

Hydro One Reports Strong Second Quarter Results

Robust financial results demonstrate strict cost controls, culture of continuous improvement in customer service

TORONTO, August 14, 2018 - Hydro One Limited (Hydro One or the Company), the parent company of Ontario's largest electricity transmission and distribution utility, today announced its financial and operating results for the second quarter ended June 30, 2018.

Second Quarter Highlights

- Earnings per share (EPS) of \$0.34 and adjusted EPS of \$0.33, compared to \$0.20 in the prior year, an increase of 70% and 65%, respectively, reflecting Ontario Energy Board's (OEB) decision on transmission rates and favourable weather.
- Quarterly dividend declared at \$0.23 per share, payable September 28, 2018.
- Clarington Transformer Station, the Company's flagship transmission project, brought in-service on-time and 18% under initial budget, demonstrating ability to effectively deliver large projects.
- Four major storms within the quarter resulting, in aggregate, with over 1.4 million affected customers requiring power restoration, more than all of 2017, and set a new Company record for speed of recovery due to a more proactive approach to resourcing and new outage prediction technology.
- A culture of continuous improvement yielded high performance metrics at the contact centre, billing accuracy in excess of regulatory requirements and a further \$6 million decrease in overdue accounts receivable due to proactive support programs.
- Distribution reliability currently on target to achieve a one-hour reduction in average power outage duration compared to 2017.
- A new approach to transmission customer service has yielded a 2 point increase year-over-year to a record high 90% in satisfaction survey results.
- Continued progress in obtaining approvals for the Avista Corporation (Avista) transaction with numerous milestones reached in the regulatory approval, including approvals in Montana and Alaska, and filing of settlement agreements in Idaho and Oregon. Achieved all required federal regulatory approvals, consents, and clearances to go forward with the merger.
- Hydro One Inc. priced Canadian offering of \$1.4 billion Medium Term Notes at favourable rates.
- Power Workers' Union ratified two-year collective agreement that recognizes the importance of front-line workers while providing greater flexibility.
- Hydro One received two awards from the Edison Electric Institute (EEI) for storm restoration and mutual assistance efforts while its subsidiary, Hydro One Remote Communities Inc., was presented with the prestigious ENERGY STAR Canada Award for best Regional Utility by Natural Resources Canada.

Recent Events

- Consistent in principle with the ability of the Province of Ontario (Province) to remove the entire Board of Directors pursuant to the Governance Agreement dated as of November 5, 2015, Hydro One and the Province entered into an agreement for the purpose of the orderly replacement of the Board of Directors of Hydro One and Hydro One Inc. and the retirement of the President and Chief Executive Officer (CEO).
- Ad Hoc Nominating Committee established and committed to completing the transition to a new Board of Directors by August 15, 2018.
- Paul Dobson was appointed Acting President and CEO, while maintaining his Chief Financial Officer (CFO) role.
- The Province introduced new legislation regarding the Company's executive compensation framework and disclosure.

- Following the announcement on July 11, 2018 of the pending resignation of Hydro One's Board of Directors and the immediate retirement of its President and CEO, regulatory authorities in Washington and Oregon have extended the timetable for arriving at a decision in Hydro One's acquisition of Avista to mid-December 2018. In addition, the Idaho Public Utilities Commission vacated its hearing scheduled for July 23, 2018. To date, this hearing has not been rescheduled.
- Hydro One reached an agreement to acquire the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution).

"Hydro One's strong second quarter financial results coupled with continuously improving operational and customer service metrics highlight the underlying strength of the business as well as the Company's positive momentum since the Initial Public Offering in 2015. I would like to thank our former President and CEO as well as the outgoing Board of Directors for their tremendous contribution since the Company's IPO. I would also like to extend a warm welcome to the new board and express how much we are looking forward to working with them," said Paul Dobson, CFO and Acting President and CEO. "Despite this period of transition, the Company remains fully committed to the Avista transaction and worked diligently during the quarter to achieve a number of milestones in the regulatory approval process."

Selected Consolidated Financial and Operating Highlights

<i>(amounts throughout in millions of Canadian dollars, except as otherwise noted)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues	1,477	1,371	3,053	3,029
Purchased power	674	649	1,425	1,538
Revenues, net of purchased power ¹	803	722	1,628	1,491
Net income attributable to common shareholders	200	117	422	284
Income related to acquisition of Avista	(6)	—	(18)	—
Adjusted net income attributable to common shareholders ¹	194	117	404	284
Basic EPS	\$0.34	\$0.20	\$0.71	\$0.48
Diluted EPS	\$0.33	\$0.20	\$0.71	\$0.48
Adjusted basic EPS ¹	\$0.33	\$0.20	\$0.68	\$0.48
Adjusted diluted EPS ¹	\$0.32	\$0.20	\$0.68	\$0.48
Net cash from operating activities	292	280	668	751
Capital investments	401	406	706	756
Assets placed in-service	477	337	622	565
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,951	18,752	19,883	19,273
Distribution: Electricity distributed to Hydro One customers (GWh)	6,111	5,842	13,517	12,820

¹ **Non-GAAP Measures** - Hydro One uses financial measures that do not have a standardized meaning under generally accepted accounting principles in the United States of America (US GAAP) and may not be comparable to similar measures presented by other entities. Hydro One calculated the non-GAAP measures by adjusting certain US GAAP measures for specific items that impact comparability but which the Company does not consider part of normal, ongoing operations. Refer to the Non-GAAP Measures section of the Company's Management's Discussion and Analysis for further discussion of these items.

Key Financial Highlights

For the three months ended June 30, 2018, the Company reported net income attributable to common shareholders of \$200 million (2017 - \$117 million), a 70.9% increase from last year, and EPS of \$0.34 (2017 - \$0.20). Adjusted EPS, which exclude the impact of \$6 million income related to the Avista transaction, was \$0.33 for the quarter.

Revenues, net of purchased power, for the second quarter were higher than last year by 11.2%. This increase reflects higher transmission revenues driven by the OEB's decision on the 2017-2018 transmission rates filing, and increased transmission and distribution revenues due to higher energy consumption resulting from favourable weather.

The comparability of second quarter earnings was also positively impacted by timing of work program costs, savings related to a new IT outsourcing contract, lower volume of customer program costs, and lower corporate support costs, as well as lower financing charges primarily due to revaluation of the deal-contingent foreign exchange forward contract, partially offset by interest on the Convertible Debentures issued in August 2017.

On a year-to-date basis, the Company reported net income of \$422 million (2017 - \$284 million), a 48.6% increase from last year, and EPS of \$0.71 (2017 - \$0.48). Adjusted EPS are \$0.68 year-to-date. Year-to-date results were impacted by similar factors to those noted above.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new load customers and generation sources, and improve service to customers. The Company made capital investments of \$401 million during the second quarter, and placed \$477 million worth of new assets in-service.

Selected Operating Highlights

A new transmission station near Clarington, Ontario became operational in the quarter. The facility represents the Company's largest transmission project completed in the last six years, and was completed on-schedule and \$52 million under the \$297 million initial budget.

Four force majeure level storm events within the quarter resulted, in aggregate, in more than 1.4 million affected customers requiring power restoration, exceeding storm-related outage figures for all of 2017. A new Company record was set for speed of restoration when compared to similar, large storms in 2016 and 2013. Most notable is a five-day restoration of over 580,000 customers following a wind storm on May 4, 2018, which was four days faster than restoration for a 2013 storm affecting a similar number of customers. This was made possible due to new weather monitoring and outage prediction technology which provides the necessary information to enact a more proactive approach to align crews and resources to areas expected to be impacted by storms.

The Company continues to pursue improvements in its safety performance, including motor vehicle incidents, with year-to-date results on-track to achieve a target of 1.1 recorded incidents per 200,000 hours worked. The "Journey to Zero" vision for safety incidents continues in collaboration with union partners to further advance the safety culture.

Improving customer satisfaction remains top-of-mind and materialized in both performance and financial metrics. Providing access to support services for customers behind on their bills resulted in \$73 million in overdue accounts receivable, representing a 30% reduction compared to the same period in 2017, including a \$6 million reduction in the second quarter.

Further, when customers interact with Hydro One, they are reporting it was a positive experience. In the first full quarter since bringing the contact centre in-house, customers report first call resolution at 88% and customer satisfaction with agents at 93%. Billing accuracy is also exceeding OEB requirements at 99.63% year-to-date.

Distribution customers have also experienced reduced outage durations. The system average interruption duration is on target for achieving a one-hour reduction from last year. This is largely due to improvements in response times for restoration crews through better outage planning, reporting and analysis, and more proactive storm readiness.

Transmission customers have rated Hydro One highly in its latest satisfaction survey, giving the Company a 2 point lift year-over-year to 90%. The record-high score reflects a new approach for large and industrial customers that centralizes customer service to increase engagement, become more responsive to their needs and advocate on their behalf to remove barriers preventing growth.

Hydro One and Avista have achieved numerous key milestones in the regulatory approval process for the proposed merger, including the filings in April of a multi-party settlement agreement in Idaho and an all-parties settlement agreement in Alaska. In May, a settlement agreement with the City of Colstrip was filed in Montana, and an all-parties settlement agreement was filed in the Oregon proceeding. The companies received regulatory approval from Alaska in June and Montana in July. The remaining settlement agreements remain subject to approval by the respective commissions. The Committee on Foreign Investment in the United States completed its review of the proposed merger on May 18, 2018, and concluded that there are no unresolved national security concerns with respect to the transaction. Hydro One and Avista received the Federal Communications Commission's consent on May 4, 2018 to close the merger, and antitrust clearance on April 5, 2018 after the expiration of the waiting period under the U.S. *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended. The transaction received approval from the Federal Energy Regulatory Commission on January 16, 2018.

Following the announcement on July 11, 2018 of the pending resignation of Hydro One's Board of Directors and the immediate retirement of its President and CEO, regulatory authorities in Washington and Oregon have extended the timetable for arriving at a decision in Hydro One's acquisition of Avista to mid-December 2018. In addition, the Idaho Public Utilities Commission vacated its hearing scheduled for July 23, 2018. To date, this hearing has not been rescheduled.

Hydro One's wholly-owned subsidiary, Hydro One Inc., in June raised \$1.4 billion of Medium Term Notes consisting of C\$300 million aggregate principal amount of 2.57% Medium Term Notes, Series 39, due 2021, C\$350 million aggregate principal amount of 2.97% Medium Term Notes, Series 40, due 2025, and C\$750 million aggregate principal amount of 3.63% Medium Term Notes, Series 41, due 2049. Hydro One Inc. expects to use the net proceeds of this offering to repay short-term debt and for general corporate purposes. The Power Workers' Union voted 87% in favour of a two-year collective agreement covering approximately 4,000 employees in critical front line roles. This mutually beneficial agreement recognizes the significant contributions these employees make in maintaining the supply of power across the province while delivering value to customers and shareholders.

The Company was a recipient of two awards from the U.S.-based EEI, including an Emergency Recovery Award for its outstanding work responding to the mid-April ice storm that caused outages for nearly 500,000 customers and an Assistance Award for supporting two utility companies after devastating nor'easter storms in the northeast U.S. The Company's subsidiary, Hydro One Remote Communities Inc., was also presented with the prestigious ENERGY STAR Regional Utility award by Natural Resources Canada. The award is given to utilities that have shown leadership and innovation in developing and marketing ENERGY STAR certified products.

On July 11, 2018, the Company announced that it had entered into an agreement with the Province for the purpose of the orderly replacement of the Boards of Directors of Hydro One and Hydro One Inc. and the retirement of Mayo Schmidt as President and CEO. An Ad Hoc Committee was established on July 17, 2018 and the Company is committed to completing the transition process of the new Boards of Directors by August 15, 2018.

