makes up the majority of this balance. The amounts are being disposed of over a period of 36 months ending December 31, 2025.

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

**13. OTHER LONG-TERM ASSETS**

<i>As at (millions of dollars)</i>	June 30, 2023	December 31, 2022
Deferred pension assets (Note 18)	451	358
Right-of-Use assets	50	56
Investments	37	35
Other long-term assets	14	12
	<b>552</b>	<b>461</b>

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

<i>As at (millions of dollars)</i>	June 30, 2023	December 31, 2022
Accrued liabilities	798	683
Accounts payable	281	295
Accrued interest	139	120
Regulatory liabilities (Note 12)	93	139
Environmental liabilities	14	25
Lease obligations	11	12
	<b>1,336</b>	<b>1,274</b>

**15. OTHER LONG-TERM LIABILITIES**

<i>As at (millions of dollars)</i>	June 30, 2023	December 31, 2022
Post-retirement and post-employment benefit liability (Note 18)	1,410	1,376
Environmental liabilities	56	68
Lease obligations	39	43
Asset retirement obligations	30	28
Other long-term liabilities	31	30
	<b>1,566</b>	<b>1,545</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 Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of \$2,300 million. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by Hydro One Inc.'s revolving standby credit facilities totalling \$2,300 million.

At June 30, 2023, Hydro One's consolidated committed, unsecured, and revolving credit facilities (Operating Credit Facilities) totalling \$2,550 million included Hydro One's credit facilities of \$250 million and Hydro One Inc.'s credit facilities of \$2,300 million. In January 2022, Hydro One successfully amended its Operating Credit Facilities to incorporate environmental, social and governance targets. On June 1, 2023, the maturity date for the Operating Credit Facilities was extended from 2027 to 2028. At June 30, 2023, 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.

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

**Subsidiary Debt Guarantee**

Hydro One Holdings Limited (HOHL) is an indirect wholly-owned subsidiary of Hydro One that may offer and sell debt securities. Any debt securities issued by HOHL are fully and unconditionally guaranteed by the Company. At June 30, 2023, no debt securities have been issued by HOHL.

**Long-Term Debt**

The following table presents long-term debt outstanding at June 30, 2023 and December 31, 2022:

<i>As at (millions of dollars)</i>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
Hydro One Inc. long-term debt (a)	13,695	13,245
Hydro One long-term debt (b)	425	425
HOSSM long-term debt (c)	—	133
	14,120	13,803
Add: Net unamortized debt premiums	8	8
Less: Unamortized deferred debt issuance costs	(51)	(48)
<b>Total long-term debt</b>	<b>14,077</b>	<b>13,763</b>
Less: Long-term debt payable within one year	(700)	(733)
	<b>13,377</b>	<b>13,030</b>

(a) Hydro One Inc. long-term debt

At June 30, 2023, long-term debt of \$13,695 million (December 31, 2022 - \$13,245 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. In June 2022, Hydro One Inc. filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of \$4,000 million, and expires in July 2024. At June 30, 2023, \$2,200 million remained available for issuance under the MTN Program prospectus. During the three and six months ended June 30, 2023, \$nil and \$1,050 million long-term debt was issued, respectively, (2022 - \$nil) and no long-term debt was repaid (2022 - \$600 million).

(b) Hydro One long-term debt

At June 30, 2023, long-term debt of \$425 million (December 31, 2022 - \$425 million) was outstanding under Hydro One's short form base shelf prospectus (Universal Base Shelf Prospectus). On August 15, 2022, Hydro One filed the Universal Base Shelf Prospectus with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$2,000 million of debt, equity or other securities, or any combination thereof, during the 25-month period ending on September 16, 2024. At June 30, 2023, no securities have been issued under the Universal Base Shelf Prospectus. During the three and six months ended June 30, 2023 and 2022, no long-term debt was issued or repaid.

