HYDRO ONE INC. REPORTS THIRD QUARTER 2015 RESULTS

Toronto, November 13, 2015 – Hydro One Inc., Ontario's largest electricity transmission and distribution company, today announced its unaudited financial and operating results for the third quarter ended September 30, 2015.

Consolidated Financial Highlights and Statistics:

	Three months ended September 30			Nine months ended September 30		
(millions of Canadian dollars, except as otherwise noted)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	1,645	1,556	5.7%	5,016	4,886	2.7%
Purchased power	856	780	9.7%	2,664	2,526	5.5%
Operation, maintenance & administration	274	300	(8.7%)	834	945	(11.7%)
Depreciation & amortization	189	184	2.7%	566	532	6.4%
Financing charges	95	96	(1.0%)	282	281	0.4%
Provision for payments in lieu of taxes (PILs)	36	23	56.5%	104	74	40.5%
Net income	192	173	11.0%	560	528	6.1%
Net cash from operating activities	469	443	5.9%	1,182	777	52.1%
Funds from operations (FFO)	434	342	26.9%	1,195	971	23.1%
Capital investments	438	376	16.5%	1,212	1,052	15.2%
Transmission:						
Average annual Ontario 60-minute peak demand *(MW)*	22,321	21,262	5.0%	20,895	20,925	(0.1%)
Distribution:						
Units distributed to Hydro One customers *(TWh)*	7.1	6.9	2.9%	22.5	22.4	0.4%

"Following the conclusion of the third quarter, the Province of Ontario successfully completed the initial public offering of 15% of its ownership stake in Hydro One Limited, realizing significant value for Ontarians," said Mayo Schmidt, President and CEO, Hydro One. "Hydro One continues to generate stable, consistent quarterly revenues and earnings, while successfully delivering safe, reliable electricity to its customers. We will now set an intense focus upon transforming our organization to a performance based culture with strong corporate governance that generates consistent growth and value creation for our customers and shareholders alike."

Recapitalization and Initial Public Offering:

Subsequent to the end of the third quarter, on November 5, 2015, Hydro One Limited (TSX: H), the parent entity of Hydro One Inc., and the Province of Ontario completed an initial public offering of 15% of its 595 million outstanding common shares on the Toronto Stock Exchange. The proceeds of the offering were received by the Province of Ontario. All of the regulated business and outstanding notes and debentures of Hydro One remain at Hydro One Inc. Both Hydro One Limited and Hydro One Inc. are reporting issuers. The final prospectus associated with the public offering which contains details of the offering, recapitalization and corporate structure can be found at www.sedar.com.

Key Financial Highlights:

For the three months ended September 30, 2015, the Company reported revenues of $1,645 million, a 5.7% increase and net income of $192 million, an 11.0% increase from last year.

Third quarter revenues increased primarily due to the recovery of higher purchased power costs, higher OEB-approved distribution rates, and higher energy consumption due to warmer weather in the third quarter.

Third quarter net income increased primarily due to lower operation, maintenance and administration costs and increased revenues.

Year-to-date, the Company reported revenues of $5,016 million, a 2.7% increase and net income of $560 million, a 6.1% increase from last year, due to similar factors as noted above.

Hydro One continues to invest to improve the reliability and performance of Ontario's transmission and distribution systems, address aging power system infrastructure, facilitate new generation, and improve service to customers. Under its approved $4.8 billion three year capital investment program, the company has made capital investments totalling $1,212 million during 2015 and placed $869 million of new assets in-service in 2015.

Capital investments in the transmission system during the third quarter included end-of-life equipment replacements at the Bruce, Richview, Larchwood and Wiltshire Transmission Stations, as well as the completion of two transformer replacements at the Hanmer Transmission Station. In addition, work continued on the Company's major inter-area network and local area supply projects, including the Clarington Transmission Station and Guelph Area Transmission Refurbishment projects.

Capital investments in the distribution system during the third quarter included increased work within station refurbishment programs, increased focus on capital lines work, primarily related to sustainment initiatives programs and component replacements, and continued investments in new customer connections and upgrades.

Selected Operating Highlights:

In July, the Province of Ontario appointed a new fully independent Board of Directors to govern Hydro One as a publicly traded company, with a renewed focus on customer service excellence, improved performance and reliability, and growing shareholder value. Each of the directors, including Canadian business leaders, electricity sector experts, corporate directors and a former provincial Ombudsman, was selected based upon their independence, commercial experience, and specific expertise.

In August, Hydro One's Board of Directors announced the appointment of Mayo Schmidt as Hydro One's new President and CEO. As the former CEO of Viterra, Mr. Schmidt has a track record of leading large scale business transformation and growth while generating value and benefits for investors, employees and customers. The Board of Directors believes that Mr. Schmidt brings a unique and proven experience set to lead Hydro One forward as a publicly traded company, bringing a sharpened focus on operating performance, system reliability, customer service and growth in shareholder value.

Subsequent to the end of the third quarter, on October 22, the Hydro One Board of Directors announced the appointment of Fiona Crean to the role of Ombudsman for Hydro One, effective November 17, 2015. Ms. Crean is a highly regarded expert in the area of dispute resolution having successfully established ombudsman roles for other organizations. Ms. Crean will facilitate the resolution of otherwise unresolved customer complaints by providing an independent and impartial perspective and advice on any matters that are referred to her by Hydro One customers. Ms. Crean will also establish an appeal process for unresolved complaints made by Hydro One customers to the OEB. Ms. Crean will report directly to the Hydro One Board of Directors to reinforce the independence of her role.

On August 31, Hydro One completed the spin-off transaction of its subsidiary, Hydro One Brampton, whereby Hydro One declared a dividend on its common shares payable to the Province of Ontario comprising all of the issued and outstanding common shares of Hydro One Brampton.

In July 2015, the Ontario Energy Board issued a Decision and Order granting Hydro One "Leave to Construct" the Supply to Essex County Transmission Reinforcement project. The project includes the construction of a new 13 km 230 kV double-circuit transmission line in the Windsor-Essex region. The new transmission line will connect to a proposed transmission station in the Municipality of Leamington and an existing 230 kV transmission line between Chatham and Windsor. The project is intended to address future growth in electricity demand and anticipated expansion in the local agricultural sector, and improve the reliability of electricity supply in the broader Windsor-Essex region.

Subsequent to the end of the third quarter, on October 31, the Company completed the acquisition of Woodstock Hydro Holdings Inc., an electricity distribution company that serves approximately 15,800 customers in southwestern Ontario, following approval of the acquisition by the Ontario Energy Board on September 11. Hydro One is committed to delivering great service for Woodstock Hydro's customers, as the Company continues to focus on prudent management, efficient operations and improving the customer experience for everyone it serves.

Supplemental Segment Information:

(millions of Canadian dollars)	Three months ended September 30 2015	2014	Nine months ended September 30 2015	2014
Revenues				
Transmission	405	402	1,175	1,206
Distribution	1,227	1,138	3,801	3,635
Other	13	16	40	45
Total Revenues	**1,645**	**1,556**	**5,016**	**4,886**
Income (loss) before financing charges and provision for PILs				
Transmission	213	227	598	642
Distribution	121	64	367	245
Other	(8)	1	(13)	(4)
Total Income before financing charges and provision for PILs	**326**	**292**	**952**	**883**
Capital Investments				
Transmission	247	204	692	580
Distribution	189	171	513	469
Other	2	1	7	3
Total Capital Investments	**438**	**376**	**1,212**	**1,052**

Outlook:

As outlined in the Hydro One Limited prospectus in the Outlook section, there are several items in both 2014 and 2015 that have impacted or are anticipated to impact results in terms of comparability of the two years as well as the year-over-year comparability of the interim quarters. In particular, these include the positive impact of weather on the Company's 2014 results, a higher effective tax rate in 2015, favourable non-recurring insurance proceeds received in 2014, and the quarterly timing of operations and maintenance spending for 2014 and 2015. These items are also discussed in the Company's third quarter Management's Discussion and Analysis filed this morning.

About Hydro One:

Hydro One Inc. is an electricity transmission and distribution company headquartered in Toronto, Ontario with approximately $23 billion in assets and 2014 revenues of over $6 billion. The company delivers electricity safely and reliably to over 1.2 million customers across the province of Ontario, and to large industrial customers and municipal utilities. Hydro One Inc. owns and operates Ontario's approximately 29,000 km high-voltage transmission network and an approximately 122,000 circuit km primary low-voltage distribution network.

Hydro One Inc. is a wholly owned subsidiary of Hydro One Limited. Hydro One Limited common shares are listed on the Toronto Stock Exchange (TSX: H). Additional information about Hydro One, including the complete third quarter Consolidated Financial Statements and Management's Discussion and Analysis, can be accessed at www.sedar.com or www.hydroone.com/InvestorRelations/FinancialReporting.

Quarterly Investment Community Teleconference:

A third quarter 2015 results teleconference will be held on November 13, 2015 at 9:00 a.m. Eastern Time a webcast of which will be available at www.hydroone.com/InvestorRelations. Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 at least ten minutes prior to the scheduled start time and request access to Hydro One's third quarter 2015 results teleconference. Media and other interested parties are welcome to participate on a listen-only basis.

Forward-Looking Statements and Information:

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

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the unaudited interim consolidated financial statements and accompanying notes (the Consolidated Financial Statements) of Hydro One Inc. (the Company or Hydro One) for the three and nine months ended September 30, 2015, as well as the Company's audited consolidated financial statements and accompanying notes, and MD&A, for the year ended December 31, 2014. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A with reference to National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the US. This MD&A provides information for the three and nine months ended September 30, 2015, based on information available to management as of November 12, 2015.

OVERVIEW

Hydro One is the largest electricity transmission and distribution company in Ontario. The Company owns and operates substantially all of Ontario's electricity transmission system, accounting for approximately 96% of Ontario's transmission capacity. Hydro One's transmission system is one of the largest in North America based on assets. The Company's consolidated distribution system is the largest in Ontario and spans roughly 75% of the province. Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of transmitting high voltage electricity across the province, interconnecting more than 70 local distribution companies (LDCs) and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering electricity to end customers and certain other municipal electricity distributors; and
- Other Business, which includes certain corporate activities and the operations of the Company's telecommunications business.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended September 30			**Nine months ended September 30**		
(millions of Canadian dollars, except as otherwise noted)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	1,645	1,556	5.7%	5,016	4,886	2.7%
Purchased power	856	780	9.7%	2,664	2,526	5.5%
Operation, maintenance & administration	274	300	(8.7%)	834	945	(11.7%)
Depreciation & amortization	189	184	2.7%	566	532	6.4%
Financing charges	95	96	(1.0%)	282	281	0.4%
Provision for payments in lieu of taxes (PILs)	36	23	56.5%	104	74	40.5%
Net income	192	173	11.0%	560	528	6.1%
Net cash from operating activities	469	443	5.9%	1,182	777	52.1%
Funds from operations (FFO)[1]	434	342	26.9%	1,195	971	23.1%
Capital investments	438	376	16.5%	1,212	1,052	15.2%
Transmission:						
Average annual Ontario 60-minute peak demand *(MW)*	22,321	21,262	5.0%	20,895	20,925	(0.1%)
Distribution:						
Units distributed to Hydro One customers *(TWh)*	7.1	6.9	2.9%	22.5	22.4	0.4%
Total long-term debt to capitalization ratio[2]			52.5%			53.1%

[1] Description and reconciliation of FFO can be found in the section "Non-GAAP Measures."

[2] Total long-term debt to capitalization ratio has been presented as at September 30, 2015 and December 31, 2014, and has been calculated as total long-term debt divided by total long-term debt plus total shareholder's equity and preferred shares.

On November 5, Hydro One Limited (TSX: H), the parent entity of Hydro One, and the Province of Ontario (Province) completed an initial public offering (IPO) of Hydro One Limited's 595 million outstanding common shares on the Toronto Stock Exchange. The proceeds of the IPO were received by the Province. All of the regulated business and outstanding notes and debentures of Hydro One remain at Hydro One, whereas Hydro One's preferred shares were redeemed. In future periods, both Hydro One Limited and Hydro One will be reporting issuers.

RESULTS OF OPERATIONS

	Three months ended September 30			Nine months ended September 30		
(millions of Canadian dollars, except as otherwise noted)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues	1,645	1,556	5.7%	5,016	4,886	2.7%
Purchased power	856	780	9.7%	2,664	2,526	5.5%
Operation, maintenance & administration (OM&A)	274	300	(8.7%)	834	945	(11.7%)
Depreciation & amortization	189	184	2.7%	566	532	6.4%
	1,319	1,264	4.4%	4,064	4,003	1.5%
Income before financing charges and provision for PILs	**326**	**292**	**11.6%**	**952**	**883**	**7.8%**
Financing charges	95	96	(1.0%)	282	281	0.4%
Income before provision for PILs	**231**	**196**	**17.9%**	**670**	**602**	**11.3%**
Provision for PILs	36	23	56.5%	104	74	40.5%
Net income	**195**	**173**	**12.7%**	**566**	**528**	**7.2%**
Net income attributable to noncontrolling interest	3	–	100.0%	6	–	100.0%
Net income attributable to shareholder of Hydro One	**192**	**173**	**11.0%**	**560**	**528**	**6.1%**
Earnings per common share *(Canadian dollars)*	1,870	1,693	10.5%	5,463	5,149	6.1%

Net Income

The increase of $19 million or 11.0% in net income attributable to the shareholder of Hydro One for the three months ended September 30, 2015 was primarily due to the following:

- a decrease in OM&A costs, primarily resulting from lower expenditures related to the Company's Customer Information System (CIS); lower bad debt expense; decreased vegetation management requirements for brush control programs; and lower expenditures associated with responding to and restoring power outages; and
- an increase in distribution revenues, mainly due to higher new Ontario Energy Board (OEB)-approved 2015 distribution rates and higher energy consumption, partially offset by the expiry of certain OEB-approved rate riders and regulatory accounts.

These increases were partially affected by an increase in depreciation and amortization costs, mainly due to growth in capital assets.

The increase of $32 million or 6.1% in net income attributable to the shareholder of Hydro One for the nine months ended September 30, 2015 was the result of similar factors as noted above. Additionally, net income for the nine months ended September 30, 2015 was impacted by a decrease in transmission revenues, mainly due to lower average Ontario 60-minute peak demand compared to last year.