On July 31, 2018, Hydro One reached an agreement to acquire the business and distribution assets of Peterborough Distribution, an electricity distribution company located in east central Ontario, from the City of Peterborough. Hydro One will pay the City of Peterborough \$105 million for the transaction. The acquisition is conditional upon the satisfaction of customary closing conditions and approval by the OEB and the Competition Bureau.

Common Share Dividends

Following the conclusion of the second quarter, on August 13, 2018, the Company declared a quarterly cash dividend to common shareholders of \$0.23 per share to be paid on September 28, 2018 to shareholders of record on September 11, 2018.

Supplemental Segment Information

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues				
Transmission	430	361	851	728
Distribution	1,036	998	2,181	2,277
Other	11	12	21	24
Total revenues	1,477	1,371	3,053	3,029
Revenues, net of purchased power				
Transmission	430	361	851	728
Distribution	362	349	756	739
Other	11	12	21	24
Total revenues, net of purchased power	803	722	1,628	1,491
Income (loss) before financing charges and taxes				
Transmission	228	159	441	323
Distribution	120	102	277	255
Other	(11)	(12)	(23)	(26)
Total income before financing charges and taxes	337	249	695	552
Capital investments				
Transmission	242	252	432	461
Distribution	157	151	271	289
Other	2	3	3	6
Total capital investments	401	406	706	756
Assets placed in-service				
Transmission	316	165	354	247
Distribution	158	164	263	310
Other	3	8	5	8
Total assets placed in-service	477	337	622	565

This press release should be read in conjunction with the Company's second quarter 2018 Consolidated Financial Statements and Management's Discussion and Analysis (MD&A). These statements and MD&A together with additional information about Hydro One, including the full year 2017 Consolidated Financial Statements and Management's Discussion and Analysis, can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's second quarter 2018 results teleconference with the investment community will be held on August 14, 2018 at 8 a.m. ET, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's second quarter 2018 results call, conference ID 5691188 (international callers may dial 1-440-996-5689). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One Limited

We are Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, over C\$25 billion in assets and 2017 annual revenues of nearly C\$6 billion. Our team of over 7,400 skilled and dedicated regular and non-regular employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km of high-voltage transmission and

123,000 circuit km of primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only six utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fibre optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

For More Information

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

Forward-Looking Statements and Information

This press release may contain "forward-looking information" within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: customer service; operational and customer service metrics; business momentum; contact centre performance metrics; billing accuracy; reliability and performance; safety performance; connections; storm restoration; ongoing and planned investments, projects and initiatives; Hydro One Inc.'s Medium Term Note program; collective agreements; dividends; the deal-contingent foreign exchange forward contract; the acquisitions of Avista and Peterborough Distribution; and changes to Hydro One and Hydro One Inc.'s Boards of Directors and CEO, and the related agreement between Hydro One and the Province. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "can", "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on SEDAR at www.sedar.com. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

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HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and six months ended June 30, 2018 and 2017

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the condensed interim unaudited consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and six months ended June 30, 2018, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2017. 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 in accordance with National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A provides information for the three and six months ended June 30, 2018, based on information available to management as of August 13, 2018.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Revenues	1,477	1,371	7.7%	3,053	3,029	0.8%
Purchased power	674	649	3.9%	1,425	1,538	(7.3%)
Revenues, net of purchased power ¹	803	722	11.2%	1,628	1,491	9.2%
Operation, maintenance and administration costs	256	274	(6.6%)	526	545	(3.5%)
Depreciation and amortization	210	199	5.5%	407	394	3.3%
Financing charges	99	103	(3.9%)	187	206	(9.2%)
Income tax expense	32	23	39.1%	74	50	48.0%
Net income attributable to common shareholders of Hydro One	200	117	70.9%	422	284	48.6%
Basic earnings per common share (EPS)	\$0.34	\$0.20	70.0%	\$0.71	\$0.48	47.9%
Diluted EPS	\$0.33	\$0.20	65.0%	\$0.71	\$0.48	47.9%
Basic adjusted non-GAAP EPS (Adjusted EPS) ¹	\$0.33	\$0.20	65.0%	\$0.68	\$0.48	41.7%
Diluted Adjusted EPS ¹	\$0.32	\$0.20	60.0%	\$0.68	\$0.48	41.7%
Net cash from operating activities	292	280	4.3%	668	751	(11.1%)
Funds from operations (FFO) ¹	379	403	(6.0%)	793	792	0.1%
Capital investments	401	406	(1.2%)	706	756	(6.6%)
Assets placed in-service	477	337	41.5%	622	565	10.1%
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,951	18,752	6.4%	19,883	19,273	3.2%
Distribution: Electricity distributed to Hydro One customers (GWh)	6,111	5,842	4.6%	13,517	12,820	5.4%
					2018	2017
Debt to capitalization ratio ²					53.2%	52.9%

¹ See section "Non-GAAP Measures" for description and reconciliation of basic and diluted Adjusted EPS, FFO and Revenues, net of purchased power.

² Debt to capitalization ratio has been presented at June 30, 2018 and December 31, 2017, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to noncontrolling interest.

OVERVIEW

For the six months ended June 30, 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

	Transmission	Distribution	Other
Percentage of Company's total revenues, net of purchased power	52%	47%	1%

At June 30, 2018, Hydro One's business segments accounted for the Company's total assets as follows:

	Transmission	Distribution	Other
Percentage of Company's total assets	51%	34%	15%

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended June 30, 2018 of \$200 million is an increase of \$83 million or 70.9% from the prior year. Significant influences on net income included:

- increase in transmission and distribution revenues due to higher energy consumption resulting from favourable weather;
- higher transmission revenues driven by timing of Ontario Energy Board (OEB)'s decision on the 2017-2018 transmission rate filing and increased OEB-approved transmission rates for 2018;
- lower operation, maintenance and administration (OM&A) costs primarily resulting from timing of work program costs, savings related to new IT outsourcing contract, lower volume of customer program costs, and lower corporate support costs; and
- lower financing charges primarily due to revaluation of the deal-contingent foreign exchange forward contract and a decrease in interest expense on long-term debt, partially offset by interest incurred on the Convertible Debentures issued in August 2017.

Net income attributable to common shareholders for the six months ended June 30, 2018 of \$422 million is an increase of \$138 million or 48.6% from the prior year. Year-to-date results were impacted by similar factors to those noted above.

EPS and Adjusted EPS

EPS was \$0.34 and \$0.71 in the three and six months ended June 30, 2018, respectively, compared to EPS of \$0.20 and \$0.48 in the comparable periods last year. The increase in EPS was driven by higher net income for the three and six months ended June 30, 2018, as discussed above. Adjusted EPS, which adjusts for income related to Avista Corporation acquisition, was \$0.33 and \$0.68 in the three and six months ended June 30, 2018, compared to \$0.20 and \$0.48 in the comparable periods last year. The increase in Adjusted EPS was driven by higher net income for the three and six months ended June 30, 2018, as discussed above, but exclude the impact of items related to Avista Corporation acquisition. See section "Non-GAAP Measures" for description of Adjusted EPS.

Revenues

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Transmission	430	361	19.1%	851	728	16.9%
Distribution	1,036	998	3.8%	2,181	2,277	(4.2%)
Other	11	12	(8.3%)	21	24	(12.5%)
Total revenues	1,477	1,371	7.7%	3,053	3,029	0.8%
Transmission	430	361	19.1%	851	728	16.9%
Distribution, net of purchased power	362	349	3.7%	756	739	2.3%
Other	11	12	(8.3%)	21	24	(12.5%)
Total revenues, net of purchased power	803	722	11.2%	1,628	1,491	9.2%
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,951	18,752	6.4%	19,883	19,273	3.2%
Distribution: Electricity distributed to Hydro One customers (GWh)	6,111	5,842	4.6%	13,517	12,820	5.4%

Transmission Revenues

Transmission revenues increased by 19.1% for the quarter ended June 30, 2018 primarily due to the following:

- higher revenues driven by timing of the OEB's decision on the 2017-2018 transmission rate filing and increased OEB-approved transmission rates for 2018;
- higher average monthly Ontario 60-minute peak demand primarily driven by warmer weather in May and June 2018;
- higher deferred regulatory adjustments; and
- increased 2018 allowed return on equity (ROE) for the transmission business.

The increase of 16.9% in transmission revenues for the six months ended June 30, 2018 was the result of similar factors as noted above.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 3.7% during the quarter ended June 30, 2018 primarily due to the following:

- higher energy consumption resulting from colder weather in April 2018; and
- higher external revenues; partially offset by
- lower deferred regulatory adjustments.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

The increase of 2.3% in distribution revenues, net of purchased power, for the six months ended June 30, 2018 was the result of similar factors as noted above.

OM&A Costs

<i>(millions of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Transmission	95	99	(4.0%)	200	201	(0.5%)
Distribution	140	153	(8.5%)	285	298	(4.4%)
Other	21	22	(4.5%)	41	46	(10.9%)
	256	274	(6.6%)	526	545	(3.5%)

Transmission OM&A Costs

The decrease of 4.0% in transmission OM&A costs for the quarter ended June 30, 2018 was primarily due to:

- lower costs related to the renewed information technology (IT) outsourced contract;
- lower volume of work on environmental management;
- timing of work required to adhere to the North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (Cyber Security) standards; partially offset by
- higher project write-offs due to revision of asset replacement strategies and alternatives not pursued.

The decrease of 0.5% in transmission OM&A costs for the six months ended June 30, 2018 was primarily due to factors noted above, as well as higher rights payments.

Distribution OM&A Costs

The decrease of 8.5% in distribution OM&A costs for the quarter ended June 30, 2018 was primarily due to the following:

- lower emergency power and storm restoration costs;
- lower costs related to customer programs, primarily due to lower volume of customer calls, less demand for low income assistance program and lower volume of field collections and investigations as a result of winter moratorium;
- lower spend on vegetation management as a result of hiring delays of regular staff and temporary trade resources, in addition to redirecting resources to capital work; and
- lower costs related to the renewed IT outsourced contract; partially offset by
- project and inventory write-offs due to revision of asset replacement strategies, alternatives not pursued, and obsolete inventory and technology.

The decrease of 4.4% in distribution OM&A costs for the six months ended June 30, 2018 was primarily due to factors noted above, and was also impacted by the following:

- lower corporate support costs; and
- increased costs in the first quarter of 2018 as a result of Nova Scotia, Baltimore and Boston storm restoration efforts. These restoration efforts had no impact on the Company's net income, as related revenues were recorded in distribution revenues during the first quarter.

Other OM&A Costs

The decrease in other OM&A costs for the quarter and six months ended June 30, 2018 was primarily due to lower costs related to strategy development.

Financing Charges

The decrease of \$4 million or 3.9% in financing charges for the second quarter of 2018 was primarily due to the following:

- an unrealized gain recorded in the second quarter of 2018 due to revaluation of the deal-contingent foreign exchange forward contract related to the Avista Corporation merger; and
- a decrease in interest expense on long-term debt driven by lower long-term balance outstanding during the second quarter of 2018; partially offset by
- an increase in interest expense on short-term notes payable driven by higher weighted average interest rates and balance of short-term notes outstanding in 2018; and
- an increase in interest expense related to the Convertible Debentures issued in August 2017.

The decrease of \$19 million or 9.2% in financing charges for the six months ended June 30, 2018 was the result of similar factors as noted above.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

Income Tax Expense

Income tax expense was \$32 million and \$74 million for the three and six months ended June 30, 2018, respectively, compared to \$23 million and \$50 million in the same periods of 2017. The increases are primarily attributable to higher income before taxes in 2018. The Company realized an effective tax rate for the three and six months ended June 30, 2018 of approximately 13.4% and 14.6% respectively, compared to approximately 15.8% and 14.5% realized in the same periods last year.