(c) HOSSM long-term debt

On June 16, 2023, the HOSSM long-term debt matured and was fully repaid, leaving no debt outstanding at June 30, 2023 (December 31, 2022 - \$133 million). During the three and six months ended June 30, 2023 and 2022, \$131 million of long-term debt was repaid (2022 - \$1 million) and 2022, no long-term debt was issued.

**Principal and Interest Payments**

At June 30, 2023, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	<b>Long-Term Debt Principal Repayments</b> <i>(millions of dollars)</i>	<b>Interest Payments</b> <i>(millions of dollars)</i>	<b>Weighted-Average Interest Rate</b> <i>(%)</i>
Year 1	700	565	2.5
Year 2	750	548	2.3
Year 3	500	530	2.8
Year 4	—	516	—
Year 5	1,175	513	3.6
	3,125	2,672	2.9
Years 6-10	3,450	2,083	4.0
Thereafter	7,545	3,769	4.5
	<b>14,120</b>	<b>8,524</b>	<b>4.0</b>

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

### Non-Derivative Financial Assets and Liabilities

At June 30, 2023 and December 31, 2022, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

### Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at June 30, 2023 and December 31, 2022 are as follows:

As at (millions of dollars)	June 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	14,077	13,525	13,763	13,026

### Fair Value Measurements of Derivative Instruments

#### Fair Value Hedges

At June 30, 2023 and December 31, 2022, Hydro One Inc. had no fair value hedges.

#### Cash Flow Hedges

At June 30, 2023 and December 31, 2022, Hydro One Inc. had \$nil and a total of \$800 million, respectively, in pay-fixed, receive-floating interest-rate swap agreements designated as cash flow hedges. These cash flow hedges were intended to offset the variability of interest rates on the issuances of short-term commercial paper between January 9, 2020 and March 9, 2023.

At June 30, 2023 and December 31, 2022, the Company had no derivative instruments classified as undesignated contracts.

### Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at June 30, 2023 and December 31, 2022 is as follows:

As at June 30, 2023 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Liabilities:</b>					
Long-term debt, including current portion	14,077	13,525	—	13,525	—
<b>As at December 31, 2022 (millions of dollars)</b>					
<b>Assets:</b>					
Derivative instruments (Note 9)					
Cash flow hedges, including current portion	5	5	—	5	—
<b>Liabilities:</b>					
Long-term debt, including current portion	13,763	13,026	—	13,026	—

The fair value of the interest rate swaps designated as cash flow hedges is determined using a discounted cash flow method based on period-end swap yield curves.

The fair value of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no transfers between any of the fair value levels during the three-months ended June 30, 2023 or the year ended December 31, 2022.

### Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

#### Market Risk

Market risk refers primarily to the risk of loss which results from changes in values, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates, as its regulated return on equity is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk or material foreign exchange risk.

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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 have resulted in an increase to financing charges for the three and six months ended June 30, 2023 of \$2 million and \$4 million, respectively. There would have been no significant decrease in Hydro One's net income for the three and six months ended June 30, 2022.

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 OCI or OCL and is reclassified to results of operations in the same period during which the hedged transaction affects results of operations. During the three months ended June 30, 2023, there was a \$nil after-tax change (2022 - \$4 million gain), \$nil before-tax change (2022 - \$5 million gain), recorded in OCI, and a \$nil after-tax realized gain (2022 - less than \$1 million loss), \$nil before-tax gain (2022 - \$1 million loss), reclassified to financing charges. During the six months ended June 30, 2023, a \$2 million after-tax change (2022 - \$8 million gain), \$3 million before-tax change (2022 - \$11 million gain), was recorded in OCI, and a \$2 million after-tax realized gain (2022 - \$2 million loss), \$2 million before-tax gain (2022 - \$4 million loss), was reclassified to financing charges. This resulted in an accumulated other comprehensive income (AOCI) of \$nil related to cash flow hedges at June 30, 2023 (December 31, 2022 - \$4 million).