Revenues

	Three months ended September 30			Nine months ended September 30		
(millions of Canadian dollars, unless otherwise noted)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Transmission	405	402	0.7%	1,175	1,206	(2.6%)
Distribution	1,227	1,138	7.8%	3,801	3,635	4.6%
Other	13	16	(18.8%)	40	45	(11.1%)
	1,645	1,556	5.7%	5,016	4,886	2.7%
Transmission:						
Average annual Ontario 60-minute peak demand *(MW)*	22,321	21,262	5.0%	20,895	20,925	(0.1%)
Distribution:						
Units distributed to Hydro One customers *(TWh)*	7.1	6.9	2.9%	22.5	22.4	0.4%

Transmission Revenues

The increase of $3 million or 0.7% in transmission revenues for the three months ended September 30, 2015 was primarily due to the following:

- higher new OEB-approved transmission rates effective January 1, 2015 and higher average Ontario 60-minute peak demand, resulting from warmer weather in the third quarter of 2015, compared to the same period in 2014; partially offset by
- a decrease in revenues due to changes in transmission regulatory accounts.

The decrease of $31 million or 2.6% in transmission revenues for the nine months ended September 30, 2015 was primarily due to the following:

- lower average Ontario 60-minute peak demand in the first nine months of 2015, partially due to industrial customers shifting their energy use away from system-wide peaks in the winter months of 2015, as well as milder weather in first half of 2015, compared to the same period in 2014;
- a decrease in revenues due to changes in transmission regulatory accounts; partially offset by
- higher new transmission rates effective January 1, 2015.

Distribution Revenues

The increase of $89 million or 7.8% in distribution revenues for the three months ended September 30, 2015 was primarily due to the following:

- higher purchased power costs;
- higher new OEB-approved distribution rates effective January 1, 2015;
- higher energy consumption resulting from warmer weather in the third quarter of 2015, compared to the same period in 2014; partially offset by
- the expiry of certain OEB-approved rate riders and regulatory accounts.

The increase of $166 million or 4.6% in distribution revenues for the nine months ended September 30, 2015 was the result of similar factors as noted above.

Operation, Maintenance and Administration (OM&A) Costs

	Three months ended September 30			Nine months ended September 30		
(millions of Canadian dollars)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Transmission	101	88	14.8%	298	308	(3.2%)
Distribution	153	199	(23.1%)	487	594	(18.0%)
Other	20	13	53.8%	49	43	14.0%
	274	300	(8.7%)	834	945	(11.7%)

Transmission OM&A Costs

The increase of $13 million or 14.8% in transmission OM&A costs for the three months ended September 30, 2015 was primarily due to the following:

- in the 2014 third quarter, Hydro One recognized non-recurring insurance proceeds related to 2013 floods at the Company’s Richview and Manby transformer stations as a reduction in OM&A costs; and
- higher expenditures related to work required to adhere to the North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (Cyber Security) standards.

The decrease of $10 million or 3.2% in transmission OM&A costs for the nine months ended September 30, 2015 was primarily due to the following:

- increased attribution of overheads to capital project expenditures reflecting higher expenditures related to capital projects in 2015;
- decreased forestry expenditures related to brush control and line clearing on the Company’s transmission rights-of-way; partially offset by
- higher expenditures related to work required to adhere to the NERC Cyber Security standards; and
- non-recurring insurance proceeds received in 2014 as noted above.

Distribution OM&A Costs

The decrease of $46 million or 23.1% in distribution OM&A costs for the three months ended September 30, 2015 was primarily due to the following:

- a decrease in bad debt expense and lower expenditures related to the Company’s CIS;
- decreased vegetation management expenditures relating to the brush control program; and
- lower volume of work associated with locating and restoring power outages, as well as responding to power quality-related issues and outages as a result of lower storm activity and enhanced response times.

The decrease of $107 million or 18.0% in distribution OM&A costs for the nine months ended September 30, 2015 was the result of similar factors as noted above.

Depreciation and Amortization

The increases in depreciation and amortization costs for the three and nine months ended September 30, 2015 compared to last year, were mainly due to the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Provision for PILs

The increase of $13 million or 56.5% in provision for PILs for the three months ended September 30, 2015 compared to the same period in 2014 was primarily due to the following:

- higher pre-tax income, mainly due to lower OM&A costs and increased revenues; and
- additional tax expense in connection with the Hydro One Brampton Networks Inc. (Hydro One Brampton) spin-off, related to the difference between the carrying value of the Hydro One Brampton investment over its tax basis.

The increase of $30 million or 40.5% in provision for PILs for the nine months ended September 30, 2015 compared to the same period in 2014 was the result of similar factors as noted above.

For the nine months ended September 30, 2015, the Company realized an effective tax rate of approximately 15.5%, compared to approximately 10.6% realized for the year ended December 31, 2014. The difference in these effective tax rates is due primarily to accelerated capital cost allowance recognized in 2014 for certain classes of assets, as well as an additional tax expense relating to the spin-off of Hydro One Brampton in August 2015 noted above.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited quarterly information for each of the eight quarters, from the quarter ended December 31, 2013 through to September 30, 2015. This information has been derived from the Company's unaudited interim Consolidated Financial Statements and audited annual Consolidated Financial Statements.

(millions of Canadian dollars)	2015			2014				2013
Quarter ended	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**
Total revenue	1,645	1,563	1,808	1,662	1,556	1,566	1,764	1,557
Net income attributable to common shareholder of Hydro One	188	131	228	216	169	110	236	155

NON-GAAP MEASURES

FFO is defined as net cash from operating activities, adjusted for the following: (i) changes in non-cash balances related to operations, (ii) dividends paid on preferred shares, and (iii) noncontrolling interest distributions. Management believes that this measure will be helpful as a supplemental measure of the Company's operating cash flows.

To the extent that Adjusted Net Income is used in future continuous disclosure documents of Hydro One, it will be defined as net income, adjusted for certain items, including non-recurring items and other items that management does not consider reflect the operating performance of the Company. No adjustments to net income are presented in this MD&A. Management believes that this measure will be helpful in assessing the Company's financial and operating performance.

FFO and Adjusted Net Income are not recognized measures under US GAAP and do not have a standardized meaning prescribed by US GAAP. They are therefore unlikely to be comparable to similar measures presented by other companies. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under US GAAP.

The following table presents the reconciliation of net cash from operating activities to FFO:

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Net cash from operating activities	469	443	1,182	777
Change in non-cash operating working capital	(29)	(97)	30	207
Preferred dividends	(4)	(4)	(13)	(13)
Noncontrolling interest distributions	(2)	–	(4)	–
FFO	434	342	1,195	971

LIQUIDITY AND CAPITAL RESOURCES

Hydro One's primary sources of liquidity and capital resources are funds generated from operations, debt capital market borrowings and bank financing that are used to satisfy Hydro One's capital resource requirements, including the Company's capital expenditures, servicing and repayment of debt, and dividends.

Summary of Sources and Uses of Cash

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Operating activities	469	443	1,182	777
Financing activities				
Long-term debt issued	–	–	350	628
Long-term debt retired	(568)	(26)	(568)	(26)
Short-term notes payable	450	–	450	–
Dividends paid	(29)	(29)	(88)	(258)
Investing activities				
Capital expenditures	(425)	(377)	(1,191)	(1,036)
Acquisition of Haldimand Hydro	–	–	(58)	–
Acquisition of Norfolk Power	–	(66)	–	(66)
Investment in Hydro One Brampton	(53)	–	(53)	–
Other financing and investing activities	31	(6)	21	(6)
Net change in cash and cash equivalents	(125)	(61)	45	13

Cash from Operating Activities

Net cash from operating activities during the three months ended September 30, 2015 was $469 million, an increase of $26 million compared to the same period last year, was primarily due to the following:

- changes in accounts receivable balances, mainly due to improved collections in 2015;
- changes in regulatory accounts that impact revenue;
- higher net income before taxes and depreciation; partially offset by
- changes in accrual balances, mainly due to Hydro One Brampton spin-off; and
- higher pension plan contributions compared to last year, as contributions are being made evenly over the year in 2015, compared to 2014, when payments were made in advance at the beginning of the year.

Net cash from operating activities during the nine months ended September 30, 2015 was $1,182 million, an increase of $405 million compared to the same period last year, was primarily due to the following:

- changes in accounts receivable balances, due to improved collections in 2015;
- changes in regulatory accounts that impact revenue;
- higher net income before taxes and depreciation;
- lower pension plan contributions compared to last year, as contributions are being made evenly over the year in 2015, compared to 2014, when payments were made in advance at the beginning of the year; partially offset by
- changes in accrual balances, mainly due to Hydro One Brampton spin-off.

Financing Activities

Short-term liquidity is provided through funds from operations, the Company's commercial paper program, and the Company's revolving credit facility.

Under the commercial paper program, at September 30, 2015, Hydro One was authorized to issue up to $1 billion in short-term notes with a term to maturity of less than 365 days. On October 9, 2015, Hydro One increased the authorized amount of short-term notes that it can issue to $1.5 billion. The commercial paper program is supported by a $1.5 billion committed revolving credit facility with a syndicate of banks, which matures in June 2020. The short-term liquidity under this program and anticipated levels of funds from operations are expected to be sufficient to fund the Company's normal operating requirements. At September 30, 2015, Hydro One had $450 million in commercial paper borrowings outstanding, compared to no commercial paper borrowings outstanding at December 31, 2014.

At September 30, 2015, Hydro One had $8,723 million in long-term debt outstanding, including the current portion. The Company's notes and debentures mature between 2016 and 2064, and at September 30, 2015, had an average term to maturity of approximately 16.8 years and a weighted average coupon of 4.7%. Long-term financing is primarily provided by Hydro One's medium-term note program (MTN Program). The maximum authorized principal amount of medium-term notes issuable under this program was $3 billion. The unused amount expired in October 2015. The Company plans to file a base shelf prospectus in 2015 to renew its MTN Program for 25 months.

At September 30, 2015, Hydro One's corporate credit ratings from approved rating organizations were as follows:

	Rating *(at September 30, 2015)*	
Rating Agency	**Short-term Debt**	**Long-term Debt**
DBRS Limited (DBRS)[1]	R-1 (mid)	A (high)
Moody's Investors Services Inc. (Moody's)[2]	Prime-1	A2 (negative)
Standard & Poor's Rating Services Inc. (S&P)[3]	A-1	A (stable)

[1] On November 5, 2015, DBRS confirmed Hydro One's issuer rating and senior unsecured debenture rating at A (high), downgraded its short-term debt rating to R-1(low) from R-1 (mid), and revised its trend to stable.

[2] On April 17, 2015, Moody's affirmed the senior unsecured ratings of Hydro One at A1 but revised its outlook on the Company to negative from stable. On September 18, 2015, Moody's downgraded the senior unsecured ratings of Hydro One to A2 from A1, and maintained its outlook on the Company as negative. On November 5, 2015, Moody's downgraded the senior unsecured ratings of Hydro One to A3 from A2, downgraded its short term debt rating to Prime-2 from Prime-1, and revised its outlook on the Company to stable from negative.

[3] On April 20, 2015, S&P downgraded the rating on Hydro One's long-term debt to A from A+, and revised its outlook to stable from negative. On September 18, 2015, S&P affirmed its long-term corporate credit rating on Hydro One of A (stable).

At September 30, 2015, Hydro One was in compliance with all financial covenants and limitations.

Long-term Debt

During the nine months ended September 30, 2015, Hydro One issued $350 million of long-term debt under its MTN Program, compared to $628 million of long-term debt issued during the same period in 2014. No long-term debt was issued during the third quarter of 2015 or 2014.

During the third quarter and 2015 year-to-date, Hydro One repaid $550 million in maturing long-term debt, compared to no long-term debt maturing or repaid during the same periods in 2014. In addition, long-term debt of $18 million assumed as part of the Haldimand County Utilities Inc. (Haldimand Hydro) acquisition in June 2015 was repaid in July 2015, compared to long-term debt of $26 million assumed as part of the Norfolk Power acquisition in August 2014 repaid in September 2014.

Dividends

During the three months ended September 30, 2015, Hydro One paid dividends to the Province in the amount of $29 million ($25 million of common share dividends and $4 million of preferred share dividends), consistent with dividends paid during the same period in 2014.

During the nine months ended September 30, 2015, Hydro One paid dividends to the Province in the amount of $88 million ($75 million of common share dividends and $13 million of preferred share dividends), compared to dividends of $258 million, consisting of $245 million of common share dividends and $13 million of preferred share dividends, paid during the same period in 2014.

On August 31, 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton. See section "Other Developments – Hydro One Brampton."

Subsequent to the third quarter, on October 30, 2015, Hydro One paid a dividend to the Province in the amount of $800 million, funded by additional issuance of short-term notes under its Commercial Paper Program.

Investing Activities

During the nine months ended September 30, 2015, the Company made capital investments totalling $1,212 million and placed $869 million of new assets in-service, compared to $1,052 million of capital investments and $873 million of new assets placed in-service during the same period in 2014.

The following table presents Hydro One's capital investments by reportable segment during the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30			Nine months ended September 30		
(millions of Canadian dollars)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Transmission	247	204	21.1%	692	580	19.3%
Distribution	189	171	10.5%	513	469	9.4%
Other	2	1	100.0%	7	3	133.3%
	438	376	16.5%	1,212	1,052	15.2%

Transmission Capital Investments

The increase of $43 million or 21.1% in transmission capital investments for the three months ended September 30, 2015 was primarily due to the following:

- the continued work on some of the Company's major inter-area network and local area supply projects, such as the Clarington Transmission Station and Guelph Area Transmission Refurbishment projects;
- several system re-investments, including various end-of-life equipment replacements at several transmission stations, including the Bruce, Richview, Larchwood and Wiltshire Transmission Stations, as well as the completion of two transformer replacements at the Hanmer Transmission Station;
- increased volume of demand equipment replacements, as well as transformer spares purchases to ensure readiness for unplanned transformer replacements;
- increased work on overhead lines refurbishment and replacement projects and programs; and
- increased volume of work related to station security upgrades to prevent unauthorized entry to stations and enhance safety, and increased cyber system replacements, including firewall infrastructure, auxiliary equipment and management software, to adhere to the NERC Cyber Security standards.

The increase of $112 million or 19.3% in transmission capital investments for the nine months ended September 30, 2015 was the result of similar factors as noted above. In addition, an increased volume of station component replacements to address aging equipment as part of the new Station Centric Bundling methodology which bundles various replacement work aspects, enabling efficiencies in material planning, resource utilization and outage planning also contributed to the overall increase in transmission capital investments during the nine months ended September 30, 2015.