Common Share Dividends

In 2018, the Company declared and paid cash dividends to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 12, 2018	March 13, 2018	March 29, 2018	\$0.22	131
May 14, 2018	June 12, 2018	June 29, 2018	\$0.23	137
				268

Following the conclusion of the second quarter of 2018, the Company declared a cash dividend to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
August 13, 2018	September 11, 2018	September 28, 2018	\$0.23	137

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS)	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016
Revenues	1,477	1,576	1,439	1,522	1,371	1,658	1,614	1,706
Purchased power	674	751	662	675	649	889	858	870
Revenues, net of purchased power	803	825	777	847	722	769	756	836
Net income to common shareholders	200	222	155	219	117	167	128	233
Basic EPS	\$0.34	\$0.37	\$0.26	\$0.37	\$0.20	\$0.28	\$0.22	\$0.39
Diluted EPS	\$0.33	\$0.37	\$0.26	\$0.37	\$0.20	\$0.28	\$0.21	\$0.39
Basic Adjusted EPS ¹	\$0.33	\$0.35	\$0.29	\$0.40	\$0.20	\$0.28	\$0.22	\$0.39
Diluted Adjusted EPS ¹	\$0.32	\$0.35	\$0.28	\$0.40	\$0.20	\$0.28	\$0.21	\$0.39

¹ See section "Non-GAAP Measures" for description of Adjusted EPS.

Variations in revenues and net income over the quarters are primarily due to the impact of seasonal weather conditions on customer demand and market pricing.

CAPITAL INVESTMENTS

The Company makes capital investments to maintain the safety, reliability and integrity of its transmission and distribution system assets and to provide for the ongoing growth and modernization required to meet the expanding and evolving needs of its customers and the electricity market. This is achieved through a combination of sustaining capital investments, which are required to support the continued operation of Hydro One's existing assets, and development capital investments, which involve both additions to existing assets and large scale projects such as new transmission lines and transmission stations.

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the three and six months ended June 30, 2018 and 2017:

(millions of dollars)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Transmission	316	165	91.5%	354	247	43.3%
Distribution	158	164	(3.7%)	263	310	(15.2%)
Other	3	8	(62.5%)	5	8	(37.5%)
Total assets placed in-service	477	337	41.5%	622	565	10.1%

Transmission Assets Placed In-Service

Transmission assets placed in-service increased by \$151 million or 91.5% during the second quarter of 2018 primarily due to the following:

- substantial completion of major development work at the Clarington transmission station; partially offset by
- the completion of the Field Workforce Optimization (Move-to-Mobile) project in June 2017;

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For the three and six months ended June 30, 2018 and 2017

- lower volume of wood pole replacements;
- cumulative investments that were placed in-service for a major local area supply project at Hawthorne transmission station; and
- timing of assets placed in-service for the station sustainment investments, including the Aylmer, Goderich, Beach; Niagara Reinforcement Project, and Bruce A transmission stations, and the DeCew Falls switching station.

Transmission assets placed in-service increased by \$107 million or 43.3% during the six months ended June 30, 2018 primarily due to the factors listed above, as well as the following:

- cumulative investments placed in-service in 2018 for the Source-to-Order Transformation project, which aims to modernize the Company's sourcing and procurement capabilities; offset by
- timing of assets placed in-service mainly in 2017 for the station sustainment investments, including the Richview and Nepean transmission stations, and the Hinchinbrooke switching station; and
- cumulative investments placed in-service in 2017 for a major local area supply project at Manby transmission station.

Distribution Assets Placed In-Service

Distribution assets placed in-service decreased by \$6 million or 3.7% during the second quarter of 2018 primarily due to the following:

- timing of assets that were placed in-service for system capability reinforcement projects;
- the completion of the Move-to-Mobile project in June 2017;
- higher volume of lines large sustainment carryover work in the second quarter of 2017; and
- lower volume of wood pole replacements; partially offset by
- higher volume of emergency power and storm restorations work;
- cumulative investments for meter sustainment work were placed in-service in the second quarter of 2018; and
- the completion of the Bill Redesign project, which included investments in application enhancements and software upgrades.

Distribution assets placed in-service decreased by \$47 million or 15.2% during the six months ended June 30, 2018 primarily due to the factors listed above, as well as the following:

- completion of an operation center in Bolton in February 2017;
- lower volume of distribution station refurbishments and spare transformer purchases; and
- cumulative investments that were placed in-service for the Source-to-Order Transformation project, which aims to modernize the Company's sourcing and procurement capabilities.

Capital Investments

The following table presents Hydro One's capital investments during the three and six months ended June 30, 2018 and 2017:

<i>(millions of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Transmission						
Sustaining	211	197	7.1%	366	359	1.9%
Development	24	39	(38.5%)	47	76	(38.2%)
Other	7	16	(56.3%)	19	26	(26.9%)
	242	252	(4.0%)	432	461	(6.3%)
Distribution						
Sustaining	101	80	26.3%	160	152	5.3%
Development	48	62	(22.6%)	94	109	(13.8%)
Other	8	9	(11.1%)	17	28	(39.3%)
	157	151	4.0%	271	289	(6.2%)
Other	2	3	(33.3%)	3	6	(50.0%)
Total capital investments	401	406	(1.2%)	706	756	(6.6%)

Transmission Capital Investments

Transmission capital investments decreased by \$10 million or 4.0% during the second quarter of 2018. Principal impacts on the levels of capital investments included:

- lower volume of transmission station refurbishments and replacements work;
- lower spend on load customer connections attributable to higher capital contribution from customers; and
- timing of project activities on major development projects at Hawthorne and Holland transmission stations; partially offset by
- higher volume of overhead lines refurbishments and replacements;

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- higher volume of spare transformer purchases; and
- higher volume of demand work associated with equipment failures.

Transmission capital investments decreased by \$29 million or 6.3% during the six months ended June 30, 2018, primarily due to the factors listed above, as well as lower volume of wood pole replacements.

Distribution Capital Investments

Distribution capital investments increased by \$6 million or 4.0% during the second quarter of 2018. Principal impacts on the levels of capital investments included:

- increased volume of emergency power and storm restorations work due to higher storm activity in April and May of 2018; partially offset by
- lower volume of wood pole replacements;
- lower volume of distribution lines and station refurbishments and replacements work;
- lower spend on new connections and upgrades; and
- lower spend on Advanced Distribution System infrastructures.

Distribution capital investments decreased by \$18 million or 6.2% during the six months ended June 30, 2018, primarily due to the factors listed above.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at June 30, 2018:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
			(year)	(millions of dollars)	
Development Projects:					
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	56 ¹	53
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	245 ¹	232
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line	2019	130	108
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2021	157	10
Northwest Bulk Transmission Line	Thunder Bay-Atikokan Northwestern Ontario	New transmission line	2024	350	1
Sustainment Projects:					
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	102	92
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2020	138	113
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	112	57
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	95	53

¹ Major portions of the Supply to Essex County Transmission Reinforcement and Clarington Transmission Station projects were completed and placed in-service. Work on certain minor portions of the project continues in the second half of 2018.

SUMMARY OF SOURCES AND USES OF CASH

Hydro One's primary sources of cash flows are funds generated from operations, capital market debt issuances and bank credit facilities that are used to satisfy Hydro One's capital resource requirements, including the Company's capital expenditures, servicing and repayment of debt, and dividend payments.

(millions of dollars)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash provided by operating activities	292	280	668	751
Cash provided by (used in) financing activities	1,309	125	1,233	(23)
Cash used in investing activities	(384)	(395)	(681)	(745)
Increase (decrease) in cash and cash equivalents	1,217	10	1,220	(17)

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Cash provided by operating activities

Cash from operating activities increased by \$12 million during the second quarter of 2018 and decreased by \$83 million during the six months ended June 30, 2018, compared to the same periods in 2017. Changes in cash from operating activities were primarily impacted by changes in regulatory variance and deferral accounts, changes in accounts receivable balances related to energy sales, and changes in accrual balances related to purchased power.

Cash provided by financing activities

Sources of cash

- During the second quarter and six months ended June 30, 2018, the Company issued \$1.4 billion of long-term debt, compared to no long-term debt issued in the same periods last year.
- The Company received proceeds of \$1,370 million and \$2,542 million from the issuance of short-term notes in the three and six months ended June 30, 2018, respectively, compared to \$1,006 million and \$1,578 million received in the same periods last year.

Uses of cash

- Dividends paid in the three and six months ended June 30, 2018 were \$141 million and \$277 million, respectively, compared to dividends of \$135 million and \$265 million paid in the same periods last year.
- The Company repaid \$1,311 million and \$2,420 million of short-term notes in the three and six months ended June 30, 2018, respectively, compared to \$742 million and \$1,332 million repaid in the same periods last year.

Cash used in investing activities

Uses of cash

- Capital expenditures were \$9 million and \$58 million lower in the second quarter of 2018 and year-to-date 2018, respectively, primarily due to lower volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through funds from operations, Hydro One Inc.'s commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One Inc. is authorized to issue up to \$1.5 billion in short-term notes with a term to maturity of up to 365 days. At June 30, 2018, Hydro One Inc. had \$1,048 million in commercial paper borrowings outstanding, compared to \$926 million outstanding at December 31, 2017. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) totalling \$2,550 million maturing in 2021 and 2022. The Company may use these credit facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the Operating Credit Facilities and anticipated levels of funds from operations are expected to be sufficient to fund the Company's normal operating requirements.

At June 30, 2018, the Company had long-term debt outstanding in the principal amount of \$11,468 million which included \$11,323 million of long-term debt issued by Hydro One Inc. and long-term debt in the principal amount of \$145 million held by Hydro One Sault Ste. Marie LP (HOSSM). The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion. At June 30, 2018, \$2.6 billion remained available for issuance until April 2020. The long-term debt consists of notes and debentures that mature between 2018 and 2064, and at June 30, 2018, had an average term to maturity of approximately 15.7 years and a weighted average coupon rate of 4.1%.

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada to replace the universal base shelf prospectus that expired on April 30, 2018. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. Hydro One filed the Universal Base Shelf Prospectus to provide the Company with financing flexibility going forward.

Acquisition Credit Facilities

For the purpose of bridge financing for the pending acquisition of Avista Corporation, the Company secured a \$1.0 billion non-revolving equity bridge credit facility, and a US\$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities) in June 2018. The equity bridge credit facility matures 90 days after the drawdown date and in any event not later than June 30, 2019. The debt bridge credit facility is available until March 31, 2019, and matures one year after the drawdown date.

Hydro One is required to make prepayments of the Acquisition Credit Facilities in an amount equal to the net cash proceeds from any common equity, preferred equity, bond or other debt offerings, including the net proceeds from the final instalment of Convertible Debentures issued in August 2017, and any non-ordinary course asset sales by Hydro One and its subsidiaries, subject to certain exceptions. Any prepayment under the Acquisition Credit Facilities may not be re-borrowed. The Acquisition Credit Facilities agreements contain customary representations and warranties and affirmative and negative covenants of Hydro One that are

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consistent with those of Hydro One's Operating Credit Facilities. If the Merger does not close, then these agreements will be cancelled.

To mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed by the issuance of Convertible Debentures, in October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars. For the six months ended June 30, 2018, an unrealized fair value gain of \$49 million was recorded related to this contract, compared to an unrealized fair value loss of \$3 million recorded for the year ended December 31, 2017. At June 30, 2018, the corresponding derivative asset was \$46 million, compared to a derivative liability of \$3 million at December 31, 2017.