The Pension Plan manages market risk by diversifying investments in accordance with the Pension Plan's Statement of Investment Policies and Procedures. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the Pension Plan's financial instruments. In addition, changes in interest rates can also impact discount rates which impact the valuation of the pension and post-retirement and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments. See Note 18 - Pension and Post-Retirement and Post-Employment Benefits for further details.

#### Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At June 30, 2023 and 2022, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At June 30, 2023 and 2022, there was no material accounts receivable balance due from any single customer.

At June 30, 2023, the Company's allowance for doubtful accounts was \$64 million (December 31, 2022 - \$63 million). The allowance for doubtful accounts reflects the Company's Current Expected Credit Loss (CECL) for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At June 30, 2023, approximately 7% (December 31, 2022 - 4%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties on both an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the consolidated balance sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts in an asset position at the reporting date. At June 30, 2023, there was no counterparty party risk. At June 30, 2022, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material.

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.

At June 30, 2023, \$2,200 million remained available for issuance under the MTN Program prospectus, and \$2,000 million remained available for issuance under the Universal Base Shelf Prospectus.

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On November 22, 2022, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US to replace a previous prospectus that would otherwise have expired in January 2023. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US\$3,000 million of debt securities, unconditionally guaranteed by Hydro One, expiring in December 2024. At June 30, 2023, no securities have been issued under the US Debt Shelf Prospectus.

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

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

The following table provides the components of the net periodic benefit costs for the three and six months ended June 30, 2023 and 2022:

Three months ended June 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2023	2022	2023	2022
Current service cost	25	54	13	16
Interest cost	99	71	19	15
Expected return on plan assets, net of expenses <sup>1</sup>	(142)	(127)	—	—
Prior service cost amortization	(1)	—	2	2
Amortization of actuarial losses	(5)	15	(7)	0
Net periodic benefit (recovery) costs	(24)	13	27	33
Charged to results of operations <sup>2</sup>	7	9	19	22

Six months ended June 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2023	2022	2023	2022
Current service cost	50	108	26	32
Interest cost	198	142	37	30
Expected return on plan assets, net of expenses <sup>1</sup>	(284)	(254)	—	—
Prior service cost amortization	(1)	1	4	7
Amortization of actuarial losses	(10)	30	(14)	1
Net periodic benefit (recovery) costs	(47)	27	53	70
Charged to results of operations <sup>2</sup>	13	16	36	41

<sup>1</sup> The expected long-term rate of return on pension plan assets for the year ending December 31, 2023 is 7.00% (2022 - 6.00%).

<sup>2</sup> The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and six months ended June 30, 2023, pension costs of \$24 million (2022 - \$21 million) and \$46 million (2022 - \$39 million), respectively were attributed to labour, of which \$7 million (2022 - \$9 million) and \$13 million (2022 - \$16 million), respectively, was charged to operations, and \$17 million (2022 - \$12 million) and \$33 million (2022 - \$23 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets

### Transfers from Other Plans

Hydro One and Inergi LP agreed to transfer the employment of certain Inergi LP employees (Transferred Employees) to Hydro One Networks. Employees related to the Information Technology Operations, Finance and Accounting, Payroll, Source to Pay, Settlements and certain Shared Services functions transferred over a period ending January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) became participants in the Hydro One Pension Plan (the Plan) upon transfer to Hydro One Networks. On March 2, 2023, the assets and liabilities of the Inergi Plan were transferred to the Plan. The value of assets and liabilities of the Inergi Plan transferred to the Plan were approximately \$378 million and \$333 million, respectively, at the date of transfer. Inergi and Hydro One Networks also agreed to transfer OPEB liabilities related to the Transferred Employees to Hydro One's post-retirement and post-employment benefit plans, which occurred on the date of transfer of each group of Transferred Employees.

The transfer of Finance and Accounting, Payroll and certain Shared Services functions occurred on January 1, 2022 and the transfer of the OPEB liability of \$9 million related to these Employees was completed in the first quarter of 2022. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totalling \$10 million was transferred to Hydro One and recorded as an asset with an offset to OCI. Both the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over

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the expected average remaining service lifetime (EARSL) of the Finance and Accounting, Payroll and certain Shared Services employees.