Distribution Capital Investments

The increase of $18 million or 10.5% in distribution capital investments for the three months ended September 30, 2015 was primarily due to the following:

- increased work within the station refurbishment programs due to a larger volume of transformer purchases and more refurbishments accomplished during the third quarter of 2015; and
- increased focus on capital lines work, primarily related to the large and small sustainment initiatives programs and higher volume of component replacements.

The increase of $44 million or 9.4% in distribution capital investments for the nine months ended September 30, 2015 was the result of similar factors as noted above. In addition, increased focus on investment in metering and wireless infrastructure to ensure continuity of smart meters and enhance network communications also contributed to the overall increase in distribution capital investments during the nine months ended September 30, 2015.

Major Transmission Projects

The following table summarizes the status of Hydro One's major transmission projects at September 30, 2015:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date	Status
Toronto Midtown Transmission Reinforcement	Toronto Southwestern Ontario	New transmission line	2016	$123 million	$91 million	In progress
Guelph Area Transmission Refurbishment	Guelph area Southwestern Ontario	Transmission line upgrade	2016	$103 million	$60 million	In progress
Manby Transmission Station	Toronto Southwestern Ontario	Transmission station upgrade	2016	$24 million	$20 million	In progress
Clarington Transmission Station	Oshawa area Eastern GTA	New transmission station	2018/2019	$297 million	$86 million	In progress
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	To be determined	–	OEB decision received in July 2015
Northwest Bulk Transmission Line	Thunder Bay Northwestern Ontario	New transmission line	As early as 2020	To be determined	–	Development work is in progress

Future Capital Investments

The following table summarizes Hydro One's annual projected capital investments for 2015 to 2019:

(millions of Canadian dollars)	**2015**	**2016**	**2017**	**2018**	**2019**
Transmission	899	866	848	839	832
Distribution	665	669	674	678	682
Total capital investments	**1,564**	**1,535**	**1,522**	**1,517**	**1,514**

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of Hydro One's debt and other major contractual obligations, as well as other major commercial commitments:

September 30, 2015 (millions of Canadian dollars)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual obligations *(due by year)*					
Long-term debt – principal repayments	8,723	450	650	1,628	5,995
Long-term debt – interest payments	7,492	397	756	675	5,664
Pension contributions[1]	229	174	55	–	–
Environmental and asset retirement obligations[2]	271	32	73	65	101
Outsourcing agreements[3]	543	151	255	125	12
Operating lease commitments	47	10	20	12	5
Total contractual obligations	17,305	1,214	1,809	2,505	11,777
Other commercial commitments *(by year of expiry)*					
Bank line[4]	1,500	–	–	1,500	–
Letters of credit[5]	133	133	–	–	–
Guarantees[5]	255	255	–	–	–
Total other commercial commitments	1,888	388	–	1,500	–

[1] Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2015 and 2016 minimum pension contributions are based on an actuarial valuation as at December 31, 2013. Pension contributions beyond 2016 are not estimable at this time.

[2] Hydro One records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment, and for the assessment and remediation of chemically-contaminated lands owned by the Company. Hydro One also records a liability for asset retirement obligations associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The forecasted expenditure pattern reflects the company's planned work programs for the periods.

[3] In 2014, Hydro One finalized a new outsourcing agreement with Inergi LP for the provision of certain services, as well as a facilities outsourcing agreement with Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP). The contractual amounts disclosed include an estimated contractual annual inflation adjustment in the range of 1.9% to 2.1%. Payments in respect of the Company's outsourcing agreements are recorded in OM&A costs on the Company's Consolidated Statements of Operations and Comprehensive Income or as a cost of capital programs.

[4] In support of Hydro One's liquidity requirements, the Company has a $1.5 billion revolving standby credit facility with a syndicate of banks maturing in June 2020.

[5] Hydro One currently has outstanding bank letters of credit of $126 million relating to retirement compensation arrangements. The Company provides prudential support to the Independent Electricity System Operator (IESO) in the form of letters of credit, the amount of which is calculated based on forecasted monthly power consumption. At September 30, 2015, Hydro One has provided a letter of credit to the IESO in the amount of $7 million to meet the Company's current prudential requirement. Hydro One has also provided prudential support to the IESO on behalf of its subsidiaries as required by the IESO's Market Rules, using parental guarantees of $254 million, and on behalf of a distributor using total guarantees of less than $1 million.

REGULATION

Hydro One's Transmission and Distribution Businesses are regulated by the OEB. The following table summarizes Hydro One's major regulatory proceedings:

Application	Year(s)	Type	Status
Electricity Rates			
Hydro One Networks	2015-2016	Transmission – Cost-of-service	OEB decision received
Hydro One Networks	2015-2017	Distribution – Custom	OEB decision received
B2M LP	2015	Transmission – Interim	OEB decision received
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision anticipated in 2015
Mergers Acquisitions Amalgamations and Divestitures			
Haldimand Hydro	n/a	Acquisition	OEB decision received
Woodstock Hydro	n/a	Acquisition	OEB decision received
Leave to Construct			
Supply to Essex County Transmission Reinforcement Project	n/a	Section 92	OEB decision received

Hydro One Networks

In conjunction with its 2015-2016 transmission cost-of-service application and decision, Hydro One Networks filed a draft Rate Order for 2016 transmission rates on November 10, 2015, requesting approval for rate base of $10,040 million and ROE of 9.19%. An OEB decision on the draft Rate Order is expected by the end of 2015.

In its March 2015 Decision, the OEB approved distribution rates for 2015, 2016 and 2017. The OEB approved the rate base of $6,552 million and OEB-approved return on equity (ROE) of 9.30% for 2015. Hydro One has requested a rate base of $6,863 million with the OEB-approved ROE of 9.19% for 2016, and has forecast a rate base of $7,190 million and ROE of 9.93% for 2017. The forecast for 2017 will be subject to adjustments for cost of capital parameters.

B2M LP

On March 30, 2015, B2M LP filed a full cost-of-service application with the OEB for 2015-2019 transmission rates, requesting approval of rate base of $523 million for 2015, $516 million for 2016, $509 million for 2017, $502 million for 2018, and $496 million for 2019. The OEB has approved ROE of 9.30% for 2015 and 9.19% for 2016. Hydro One has forecast ROE as 9.93% for 2017, 10.03% for 2018, and 10.08% for 2019. As part of its application, B2M LP is seeking the recovery of its initial start-up costs totaling $8 million over the 2016 to 2019 test years at a rate of $2 million per year. An

Oral Hearing for the B2M LP cost-of-service application took place on October 30, 2015. B2M LP filed the Final Argument on November 12, 2015.

Haldimand Hydro Acquisition

On March 12, 2015, the OEB issued its Decision and Order granting Hydro One leave to acquire all of the issued and outstanding shares of Haldimand Hydro within 18 months from the date of this Decision and Order. On June 30, 2015, Hydro One acquired 100% of the common shares of Haldimand Hydro. The purchase price for Haldimand Hydro, adjusted for preliminary working capital and other closing adjustments of approximately $8 million, is approximately $73 million. The preliminary goodwill of approximately $33 million arising from the Haldimand Hydro acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Haldimand Hydro. The Company intends to complete the determination of the final purchase price adjustments by year-end. Integration of Haldimand Hydro is ongoing.

Woodstock Hydro Acquisition

On September 11, 2015, the OEB issued its Decision and Order granting Hydro One leave to acquire all of the issued and outstanding shares of Woodstock Hydro Holdings Inc. (Woodstock Hydro) within 18 months from the date of this Decision and Order. On October 31, 2015, Hydro One acquired 100% of the common shares of Woodstock Hydro. The purchase price for Woodstock Hydro, subject to working capital and other closing adjustments, is approximately $29 million. Based on the timing of the completion of this acquisition transaction in relation to the date of issuance of the interim Consolidated Financial Statements and MD&A, the closing adjustments to the purchase price and the initial allocation of the consideration paid have not yet been completed. Integration of Woodstock Hydro is ongoing.

Supply to Essex County Transmission Reinforcement Project

On July 16, 2015, the OEB issued a Decision and Order granting Hydro One Networks Leave to Construct a new 13-kilometre 230 kV double-circuit transmission line in the Windsor-Essex region. The Decision and Order includes standard conditions of adherence to the system impact assessment and the connection impact assessment, and requires construction to commence within twelve months. In addition, on August 28, 2015, the OEB issued a letter stating that given the complexities and implications of the issues relating to cost allocation, including potential changes to the provisions in the Distribution System Code (DSC) and the Transmission System Code, the OEB will not proceed with cost allocation through an adjudicative process, but will review these issues from a policy perspective.

Other Regulatory Developments

Time of Use (TOU) Pricing Decision and Order

On March 26, 2015, the OEB issued a Decision and Order to amend Hydro One's distribution license to include an exemption from the requirement to apply TOU pricing to approximately 170,000 Regulated Price Plan customers that are outside the smart meter telecommunications infrastructure. The exemption expires December 31, 2019.

Distribution System Code Requirements

On April 15, 2015, the OEB introduced a Notice of Amendment to the DSC requiring electricity distributors to issue monthly bills to non-seasonal residential and certain general service customers by the end of 2016. In addition, the OEB amended the DSC imposing a 98% billing accuracy requirement, and provisions allowing an LDC to issue a bill based on estimated consumption only twice every twelve months to these customers. On September 24, 2015, the OEB issued its Decision and Order amending Hydro One Networks' electricity distribution licence to include an exemption from the requirement for estimated billing and billing accuracy for the 170,000 hard-to-reach customers that are currently exempt from TOU billing, for a term ending on December 31, 2019.

Conservation and Demand Management

On July 8, 2015, the IESO approved the Hydro One Networks Conservation and Demand Management (CDM) Plan. On September 30, 2015, Hydro One Networks filed its annual CDM Report with the OEB. Hydro One Networks achieved 167.4 MW in peak demand savings and 898.4 GWh in energy savings, which represent 78.4% and 79.5% of its peak demand and energy reduction targets, respectively. Based on the OEB guidance, although Hydro One Networks did not meet its peak demand reduction target, it is considered to have met the 80% threshold for its energy savings target. The OEB has indicated that it will not take any compliance action related to a distributor who does not meet its peak demand target.

Rate Design (previously Revenue Decoupling for Distributors)

On April 2, 2015, the OEB issued a report, *"Board Policy: A New Distribution Rate Design for Residential Electricity Customers"*, outlining its new policy on fully fixed distribution charges for residential customers. The current distribution charges are a combination of fixed and variable rates. Under the new policy, electricity distributors will structure their residential rates such that all distribution service costs will be collected through a fixed monthly charge only. The new policy will be implemented gradually over a four year period, with increases in the fixed rate and decreases in the variable rate, resulting in a fixed rate only by 2019. The new rate design will enable residential customers to leverage new technologies, manage costs through conservation, and better understand the value of distribution services. It will also provide greater revenue stability for distributors, including Hydro One.

The OEB has indicated that in the event that the monthly charge increase exceeds certain thresholds, the distributors shall apply for extended transition periods to implement the new policy. Hydro One Networks' Draft Rate Order for 2016 distribution rates filed with the OEB on September 30, 2015 included a proposed plan to extend Hydro One Networks' transition period to seven years. In addition, on October 13, 2015, Hydro One Networks filed an application with the OEB with respect to the implementation of the new rate design for residential customers in the service area formerly served by Norfolk Power, with a proposed transition period of four years.

Performance Measurement for Electricity Distributors

On September 18, 2015, Hydro One Networks submitted its 2014 Performance Scorecard to the OEB. In addition to ongoing operations, a major focus in 2014 was investing in improvements to the Company's customer call centre and billing operations. Hydro One plans to continue developing targeted products and services that respond to its customers' unique needs, including realizing value from the new CIS, simplifying and shortening timeframes for the delivery of services, and enhancing accessibility to allow effective self-service for simple transactions. The Company is also committed to delivering programs to help its customers manage their energy consumption. Hydro One Networks' 2014 Scorecard was posted on the Hydro One and the OEB websites.

OTHER DEVELOPMENTS

Change in Hydro One Ownership Structure

On August 31, 2015, the Province incorporated a new wholly owned subsidiary, Hydro One Limited. Subsequent to the end of the third quarter, Hydro One and Hydro One Limited completed a series of transactions (Pre-Closing Transactions) that resulted in, among other things, the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One and the issuance of new common shares and preferred shares of Hydro One Limited to the Province. On November 5, 2015, Hydro One Limited and the Province concluded the IPO of Hydro One Limited on the Toronto Stock Exchange, whereby 81,100,000 of the 595 million outstanding common shares were sold to the public. On November 12, 2015, the underwriters of the IPO exercised their option to purchase an additional 8,150,000 common shares of Hydro One Limited from the Province. All proceeds from the IPO were received by the Province. All of the regulated business and outstanding notes and debentures of Hydro One remain at Hydro One. In future periods, both Hydro One Limited and Hydro One will be reporting issuers. The final prospectus associated with the IPO, which contains details of the IPO, recapitalization and corporate structure, can be found at www.sedar.com.

In anticipation of the IPO, on April 23, 2015, the Province tabled proposed legislation in Bill 91, and on June 4, 2015, Bill 91 received Royal Assent. Consequently, certain statutes referred to in Bill 91 no longer apply to Hydro One and amendments to the *Electricity Act, 1998* were made to facilitate the IPO.

Hydro One Brampton

On August 31, 2015, Hydro One completed the spin-off transaction of its subsidiary, Hydro One Brampton, whereby Hydro One declared a dividend on its common shares payable in all of the issued and outstanding common shares of Hydro One Brampton. The dividend was (i) authorized by the Province, the sole shareholder of Hydro One at that time, pursuant to a unanimous shareholder agreement dated April 16, 2015, and (ii) paid to the Province, at its direction, by transferring all of the issued and outstanding common shares of Hydro One Brampton to a company wholly owned by the Province.

Hydro One Brampton's results of operations up to August 31, 2015 are included in the consolidated results of operations of Hydro One. Prior periods have not been restated.

Subsequent to August 31, 2015, Hydro One continues to provide certain management, administrative and smart meter network services to Hydro One Brampton pursuant to certain service level agreements, which are provided at market rates. These agreements will continue until the end of 2016 (except in the case of smart meter network services, which will continue until the end of 2017). Hydro One Brampton has the right to renew these agreements (other than smart meter network services) for additional one-year terms to end no later than December 31, 2019. Additionally, on August 31, 2015, Hydro One and Hydro One Brampton entered into a license agreement which permits Hydro One Brampton to use the "Hydro One" name and related licensed marks. These agreements will terminate if the Province disposes of its interest in Hydro One Brampton, except in the case of the smart meter network services agreement, which is anticipated to continue for a transition period after the Province disposes of its interest in Hydro One Brampton.