Compliance

At June 30, 2018, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

Credit Ratings

Following the announcement of the Avista Corporation transaction on July 19, 2017, various ratings organizations undertook a review of the Company's and Hydro One Inc.'s debt ratings. These ratings organizations may take various actions, positive or negative. The Company cannot predict what actions rating agencies may take in the future. The failure to maintain the Company's current credit ratings could adversely affect the Company's financial condition and results of operations, and a downgrade in the Company's credit ratings could restrict the Company's ability to access debt capital markets and increase the Company's cost of debt.

On June 20, 2018, Moody's Investors Service (Moody's) downgraded the long-term debt rating for Hydro One Inc. to "Baa1" from "A3", and revised its outlook on Hydro One Inc. to stable from negative. In addition, Moody's affirmed the existing "Prime-2" short-term debt rating for Hydro One Inc. Moody's no longer assigns any probability of extraordinary support from the Province of Ontario (Province) in Hydro One Inc.'s credit analysis which has led to the downgrade.

On June 15, 2018, S&P Global Ratings (S&P) placed its ratings on the Company and Hydro One Inc. on CreditWatch negative reflecting the likelihood of a one-notch downgrade to both companies due to the Avista Corporation transaction. On July 18, 2018, S&P released an update maintaining the CreditWatch negative placement, which continues to reflect the likelihood of a one-notch downgrade in the Company and Hydro One Inc.'s current rating of "A" due to the Avista Corporation transaction, and also incorporates the possibility that the Company's governance structure could result in an additional one-notch downgrade if S&P concludes that recent developments related to the retirement of the Company's Chief Executive Officer (CEO) and the replacement of the Company's Board of Directors (Board) adversely impact management decision making and fails to promote the interests of all stakeholders. See section "Other Developments - Changes to Hydro One's Board of Directors and CEO" for more information. Overall, these distinct developments could collectively result in a two-notch downgrade from S&P's current credit ratings of "A" to "BBB+" for both Hydro One and Hydro One Inc.

OTHER OBLIGATIONS

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.

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Summary of Contractual Obligations and Other Commercial Commitments

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

June 30, 2018 (millions of 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	11,468	981	1,956	736	7,795
Long-term debt – interest payments	8,417	460	863	786	6,308
Convertible debentures - principal repayments ¹	513	—	—	—	513
Convertible debentures - interest payments	570	62	123	123	262
Short-term notes payable	1,048	1,048	—	—	—
Pension contributions ²	192	81	111	—	—
Environmental and asset retirement obligations	205	31	62	63	49
Outsourcing agreements	311	134	167	4	6
Operating lease commitments	35	11	17	4	3
Long-term software/meter agreement	49	18	26	3	2
Total contractual obligations	22,808	2,826	3,325	1,719	14,938
Other commercial commitments (by year of expiry)					
Operating Credit Facilities ³	2,550	—	—	2,550	—
Letters of credit ⁴	165	165	—	—	—
Guarantees ⁵	325	325	—	—	—
Total other commercial commitments	3,040	490	—	2,550	—

¹ The Company expects that the Convertible Debentures will be converted to common shares upon closing of the Avista Corporation acquisition.

² Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2018, 2019 and 2020 minimum pension contributions are based on an actuarial valuation as at December 31, 2017 and projected levels of pensionable earnings.

³ For repayment and expiry details of the Acquisition Credit Facilities, please see section Liquidity and Financing Strategy.

⁴ Letters of credit consist of a \$154 million letter of credit related to retirement compensation arrangements, a \$4 million letter of credit provided to the Independent Electricity System Operator (IESO) for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

⁵ Guarantees consist of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries.

REGULATION

The OEB approves both the revenue requirements of and the rates charged by Hydro One's regulated transmission and distribution businesses. The rates are designed to permit the Company's transmission and distribution businesses to recover the allowed costs and to earn a formula-based annual rate of return on its deemed 40% equity level invested in the regulated businesses. This is done by applying a specified equity risk premium to forecasted interest rates on long-term bonds. In addition, the OEB approves rate riders to allow for the recovery or disposition of specific regulatory deferral and variance accounts over specified time frames.

The following table summarizes the status of Hydro One's major regulatory proceedings:

Application	Years	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision received ¹
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision pending
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
HOSSM	2017-2026	Transmission – Revenue Cap	OEB decision received ²
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power	n/a	Acquisition	OEB decision received - approval denied ³
Leave to Construct			
East-West Tie Station Expansion	n/a	Section 92	OEB decision pending
Lake Superior Link Project	n/a	Section 92	OEB decision pending

¹ In October 2017, the Company filed a Motion to Review and Vary the OEB's decision and filed an appeal with the Divisional Court of Ontario.

² OEB approved the 2017-2026 revenue requirements in October 2016. In July 2018, HOSSM filed an application for an inflationary increase (Price Cap Escalator factor) to its 2019 revenue requirement.

³ In May 2018, Hydro One and Orillia Power both filed a Motion to Review and Vary the OEB's decision.

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The following table summarizes the key elements and status of Hydro One's electricity rate applications:

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base Allowed (A) or Forecast (F)	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2018	9.00% (A)	\$11,148 million (A)	Approved in September 2017	Approved in December 2017
B2M LP	2018	9.00% (A)	\$502 million (A)	Approved in December 2015	Filed in December 2017
	2019	9.00% (F)	\$496 million (A)	Approved in December 2015	To be filed in 2018 Q4
HOSSM	2017-2026	9.19% (A)	\$218 million (A)	Approved in October 2016	OEB decision received ²
Distribution					
Hydro One Networks	2018	9.00% (A)	\$7,650 million (F)	Filed in March 2017 ¹	To be filed in 2018 Q4
	2019	9.00% (F)	\$8,009 million (F)	Filed in March 2017 ¹	To be filed in 2018 Q4
	2020	9.00% (F)	\$8,412 million (F)	Filed in March 2017 ¹	To be filed in 2019 Q4
	2021	9.00% (F)	\$8,941 million (F)	Filed in March 2017 ¹	To be filed in 2020 Q4
	2022	9.00% (F)	\$9,306 million (F)	Filed in March 2017 ¹	To be filed in 2021 Q4

¹ On June 15, 2018, Hydro One Networks filed an undertaking with the OEB which included updated rate base amounts.

² OEB approved the 2017-2026 revenue requirements in October 2016. In July 2018, HOSSM filed an application for an inflationary increase (Price Cap Escalator factor) to its 2019 revenue requirement.

Electricity Rates Applications

Hydro One Networks - Transmission

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision), with 2017 rates effective January 1, 2017. Key changes to the application as filed included reductions in planned capital expenditures of \$126 million and \$122 million for 2017 and 2018, respectively, in OM&A expenses related to compensation by \$15 million for each year, and in estimated tax savings from the IPO by \$24 million and \$26 million for 2017 and 2018, respectively. On October 10, 2017, Hydro One Networks filed a Draft Rate Order reflecting the changes outlined in the Decision.

In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately \$370 million related to Hydro One Networks' distribution deferred income tax regulatory asset.

In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million, resulting in an annual decrease to FFO in the range of \$50 million to \$60 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders. An OEB hearing of the merits of the Motion was held on February 12, 2018.

In October 2017, the intervenor Anwaatin Inc. also filed a Motion to Review and Vary the OEB Decision (Anwaatin Motion) alleging that the OEB breached its duty of procedural fairness, failed to respond to certain evidence, and failed to provide reasons on the capital budget as it related to reliability issues impacting Anwaatin Inc.'s constituents. The Anwaatin Motion was heard by the OEB on February 13, 2018. Hydro One reached a settlement agreement with Anwaatin Inc. regarding the Anwaatin Motion. On June 15, 2018, the settlement agreement was filed with the OEB for approval.

On November 23, 2017, the OEB approved the 2017 rates revenue requirement of \$1,438 million. On December 20, 2017, the OEB approved the 2018 rates revenue requirement of \$1,511 million, which included a \$25 million increase from the approved amount, as a result of the OEB-updated cost of capital parameters. Uniform Transmission Rates (UTRs), reflecting these approved amounts, were approved by the OEB on February 1, 2018 to be effective as of January 1, 2018.

In March 2017, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) 2017-07, which limits capitalization of post-employment benefit related costs to the service cost component. Hydro One filed an application requesting

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the OEB to approve a regulatory asset, to record the amounts no longer permitted for capitalization under the new standard, effective January 1, 2018. In May 2018, the OEB approved the regulatory asset.

On March 16, 2018, the OEB issued a letter requesting Hydro One to file the transmission revenue requirement application for a four-year test period from 2019 to 2022, rather than the minimum 5-year period allowed under existing OEB policy. The OEB indicated that it is more appropriate to consider rates for Hydro One's distribution and transmission businesses in a single application, and stated that it expected Hydro One to file a single application for distribution rates (including Hydro One Remote Communities Inc.) and transmission revenue requirement for the period from 2023 to 2027.

The timing of filing the application for 2019-2022 transmission rates with the OEB is currently under review.

Hydro One Networks - Distribution

The OEB oral hearing related to Hydro One Networks' application for 2018-2022 distribution rates was held on June 11-28, 2018. On July 20, 2018, Hydro One submitted its Argument-in-Chief. Intervenors had until August 10, 2018 to respond. Hydro One will make its final submission by August 31, 2018.

On June 27, 2018, the OEB issued a letter deferring Hydro One's request for the OEB to approve an alternative method to calculate the reference amount related to the post-employment benefit costs for Hydro One Networks' distribution business until the application for 2019-2022 transmission rates is filed, as the OEB noted that the issue is relevant to both the distribution and transmission businesses of Hydro One Networks.

B2M LP

On May 10, 2018, the OEB issued its Decision and Rate Order on B2M LP's 2018 transmission application reflecting revenue requirement of \$36 million, effective January 1, 2018.

Hydro One Remote Communities Inc.

On March 19, 2018, the OEB approved the settlement agreement related to the 2018 rates application reached by Hydro One Remote Communities Inc. and the intervenors in the rate proceeding. On March 26, 2018, a draft rate order was filed with the OEB for 2018 rates. The OEB approved the draft rate order on April 12, 2018, and the new rates were implemented effective May 1, 2018.

HOSSM

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB MAAD decision dated October 13, 2016. On July 26, 2018, HOSSM filed a 2019 application to allow for inflationary increase (Price Cap Escalator factor) to its previously approved revenue requirement. The Price Cap Escalator factor is designed to add inflationary increases to the revenue requirement on an annual basis.

MAAD Application

Orillia Power MAAD Application

On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power Distribution Corporation (Orillia Power) from the City of Orillia, Ontario. On May 2, 2018, Hydro One and Orillia Power both filed a Motion to Review and Vary the OEB's decision. On July 10, 2018, an oral hearing was held on the threshold question of whether the matter should be reviewed before conducting a review on the merit of the Motions to Review and Vary the OEB's decision filed by Hydro One and Orillia Power.

Other Applications

Lake Superior Link Project

On February 15, 2018, Hydro One filed a Leave to Construct application with the OEB to construct the east-west tie line (EWT Line) in northwestern Ontario (Lake Superior Link Project), which will compete with an application filed by NextBridge Infrastructure to construct the EWT Line. Pursuant to the OEB's direction, on July 26, 2018, the IESO issued its analysis of the impacts of a delay to the in-service date for the construction of the EWT Line. In its analysis, the IESO recommends an in-service date of 2020 for the completion of the EWT Line and does not support a delay beyond 2022, due to increased risks to system reliability and the associated cost uncertainties.