Eligible Inergi retirees were transferred to the Plan on June 1, 2023. The transfer of the OPEB liability of \$15 million related to these retirees was completed in the second quarter of 2023. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totalling \$3 million was transferred to Hydro One, in accordance with the agreement. Both the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of OPEB liabilities are being recognized in net income over the expected average remaining life expectancy of the Retirees and Other Former Members employees.

## 19. SHARE CAPITAL

### Common Shares

The Company is authorized to issue an unlimited number of common shares. At June 30, 2023, the Company had 599,076,654 (December 31, 2022 - 598,714,704) common shares issued and outstanding.

### Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At June 30, 2023 and December 31, 2022, the Company had no preferred shares issued and outstanding.

## 20. DIVIDENDS

During the three months ended June 30, 2023, common share dividends in the amount of \$178 million (2022 - \$168 million) were declared and paid.

During the six months ended June 30, 2023, common share dividends in the amount of \$345 million (2022 - \$327 million) were declared and paid. See Note 28 - Subsequent Events for dividends declared subsequent to June 30, 2023.

## 21. EARNINGS PER COMMON SHARE

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted-average number of common shares outstanding.

Diluted EPS is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted-average number of common shares outstanding adjusted for the effects of potentially dilutive stock-based compensation plans, including the share grant plans and the Long-term Incentive Plan (LTIP), which are calculated using the treasury stock method.

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Net income attributable to common shareholders <i>(millions of dollars)</i>	265	255	547	565
Weighted-average number of shares				
Basic	599,072,677	598,710,144	598,894,679	598,516,859
Effect of dilutive stock-based compensation plans	1,675,390	2,042,012	1,743,789	2,112,440
Diluted	600,748,067	600,752,156	600,638,468	600,629,299
EPS				
Basic	\$0.44	\$0.43	\$0.91	\$0.94
Diluted	\$0.44	\$0.42	\$0.91	\$0.94



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## 22. STOCK-BASED COMPENSATION

### Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (the PWU Share Grant Plan) and one for the benefit of certain members of the Society (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and six months ended June 30, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of share grants)	2023	2022	2023	2022
Share grants outstanding - beginning	2,189,616	2,662,000	2,189,616	2,662,000
Vested and issued <sup>1</sup>	(361,950)	(388,321)	(361,950)	(388,321)
Share grants outstanding - ending	1,827,666	2,273,679	1,827,666	2,273,679

<sup>1</sup> During the three and six months ended June 30, 2023, Hydro One issued 361,950 (2022 - 388,321) common shares from treasury to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

### Directors' Deferred Share Unit (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three and six months ended June 30, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	2023	2022	2023	2022
DSUs outstanding - beginning	118,050	85,973	99,939	80,813
Granted	4,472	5,026	22,583	10,186
Paid	(30,104)	—	(30,104)	—
DSUs outstanding - ending	92,418	90,999	92,418	90,999

At June 30, 2023, a liability of \$3 million (December 31, 2022 - \$4 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of \$37.85 (December 31, 2022 - \$36.27). This liability is included in other long-term liabilities on the consolidated balance sheets.

### Management DSU Plan

A summary of DSU awards activity under the Management DSU Plan during the three and six months ended June 30, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	2023	2022	2023	2022
DSUs outstanding - beginning	136,996	124,849	118,505	90,240
Granted	1,085	1,017	19,576	35,626
DSUs outstanding - ending	138,081	125,866	138,081	125,866

At June 30, 2023, a liability of \$5 million (December 31, 2022 - \$4 million) related to Management DSUs has been recorded at the closing price of the Company's common shares of \$37.85 (December 31, 2022 - \$36.27). 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 six months ended June 30, 2023 and 2022 is presented below:

	PSUs		RSUs	
Six months ended June 30 (number of units)	2023	2022	2023	2022
Units outstanding - beginning	—	—	—	—
Granted	142,067	—	188,013	—
Units outstanding - ending	142,067	—	188,013	—

The grant date total fair value of the awards granted during the six months ended June 30, 2023 was \$13 million (2022 - \$nil). The compensation expense recognized by the Company relating to these awards during the six months ended June 30, 2023 was \$1 million (2022 - \$nil).