PILs Deemed Disposition Rules

In connection with the IPO, Hydro One's exemption from tax under the *Income Tax Act* (Canada) and the *Taxation Act*, 2007 (Ontario) (Federal Tax Regime) ceased to apply on October 31, 2015. As a result, under the *Electricity Act*, 1998 (Ontario) (PILs Regime), Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status under the Federal Tax Regime, for proceeds equal to the fair market value of those assets at that time. Hydro One is liable to make a payment in lieu of tax (Departure Tax) under the PILs Regime in respect of the income and capital gains that arose as a result of this deemed disposition.

The total amount of the Departure Tax payable by Hydro One was $2.6 billion. Hydro One Limited subscribed for 39,598 additional common shares of Hydro One for $2.6 billion.

As a result of leaving the PILs Regime and entering the Federal Tax Regime, Hydro One will recognize a deferred income tax asset due to the revaluation of the tax basis of Hydro One's fixed assets at their fair market value, including eligible capital expenditures. The value of the deferred income tax asset is not yet reasonably determinable. The calculation of the deferred income tax asset will be based on the estimated fair market value of Hydro One's net assets at October 31, 2015.

Shareholder Declarations

Effective April 16, 2015, the Province made declarations pursuant to the memorandum of agreement and section 108 of the *Business Corporations Act* (Ontario) regarding the IPO of Hydro One and regarding the sale of Hydro One Brampton. By way of these declarations and concurrent shareholder resolutions, the Province assumed the rights, powers and duties, with respect to any decisions regarding, but not limited to, proceeding with the IPO and with the sale of Hydro One Brampton; any duties, functions or operations required for, or relevant to, the IPO and the sale of Hydro One Brampton; and providing any and all information, assistance, personnel, and resources as and when requested to the Province and its advisors and consultants.

Effective July 22, 2015, the Province made a declaration pursuant to section 108 of the *Business Corporations Act* (Ontario) regarding the return of authority to the Hydro One Board of Directors. By way of this declaration, the Province returned rights, powers and duties to the Company's Board of Directors, previously reserved to the Province as per its declarations and shareholder resolutions dated April 16, 2015 regarding the IPO of Hydro One, and dated December 17, 2014 regarding the provision of information, personnel and resources.

Collective Agreements Negotiations

On April 14, 2015, Hydro One reached an agreement with the Power Workers' Union (PWU) for a renewal of the collective agreement. The agreement is for a three-year term, covering April 1, 2015 to March 31, 2018. The agreement has been ratified by the PWU and the Hydro One Board of Directors in July 2015.

On July 24, 2015, Hydro One reached an agreement with the Society of Energy Professionals (Society) for an early renewal of the collective agreement. The agreement is for a three-year term, covering April 1, 2016 to March 31, 2019. The agreement has been ratified by the Society and the Hydro One Board of Directors in August 2015.

On July 28, 2015, Hydro One reached an agreement with the Canadian Union of Skilled Workers (CUSW) for a renewal of the collective agreement. The agreement is for a three-year term, covering May 1, 2014 to April 30, 2017. The agreement has been ratified by CUSW and the Hydro One Board of Directors in August 2015.

The Electrical Power System Construction Association (EPSCA) is an employers' association of which Hydro One is a member. A number of the EPSCA construction collective agreements, which bind Hydro One, expired on April 30, 2015. Ratified five-year renewal collective agreements, covering May 1, 2015 to April 30, 2020 have been reached with The United Association of Plumbers and Pipefitters, The Ironworkers, The Rodmen, The Boilermakers, The Insulators, The Sheet Metal

Workers and The Roofers. Tentative renewal agreements have been reached with the Labourers International Union of North America (LIUNA) and the Operating Engineers (OE). These agreements are subject to ratification by the EPSCA Board of Directors and the unions.

Class Action Lawsuit

In September 2015, Hydro One and three of its subsidiaries, Hydro One Networks, Hydro One Remote Communities and Norfolk Power Distribution Inc., were served with a claim commenced under the *Class Proceedings Act* in which the representative plaintiff is seeking $100 million, or as otherwise calculated on an aggregate basis, in general damages for breach of contract, negligence and unjust enrichment, and $25 million in aggravated, exemplary and punitive damages. The claim alleges improper billing and account management practices. The proposed class of plaintiffs comprises all persons, with certain exceptions, who purchased electricity from Hydro One between May 2013 and the date of the certification order in the action, which date is yet unknown. At this time, it is too early to assess the outcome of the claim. Hydro One will defend the action.

Integration of Norfolk Power

In September 2015, the Company completed the integration of Norfolk Power, including the integration of employees, customers, business processes, information and operations. This successful transition will allow the Company to standardize processes and leverage key lessons learned to drive future efficiency and improvements when integrating other acquisitions.

RELATED PARTY TRANSACTIONS

At September 30, 2015, Hydro One was 100% owned by the Province. The Ontario Electricity Financial Corporation (OEFC), IESO, Ontario Power Generation Inc. (OPG), the OEB, Hydro One Brampton and Hydro One Limited are related parties to Hydro One because they are controlled or significantly influenced by the Province. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2015:

The Province

- During the three and nine months ended September 30, 2015, Hydro One paid dividends to the Province totalling $29 million and $88 million, respectively, compared to $29 million and $258 million paid in the same periods in 2014.
- On August 31, 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton. See section "Other Developments – Hydro One Brampton."

IESO

- During the three and nine months ended September 30, 2015, Hydro One purchased power in the amount of $491 million and $1,753 million, respectively, from the IESO-administered electricity market, compared to $516 million and $1,859 million purchased in the same periods in 2014.
- Hydro One receives revenues for transmission services from the IESO, based on OEB-approved Uniform Transmission Rates. The Company's transmission revenues for the three and nine months ended September 30, 2015 include $430 million and $1,198 million, respectively, related to these services, compared to $410 million and $1,186 million in the same periods in 2014.
- Hydro One receives amounts for rural rate protection from the IESO. The Company's distribution revenues for the three and nine months ended September 30, 2015 include $31 million and $95 million, respectively, related to this program, compared to $31 million and $95 million in the same periods in 2014.
- Hydro One receives revenues related to the supply of electricity to remote northern communities from the IESO. The Company's distribution revenues for the three and nine months ended September 30, 2015 include $8 million and $24 million, respectively, related to these services, compared to $8 million and $24 million in the same periods in 2014.
- The IESO (Ontario Power Authority (OPA) prior to January 1, 2015) funds substantially all of Hydro One's CDM programs. The funding includes program costs, incentives, and management fees. During the three and nine months ended September 30, 2015, the company received $26 million and $49 million, respectively, from the OPA related to these programs, compared to $7 million and $28 million received in the same periods in 2014.

OPG

- During the three and nine months ended September 30, 2015, Hydro One purchased power in the amount of $2 million and $10 million, respectively, from the OPG, compared to $3 million and $21 million purchased in the same periods in 2014.
- Hydro One has service level agreements with OPG. These services include field, engineering, logistics and telecommunications services. The Company's other revenues for the three and nine months ended September 30, 2015 include $2 million and $5 million, respectively, related to these service level agreements, compared to $2 million and $8 million in the same periods in 2014. OM&A costs related to the purchase of services with respect to these service level contracts were insignificant during the three months ended September 30, 2015 and 2014, and $1 million during the nine months ended September 30, 2015 and 2014.

OEFC

- During the three and nine months ended September 30, 2015, Hydro One made PILs to the OEFC totalling $15 million and $47 million, respectively, compared to payments of $22 million and $65 million made in the same periods in 2014.
- During the three and nine months ended September 30, 2015, Hydro One purchased power in the amount of $1 million and $5 million, respectively, from power contracts administered by the OEFC, compared to $1 million and $8 million purchased in the same periods in 2014.
- During the nine months ended September 30, 2015, the Company paid a $5 million annual fee to the OEFC, compared to $5 million paid in the same period in 2014, for indemnification against adverse claims in excess of $10 million paid by the OEFC with respect to certain of Ontario Hydro's businesses transferred to Hydro One on April 1, 1999. Hydro One has not made any claims under the indemnity since it was put in place in 1999. Hydro One and the OEFC, with the consent of the Minister of Finance, have agreed to terminate the indemnity effective October 31, 2015.

OEB

- Under the *OEB Act*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and transmitters. During the three and nine months ended September 30, 2015, Hydro One incurred $4 million and $10 million, respectively, in OEB fees, compared to $3 million and $9 million incurred in the same periods in 2014.

Hydro One Brampton

- Effective August 31, 2015, Hydro One Brampton is no longer a subsidiary of Hydro One, but is indirectly owned by the Province. Subsequent to August 31, 2015, Hydro One continues to provide certain management, administrative and smart meter network services to Hydro One Brampton pursuant to certain service level agreements, which are provided at market rates. During the three and nine months ended September 30, 2015, revenues related to the provision of services with respect to these service level agreements were less than $1 million.

  Details of the change in ownership of and service level agreements with Hydro One Brampton can be found in the section "Other Developments – Hydro One Brampton."

Hydro One Limited

- During the three and nine months ended September 30, 2015, Hydro One incurred certain IPO related expenses totalling $3 million which will be reimbursed to the Company by Hydro One Limited.

At September 30, 2015, the amounts due from and due to related parties as a result of the transactions described above were $204 million and $66 million, respectively, compared to $224 million and $227 million at December 31, 2014, respectively. At September 30, 2015, included in amounts due to related parties were amounts owing to the IESO in respect of power purchases of $25 million, compared to $214 million at December 31, 2014.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in Hydro One's internal controls over financial reporting during the nine months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update that eliminates the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary and to show the item separately in the income statement. This update is applicable to Hydro One for the years and interim periods beginning on January 1, 2016. The Company does not anticipate that the adoption of this accounting standards update will have a significant impact on its consolidated financial statements.

In February 2015, the FASB issued an accounting standards update that provides guidance about the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This update is applicable to Hydro One for the years and interim periods beginning on January 1, 2016. The Company is currently assessing the impact of adoption of this accounting standards update on its consolidated financial statements.

In April 2015, the FASB issued an accounting standards update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected. This update is applicable to Hydro One for the years and interim periods beginning on January 1, 2016. Upon adoption of this update, the Company's deferred debt issuance costs that are currently presented under other long-term assets will be reclassified as a deduction from the carrying amount of long-term debt.

In April 2015, the FASB issued an accounting standards update that permits an entity with a fiscal year-end that does not coincide with a month-end and an entity that has a significant event in an interim period that calls for a remeasurement of defined benefit plan assets and obligations to measure the defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end. This update is applicable to Hydro One for the years and interim periods beginning on January 1, 2016. The Company does not anticipate that the adoption of this accounting standards update will have a significant impact on its consolidated financial statements.

In April 2015, the FASB issued an accounting standards update that provides guidance to customers about whether a cloud computing arrangement includes a software license, as well as the related accounting for the arrangement. This update is applicable to Hydro One for the years and interim periods beginning on January 1, 2016. The Company is currently assessing the impact of adoption of this accounting standards update on its consolidated financial statements.

In August 2015, the FASB issued an accounting standards update that defers the effective date of a revenue recognition accounting standards update issued by the FASB in May 2014, by one year. This revenue recognition guidance is now applicable to Hydro One for the years and interim periods beginning on January 1, 2018. The Company is currently assessing the impact of adoption of the revenue recognition accounting standards update on its consolidated financial statements.

In September 2015, the FASB issued an accounting standards update that requires acquirers to recognize adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amounts are determined. This update also requires the acquirers to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Upon adoption of this update in the first quarter of 2016, the Company will apply the guidance in this update to each future business combination, as applicable.

OUTLOOK

As outlined in the Hydro One Limited prospectus, the following is a discussion of certain factors that have impacted or could impact the Company's results of operations in 2015, as well as certain events that occurred in 2014 that may impact the comparability of the Company's results of operations for 2015 and interim periods during 2015.

- The Company continues to benefit from increased transmission and distribution rates in 2015 as a result of the Company's most recent transmission and distribution rate decisions.
- During the first nine months of 2015, OM&A costs relative to the same period in 2014 were lower due to the stabilization of the Company's customer information system and the acceleration of collections on aged accounts receivable. These costs declined significantly in the fourth quarter of 2014, partially offsetting a large portion of the increased costs earlier in the year. These in-year timing differences combined with certain other reductions resulted in lower overall OM&A costs in the fourth quarter of 2014 compared to the preceding three quarters. These costs have returned to a more normalized level and are more equally spread over the course of 2015.

- During 2014, the Company's results of operations were positively affected by increased system usage and transmission load due to weather conditions. These positive impacts may not recur during 2015, given the temperate weather conditions experienced in the early part of the fourth quarter.
- As a result of leaving the PILs Regime and entering the Federal Tax Regime, Hydro One incurred a PILs cost of $2.6 billion and will recognize a deferred income tax asset due to the revaluation of the tax basis of Hydro One's fixed assets at their fair market value, including eligible capital expenditures. The value of the deferred income tax asset is not yet reasonably determinable. Net income for the year ended December 31, 2015 may be impacted by the difference, if any, between the PILs cost and the actual amount of the deferred tax asset. Any impact on net income as a result of such difference will be non-cash-related and will only impact net income for the year ended December 31, 2015 and not subsequent years.
- In the fourth quarter of 2014, Hydro One recognized in net income non-recurring insurance proceeds of $3 million related to 2013 floods at the Company's Richview and Manby transformer stations. $8 million was recognized in the third quarter of 2014, for a total of $11 million recognized in 2014.
- During 2014, the Company realized an effective tax rate of approximately 10.6%. For the nine months ended September 30, 2015, the Company realized an effective tax rate of approximately 15.5% and anticipates an effective tax rate of approximately 15% for the remainder of 2015. The difference in the effective tax rate between 2014 and 2015 is due primarily to accelerated capital cost allowance recognized in 2014 for certain classes of assets that were fully amortized in 2014.
- The transfer of Hydro One Brampton to the Province is expected to have a non-material effect on net income in 2015, but will more significantly impact distribution revenues and purchased power costs.

OTHER MATTERS

Appointment of President and Chief Executive Officer

On August 20, 2015, the Company's Board of Directors announced the appointment of Mayo Schmidt as Hydro One's new President and Chief Executive Officer, effective September 3, 2015. Mr. Schmidt was most recently the Chief Executive Officer of Viterra Inc. and its predecessor, Saskatchewan Wheat Pool.