OTHER DEVELOPMENTS

Collective Agreements

On March 1, 2018, Hydro One insourced its customer service operations, which had been previously outsourced to Inergi LP and Vertex Customer Management (Canada) Limited since 2002. The insourcing was facilitated through labour agreements reached with the Power Workers' Union (PWU) and The Society of Energy Professionals (now known as the Society of United Professionals) in 2017.

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The current collective agreement with the PWU expired on March 31, 2018. On March 26, 2018, Hydro One and the PWU reached a tentative agreement, and on June 27, 2018, the agreement has been ratified by the PWU. The term of the agreement is for two years ending on March 31, 2020.

US GAAP - Exemptive Relief

On March 27, 2018, Hydro One was granted exemptive relief by securities regulators in each province and territory of Canada which allows Hydro One to continue to report its financial results in accordance with US GAAP (Exemptive Relief). The Exemptive Relief will remain in effect until the earlier of: (i) January 1, 2024; (ii) the first day of Hydro One's financial year that commences after Hydro One ceases to have activities subject to rate regulation; and (iii) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards specific to entities with activities subject to rate regulation.

Avista Corporation Merger

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger). The following table summarizes the status of the Merger approval process:

Approval Required	Status
Alaska ¹	Approval received on June 4, 2018 ¹⁰
Washington ¹	Settlement agreement filed on March 27, 2018 ⁴
Idaho ¹	Settlement agreement filed on April 13, 2018 ⁶
Oregon ¹	Settlement agreement filed on May 25, 2018 ⁹
Montana ¹	Approval received on July 10, 2018 ¹¹
Federal Communications Commission	Consent received on May 4, 2018 ⁷
Committee on Foreign Investment in the United States	Clearance received on May 18, 2018 ⁸
Hart-Scott-Rodino Antitrust	Clearance received on April 5, 2018 ⁵
Federal Energy Regulatory Commission	Approval received on January 16, 2018 ³
Avista shareholders	Approval received on November 21, 2017 ²

¹ On September 14, 2017, Hydro One and Avista Corporation filed applications with the state utility commissions in Alaska, Washington, Idaho, Oregon, and Montana, requesting regulatory approval of the Merger on or before August 14, 2018.

² On November 21, 2017, the Merger was approved by the shareholders of Avista Corporation.

³ On January 16, 2018, the Federal Energy Regulatory Commission approved the Merger application.

⁴ On March 27, 2018, an all-parties, all-issues settlement agreement was filed with the Washington Utilities and Transportation Commission. On July 12, 2018, the Washington Utilities and Transportation Commission gave notice of its intent to conduct additional process, and on July 20, 2018, it gave notice that it is extending the deadline for a decision to December 14, 2018. The extension is in response to the recently announced leadership changes at Hydro One. In addition, on August 3, 2018, the Washington Utilities and Transportation Commission gave notice that it will conduct the additional process pursuant to a new procedural schedule identified in the said notice.

⁵ On April 5, 2018, the 30-day waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, for the Merger expired. This expiration of the waiting period means that the parties have received antitrust clearance for the Merger and satisfies one of the closing conditions of the transaction.

⁶ On April 13, 2018, a multi-party, all-issues settlement agreement was filed with the Idaho Public Utilities Commission. On July 20, 2018, the Idaho Public Utilities Commission ordered that a hearing initially scheduled for July 23, 2018 was vacated in response to the recently announced leadership changes at Hydro One. The new hearing date has not yet been set. The Idaho Public Utilities Commission's July 20, 2018 Order further requires the parties to develop a new procedural schedule after a new CEO and Board are in place.

⁷ On May 4, 2018, consent for the transfer of control of the wireless licences held by Avista Corporation and one of its subsidiaries to Hydro One as a result of the Merger was received from the Federal Communications Commission.

⁸ On May 18, 2018, the Committee on Foreign Investment in the United States has completed its review of the proposed merger, and has concluded that there are no unresolved national security concerns with respect to the Merger.

⁹ On May 25, 2018, an all-parties, all-issues settlement agreement was filed with the Oregon Public Utility Commission. On July 25, 2018, a new procedural schedule was adopted for the proceedings, setting a target date of December 14, 2018 for a decision by the Oregon Public Utility Commission.

¹⁰ On June 4, 2018, the Merger was approved by the Regulatory Commission of Alaska, subject to certain conditions.

¹¹ On July 10, 2018, the Merger was approved by the Montana Public Service Commission, subject to certain conditions.

Continued progress in obtaining approvals for the Avista transaction resulted in numerous milestones reached in the regulatory approval, including approvals in Montana and Alaska, and filing of settlement agreements in Idaho and Oregon. Consent was received from the US Federal Communications Commission, and the Committee on Foreign Investment in the US completed its review of the proposed Merger. Applications for regulatory approval of the Merger are pending with utility commissions in Washington, Idaho, and Oregon. The settlement agreements remain subject to approval by the respective commissions. Also required is the satisfaction of customary closing conditions.

Following the announcement on July 11, 2018 of the pending resignation of Hydro One's Board and the immediate retirement of its President and CEO (see section "Changes to Hydro One's Board of Directors and CEO" for additional information), regulatory authorities in Washington and Oregon have extended the timetable for arriving at a decision in Hydro One's acquisition of Avista to mid-December 2018. In addition, the Idaho Public Utilities Commission vacated its hearing scheduled for July 23, 2018. To date, this hearing has not been rescheduled.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

In the event that the Merger is not successful, this may have a negative effect on the price of the Convertible Debentures instalment receipts, the Convertible Debentures and the Hydro One common shares, and will result in the redemption of the Convertible Debentures. If the closing of the Merger does not take place as contemplated, the Company could suffer adverse consequences, including the loss of investor confidence, and may incur significant costs or losses, including an obligation to pay or cause to be paid to Avista Corporation a termination fee of US\$103 million. In addition, the Convertible Debentures would be redeemed, which would result in the related deferred financing costs being expensed immediately (\$25 million at June 30, 2018), and the deal-contingent foreign exchange forward contract would be revalued to \$nil, which would result in a reversal of any previously recorded unrealized gains (\$46 million at June 30, 2018).

Litigation

Class Action Lawsuit

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal is scheduled to be heard on October 16, 2018, and it is possible that no decision will be rendered by the appeal court until the first quarter of 2019. At this time, an estimate of a possible loss related to this claim cannot be made.

Litigation Relating to the Merger

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al., Samuel v. Avista Corp., et al., and Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß, Samuel, and Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

Appointment of Chief Financial Officer

On January 28, 2018, Mr. Paul Dobson was appointed to the position of Chief Financial Officer (CFO) of Hydro One, effective March 1, 2018. Mr. Dobson was most recently the CFO at Direct Energy Ltd. in Houston, Texas. On July 11, 2018, Mr. Dobson was also appointed as Acting President and CEO. Please see section "Changes to Hydro One's Board of Directors and CEO" for additional information.

Changes to Hydro One's Board of Directors and CEO

On July 11, 2018, Hydro One announced that it entered into an agreement with the Province (Agreement) for the purpose of the orderly replacement of the Company's Board and the retirement of Mr. Mayo Schmidt as the CEO effective July 11, 2018. Other key highlights of the Agreement include:

- Consistent in principle with the ability of the Province to remove the entire Board pursuant to a governance agreement dated as of November 5, 2015 (Governance Agreement), each of the current directors of Hydro One will resign and be replaced by nominees identified as set out below;
- The new Board will initially consist of 10 members. Consistent with the Governance Agreement, the Province will nominate four replacement directors and the remaining six nominees will be identified through an Ad Hoc Nominating Committee comprised of representatives of Hydro One's largest shareholders other than the Province;
- The new Board will be responsible for appointing a new chief executive officer who will also be appointed as the eleventh member of the new Board;
- Hydro One has agreed to consult with the Province in respect of future matters of executive compensation;
- The replacement directors will serve until Hydro One's next annual meeting or until they otherwise cease to hold office; and
- Mr. Dobson, Hydro One's CFO, has been appointed as acting CEO until such time as the new Board, once constituted, can appoint a new CEO.

As previously disclosed on July 11, 2018, in connection with Mr. Schmidt's retirement, he will receive amounts consistent with Hydro One's retirement policies and his employment agreement and will not be entitled to severance. Mr. Schmidt will receive a \$0.4 million lump sum payment in lieu of all post-retirement benefits and allowances. The provisions of the Agreement relating to the retirement of Mr. Schmidt will result in an additional charge in the third quarter of approximately \$5.6 million of compensation costs,

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

which includes the \$0.4 million lump sum payment and primarily relates to previously awarded stock-based compensation under the LTIP for which costs had not yet been recognized. Additionally, Mr. Schmidt's stock options were cancelled for no consideration.

On July 16, 2018, the Legislative Assembly of Ontario introduced Bill 2 (Bill 2) titled the *Urgent Priorities Act, 2018*. As an omnibus bill, among other matters, Bill 2, as proposed, would amend the *Ontario Energy Board Act, 1998* (OEB Act) and enact the *Hydro One Accountability Act* (Act), and would require the board of directors of Hydro One and its subsidiaries (excluding subsidiaries incorporated outside Canada) in consultation with the Province and the other five largest shareholders of Hydro One, which compensation framework is subject to approval by the Management Board of Cabinet. The Act provides the Management Board of Cabinet with the authority to issue directives governing the compensation of directors and certain executives of Hydro One and its subsidiaries (excluding subsidiaries incorporated outside Canada). The introduction of Bill 2 may adversely impact the Company's ability to continue to attract and retain executives. The Act also requires Hydro One to annually provide public disclosure concerning compensation paid to certain executives, and provides that the OEB Act will be amended so that the rates charged by Hydro One and its subsidiaries shall not reflect amounts paid for executive compensation. The impact of this amendment is expected to restrict Hydro One's ability to recover certain amounts paid for executive compensation through separate rate mechanisms, which is estimated to result in a reduction in Hydro One's net income for the year ending December 31, 2018 of approximately \$9 million. Bill 2 expressly provides that certain causes of action and proceedings are not available or will be barred against the Province, Hydro One or any of its subsidiaries, or any of its current or former officers, directors, employees or agents in respect of the Act, the Province's involvement in compensation matters or other aspects of the corporate governance of Hydro One or any of its subsidiaries or any alleged misrepresentation in any prospectus, document or other public statement related to the involvement of the Province in compensation matters at Hydro One or any of its subsidiaries. The Bill received Royal Assent on July 25, 2018.

On July 17, 2018, Hydro One announced that an Ad Hoc Nominating Committee has been established to satisfy an obligation outlined in the Agreement for the orderly replacement of the Company's Board. The Ad Hoc Nominating Committee is comprised of four of the five largest Hydro One shareholders, excluding the Province, who will identify, nominate and recommend for appointment six replacement directors no later than August 15, 2018.

On July 19, 2018, the Province nominated Mr. Thomas D. Woods as the first of its four nominees for the new Board at Hydro One. Mr. Woods has extensive experience in governance, banking and finance. He is a Board Member of Bank of America Corporation, Alberta Investment Management Corporation (AIMCo), Providence St. Joseph's St. Michael's Health Care (Board Chair) and CIBC Children's Foundation. Mr. Woods had a 37-year career with CIBC and Wood Gundy, including as CFO, Chief Risk Officer and Vice Chairman.

Peterborough Distribution Purchase Agreement

On July 31, 2018, Hydro One reached an agreement to acquire the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution), an electricity distribution company located in east central Ontario, from the City of Peterborough. Hydro One will pay the City of Peterborough \$105 million for the transaction. The acquisition is conditional upon the satisfaction of customary closing conditions and approval by the OEB and the Competition Bureau.