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**Society RSU Plan**

A summary of RSU awards activity under the Society RSU Plan during the three and six months ended June 30, 2023 and 2022 is presented below:

(number of RSUs)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
RSUs outstanding - beginning	—	36,556	36,124	71,053
Granted	—	—	—	1,667
Vested and issued	—	—	(33,031)	(34,346)
Settled	—	—	(2,964)	(1,106)
Forfeited	—	—	(129)	(712)
RSUs outstanding - ending	—	36,556	—	36,556

**23. RELATED PARTY TRANSACTIONS**

The Province is a shareholder of Hydro One with approximately 47.1% ownership at June 30, 2023. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy. Ontario Charging Network (OCN LP) is a joint-venture limited partnership between OPG and a subsidiary of Hydro One. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2023 and 2022:

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	Transaction	2023	2022	2023	2022
<b>Province</b>	Dividends paid	84	79	163	154
<b>IESO</b>	Power purchased	358	408	1,145	1,186
	Revenues for transmission services	554	512	1,105	1,028
	Amounts related to electricity rebates	199	243	429	544
	Distribution revenues related to rural rate protection	63	60	124	121
	Distribution revenues related to supply of electricity to remote northern communities	12	9	23	18
	Distribution revenues related to Wataynikaneyap Power LP	13	—	27	—
	Funding received related to Conservation and Demand Management programs	—	—	1	—
<b>OPG<sup>1</sup></b>	Power purchased	3	5	7	11
	Revenues related to provision of services and supply of electricity	2	2	4	4
	Capital contribution received from OPG	—	—	3	2
	Costs related to the purchase of services	1	1	1	1
<b>OEFC</b>	Power purchased from power contracts administered by the OEFC	1	—	1	1
<b>OEB</b>	OEB fees	3	3	6	5
<b>OCN LP<sup>2</sup></b>	Investment in OCN LP	—	1	—	1

<sup>1</sup> OPG has provided a \$3 million guarantee to Hydro One related to the OCN Guarantee. See Note 26 - Commitments for details related to the OCN Guarantee.

<sup>2</sup> OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

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

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**24. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Accounts receivable	50	70	17	14
Due from related parties	(11)	6	(14)	(19)
Materials and supplies (Note 9)	(11)	—	(17)	(1)
Prepaid expenses and other assets (Note 9)	(4)	—	(21)	(13)
Other long-term assets (Note 13)	(1)	—	(2)	(1)
Accounts payable	12	(10)	(24)	(52)
Accrued liabilities (Note 14)	144	121	115	88
Due to related parties	(111)	(93)	(175)	(139)
Accrued interest (Note 14)	(5)	(20)	19	(12)
Long-term accounts payable and other long-term liabilities (Note 15)	4	3	1	7
Post-retirement and post-employment benefit liability	25	19	43	34
	92	96	(58)	(94)

**Capital Expenditures**

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the consolidated statements of cash flows for the three and six months ended June 30, 2023 and 2022. The reconciling items include net change in accruals and capitalized depreciation.

	Three months ended June 30, 2023			Six months ended June 30, 2023		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(618)	(31)	(649)	(1,091)	(57)	(1,148)
Reconciling items	40	(4)	36	29	(2)	27
Cash outflow for capital expenditures	(578)	(35)	(613)	(1,062)	(59)	(1,121)

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

**Supplementary Information**

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Net interest paid	153	147	272	264
Income taxes paid	12	8	33	22

**25. 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.

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## 26. COMMITMENTS

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

As at June 30, 2023 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	95	55	36	5	5	13
Long-term software/meter agreement	4	11	4	1	1	3

### Outsourcing and other agreements

In February 2021, Hydro One entered into a three-year agreement for information technology services with Capgemini Canada Inc., which expires on February 29, 2024 and includes an option to extend for two additional one-year terms at Hydro One's discretion. In June 2023, Hydro One provided Capgemini Canada Inc. with notice to extend the agreement, effective March 1, 2024 and to expire March 1, 2026.