Appointment of Hydro One Ombudsman

On October 22, 2015, the Hydro One Board of Directors announced the appointment of Fiona Crean to the role of Ombudsman for Hydro One, effective November 17, 2015. Ms. Crean most recently served as the City of Toronto's Ombudsman, and has worked in the area of dispute resolution and complaints investigation for more than 25 years. Ms. Crean will report directly to the Hydro One Board of Directors.

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to: expectations regarding energy-related revenues and profit and their trend; statements regarding the Company's transmission and distribution rates resulting from rate applications; statements about CDM; statements related to the IPO; statements regarding the Company's liquidity and capital resources and operational requirements; statements about the Company's standby credit facility; expectations regarding the Company's financing activities; statements regarding the Company's maturing debt; statements regarding ongoing and planned projects and/or initiatives including the expected results of these projects and/or initiatives (including productivity savings, process improvements, and customer satisfaction) and their completion dates; statements regarding expected future capital and development investments, the timing of these expenditures and the Company's investment plans; statements regarding contractual obligations and other commercial commitments; statements related to the OEB; statements regarding future pension contributions, the Company's pension plan and actuarial valuation; expectations regarding work and costs of compliance with environmental and health and safety regulations; statements related to the PILs Regime and the Federal Tax Regime; expectations regarding effective tax rates; statements statements about non-GAAP measures; statements regarding recent accounting-related guidance; statements related to Hydro One Brampton; statements about negotiation of collective agreements; statements related to claims; statements regarding the role of Hydro One's Ombudsman; and statements related to LDC consolidation including the Company's acquisition of Woodstock Hydro and Haldimand Hydro, and the integration of Norfolk Power. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and disclaims any obligation, to update any forward-looking statements, except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to, the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market; favourable decisions from the OEB and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining the required approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's Distribution and Transmission Businesses; continued use of US GAAP; a stable regulatory environment; no unfavourable changes in environmental regulation; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to the Company, including information obtained from third party sources. Actual results may differ materially from those predicted by such forward-looking statements. While Hydro One does not know what impact any of these differences may have, the Company's business, results of operations, financial condition and credit stability may be materially adversely affected if any such differences occur. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- risks associated with the Province's significant share ownership of Hydro One's parent corporation and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders, actual performance against forecasts and capital expenditures;
- the risk that previously granted regulatory approvals may be subsequently challenged, appealed or overturned;
- the risk that the Company may be unable to comply with regulatory and legislative requirements or that the Company may incur additional costs for compliance that are not recoverable through rates;
- the risk of exposure of the Company's facilities to the effects of severe weather conditions, natural disasters or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- public opposition to and delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk that Hydro One may incur significant costs associated with transferring assets located on Reserves (as defined in the *Indian Act* (Canada));
- the risks associated with information system security and with maintaining a complex IT system infrastructure;
- the risks related to the Company's workforce demographic and its potential inability to attract and retain qualified personnel;
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risks that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit risk;
- the risk that the Company may not be able to execute plans for capital projects necessary to maintain the performance of the Company's assets or to carry out projects in a timely manner;
- the risk of non-compliance with environmental regulations or failure to mitigate significant health and safety risks and inability to recover environmental expenditures in rate applications;
- the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;
- changes in benefits and changes in actuarial assumptions;

- the risk of not being able to recover the Company's pension expenditures in future rates and uncertainty regarding the future regulatory treatment of pension, other post-employment benefits and post-retirement benefits costs;
- the potential that Hydro One may incur significant expenses to replace some or all of the functions currently outsourced if either of the Company's agreements with Inergi LP or Brookfield Global Integrated Solutions are terminated or expire before a new service provider is selected;
- the risks associated with economic uncertainty and financial market volatility;
- the inability to prepare financial statements using US GAAP;
- risks associated with changes to Hydro One's tax status; and
- the impact of the ownership by the Province of lands underlying the Company's transmission system.

Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risk Factors" in the 2014 MD&A.

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

Additional information about Hydro One, including the Company's Annual Information Form for the year ended December 31, 2014, is available on SEDAR at www.sedar.com and on the US Securities and Exchange Commission's EDGAR website at www.sec.gov/edgar.shtml.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three and nine months ended September 30, 2015 and 2014

(millions of Canadian dollars, except per share amounts)	**Three months ended September 30** **2015**	**2014**	**Nine months ended September 30** **2015**	**2014**
Revenues				
Distribution (includes related party revenues of $39 (2014 – $39) and $119 (2014 – $119) for three and nine months ended September 30, respectively) *(Note 14)*	1,227	1,138	3,801	3,635
Transmission (includes related party revenues of $432 (2014 – $411) and $1,202 (2014 – $1,193) for three and nine months ended September 30, respectively) *(Note 14)*	405	402	1,175	1,206
Other	13	16	40	45
	1,645	1,556	5,016	4,886
Costs				
Purchased power (includes related party costs of $494 (2014 – $520) and $1,768 (2014 – $1,888) for three and nine months ended September 30, respectively) *(Note 14)*	856	780	2,664	2,526
Operation, maintenance and administration *(Note 14)*	274	300	834	945
Depreciation and amortization	189	184	566	532
	1,319	1,264	4,064	4,003
Income before financing charges and provision for payments in lieu of corporate income taxes	326	292	952	883
Financing charges	95	96	282	281
Income before provision for payments in lieu of corporate income taxes	231	196	670	602
Provision for payments in lieu of corporate income taxes *(Notes 5, 14)*	36	23	104	74
Net income	195	173	566	528
Net income attributable to noncontrolling interest *(Note 13)*	3	–	6	–
Net income attributable to Shareholder of Hydro One Inc.	**192**	**173**	**560**	**528**
Other comprehensive income	–	–	–	–
Comprehensive income	**195**	**173**	**566**	**528**
Comprehensive income attributable to noncontrolling interest *(Note 13)*	3	–	6	–
Comprehensive income attributable to Shareholder of Hydro One Inc.	**192**	**173**	**560**	**528**
Basic and fully diluted earnings per common share *(Canadian dollars) (Note 11)*	1,870	1,693	5,463	5,149
Dividends per common share declared *(Canadian dollars) (Note 12)*	250	250	750	2,446

See accompanying notes to Consolidated Financial Statements (unaudited).

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (unaudited)
At September 30, 2015 and December 31, 2014

(millions of Canadian dollars)	**September 30, 2015**	**December 31, 2014**
Assets		
Current assets:		
Cash and cash equivalents *(Note 8)*	145	100
Accounts receivable (net of allowance for doubtful accounts – $68; 2014 – $66) *(Note 6)*	942	1,016
Due from related parties *(Note 14)*	204	224
Regulatory assets	45	31
Materials and supplies	24	23
Deferred income tax assets	19	19
Derivative instruments *(Note 8)*	–	2
Prepaid expenses and other assets	29	35
	1,408	1,450
Property, plant and equipment:		
Property, plant and equipment in service	25,541	25,356
Less: accumulated depreciation	9,294	9,134
	16,247	16,222
Construction in progress	1,334	1,025
Future use land, components and spares	154	154
	17,735	17,401
Other long-term assets:		
Regulatory assets	3,195	3,200
Intangible assets (net of accumulated amortization – $261; 2014 – $305)	333	276
Goodwill *(Note 4)*	146	173
Deferred debt issuance costs	35	36
Deferred income tax assets	6	7
Derivative instruments *(Note 8)*	1	–
Other	6	7
	3,722	3,699
Total assets	**22,865**	**22,550**

See accompanying notes to Consolidated Financial Statements (unaudited).

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (unaudited) (continued)
At September 30, 2015 and December 31, 2014

(millions of Canadian dollars, except number of shares)	**September 30, 2015**	**December 31, 2014**
Liabilities		
Current liabilities:		
Bank indebtedness *(Note 8)*	27	2
Short-term notes payable *(Note 7, 8)*	450	–
Accounts payable	138	173
Accrued liabilities *(Notes 9, 10)*	626	611
Due to related parties *(Note 14)*	66	227
Accrued interest	118	100
Regulatory liabilities	17	47
Derivative instruments *(Note 8)*	3	3
Long-term debt payable within one year (includes $nil measured at fair value; 2014 – $252) *(Notes 7, 8)*	450	552
	1,895	1,715
Long-term debt (includes $51 measured at fair value; 2014 – $nil) *(Notes 7, 8)*	8,274	8,373
Other long-term liabilities:		
Post-retirement and post-employment benefit liability *(Note 9)*	1,584	1,533
Deferred income tax liabilities	1,405	1,313
Pension benefit liability *(Note 9)*	1,223	1,236
Environmental liabilities *(Note 10)*	201	221
Regulatory liabilities	275	168
Net unamortized debt premiums	17	18
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	15	17
	4,729	4,515
Total liabilities	**14,898**	**14,603**
Contingencies and Commitments (Notes 16, 17)		
Subsequent Events (Note 19)		
Preferred shares (authorized: unlimited; issued: 12,920,000) *(Notes 11, 12)*	323	323
Noncontrolling interest subject to redemption *(Note 13)*	22	21
Equity		
Common shares (authorized: unlimited; issued: 100,000) *(Notes 11, 12)*	3,118	3,314
Retained earnings	4,463	4,249
Accumulated other comprehensive loss	(9)	(9)
Noncontrolling interest *(Note 13)*	50	49
Total equity	**7,622**	**7,603**
	22,865	**22,550**

See accompanying notes to Consolidated Financial Statements (unaudited).

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the nine months ended September 30, 2015 and 2014

Nine months ended September 30, 2015 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Noncontrolling Interest** *(Note 13)*	**Total Equity**
January 1, 2015	3,314	4,249	(9)	49	7,603
Net income	–	560	–	4	564
Other comprehensive income	–	–	–	–	–
Distributions to noncontrolling interest	–	–	–	(3)	(3)
Dividends on preferred shares	–	(13)	–	–	(13)
Dividends on common shares	–	(75)	–	–	(75)
Hydro One Brampton spin-off *(Note 4)*	(196)	(258)	–	–	(454)
September 30, 2015	3,118	4,463	(9)	50	7,622

Nine months ended September 30, 2014 *(millions of Canadian dollars)*	**Common Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Noncontrolling Interest**	**Total Equity**
January 1, 2014	3,314	3,787	(9)	–	7,092
Net income	–	528	–	–	528
Dividends on preferred shares	–	(13)	–	–	(13)
Dividends on common shares	–	(245)	–	–	(245)
Other	–	–	(1)	–	(1)
September 30, 2014	3,314	4,057	(10)	–	7,361

See accompanying notes to Consolidated Financial Statements (unaudited).

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three and nine months ended September 30, 2015 and 2014

(millions of Canadian dollars)	**Three months ended September 30** 2015	2014	**Nine months ended September 30** 2015	2014
Operating activities				
Net income	195	173	566	528
Environmental expenditures	(4)	(5)	(13)	(12)
Adjustments for non-cash items:				
Depreciation and amortization (excluding removal costs)	168	163	500	469
Regulatory assets and liabilities	82	21	154	(5)
Deferred income taxes	(3)	(4)	–	4
Other	2	(2)	5	–
Changes in non-cash balances related to operations *(Note 15)*	29	97	(30)	(207)
Net cash from operating activities	469	443	1,182	777
Financing activities				
Long-term debt issued	–	–	350	628
Long-term debt retired	(568)	(26)	(568)	(26)
Short-term notes payable	450	–	450	–
Dividends paid	(29)	(29)	(88)	(258)
Distributions paid to noncontrolling interest	(2)	–	(4)	–
Change in bank indebtedness	27	(5)	25	(1)
Other	–	–	(1)	(3)
Net cash from (used in) financing activities	(122)	(60)	164	340
Investing activities				
Capital expenditures *(Note 15)*				
Property, plant and equipment	(412)	(376)	(1,169)	(1,020)
Intangible assets	(13)	(1)	(22)	(16)
Acquisition of Norfolk Power	–	(66)	–	(66)
Acquisition of Haldimand Hydro	–	–	(58)	–
Investment in Hydro One Brampton *(Note 4)*	(53)	–	(53)	–
Other	6	(1)	1	(2)
Net cash used in investing activities	(472)	(444)	(1,301)	(1,104)
Net change in cash and cash equivalents	(125)	(61)	45	13
Cash and cash equivalents, beginning of period	270	639	100	565
Cash and cash equivalents, end of period	**145**	**578**	**145**	**578**

See accompanying notes to 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 the Province of Ontario (Province). See Note 19 – Subsequent Events for changes in ownership structure of Hydro One subsequent to September 30, 2015.

The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. The electricity rates of these businesses are regulated by the Ontario Energy Board (OEB).

The demand for electricity generally follows normal weather-related variations, and therefore the Company's energy-related revenues, all other things being equal, will tend to be higher in the first and third quarters than in the second and fourth quarters.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These unaudited interim Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries, including Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Telecom Inc. (Hydro One Telecom), Hydro One Lake Erie Link Management Inc., Municipal Billing Services Inc. (previously Hydro One Lake Erie Link Company Inc.), Haldimand County Utilities Inc. (Haldimand Hydro), and Hydro One B2M Holdings Inc. Intercompany transactions and balances have been eliminated.

On August 31, 2015, Hydro One completed the spin-off of its subsidiary, Hydro One Brampton Networks Inc. (Hydro One Brampton). See note 4 – Business Combinations. These unaudited interim Consolidated Financial Statements include the results of operations of Hydro One Brampton up to August 31, 2015.

On September 1, 2015, Norfolk Power Distribution Inc. was wound-up into Hydro One Networks and Norfolk Energy Inc. was wound-up into Hydro One Telecom.

Subsequent to September 30, 2015, Hydro One completed the spin-off of its subsidiaries, Hydro One Telecom and Municipal Billing Services Inc. See note 19 – Subsequent Events.

Basis of Accounting

These unaudited interim Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) and in Canadian dollars. These unaudited interim Consolidated Financial Statements do not contain all disclosures required by US GAAP for annual audited consolidated financial statements. Accordingly, they should be read in conjunction with the Company's annual Consolidated Financial Statements as at, and for the year ended December 31, 2014. In particular, the Company's significant accounting policies are presented in Note 2 to the annual Consolidated Financial Statements and have been applied consistently in the preparation of these unaudited interim Consolidated Financial Statements. In the opinion of management, these unaudited interim Consolidated Financial Statements include all adjustments that are necessary to fairly state the financial position and results of operations of Hydro One as at, and for the three and nine months ended September 30, 2015. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim periods or for the year ending December 31, 2015.

Hydro One performed an evaluation of subsequent events through to November 12, 2015, the date these unaudited interim Consolidated Financial Statements were issued, to determine whether any events or transactions warranted recognition and disclosure in these unaudited interim Consolidated Financial Statements. See Note 19 – Subsequent Events.