NON-GAAP MEASURES

FFO

FFO is defined as net cash from operating activities, adjusted for (i) changes in non-cash balances related to operations, (ii) dividends paid on preferred shares, and (iii) distributions to noncontrolling interest. Management believes that FFO is helpful as a supplemental measure of the Company's operating cash flows as it excludes timing-related fluctuations in non-cash operating working capital and cash flows not attributable to common shareholders. As such, FFO provides a consistent measure of the cash generating performance of the Company's assets.

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net cash from operating activities	292	280	668	751
Changes in non-cash balances related to operations	93	130	139	53
Preferred share dividends	(4)	(4)	(9)	(9)
Distributions to noncontrolling interest	(2)	(3)	(5)	(3)
FFO	379	403	793	792

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

Adjusted Net Income and Adjusted EPS

The following basic and diluted Adjusted EPS has been calculated by management on a supplementary basis which excludes income related to the Avista Corporation acquisition from net income. Adjusted EPS is used internally by management to assess the Company's performance and is considered useful because it excludes the impact of acquisition-related costs and gains on the foreign exchange contract, and provides users with a comparative basis to evaluate the current ongoing operations of the Company compared to prior year.

<i>(millions of dollars, except number of shares and EPS)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net income attributable to common shareholders	200	117	422	284
Impacts related to Avista Corporation acquisition (net of tax):				
Unrealized gain on foreign exchange contract	(19)	—	(42)	—
Costs related to acquisition of Avista Corporation	13	—	24	—
	(6)	—	(18)	—
Adjusted net income attributable to common shareholders	194	117	404	284
Weighted average number of shares				
Basic	595,867,452	595,372,048	595,628,410	595,187,052
Effect of dilutive stock-based compensation plans	2,130,394	2,224,550	2,282,375	2,239,626
Diluted	597,997,846	597,596,598	597,910,785	597,426,678
Adjusted EPS				
Basic	\$0.33	\$0.20	\$0.68	\$0.48
Diluted	\$0.32	\$0.20	\$0.68	\$0.48

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less purchased power. Management believes that revenue, net of purchased power is helpful as a measure of net revenues for the Distribution segment, as purchased power is fully recovered through revenues.

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues	1,477	1,371	3,053	3,029
Less: Purchased power	674	649	1,425	1,538
Revenues, net of purchased power	803	722	1,628	1,491

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Distribution revenues	1,036	998	2,181	2,277
Less: Purchased power	674	649	1,425	1,538
Distribution revenues, net of purchased power	362	349	756	739

FFO, basic and diluted Adjusted EPS, Adjusted Net Income, and Revenues, Net of Purchased Power are not recognized measures under US GAAP and do not have a standardized meaning prescribed by US GAAP. They are therefore unlikely to be directly 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.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at June 30, 2018. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2018 and 2017:

(millions of dollars)

Related Party	Transaction	Three months ended June 30		Six months ended June 30	
		2018	2017	2018	2017
Province	Dividends paid	69	70	136	162
IESO	Power purchased	245	242	758	893
	Revenues for transmission services	414	365	819	734
	Amounts related to electricity rebates	103	63	240	140
	Distribution revenues related to rural rate protection	61	63	118	124
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	16	16
	Funding received related to Conservation and Demand Management programs	10	10	22	26
OPG	Power purchased	2	1	6	5
	Revenues related to provision of construction and equipment maintenance services	2	3	4	4
	Costs related to the purchase of services	—	1	—	1
OEFC	Power purchased from power contracts administered by the OEFC	—	—	1	1
OEB	OEB fees	2	2	4	4

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Internal control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and due to its inherent limitations, may not prevent or detect all misrepresentations.

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standards Codification (ASC) guidance issued by the FASB that are applicable to Hydro One:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 606	May 2014 – November 2017	ASC 606 <i>Revenue from Contracts with Customers</i> replaced ASC 605 <i>Revenue Recognition</i> . ASC 606 provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.	January 1, 2018	Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption.
ASU 2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Hydro One applied for a regulatory asset to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02 2018-01 2018-10 2018-11	February 2016 – July 2018	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC 842 land easements that exist or expired before the entity's adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. ASU 2018-10 amends narrow aspects of ASC 842. ASU 2018-11 provides entities with an additional and option transition method in adopting ASC 842. ASU 2018-11 also permits lessors to elect an optional practical expedient to not separate nonlease components from the associated lease component by underlying asset classes.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.
2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	Under assessment

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, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company's liquidity and capital resources and operational requirements; expectations regarding the Company's credit ratings; the standby credit facilities; the Acquisition Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects, including expected results, costs and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB and applications before the OEB; the Motion and the Appeal; the Lake Superior Link Project and related regulatory application; collective agreements; the pension plan, future pension contributions, valuations and expected impacts; impacts of OEB treatment of post-employment benefit costs; dividends; credit ratings; non-GAAP measures; internal control over financial reporting; recent accounting-related guidance; the Universal Base Shelf Prospectus; the Convertible Debentures; the Exemptive Relief; the status of the Company's acquisitions and mergers, including Orillia Power, Peterborough Distribution and Avista Corporation; the Company's financing strategy and foreign currency hedging relating to the acquisition of Avista Corporation; class action litigation, including litigation relating to the Merger; the Agreement with the Province; changes to Hydro One's Board and CEO, and Bill 2 and its anticipated impacts. 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 it 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 or for Hydro One specifically; 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; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; 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. 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 Related to the Avista Merger:

- risks relating to the Merger, including (i) the risk that Hydro One may fail to complete the Merger, (ii) uncertainty regarding the length of time required to complete the Merger, (iii) the risk that the purchase price for Avista Corporation could increase, (iv)

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and six months ended June 30, 2018 and 2017

the risk that the anticipated benefits of the Merger may not materialize or may not occur within the time periods contemplated by Hydro One;

- risks related to the financing of the Merger; and
- risks associated with the Province's share ownership of Hydro One and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties.

Risks Related to the Business:

- risks associated with the Province's share ownership of Hydro One and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties;
- risk associated with the Province exercising further legislative and regulatory powers in the implementation of Bill 2;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders, actual performance against forecasts and capital expenditures, or denials of applications;
- 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 maintaining a complex IT system infrastructure;
- the risks related to the Company's work force 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;
- risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- the risk of a credit rating downgrade and its impact on the Company's funding and liquidity;
- 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;
- 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 functions currently outsourced if agreements 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;
- the impact of the ownership by the Province of lands underlying the Company's transmission system; and
- the risk related to the impact of the new accounting pronouncements.

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 2017 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 investments, 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, is available on SEDAR at www.sedar.com and the Company's website at www.HydroOne.com/Investors.

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three and six months ended June 30, 2018 and 2017

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
<i>(millions of Canadian dollars, except per share amounts)</i>				
Revenues				
Distribution (includes \$70 related party revenues; (2017 – \$73) and \$137 (2017 - \$143) for the three and six months ended June 30, respectively) (Note 23)	1,036	998	2,181	2,277
Transmission (includes \$415 related party revenues (2017 – \$366) and \$820 (2017 - \$735) for the three and six months ended June 30, respectively) (Note 23)	430	361	851	728
Other	11	12	21	24
	1,477	1,371	3,053	3,029
Costs				
Purchased power (includes \$247 related party costs (2017 – \$243) and \$765 (2017 - \$899) for the three and six months ended June 30, respectively) (Note 23)	674	649	1,425	1,538
Operation, maintenance and administration (Note 23)	256	274	526	545
Depreciation and amortization (Note 5)	210	199	407	394
	1,140	1,122	2,358	2,477
Income before financing charges and income taxes	337	249	695	552
Financing charges (Note 6)	99	103	187	206
Income before income taxes	238	146	508	346
Income taxes (Note 7)	32	23	74	50
Net income	206	123	434	296
Other comprehensive income	—	—	—	1
Comprehensive income	206	123	434	297
Net income attributable to:				
Noncontrolling interest	2	2	3	3
Preferred shareholders	4	4	9	9
Common shareholders	200	117	422	284
	206	123	434	296
Comprehensive income attributable to:				
Noncontrolling interest	2	2	3	3
Preferred shareholders	4	4	9	9
Common shareholders	200	117	422	285
	206	123	434	297
Earnings per common share (Note 21)				
Basic	\$0.34	\$0.20	\$0.71	\$0.48
Diluted	\$0.33	\$0.20	\$0.71	\$0.48
Dividends per common share declared (Note 20)	\$0.23	\$0.22	\$0.45	\$0.43

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At June 30, 2018 and December 31, 2017

<i>(millions of Canadian dollars)</i>	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	1,245	25
Accounts receivable <i>(Note 8)</i>	583	636
Due from related parties	337	253
Other current assets <i>(Note 9)</i>	164	105
	2,329	1,019
Property, plant and equipment <i>(Note 10)</i>	20,274	19,947
Other long-term assets:		
Regulatory assets <i>(Note 11)</i>	3,159	3,049
Deferred income tax assets	856	987
Intangible assets (net of accumulated amortization – \$408; 2017 – \$375)	369	369
Goodwill	325	325
Other assets	4	5
	4,713	4,735
Total assets	27,316	25,701
Liabilities		
Current liabilities:		
Short-term notes payable <i>(Note 14)</i>	1,048	926
Long-term debt payable within one year <i>(Notes 14, 16)</i>	981	752
Accounts payable and other current liabilities <i>(Note 12)</i>	917	905
Due to related parties	5	157
	2,951	2,740
Long-term liabilities:		
Long-term debt (includes \$841 measured at fair value; 2017 – \$541) <i>(Notes 14, 16)</i>	10,478	9,315
Convertible debentures <i>(Note 15, 16)</i>	488	487
Regulatory liabilities <i>(Note 11)</i>	174	128
Deferred income tax liabilities	73	71
Other long-term liabilities <i>(Note 13)</i>	2,735	2,707
	13,948	12,708
Total liabilities	16,899	15,448
<i>Contingencies and Commitments (Notes 25, 26)</i>		
<i>Subsequent Events (Note 28)</i>		
Noncontrolling interest subject to redemption	21	22
Equity		
Common shares <i>(Note 19)</i>	5,641	5,631
Preferred shares <i>(Note 19)</i>	418	418
Additional paid-in capital	51	49
Retained earnings	4,244	4,090
Accumulated other comprehensive loss	(7)	(7)
Hydro One shareholders' equity	10,347	10,181
Noncontrolling interest	49	50
Total equity	10,396	10,231
	27,316	25,701

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the six months ended June 30, 2018 and 2017

Six months ended June 30, 2018 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2018	5,631	418	49	4,090	(7)	10,181	50	10,231
Net income	—	—	—	431	—	431	2	433
Distributions to noncontrolling interest	—	—	—	—	—	—	(3)	(3)
Dividends on preferred shares	—	—	—	(9)	—	(9)	—	(9)
Dividends on common shares	—	—	—	(268)	—	(268)	—	(268)
Common shares issued	10	—	(10)	—	—	—	—	—
Stock-based compensation	—	—	12	—	—	12	—	12
June 30, 2018	5,641	418	51	4,244	(7)	10,347	49	10,396

Six months ended June 30, 2017 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2017	5,623	418	34	3,950	(8)	10,017	50	10,067
Net income	—	—	—	293	—	293	2	295
Other comprehensive income	—	—	—	—	1	1	—	1
Distributions to noncontrolling interest	—	—	—	—	—	—	(2)	(2)
Dividends on preferred shares	—	—	—	(9)	—	(9)	—	(9)
Dividends on common shares	—	—	—	(256)	—	(256)	—	(256)
Common shares issued	8	—	(8)	—	—	—	—	—
Stock-based compensation	—	—	12	—	—	12	—	12
June 30, 2017	5,631	418	38	3,978	(7)	10,058	50	10,108