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

As at June 30, 2023 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities	—	—	—	—	2,550	—
Letters of credit <sup>1</sup>	171	1	—	—	—	—
Guarantees <sup>2</sup>	517	—	—	—	—	—

<sup>1</sup> Letters of credit consist of \$163 million letters of credit related to retirement compensation arrangements, a \$4 million letter of credit provided to the IESO for prudential support, \$4 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

<sup>2</sup> Guarantees consist of \$475 million of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, as well as guarantees provided by Hydro One to the Minister of Natural Resources (Canada) and ONroute of \$7 million and \$30 million, respectively, relating to OCN LP (OCN Guarantee) and \$5 million relating to Aux Energy Inc., the Company's indirect subsidiary. OPG has provided a \$3 million guarantee to Hydro One related to the OCN Guarantee.

## 27. SEGMENTED REPORTING

Hydro One has three reportable segments:

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

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

Three months ended June 30, 2023 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	559	1,285	13	1,857
Purchased power	—	798	—	798
Operation, maintenance and administration	124	188	24	336
Depreciation, amortization and asset removal costs	126	118	3	247
<b>Income (loss) before financing charges and income tax expense</b>	<b>309</b>	<b>181</b>	<b>(14)</b>	<b>476</b>
<b>Capital investments</b>	<b>373</b>	<b>269</b>	<b>7</b>	<b>649</b>

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2023 and 2022

Three months ended June 30, 2022 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	516	1,314	10	1,840
Purchased power	—	852	—	852
Operation, maintenance and administration	97	173	16	286
Depreciation, amortization and asset removal costs	130	126	2	258
<b>Income (loss) before financing charges and income tax expense</b>	<b>289</b>	<b>163</b>	<b>(8)</b>	<b>444</b>

<b>Capital investments</b>	<b>311</b>	<b>294</b>	<b>7</b>	<b>612</b>
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Six months ended June 30, 2023 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,114	2,794	23	3,931
Purchased power	—	1,808	—	1,808
Operation, maintenance and administration	247	373	44	664
Depreciation, amortization and asset removal costs	254	240	5	499
<b>Income (loss) before financing charges and income tax expense</b>	<b>613</b>	<b>373</b>	<b>(26)</b>	<b>960</b>

<b>Capital investments</b>	<b>671</b>	<b>465</b>	<b>12</b>	<b>1,148</b>
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Six months ended June 30, 2022 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,035	2,831	21	3,887
Purchased power	—	1,866	—	1,866
Operation, maintenance and administration	196	344	34	574
Depreciation, amortization and asset removal costs	255	236	4	495
<b>Income (loss) before financing charges and income tax expense</b>	<b>584</b>	<b>385</b>	<b>(17)</b>	<b>952</b>

<b>Capital investments</b>	<b>588</b>	<b>461</b>	<b>12</b>	<b>1,061</b>
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**Total Assets by Segment:**

As at (millions of dollars)	June 30, 2023	December 31, 2022
Transmission	19,353	18,778
Distribution	12,239	11,893
Other	282	786
<b>Total assets</b>	<b>31,874</b>	<b>31,457</b>

**Total Goodwill by Segment:**

As at (millions of dollars)	June 30, 2023	December 31, 2022
Transmission	157	157
Distribution	216	216
<b>Total goodwill</b>	<b>373</b>	<b>373</b>

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

**28. SUBSEQUENT EVENTS**

**Dividends**

On August 8, 2023, common share dividends of \$178 million (\$0.2964 per common share) were declared.