Rate Setting

The Company's Transmission Business includes the transmission business of Hydro One Networks, as well as its ownership interest in B2M Limited Partnership (B2M LP). The Company's consolidated Distribution Business includes the distribution business of Hydro One Networks, as well as the subsidiaries Hydro One Remote Communities and Haldimand Hydro.

Transmission

On September 16, 2014, Hydro One Networks filed an application with the OEB for 2015 and 2016 transmission rates. On January 8, 2015, the OEB approved the 2015 Hydro One transmission rates revenue requirement, excluding the B2M LP revenue requirement, of $1,477 million and the 2016 revenue requirement of $1,516 million, subject to adjustments for the cost of capital parameters.

On October 24, 2014, B2M LP filed an application with the OEB for an interim transmission rate, seeking approval for a revenue requirement of $42 million in 2015. The interim Rate Order was approved by the OEB on December 11, 2014. On March 30, 2015, B2M LP filed a full cost-of-service application for 2015-2019 transmission rates. In its application, B2M LP is seeking approval of a revenue requirement of $43 million for 2015, $45 million for 2016, $46 million for 2017, $47 million for 2018, and $47 million for 2019.

On June 30, 2015, B2M LP was re-financed with debt bearing interest at a rate that is lower than the original debt issued when the partnership became operational in December 2014. This has lowered the B2M LP revenue requirement. As a result of the reduced cost of debt, B2M LP's requested revenue requirement was amended to $39 million for 2015, $36 million for 2016, $37 million for 2017, $38 million for 2018, and $37 million for 2019. As part of its application, B2M LP is seeking the recovery of its initial start-up costs totalling $8 million over the 2016 to 2019 test years at a rate of $2 million per year.

Distribution

On December 19, 2013, Hydro One Networks filed a 2015-2019 distribution custom rate application with the OEB, for rates effective January 1 of each test year. On December 18, 2014, the OEB issued a Decision and interim Rate Order approving the 2014 distribution rates as interim 2015 rates effective January 1, 2015. On March 12, 2015, the OEB issued a Decision and Rate Order approving a revenue requirement of $1,326 million for 2015, $1,430 million for 2016 and $1,486 million for 2017. The rates for 2015 are effective on May 1, 2015, and are retroactive to January 1, 2015. The rates for 2016 and 2017 are estimates that may change based on 2016 and 2017 Rate Orders. On April 23, 2015, the Final Rate Order was approved by the OEB.

On September 24, 2014, Hydro One Remote Communities filed an Incentive Regulation Mechanism (IRM) application with the OEB for 2015 rates, seeking approval for increased base rates for the distribution and generation of electricity of 1.7%. On March 19, 2015, the OEB approved an increase of approximately 1.6% to basic rates for the distribution and generation of electricity, with an effective date of May 1, 2015.

3. NEW ACCOUNTING PRONOUNCEMENTS

Recent Accounting Guidance Not Yet Adopted

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary and to show the item separately in the income statement. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The adoption of this ASU is not anticipated to have an impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU provides guidance about the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The Company is currently assessing the impact of adoption of ASU 2015-02 on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Upon adoption of this ASU in the first quarter of 2016, the Company's deferred debt issuance costs that are currently presented under other long-term assets will be reclassified as a deduction from the carrying amount of long-term debt.

In April 2015, the FASB issued ASU 2015-04, Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. This ASU permits an entity with a fiscal year-end that does not coincide with a month-end and an entity that has a significant event in an interim period that calls for a remeasurement of defined benefit plan assets and obligations to measure the defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The adoption of this ASU is not anticipated to have an impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license, as well as the related accounting for the arrangement. This ASU is effective for fiscal years, and interim periods within these years, beginning after December 15, 2015. The Company is currently assessing the impact of adoption of ASU 2015-05 on its consolidated financial statements.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date to defer the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) issued by the FASB in May 2014, by one year. The guidance in ASU 2014-09 is now effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact of adoption of ASU 2014-09 on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period of a business combination in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Upon adoption of this ASU in the first quarter of 2016, the Company will apply the guidance in this ASU to each future business combination, as applicable.

4. BUSINESS COMBINATIONS

Hydro One Brampton Spin-off

On August 31, 2015, Hydro One completed the spin-off of its subsidiary, Hydro One Brampton. The spin-off was accounted as a non-monetary, nonreciprocal transfer with the Province, based on its carrying values at August 31, 2015. Transactions that immediately preceded the spin-off as well as the spin-off were as follows:

- Hydro One subscribed for 357 common shares of Hydro One Brampton for an aggregate subscription price of $53 million;
- Hydro One transferred to a company wholly owned by the Province all the issued and outstanding shares of Hydro One Brampton as a dividend-in-kind; and all of the long-term intercompany debt in aggregate principal amount of $193 million plus accrued interest of $3 million owed by Hydro One Brampton to Hydro One as a return of stated capital of $196 million on its common shares.

In connection with the Hydro One Brampton spin-off, the following assets and liabilities of Hydro One Brampton were transferred:

(millions of Canadian dollars)	
Working capital	33
Property, plant and equipment and intangibles (net)	360
Other long-term assets	6
Long-term liabilities	(205)

In addition, as a result of the spin-off, goodwill related to Hydro One Brampton totalling $60 million was eliminated from the Consolidated Balance Sheet.

Acquisition of Haldimand Hydro

On June 30, 2015, Hydro One acquired 100% of the common shares of Haldimand County Utilities Inc. (Haldimand Hydro), an electricity distribution company located in southwestern Ontario. The total purchase price for Haldimand Hydro was approximately $73 million, which was adjusted for preliminary working capital and other closing adjustments totalling approximately $8 million.

The following table summarizes the preliminary determination of the fair value of the assets acquired and liabilities assumed recognized at the acquisition date:

(millions of Canadian dollars)	
Cash and cash equivalents	3
Working capital	5
Property, plant and equipment	52
Deferred income tax assets	1
Goodwill	33
Long-term debt	(18)
Regulatory liabilities	(3)
	73

The preliminary determination of the fair value of assets acquired and liabilities assumed has been based upon management’s estimates and certain assumptions with respect to the fair values of the assets acquired and liabilities assumed. The purchase agreement provides for final purchase price adjustments based on agreed working capital and other balances at the acquisition date which have not yet been finalized. The Company will continue to review information and perform further analysis prior to finalizing the total purchase price, and therefore, the actual total purchase price and the consequent impact on goodwill may differ from the amounts above.

Goodwill of approximately $33 million arising from the Haldimand Hydro acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and Haldimand Hydro. All of the goodwill was assigned to Hydro One's Distribution Business segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

Haldimand Hydro contributed revenues of $19 million and net income of $1 million to the Company's consolidated financial results for the three and nine months ended September 30, 2015.

All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. The disclosure of Haldimand Hydro's pro forma information is immaterial to the Company's consolidated financial results for the three and nine months ended September 30, 2015.

Acquisition of Norfolk Power

On August 29, 2014, Hydro One acquired 100% of the common shares of Norfolk Power Inc. (Norfolk Power), an electricity distribution and telecom company located in southwestern Ontario. The total purchase price for Norfolk Power, net of the long-term debt assumed and adjusted for working capital and other closing adjustments, was approximately $68 million. The purchase agreement provided for final purchase price adjustments based on agreed working capital and other balances at the acquisition date. The purchase price has been finalized in 2015, with no adjustments to the preliminary purchase price allocation as disclosed at December 31, 2014.

Acquisition of Woodstock Hydro

On May 21, 2014, Hydro One reached an agreement with the City of Woodstock to acquire 100% of the common shares of Woodstock Hydro Holdings Inc. (Woodstock Hydro), an electricity distribution company located in southwestern Ontario. The purchase price for Woodstock Hydro will be approximately $29 million, subject to final closing adjustments. On September 11, 2015, the OEB issued its Decision and Order for Hydro One to acquire all of the issued and outstanding common shares of Woodstock Hydro. Subsequent to September 30, 2015, the Woodstock Hydro acquisition transaction was completed. See Note 19 – Subsequent Events.

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The current provision for payments in lieu of corporate income taxes (PILs) is remitted to, or received from, the Ontario Electricity Financial Corporation (OEFC). At September 30, 2015, $29 million due to the OEFC was included in due to related parties on the interim Consolidated Balance Sheet (December 31, 2014 – $39 million included in due from related parties). The total provision for PILs using the liability method of accounting includes deferred income taxes that are not expected to be recovered from ratepayers. Deferred PILs balances expected to be recovered from ratepayers result in regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates.

For the nine months ended September 30, 2015, the Company's overall effective tax rate of 15.52% differed from the enacted statutory rate of 26.50% primarily due to the temporary differences included in the rate-setting process, such as capital cost allowance in excess of depreciation, deductions for pension payments made in excess of amounts expensed for accounting purposes, and interest deducted for tax purposes in excess of interest expensed for accounting purposes.

Subsequent to September 30, 2015, Hydro One's exemption from tax under the *Income Tax Act* (Canada) and the *Taxation Act*, 2007 (Ontario) ceased to apply. See Note 19 – Subsequent Events.

6. ACCOUNTS RECEIVABLE

(millions of Canadian dollars)	**September 30, 2015**	**December 31, 2014**
Accounts receivable – billed	436	496
Accounts receivable – unbilled	574	586
Accounts receivable, gross	1,010	1,082
Allowance for doubtful accounts	(68)	(66)
Accounts receivable, net	942	1,016

The following tables show the movements in the allowance for doubtful accounts for the nine months ended September 30, 2015 and the year ended December 31, 2014:

Nine months ended September 30, 2015 (millions of Canadian dollars)	
Allowance for doubtful accounts – January 1, 2015	(66)
Write-offs	26
Additions to allowance for doubtful accounts	(28)
Allowance for doubtful accounts – September 30, 2015	(68)

Year ended December 31, 2014 (millions of Canadian dollars)	
Allowance for doubtful accounts – January 1, 2014	(36)
Write-offs	24
Additions to allowance for doubtful accounts	(54)
Allowance for doubtful accounts – December 31, 2014	(66)

7. 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 $1 billion. These short-term notes are denominated in Canadian dollars with varying maturities not exceeding 365 days. At September 30, 2015, Hydro One had $450 million in commercial paper borrowings outstanding (December 31, 2014 – $nil).

Hydro One has a $1.5 billion committed and unused revolving standby credit facility with a syndicate of banks, maturing in June 2020. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility is unsecured and supports the Company's Commercial Paper Program. The Company may use the credit facility for general corporate purposes, including meeting short-term funding requirements. The obligation of each lender to make any credit extension to the Company under its credit facility is subject to various conditions including, among other things, that no event of default has occurred or would result from such credit extension.

Subsequent to September 30, 2015, Hydro One entered into a new credit agreement and increased the authorized amount of short-term notes that it can issue under its Commercial Paper Program. See Note 19 – Subsequent Events.

Long-Term Debt

The Company issues notes for long-term financing under its Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under this program was $3 billion. The unused amount expired in October 2015.

The following table presents the outstanding long-term debt at September 30, 2015 and December 31, 2014:

(millions of Canadian dollars)	**September 30, 2015**	**December 31, 2014**
Notes and debentures	8,723	8,923
Add: Unrealized mark-to-market loss[1]	1	2
Less: Long-term debt payable within one year	(450)	(552)
Long-term debt	8,274	8,373

[1] The unrealized mark-to-market loss relates to $50 million Series 33 notes due 2020 (2014 – $250 million of the Series 21 notes due 2015). The unrealized mark-to-market loss is offset by a $1 million (December 31, 2014 – $2 million) unrealized mark-to-market gain on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges. See Note 8 – Fair Value of Financial Instruments and Risk Management for details of fair value hedges.

On April 30, 2015, Hydro One issued $350 million notes (MTN Series 33 notes) under its MTN Program, with a maturity date of April 30, 2020 and a coupon rate of 1.62%.

Long-term debt totalling $18 million was assumed by Hydro One as part of the Haldimand Hydro acquisition. It has been repaid in July 2015.

On July 23 and September 10, 2015, Hydro One repaid $50 million Series 22 notes and $500 million Series 21 notes, respectively.

The long-term debt is unsecured and denominated in Canadian dollars. The long-term debt is summarized by the number of years to maturity in Note 8 – Fair Value of Financial Instruments and Risk Management.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non-Derivative Financial Assets and Liabilities

At September 30, 2015 and December 31, 2014, the Company's carrying amounts of accounts receivable, due from related parties, cash and cash equivalents, bank indebtedness, short-term notes payable, accounts payable, and due to related parties are representative of fair value because of 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, 2015 and December 31, 2014 are as follows:

	September 30, 2015		December 31, 2014	
(millions of Canadian dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt				
$250 million of MTN Series 21 notes[1]	–	–	252	252
$50 million of MTN Series 33 notes[1]	51	51	–	–
Other notes and debentures[2]	8,673	9,967	8,673	10,159
	8,724	10,018	8,925	10,411

[1] The fair value of the $50 million MTN Series 33 notes and $250 million of the MTN Series 21 notes subject to hedging is primarily based on changes in the present value of future cash flows due to a change in the yield in the swap market for the related swap (hedged risk).

[2] The fair value of other notes and debentures, and the portion of the MTN Series 21 notes that are not subject to hedging, represents the market value of the notes and debentures and is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

Fair Value Measurements of Derivative Instruments

At September 30, 2015, the Company had interest-rate swaps totalling $50 million (December 31, 2014 – $250 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. The Company's fair value hedge exposure was equal to approximately 1% (December 31, 2014 – 3%) of its total long-term debt of $8,724 million (December 31, 2014 – $8,925 million). At September 30, 2015, the Company had the following interest-rate swaps designated as fair value hedges:

(a) a $50 million fixed-to-floating interest-rate swap agreement to convert $50 million of the $350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt.