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three and six months ended June 30, 2018 and 2017

<i>(millions of Canadian dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Operating activities				
Net income	206	123	434	296
Environmental expenditures	(6)	(8)	(10)	(12)
Adjustments for non-cash items:				
Depreciation and amortization (excluding asset removal costs)	182	176	361	350
Regulatory assets and liabilities	(11)	93	(3)	124
Deferred income taxes	24	18	59	38
Unrealized gain on foreign exchange contract	(22)	—	(49)	—
Other	12	8	15	8
Changes in non-cash balances related to operations <i>(Note 24)</i>	(93)	(130)	(139)	(53)
Net cash from operating activities	292	280	668	751
Financing activities				
Long-term debt issued	1,400	—	1,400	—
Long-term debt repaid	(1)	(1)	(1)	(1)
Short-term notes issued	1,370	1,006	2,542	1,578
Short-term notes repaid	(1,311)	(742)	(2,420)	(1,332)
Dividends paid	(141)	(135)	(277)	(265)
Distributions paid to noncontrolling interest	(2)	(3)	(5)	(3)
Other	(6)	—	(6)	—
Net cash from (used in) financing activities	1,309	125	1,233	(23)
Investing activities				
Capital expenditures <i>(Note 24)</i>				
Property, plant and equipment	(366)	(378)	(652)	(713)
Intangible assets	(22)	(19)	(36)	(33)
Capital contributions received	—	2	—	9
Other	4	—	7	(8)
Net cash used in investing activities	(384)	(395)	(681)	(745)
Net change in cash and cash equivalents	1,217	10	1,220	(17)
Cash and cash equivalents, beginning of period	28	23	25	50
Cash and cash equivalents, end of period	1,245	33	1,245	33

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

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At June 30, 2018, the Province held approximately 47.4% (December 31, 2017 - 47.4%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

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

Rate Setting

Transmission

In December 2017, the Ontario Energy Board (OEB) approved Hydro One Networks Inc.'s (Hydro One Networks) 2018 rates revenue requirement of \$1,511 million. See Note 11 - Regulatory Assets and Liabilities for additional information.

On May 10, 2018, the OEB issued its Decision and Rate Order on B2M LP's 2018 transmission application reflecting revenue requirement of \$36 million, effective January 1, 2018.

Distribution

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates. The requested revenue requirements, updated in June 2018, are \$1,514 million for 2018, \$1,561 million for 2019, \$1,607 million for 2020, \$1,681 million for 2021, and \$1,722 million for 2022. The OEB approval is pending.

On November 17, 2017, Hydro One filed with the OEB a request for 2018 interim rates based on 2017 OEB-approved rates, adjusted for an updated load forecast. On December 1, 2017, the OEB denied this request and set interim 2018 rates based on 2017 OEB-approved rates with no adjustments.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These unaudited condensed interim Consolidated Financial Statements (Consolidated Financial Statements) include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) for interim financial statements and in Canadian dollars.

The accounting policies applied are consistent with those outlined in Hydro One's annual audited consolidated financial statements for the year ended December 31, 2017, with the exception of the adoption of new accounting standards as described below and in Note 3 - New Accounting Pronouncements. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2017 annual audited consolidated financial statements.

Revenue Recognition

The Company adopted Accounting Standard Codification (ASC) 606 - *Revenue from Contracts with Customers* on January 1, 2018 using the retrospective method, without the election of any practical expedients. There was no material impact to the Company's revenue recognition policy as a result of adopting ASC 606.

Nature of Revenues

Transmission revenues predominantly consist of transmission tariffs, which are collected through OEB-approved Uniform Transmission Rates (UTR) and the monthly peak demand for electricity across Hydro One's high-voltage network. OEB-approved UTR is based on an approved revenue requirement that includes a rate of return. The transmission tariffs are designed to recover revenues necessary to support the Company's transmission system with sufficient capacity to accommodate the maximum expected demand which is influenced by weather and economic conditions. Transmission revenues are recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential, and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered. Revenues are recorded net of indirect taxes.

Employee Future Benefits

The Company adopted Accounting Standard Update (ASU) 2017-07 on January 1, 2018. The Company used the retrospective method for guidance relating to the presentation of the service cost component and the other components of net periodic pension and post-retirement benefit costs in the Statement of Operations and Comprehensive Income. There was no change in presentation in the Statement of Operations and Comprehensive Income. The Company used the prospective method for guidance relating to the capitalization of the service cost component of net periodic pension and post-retirement and post-employment benefit costs in assets. Upon adoption of ASU 2017-07, the Company recognized the Post-Retirement and Post-Employment Benefits Non-Service Costs Regulatory Asset. See below and Note 11 - Regulatory Assets and Liabilities for additional information.

Defined Benefit Pension

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its defined benefit pension plan. Defined benefit pension costs are attributed to labour and a portion not exceeding the service cost component of accrual basis defined benefit pension costs is capitalized as part of the cost of property, plant and equipment and intangible assets. The remaining defined benefit pension costs are charged to results of operations (operation, maintenance and administration costs).

Post-Retirement and Post-Employment Benefits

All post-retirement and post-employment benefit costs are attributed to labour and are either charged to results of operations (operation, maintenance and administration costs) or capitalized as part of the cost of property, plant and equipment and intangible assets for service cost component and to regulatory assets for all other components of the benefit costs, consistent with their inclusion in OEB-approved rates.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present ASC guidance issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 606	May 2014 – November 2017	ASC 606 <i>Revenue from Contracts with Customers</i> replaced ASC 605 <i>Revenue Recognition</i> . ASC 606 provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.	January 1, 2018	Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption.
ASU 2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Hydro One applied for a regulatory asset to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption. See Note 11 - Regulatory Assets and Liabilities.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02 2018-01 2018-10 2018-11	February 2016 – July 2018	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC 842 land easements that exist or expired before the entity's adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. ASU 2018-10 amends narrow aspects of ASC 842. ASU 2018-11 provides entities with an additional and option transition method in adopting ASC 842. ASU 2018-11 also permits lessors to elect an optional practical expedient to not separate nonlease components from the associated lease component by underlying asset classes.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.
2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	Under assessment

4. BUSINESS COMBINATIONS

Avista Corporation Purchase Agreement

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately \$6.7 billion in an all-cash transaction. Avista Corporation is an investor-owned utility providing electric generation, transmission, and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger is subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions. Regulatory authorities in Washington and Oregon have extended the timetable for arriving at a decision in Hydro One's acquisition of Avista to mid-December 2018. In addition, the Idaho Public Utilities Commission vacated its hearing scheduled for July 23, 2018. To date, this hearing has not been rescheduled. See Note 14 - Debt and Credit Agreements, Note 15 - Convertible Debentures and Note 16 - Fair Value of Financial Instruments and Risk Management for details of bridge financing, convertible debentures and foreign exchange contract, respectively, related to financing of the Merger.

Orillia Power Purchase Agreement

In 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia, subject to regulatory approval by the OEB. On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power. In May 2018, Hydro One filed a Motion to Review and Vary the OEB's decision.

5. DEPRECIATION AND AMORTIZATION

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Depreciation of property, plant and equipment	160	154	318	309
Asset removal costs	28	23	46	44
Amortization of intangible assets	16	14	33	29
Amortization of regulatory assets	6	8	10	12
	210	199	407	394

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

6. FINANCING CHARGES

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Interest on long-term debt	108	115	214	227
Interest on convertible debentures	16	—	31	—
Interest on short-term notes	4	1	7	2
Other	6	2	10	5
Less: Unrealized gain on foreign exchange contract	(22)	—	(49)	—
Interest capitalized on construction and development in progress	(13)	(15)	(26)	(28)
	99	103	187	206

7. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

<i>(millions of dollars)</i>	Six months ended June 30	
	2018	2017
Income before income taxes	508	346
Income taxes at statutory rate of 26.5% (2017 - 26.5%)	135	92
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(25)	(21)
Overheads capitalized for accounting but deducted for tax purposes	(9)	(7)
Interest capitalized for accounting but deducted for tax purposes	(7)	(6)
Pension contributions in excess of pension expense	(4)	(5)
Environmental expenditures	(4)	(4)
Other	(8)	(1)
Net temporary differences	(57)	(44)
Net permanent differences	(4)	2
Total income taxes	74	50
Effective income tax rate	14.6%	14.5%

8. ACCOUNTS RECEIVABLE

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Accounts receivable – billed	307	298
Accounts receivable – unbilled	302	367
Accounts receivable, gross	609	665
Allowance for doubtful accounts	(26)	(29)
Accounts receivable, net	583	636

The following table shows the movements in the allowance for doubtful accounts for the six months ended June 30, 2018 and the year ended December 31, 2017:

<i>(millions of dollars)</i>	Six months ended June 30, 2018	Year ended December 31, 2017
Allowance for doubtful accounts – beginning	(29)	(35)
Write-offs	12	25
Additions to allowance for doubtful accounts	(9)	(19)
Allowance for doubtful accounts – ending	(26)	(29)

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

9. OTHER CURRENT ASSETS

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Regulatory assets <i>(Note 11)</i>	53	46
Materials and supplies	20	18
Prepaid expenses and other assets	45	41
Derivative instrument - foreign exchange contract <i>(Note 16)</i>	46	—
	164	105

10. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Property, plant and equipment	29,468	29,025
Less: accumulated depreciation	(10,636)	(10,455)
	18,832	18,570
Construction in progress	1,283	1,215
Future use land, components and spares	159	162
	20,274	19,947

11. REGULATORY ASSETS AND LIABILITIES

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Regulatory assets:		
Deferred income tax regulatory asset	1,836	1,762
Pension benefit regulatory asset	994	981
Environmental	190	196
Post-retirement and post-employment benefits	51	36
Foregone revenue deferral	45	23
Share-based compensation	37	40
Debt premium	24	27
Distribution system code exemption	10	10
B2M LP start-up costs	3	4
Other	22	16
Total regulatory assets	3,212	3,095
Less: current portion	53	46
	3,159	3,049
Regulatory liabilities:		
Green Energy expenditure variance	56	60
Pension cost variance	45	23
External revenue variance	36	46
Retail settlement variance account	26	—
Conservation and Demand Management deferral variance	14	28
2015-2017 rate rider	6	6
Deferred income tax regulatory liability	5	5
Other	18	17
Total regulatory liabilities	206	185
Less: current portion	32	57
	174	128

Deferred Income Tax Regulatory Asset

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

which a decision is currently outstanding, it would result in an additional impairment of up to approximately \$370 million related to Hydro One Networks' distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income and the deferred income tax regulatory assets of up to approximately \$885 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks' transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The OEB approved a similar account for B2M LP in June 2017 to record the difference between revenue earned under the newly approved rates, effective January 1, 2017, and the revenue recorded under the interim 2017 rates. The balances of these accounts are being returned to or recovered from ratepayers, respectively, over a one-year period ending December 31, 2018. As part of its May 2018 decision, the OEB also directed B2M LP to record in this account any revenue collected in 2018 in excess of the final approved 2018 B2M LP revenue requirement. The draft rate order submitted by Hydro One Networks relating to the transmission rate application for 2017 and 2018 rates was approved by the OEB in November 2017. This draft rate order reflects the September 2017 decision, including a reduction of the amount of cash taxes approved for recovery in transmission rates due to the OEB's basis to share the savings resulting from a deferred tax asset with ratepayers. The Company's position in the aforementioned Motion is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. Therefore, the Company has also reflected the impact of the Company's position with respect to the Motion in the Foregone Revenue Deferral account. The timing for recovery of this impact will be determined as part of the outcome of the Motion.