At September 30, 2015, the Company also had interest-rate swaps and forward rate agreements with a total notional value of $290 million (December 31, 2014 – $409 million) classified as undesignated contracts. The undesignated contracts consist of the following:

(b) a $137 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $137 million of the $228 million floating-rate MTN Series 31 notes from December 22, 2014 to December 21, 2015;

(c) a $30 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $30 million of the $50 million floating-rate MTN Series 27 notes from March 3, 2015 to December 3, 2015;

(d) a $20 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $20 million of the $50 million floating-rate MTN Series 27 notes from June 3, 2015 to December 3, 2015;

(e) a $91 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company pays on $91 million of the $228 million floating-rate MTN Series 31 notes from June 22, 2015 to December 21, 2015; and

(f) three interest-rate swaps with a total notional value of $12 million that were assumed as part of the Norfolk Power acquisition. These swaps consist of $8 million and $2 million floating-to-fixed interest-rate swap agreements maturing on September 20, 2029, and a $2 million floating-to-fixed interest-rate swap agreement maturing on September 20, 2019.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at September 30, 2015 and December 31, 2014 was as follows:

September 30, 2015 (millions of Canadian dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	145	145	145	–	–
Derivative instruments					
Fair value hedges – interest-rate swaps	1	1	–	1	–
	146	146	145	1	–
Liabilities:					
Bank indebtedness	27	27	27	–	–
Short-term notes payable	450	450	450	–	–
Derivative instruments					
Undesignated contracts – interest-rate swaps	3	3	–	3	–
Long-term debt	8,724	10,018	–	10,018	–
	9,204	10,498	477	10,021	–

December 31, 2014 (millions of Canadian dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	100	100	100	–	–
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	–	2	–
	102	102	100	2	–
Liabilities:					
Bank indebtedness	2	2	2	–	–
Derivative instruments					
Undesignated contracts – interest-rate swaps	3	3	–	3	–
Long-term debt	8,925	10,411	–	10,411	–
	8,930	10,416	2	10,414	–

Cash and cash equivalents include cash and short-term investments. At September 30, 2015, short-term investments consisted of bankers' acceptances and money market funds totalling $130 million (December 31, 2014 – $nil). The carrying values are representative of fair value because of the short-term nature of these instruments.

The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is primarily based on the present value of future cash flows using a swap yield curve to determine the assumptions for interest rates.

The fair value of short-term notes payable is determined using inputs other than quoted prices that are observable for these liabilities. The fair value is primarily based on the issue price, the issue yield, and the maturity date.

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 significant transfers between any of the fair value levels during the nine months ended September 30, 2015 or the year ended December 31, 2014.

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 that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although the Company could in the future decide to issue foreign currency-denominated debt which would be hedged back to Canadian dollars consistent with its risk management policy.

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 utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. In addition, the Company may utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative 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, 2015 and 2014 are included in financing charges as follows:

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Unrealized loss (gain) on hedged debt	–	(3)	(1)	(8)
Unrealized loss (gain) on fair value interest-rate swaps	–	3	1	8
Net unrealized loss (gain)	–	–	–	–

At September 30, 2015, Hydro One had $50 million (December 31, 2014 – $250 million) of notional amounts of fair value hedges outstanding related to interest-rate swaps, with assets at fair value of $1 million (December 31, 2014 – $2 million). During the nine months ended September 30, 2015 and 2014, there was no significant impact on the results of operations as a result of any ineffectiveness attributable to fair value hedges.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At September 30, 2015 and December 31, 2014, 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 significant amount of revenue from any single customer. At September 30, 2015 and December 31, 2014, there was no significant accounts receivable balance due from any single customer.

At September 30, 2015, the Company's provision for bad debts was $68 million (December 31, 2014 – $66 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. At September 30, 2015, approximately 5% of the Company's net accounts receivable were aged more than 60 days (December 31, 2014 – 6%).

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly-rated counterparties; limiting total exposure levels with individual counterparties consistent with the Company's Board-approved Credit Risk Policy; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. Counterparty credit limits are based on an internal credit review that considers a variety of factors, including the results of a scoring model, leverage, liquidity, profitability, credit ratings and risk management capabilities. The determination of credit exposure for a particular counterparty is the sum of current exposure plus the potential future exposure with that counterparty. The current exposure is calculated as the sum of the principal value of money market exposures and the market value of all contracts that have a positive mark-to-market position on the measurement date. The Company would offset the positive market values against negative values with the same counterparty only where permitted by the existence of a legal netting agreement such as an International Swap Dealers Association master agreement. The potential future exposure represents a safety margin to protect against future fluctuations of interest rates, currencies, equities, and commodities. It is calculated based on factors developed by the Bank of International Settlements, following extensive historical analysis of random fluctuations of interest rates and currencies. To the extent that a counterparty's margining thresholds are exceeded, the counterparty is required to post collateral with the Company as specified in each agreement. The Company monitors current and forward credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the interim Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At September 30, 2015, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was $1 million (December 31, 2014 – $3 million). At September 30, 2015, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with five financial institutions as the 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 liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby credit facility of $1.5 billion. The short-term liquidity under the Commercial Paper Program, and anticipated levels of funds from operations should be sufficient to fund normal operating requirements.

At September 30, 2015, accounts payable and accrued liabilities in the amount of $764 million (December 31, 2014 – $784 million) were expected to be settled in cash at their carrying amounts within the next 12 months.

At September 30, 2015, Hydro One had issued long-term debt in the principal amount of $8,723 million (December 31, 2014 – $8,923 million). Principal repayments, total annual interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	**Long-term Debt Principal Repayments** *(millions of Canadian dollars)*	**Total Annual Interest Payments** *(millions of Canadian dollars)*	**Weighted Average Interest Rate** *(%)*
1 year	450	397	4.6
2 years	50	386	1.1
3 years	600	370	5.2
4 years	978	343	2.4
5 years	650	332	2.9
	2,728	1,828	3.5
6 – 10 years	600	1,496	3.2
Over 10 years	5,395	4,168	5.4
	8,723	7,492	4.7

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

Estimated 2015 annual pension plan contributions are approximately $174 million, based on an actuarial valuation as at December 31, 2013 and projected levels of 2015 pensionable earnings. Employer contributions of $134 million were paid during the nine months ended September 30, 2015.

The following tables provide the components of the net periodic benefit costs for the three and nine months ended September 30, 2015 and 2014:

	Pension Benefits		**Post-Retirement and Post-Employment Benefits**	
Three months ended September 30 (millions of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Current service cost, net of employee contributions	37	28	11	10
Interest cost	76	78	16	19
Expected return on plan assets, net of expenses[1]	(102)	(92)	–	–
Actuarial loss amortization	30	26	3	5
Prior service cost amortization	–	–	–	1
Net periodic benefit costs	41	40	30	35
Charged to results of operations[2]	22	19	14	13

	Pension Benefits		**Post-Retirement and Post-Employment Benefits**	
Nine months ended September 30 (millions of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Current service cost, net of employee contributions	111	83	33	30
Interest cost	228	234	48	57
Expected return on plan assets, net of expenses[1]	(306)	(276)	–	–
Actuarial loss amortization	90	78	9	15
Prior service cost amortization	–	–	–	2
Net periodic benefit costs	123	119	90	104
Charged to results of operations[2]	63	60	40	43

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2015 is 6.5% (2014 – 6.5%).

[2] The Company follows the cash basis of accounting consistent with the inclusion of pension costs in OEB-approved rates. During the three and nine months ended September 30, 2015, pension benefit costs of $48 million (2014 – $40 million) and $138 million (2014 – $128 million), respectively, were attributed to labour, of which $22 million (2014 – $19 million) and $63 million (2014 – $60 million), respectively, were charged to operations, and $26 million (2014 – $21 million) and $75 million (2014 – $68 million), respectively, were capitalized as part of the cost of property, plant and equipment and intangible assets.

10. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the nine months ended September 30, 2015 and the year ended December 31, 2014:

Nine months ended September 30, 2015 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Environmental liabilities, January 1	172	67	239
Interest accretion	6	1	7
Expenditures	(7)	(6)	(13)
Environmental liabilities, September 30	171	62	233
Less: current portion	20	12	32
	151	50	201

Year ended December 31, 2014 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Environmental liabilities, January 1	201	65	266
Interest accretion	9	2	11
Expenditures	(5)	(13)	(18)
Revaluation adjustment	(33)	13	(20)
Environmental liabilities, December 31	172	67	239
Less: current portion	8	10	18
	164	57	221

The following tables show the reconciliation between the undiscounted basis of the environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

September 30, 2015 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	188	64	252
Less: discounting accumulated liabilities to present value	17	2	19
Discounted environmental liabilities	171	62	233

December 31, 2014 (millions of Canadian dollars)	**PCB**	**LAR**	**Total**
Undiscounted environmental liabilities	195	70	265
Less: discounting accumulated liabilities to present value	23	3	26
Discounted environmental liabilities	172	67	239

At September 30, 2015, the estimated future environmental expenditures were as follows:

(millions of Canadian dollars)	
2015[1]	5
2016	37
2017	36
2018	35
2019	33
Thereafter	106
	252

[1] The amounts disclosed represent amounts for the period from October 1, 2015 to December 31, 2015.

Hydro One records a liability for the estimated future expenditures for the contaminated land assessment and remediation (LAR) and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 2.3% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

At September 30, 2015, the Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is $188 million (December 31, 2014 – $195 million). These expenditures are expected to be incurred over the period from 2015 to 2025.

At September 30, 2015, the Company's best estimate of the total estimated future expenditures to complete its LAR program is $64 million (December 31, 2014 – $70 million). These expenditures are expected to be incurred over the period from 2015 to 2023.

11. SHARE CAPITAL

Preferred Shares

The Company has 12,920,000 issued and outstanding 5.5% cumulative preferred shares with a redemption value of $25 per share or $323 million total value. The Company is authorized to issue an unlimited number of preferred shares.

The Company's preferred shares are entitled to an annual cumulative dividend of $18 million, or $1.375 per share, which is payable on a quarterly basis. The preferred shares are not subject to mandatory redemption (except on liquidation) but are redeemable in certain circumstances. The shares are redeemable at the option of the Province at the redemption value, plus any accrued and unpaid dividends, if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. Hydro One may elect, without condition, to pay all or part of the redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

Subsequent to September 30, 2015, Hydro One purchased and cancelled its preferred shares. See Note 19 – Subsequent Events.

Common Shares

The Company has 100,000 issued and outstanding common shares. The Company is authorized to issue an unlimited number of common shares.

Common share dividends are declared at the sole discretion of the Hydro One Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial conditions, cash requirements, and other relevant factors, such as industry practice and Shareholder expectations.

Subsequent to September 30, 2015, all of the issued and outstanding common shares of Hydro One were acquired by Hydro One Limited from the Province. See Note 19 – Subsequent Events.

Earnings per Share

Basic and diluted earnings per share have been calculated on the basis of net income attributable to the Shareholder of Hydro One and the weighted average number of common shares outstanding during the year.

12. DIVIDENDS

During the three months ended September 30, 2015, preferred share dividends in the amount of $4 million (2014 – $4 million) and common share dividends in the amount of $25 million (2014 – $25 million) were declared.

During the nine months ended September 30, 2015, preferred share dividends in the amount of $13 million (2014 – $13 million) and common share dividends in the amount of $75 million (2014 – $245 million) were declared.

On August 31, 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton. See Note 4 – Business Combinations.

13. NONCONTROLLING INTEREST

On December 16, 2014, the relevant Bruce to Milton Line transmission assets totalling $526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt ($316 million) and 40% equity ($210 million). On December 17, 2014, the Saugeen Ojibway Nation (SON) acquired a 34.2% equity interest in B2M LP for consideration of $72 million, representing the fair value of the equity interest acquired. The SON's initial investment in B2M LP consists of $50 million of Class A units and $22 million of Class B units.

The Class B units have a mandatory put option which requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), Hydro One purchase the Class B units of B2M LP for net book value on the redemption date. The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity.

The following tables show the movements in noncontrolling interest for the nine months ended September 30, 2015 and the year ended December 31, 2014:

Nine months ended September 30, 2015 (millions of Canadian dollars)	**Temporary equity**	**Equity**	**Total**
Noncontrolling interest – January 1, 2015	21	49	70
Distributions to noncontrolling interest	(1)	(3)	(4)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest – September 30, 2015	22	50	72

Year ended December 31, 2014 (millions of Canadian dollars)	**Temporary equity**	**Equity**	**Total**
Noncontrolling interest – January 1, 2014	–	–	–
Amount contributed by noncontrolling interest	22	50	72
Net income (loss) attributable to noncontrolling interest	(1)	(1)	(2)
Noncontrolling interest – December 31, 2014	21	49	70

14. RELATED PARTY TRANSACTIONS

At September 30, 2015, Hydro One was owned by the Province. The OEFC, Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), the OEB, Hydro One Brampton and Hydro One Limited are related parties to Hydro One because they are controlled or significantly influenced by the Province. Effective January 1, 2015, the Ontario Power Authority (OPA) and IESO have merged and are now operating as IESO.

The Province

During the three and nine months ended September 30, 2015, Hydro One paid dividends to the Province totalling $29 million (2014 – $29 million) and $88 million (2014 – $258 million), respectively. In addition, on August 31, 2015, Hydro One declared a dividend in-kind on its common shares payable in all of the issued and outstanding shares of Hydro One Brampton. See Note 4 – Business Combinations.

IESO

During the three and nine months ended September 30, 2015, Hydro One purchased power in the amount of $491 million (2014 – $516 million) and $1,753 million (2014 – $1,859 million), respectively, from the IESO-administered electricity market.

Hydro One receives revenues for transmission services from the IESO, based on OEB-approved uniform transmission rates. Transmission revenues for the three and nine months ended September 30, 2015 include $430 million (2014 – $410 million) and $1,198 million (2014 – $1,186 million), respectively, related to these services.

Hydro One receives amounts for rural rate protection from the IESO. Distribution revenues for the three and nine months ended September 30, 2015 include $31 million (2014 – $31 million) and $95 million (2014 – $95 million), respectively, related to this program.

Hydro One also receives revenues related to the supply of electricity to remote northern communities from the IESO. Distribution revenues for the three and nine months ended September 30, 2015 include $8 million (2014 – $8 million) and $24 million (2014 – $24 million), respectively, related to these services.

The IESO (OPA prior to January 1, 2015) funds substantially all of the Company’s conservation and demand management programs. The funding includes program costs, incentives, and management fees. During the three and nine months ended September 30, 2015, Hydro One received $26 million (2014 – $7 million) and $49 million (2014 – $28 million), respectively, related to these programs.

OPG

During the three and nine months ended September 30, 2015, Hydro One purchased power in the amount of $2 million (2014 – $3 million) and $10 million (2014 – $21 million), respectively, from OPG.

Hydro One has service level agreements with OPG. These services include field, engineering, logistics and telecommunications services. During the three and nine months ended September 30, 2015, revenues related to the provision of construction and equipment maintenance services with respect to these service level agreements were $2 million (2014 – $2 million) and $5 million (2014 – $8 million), respectively, primarily for the Transmission Business. Operation, maintenance and administration costs related to the purchase of services with respect to these service level agreements were insignificant for the three months ended September 30, 2015 and 2014, and $1 million (2014 – $1 million) for the nine months ended September 30, 2015.

OEFC

During the three and nine months ended September 30, 2015, Hydro One made payments in lieu of corporate income taxes to the OEFC totalling $15 million (2014 – $22 million) and $47 million (2014 – $65 million), respectively.

During the three and nine months ended September 30, 2015, Hydro One purchased power in the amount of $1 million (2014 – $1 million) and $5 million (2014 – $8 million), respectively, from power contracts administered by the OEFC.

During the nine months ended September 30, 2015, Hydro One paid a $5 million (2014 – $5 million) required annual fee to the OEFC for indemnification against adverse claims in excess of $10 million paid by the OEFC with respect to certain of Ontario Hydro’s businesses transferred to Hydro One on April 1, 1999. Hydro One has not made any claims under the indemnity since it was put in place in 1999. Hydro One and the OEFC, with the consent of the Minister of Finance, have agreed to terminate the indemnity effective October 31, 2015.

Payments in lieu of property taxes are paid to the OEFC.

OEB

Under the *Ontario Energy Board Act, 1998,* the OEB is required to recover all of its annual operating costs from gas and electricity distributors and transmitters. During the three and nine months ended September 30, 2015, Hydro One incurred $4 million (2014 – $3 million) and $10 million (2014 – $9 million), respectively, in OEB fees.

Hydro One Brampton

Effective August 31, 2015, Hydro One Brampton is no longer a subsidiary of Hydro One, but is indirectly owned by the Province. For change in ownership of Hydro One Brampton, see Note 4 – Business Combinations.

Subsequent to August 31, 2015, Hydro One continues to provide certain management, administrative and smart meter network services to Hydro One Brampton pursuant to certain service level agreements, which are provided at market rates. These agreements will continue until the end of 2016 (except in the case of smart meter network services, which will continue until the end of 2017). Hydro One Brampton has the right to renew these agreements (other than smart meter network services) for additional one-year terms to end no later than December 31, 2019. Additionally, on August 31, 2015, Hydro One Inc. and Hydro One Brampton entered into a license agreement which permits Hydro One Brampton to use the "Hydro One" name and related licensed marks. These agreements will terminate if the Province disposes of its interest in Hydro One Brampton, except in the case of the smart meter network services agreement, which is anticipated to continue for a transition period after the Province disposes of its interest in Hydro One Brampton. During the three and nine months ended September 30, 2015, revenues related to the provision of services with respect to these service level agreements were less than $1 million.

Hydro One Limited

During the three and nine months ended September 30, 2015, Hydro One incurred certain IPO related expenses totalling $3 million (2014 – $nil) which will be reimbursed to the Company by Hydro One Limited. For details of the IPO transaction, see Note 19 – Subsequent Events.

Sales to and purchases from related parties occur at normal market prices or at a proxy for fair value based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest free and settled in cash.

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

(millions of Canadian dollars)	**September 30, 2015**	**December 31, 2014**
Due from related parties	204	224
Due to related parties[1]	(66)	(227)

[1] Included in due to related parties at September 30, 2015 are amounts owing to the IESO in respect of power purchases of $25 million (December 31, 2014 – $214 million).

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(millions of Canadian dollars)	**Three months ended September 30**		**Nine months ended September 30**	
	2015	**2014**	**2015**	**2014**
Accounts receivable	59	(11)	74	(124)
Due from related parties	(27)	(4)	20	(13)
Materials and supplies	–	1	(1)	–
Prepaid expenses and other assets	9	56	7	(42)
Accounts payable	(43)	12	(36)	(3)
Accrued liabilities	(15)	(9)	3	35
Due to related parties	14	2	(161)	(150)
Accrued interest	19	24	18	25
Long-term accounts payable and other liabilities	1	5	(2)	1
Post-retirement and post-employment benefit liability	12	21	48	64
	29	97	(30)	(207)

Capital Expenditures

The following table illustrates the reconciliation between investments in property, plant and equipment and the amount presented in the Consolidated Statements of Cash Flows after factoring in capitalized depreciation and the net change in related accruals:

(millions of Canadian dollars)	**Three months ended September 30**		**Nine months ended September 30**	
	2015	**2014**	**2015**	**2014**
Capital investments in property, plant and equipment	(421)	(375)	(1,186)	(1,040)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	9	(1)	17	20
Capital expenditures – property, plant and equipment	(412)	(376)	(1,169)	(1,020)

The following table illustrates the reconciliation between investments in intangible assets and the amount presented in the Consolidated Statements of Cash Flows after factoring in the net change in related accruals:

(millions of Canadian dollars)	**Three months ended September 30**		**Nine months ended September 30**	
	2015	**2014**	**2015**	**2014**
Capital investments in intangible assets	(17)	(1)	(26)	(12)
Net change in accruals included in capital investments in intangible assets	4	–	4	(4)
Capital expenditures – intangible assets	(13)	(1)	(22)	(16)

Supplementary Information

(millions of Canadian dollars)	**Three months ended September 30**		**Nine months ended September 30**	
	2015	**2014**	**2015**	**2014**
Net interest paid	84	82	291	284
PILs paid	15	22	47	65

16. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings 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.

In September 2015, Hydro One and three of its subsidiaries, Hydro One Networks, Hydro One Remote Communities and Norfolk Power Distribution Inc., were served with a claim commenced under the *Class Proceedings Act* in which the representative plaintiff is seeking $100 million, or as otherwise calculated on an aggregate basis, in general damages for breach of contract, negligence and unjust enrichment, and $25 million in aggravated, exemplary and punitive damages. The claim alleges improper billing and account management practices. The proposed class of plaintiffs comprises all persons, with certain exceptions, who purchased electricity from Hydro One between May 2013 and the date of the certification order in the action, which date is yet unknown. At this time, it is too early to assess the outcome of the claim. Hydro One will defend the action.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material effect on the Company's results of operations if the Company is not able to recover them in future rate orders.

17. COMMITMENTS

Outsourcing Agreements

Inergi LP (Inergi), an affiliate of Capgemini Canada Inc., provides services to Hydro One, including settlements, source to pay services, pay operations services, information technology, finance and accounting services. The agreement with Inergi for these services expires in December 2019. In addition, Inergi provides customer service operations outsourcing services to Hydro One. The agreement for these services expires in February 2018.

Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) (Brookfield) provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The current agreement with Brookfield expires in December 2024.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at September 30, 2015, the Company provided prudential support to the IESO on behalf of its subsidiaries using parental guarantees of $254 million (December 31, 2014 – $330 million), and on behalf of a distributor using guarantees of less than $1 million (December 31, 2014 – $1 million). In addition, as at September 30, 2015, the Company has provided letters of credit in the amount of $7 million (December 31, 2014 – $8 million) to the IESO. The IESO could draw on these guarantees and/or letters of credit if these subsidiaries or distributors fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit. At September 30, 2015, Hydro One had letters of credit of $126 million (December 31, 2014 – $126 million) outstanding relating to retirement compensation arrangements.

18. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of transmitting high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering electricity to end customers and certain other municipal electricity distributors; and
- Other Business, which includes certain corporate activities and the operations of the Company's telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the products and 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 provision for PILs from continuing operations (excluding certain allocated corporate governance costs).

The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2 – Significant Accounting Policies). Segment information on the above basis is as follows:

Three months ended September 30, 2015 (millions of Canadian dollars)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	405	1,227	13	1,645
Purchased power	–	856	–	856
Operation, maintenance and administration	101	153	20	274
Depreciation and amortization	91	97	1	189
Income (loss) before financing charges and provision for PILs	213	121	(8)	326
Capital investments	247	189	2	438

Three months ended September 30, 2014 (millions of Canadian dollars)	**Transmission**	**Distribution**	**Other**	**Consolidated**
Revenues	402	1,138	16	1,556
Purchased power	–	780	–	780
Operation, maintenance and administration	88	199	13	300
Depreciation and amortization	87	95	2	184
Income before financing charges and provision for PILs	227	64	1	292
Capital investments	204	171	1	376

Nine months ended September 30, 2015 (millions of Canadian dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,175	3,801	40	5,016
Purchased power	–	2,664	–	2,664
Operation, maintenance and administration	298	487	49	834
Depreciation and amortization	279	283	4	566
Income (loss) before financing charges and provision for PILs	598	367	(13)	952
Capital investments	692	513	7	1,212

Nine months ended September 30, 2014 (millions of Canadian dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,206	3,635	45	4,886
Purchased power	–	2,526	–	2,526
Operation, maintenance and administration	308	594	43	945
Depreciation and amortization	256	270	6	532
Income (loss) before financing charges and provision for PILs	642	245	(4)	883
Capital investments	580	469	3	1,052

Total Assets by Segment:

(millions of Canadian dollars)	September 30, 2015	December 31, 2014
Transmission	13,032	12,540
Distribution	9,568	9,805
Other	265	205
Total assets	22,865	22,550

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

19. SUBSEQUENT EVENTS

Changes in Ownership Structure of Hydro One

On August 31, 2015, the Province incorporated a new wholly owned subsidiary, Hydro One Limited, under the laws of Ontario. Prior to the completion of the IPO, Hydro One and Hydro One Limited completed a series of transactions (Pre-Closing Transactions) that resulted in, among other things, the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One from the Province and the issuance of new common shares and preferred shares of Hydro One Limited to the Province. On October 29, 2015, Hydro One Limited filed a final prospectus by way of a secondary offering (IPO) for sale to the public of 81,100,000 common shares held by the Province at a price of $20.50 per share, payable on closing for aggregate gross proceeds of $1,663 million, subject to the terms of an underwriting agreement. On November 12, 2015, the underwriters of the IPO exercised their option to purchase an additional 8,150,000 common shares of Hydro One Limited from the Province at the initial public offering price of $20.50 per share payable on closing for aggregate gross proceeds of $167 million, subject to the terms of an underwriting agreement. Hydro One or Hydro One Limited did not receive any proceeds from this IPO or the exercise of the option to purchase additional common shares. In addition, the Province will reimburse Hydro One Limited, who in turn will reimburse Hydro One, for certain costs and expenses relating to the IPO. The Pre-Closing Transactions included the following:

Redemption of Hydro One Preferred Shares

On October 31, 2015, Hydro One purchased and cancelled the preferred shares of Hydro One previously held by the Province for cancellation at a price equal to the redemption price of the preferred shares totaling $323 million, which was satisfied by the issuance to the Province of common shares of Hydro One.

On November 2, 2015, a special resolution of Hydro One Limited (as sole shareholder of Hydro One) was made to amend the articles of Hydro One to delete the share ownership restrictions and to amend the Hydro One Preferred Share terms to provide for basic redeemable preferred shares.

Hydro One Common Shares

On October 31, 2015, all of the issued and outstanding common shares of Hydro One were acquired by Hydro One Limited from the Province in return for 12,197,500,000 common shares of Hydro One Limited and 16,720,000 [Series 1] preferred shares of Hydro One Limited.

On November 3, 2015, Hydro One declared a stock dividend on common shares, which due to the number of shares issued and the resulting effect on the price per share was treated as a stock split. On November 5, 2015, Hydro One effected a reverse split. There was no impact to the capital structure of Hydro One as a net result of these two transactions.

Payment of Departure Tax

In connection with the IPO, Hydro One's exemption from tax under the *Income Tax Act* (Canada) and the *Taxation Act*, 2007 (Ontario) (Federal Tax Regime) ceased to apply on October 31, 2015. As a result, under the *Electricity Act*, 1998 (Ontario) (PILs Regime), Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status under the Federal Tax Regime, for proceeds equal to the fair market value of those assets at that time. Consequently, Hydro One is liable to make a payment in lieu of tax (Departure Tax) under the PILs Regime in respect of the income and capital gains that arose as a result of this deemed disposition.

In the context of the IPO, and with the consent of the Minister of Finance, Hydro One paid to the OEFC an amount that reasonably approximates the amount of the Departure Tax that would be payable by Hydro One in respect of the deemed disposition of its assets and that is not subject to appeal or re-assessment. To enable Hydro One to make the Departure Tax payment, Hydro One Limited subscribed for 39,598 additional common shares of Hydro One for $2.6 billion. Hydro One used the proceeds of this share subscription to pay the Departure Tax of $2.6 billion.

Short-Term Notes and Credit Facilities

On October 30, 2015, Hydro One entered into a new credit agreement in order to provide for an additional new three-year senior, unsecured revolving term credit facility (New Term Facility) in the amount of $800 million. The New Term Facility is a revolving credit facility to be used by Hydro One for working capital and general corporate purposes. The New Term Facility ranks equally with any existing and future senior debt of Hydro One. The New Term Facility has the customary covenants substantially similar to the covenants under the existing revolving standby credit facility.

On October 9, 2015, Hydro One increased the authorized amount of short-term notes that it can issue under its Commercial Paper Program from $1 billion to $1.5 billion, with the additional amount authorized for issuance thereby also being supported by the Company's revolving standby credit facilities.

Dividend Payment to the Province

On October 30, 2015, Hydro One paid a dividend to the Province in the amount of $800 million, funded by additional issuance of short-term notes under its Commercial Paper Program.

Equity Compensation Plans

The following compensation plans were established by Hydro One Limited, however they represent components of compensation costs of Hydro One in future periods.

Share Grant Plans

On October 8, 2015, Hydro One Limited adopted two 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 Energy Professionals (the Society Share Grant Plan).

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One Limited to certain eligible members of the Power Workers' Union annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. The number of common shares granted annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by the price of the common shares of Hydro One Limited in the IPO. The aggregate number of common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One Limited to certain eligible members of The Society of Energy Professionals annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. The number of common shares granted annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by the price of the common shares of Hydro One Limited in the IPO. The aggregate number of common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares.

Hydro One Telecom Spin-off

On November 6, 2015, Hydro One transferred to Hydro One Limited all the issued and outstanding shares of Hydro One Telecom, and all of the debt receivable from Hydro One Telecom and Hydro One Telecom Link Limited, as a return of stated capital of $38 million on its common shares.

Municipal Billing Services Inc. Spin-off

On November 6, 2015, Hydro One transferred to Hydro One Limited all the issued and outstanding shares of Municipal Billing Services Inc. and all of the debt receivable from Municipal Billing Services Inc., as a return of stated capital of $3 million on its common shares.

Acquisition of Woodstock Hydro

On October 31, 2015, Hydro One acquired 100% of the common shares of Woodstock Hydro. Based on the timing of the completion of this acquisition transaction in relation to the date of issuance of the interim Consolidated Financial Statements, the closing adjustments to the purchase price of $29 million and the initial allocation of the consideration paid have not yet been completed.