Post-Retirement and Post-Employment Benefits Non-Service Cost Regulatory Asset

Hydro One applied to the OEB for a regulatory asset to record the components other than service costs relating to its post-retirement and post-employment benefits that would have previously been capitalized to property, plant and equipment and intangible assets prior to adoption of ASU 2017-07. In May 2018, the OEB approved the regulatory asset for Hydro One Networks' Transmission Business. It is expected that the regulatory asset application for Hydro One Networks' Distribution business will be considered as part of Hydro One Networks' application for 2018-2022 distribution rates, OEB approval of which is currently pending. Hydro One has recorded the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets, in the Post-Retirement and Post-Employment Benefits Non-Service Cost Regulatory Asset.

12. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Accounts payable	138	177
Accrued liabilities	649	572
Accrued interest	98	99
Regulatory liabilities <i>(Note 11)</i>	32	57
	917	905

13. OTHER LONG-TERM LIABILITIES

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Post-retirement and post-employment benefit liability	1,546	1,519
Pension benefit liability	994	981
Environmental liabilities <i>(Note 18)</i>	157	168
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	29	30
	2,735	2,707

14 DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Operating Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of \$1.5 billion. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by Hydro One Inc.'s committed revolving credit facilities totalling \$2.3 billion.

At June 30, 2018, Hydro One's consolidated committed, unsecured and undrawn credit facilities (Operating Credit Facilities) totalling \$2,550 million included Hydro One's credit facilities of \$250 million and Hydro One Inc.'s credit facilities of \$2.3 billion.

Acquisition Credit Facilities

For the purpose of bridge financing for the pending acquisition of Avista Corporation, the Company secured a \$1.0 billion non-revolving equity bridge credit facility, and a US\$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities) in June 2018. The equity bridge credit facility matures 90 days after the drawdown date and in any event not later than June 30, 2019. The debt bridge credit facility is available until March 31, 2019, and matures one year after the drawdown date.

Hydro One is required to make prepayments of the Acquisition Credit Facilities in an amount equal to the net cash proceeds from any common equity, preferred equity, bond or other debt offerings, including the net proceeds from the final instalment of Convertible Debentures issued in August 2017, and any non-ordinary course asset sales by Hydro One and its subsidiaries, subject to certain exceptions. Any prepayment under the Acquisition Credit Facilities may not be re-borrowed. The Acquisition Credit Facilities agreements contain customary representations and warranties and affirmative and negative covenants of Hydro One that are consistent with those of Hydro One's Operating Credit Facilities. If the Merger does not close, then these agreements will be cancelled.

Long-Term Debt

The following table presents long-term debt outstanding at June 30, 2018 and December 31, 2017:

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Hydro One Inc. long-term debt (a)	11,323	9,923
HOSSM long-term debt (b)	173	176
	11,496	10,099
Add: Net unamortized debt premiums	13	14
Add: Unrealized mark-to-market gain ¹	(9)	(9)
Less: Unamortized deferred debt issuance costs	(41)	(37)
Total long-term debt	11,459	10,067
Less: Long-term debt payable within one year	(981)	(752)
	10,478	9,315

¹ The unrealized mark-to-market net gain relates to \$50 million of the Series 33 notes due 2020, \$500 million Series 37 notes due 2019 and \$300 million Series 39 notes due 2021. The unrealized mark-to-market net gain is offset by a \$9 million (December 31, 2017 - \$9 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At June 30, 2018, long-term debt of \$11,323 million (December 31, 2017 - \$9,923 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion. At June 30, 2018, \$2.6 billion remained available for issuance until April 2020.

During the three and six months ended June 30, 2018, Hydro One Inc. issued long-term debt totalling \$1.4 billion (2017 - \$nil) under its MTN Program as follows:

- \$300 million notes (MTN Series 39 notes) with a maturity date of June 25, 2021 and a coupon rate of 2.57%;
- \$350 million notes (MTN Series 40 notes) with a maturity date of June 26, 2025 and a coupon rate of 2.97%; and
- \$750 million notes (MTN Series 41 notes) with a maturity date of June 25, 2049 and a coupon rate of 3.63%.

No long-term debt was repaid during the three and six months ended June 30, 2018 or 2017.

(b) Hydro One Sault Ste. Marie LP (HOSSM) long-term debt

At June 30, 2018, long-term debt of \$173 million (December 31, 2017 - \$176 million), with a face value of \$145 million (December 31, 2017 - \$146 million) was held by HOSSM. During the three and six months ended June 30, 2018 and 2017, no long-term debt was issued, and \$1 million (2017 - \$1 million) of long-term debt was repaid.

Principal and Interest Payments

Principal repayments 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 <i>(millions of dollars)</i>	Weighted Average Interest Rate <i>(%)</i>
1 year	981	2.6
2 years	1,153	2.3
3 years	803	2.1
4 years	603	3.2
5 years	133	6.1
	3,673	2.6
6 – 10 years	850	2.9
Over 10 years	6,945	5.1
	11,468	4.1

Interest payment obligations related to long-term debt are summarized by year in the following table:

Year	Interest Payments <i>(millions of dollars)</i>
Remainder of 2018	236
2019	448
2020	429
2021	411
2022	393
	1,917
2023-2027	1,834
2028+	4,666
	8,417

15. CONVERTIBLE DEBENTURES

<i>(millions of dollars)</i>	Six months ended June 30, 2018	Year ended December 31, 2017
Carrying value - beginning	487	—
Receipt of Initial Instalment, net of deferred financing costs	—	486
Amortization of deferred financing costs	1	1
Carrying value - ending	488	487
Face value - ending	513	513

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company completed the sale of \$1,540 million aggregate principal amount of 4.00% convertible unsecured subordinated debentures (Convertible Debentures) represented by instalment receipts, which included the exercise in full of the over-allotment option granted to the underwriters to purchase an additional \$140 million aggregate principal amount of the Convertible Debentures (Debenture Offering).

The Convertible Debentures were sold on an instalment basis at a price of \$1,000 per Convertible Debenture, of which \$333 (Initial Instalment) was paid on closing of the Debenture Offering and the remaining \$667 (Final Instalment) is payable on a date (Final Instalment Date) to be fixed by the Company following satisfaction of conditions precedent to the closing of the acquisition of Avista Corporation. The gross proceeds received from the Initial Instalment were \$513 million. The Company incurred financing costs of \$27 million, which are being amortized to financing charges over approximately 10 years, the contractual term of the Convertible Debentures, using the effective interest rate method.

The Convertible Debentures will mature on September 30, 2027. A coupon rate of 4% is paid on the \$1,540 million aggregate principal amount of the Convertible Debentures, and based on the carrying value of the Initial Instalment, this translates into an effective annual yield of 12%. After the Final Instalment Date, the interest rate will be 0%. The interest expense recorded during the three and six months ended June 30, 2018 was \$16 million and \$31 million (2017 - \$nil), respectively.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the closing of the Debenture Offering, holders of the Convertible Debentures who have paid the Final Instalment on or before the Final Instalment Date will be entitled to receive, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the closing of the

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Debenture Offering had the Convertible Debentures remained outstanding and continued to accrue interest until and including such date (Make-Whole Payment). No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the closing of the Debenture Offering.

At the option of the holders and provided that payment of the Final Instalment has been made, each Convertible Debenture will be convertible into common shares of the Company at any time on or after the Final Instalment Date, but prior to the earlier of maturity or redemption by the Company, at a conversion price of \$21.40 per common share, being a conversion rate of 46.7290 common shares per \$1,000 principal amount of Convertible Debentures. The conversion feature meets the definition of a Beneficial Conversion Feature (BCF), with an intrinsic value of approximately \$92 million. Due to the contingency associated with the debentureholders' ability to exercise the conversion, the BCF has not been recognized. Between the time the contingency is resolved and the Final Instalment Date, the Company will recognize approximately \$92 million of interest expense associated with amortization of the BCF.

Prior to the Final Instalment Date, the Convertible Debentures may not be redeemed by the Company, except that the Convertible Debentures will be redeemed by the Company at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders that the conditions necessary to approve the acquisition of Avista Corporation will not be satisfied; (ii) termination of the acquisition agreement; and (iii) May 1, 2019 if notice of the Final Instalment Date has not been given to holders on or before April 30, 2019. Upon any such redemption, the Company will pay for each Convertible Debenture (i) \$333 plus accrued and unpaid interest to the holder of the instalment receipt; and (ii) \$667 to the selling debentureholder on behalf of the holder of the instalment receipt in satisfaction of the final instalment. In addition, after the Final Instalment Date, any Convertible Debentures not converted may be redeemed by the Company at a price equal to their principal amount plus any unpaid interest, which accrued prior to and including the Final Instalment Date.

At maturity, the Company will have the right to pay the principal amount due in common shares, which will be valued at 95% of their weighted average trading price on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the maturity date.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At June 30, 2018 and December 31, 2017, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at June 30, 2018 and December 31, 2017 are as follows:

<i>(millions of dollars)</i>	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
\$50 million of MTN Series 33 notes	49	49	49	49
\$500 million MTN Series 37 notes	493	493	492	492
\$300 million MTN Series 39 notes	299	299	—	—
Other notes and debentures	10,618	11,966	9,526	11,027
Long-term debt, including current portion	11,459	12,807	10,067	11,568

Fair Value Measurements of Derivative Instruments

At June 30, 2018, Hydro One Inc. had interest-rate swaps in the amount of \$850 million (December 31, 2017 – \$550 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. Hydro One Inc.'s fair value hedge exposure was approximately 8% (December 31, 2017 – 6%) of its total long-term debt. At June 30, 2018, Hydro One Inc. had the following interest-rate swaps designated as fair value hedges:

- 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;
- two \$125 million and one \$250 million fixed-to-floating interest-rate swap agreements to convert the \$500 million MTN Series 37 notes maturing November 18, 2019 into three-month variable rate debt; and
- a \$300 million fixed-to-floating interest-rate swap agreement to convert the \$300 million MTN Series 39 notes maturing June 25, 2021 into three-month variable rate debt.

At June 30, 2018 and December 31, 2017, the Company had no interest-rate swaps classified as undesignated contracts.

In October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract is contingent on the Company closing the proposed Avista Corporation acquisition and is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price

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financed with the issuance of Convertible Debentures. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed upon approval of the acquisition up to March 31, 2019. This contract is an economic hedge and does not qualify for hedge accounting. It has been accounted for as an undesignated contract.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at June 30, 2018 and December 31, 2017 is as follows:

<i>June 30, 2018 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	1,245	1,245	1,245	—	—
Derivative instrument					
Foreign exchange contract	46	46	—	—	46
	1,291	1,291	1,245	—	46
Liabilities:					
Short-term notes payable	1,048	1,048	1,048	—	—
Long-term debt, including current portion	11,459	12,807	—	12,807	—
Convertible debentures	488	423	423	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	9	—	—
	13,004	14,287	1,480	12,807	—
December 31, 2017 (millions of dollars)					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	25	25	25	—	—
	25	25	25	—	—
Liabilities:					
Short-term notes payable	926	926	926	—	—
Long-term debt, including current portion	10,067	11,568	—	11,568	—
Convertible debentures	487	574	574	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	9	—	—
Foreign exchange contract	3	3	—	—	3
	11,492	13,080	1,509	11,568	3

Cash and cash equivalents include cash and short-term investments. The carrying values are representative of fair value because of the short-term nature of these instruments.

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.

The fair value of the convertible debentures is based on their closing price on June 29, 2018 (last business day in June 2018), as posted on the Toronto Stock Exchange.

The Company uses derivative instruments as an economic hedge for foreign exchange risk. The value of the foreign exchange contract is derived using valuation models commonly used for derivatives. These valuation models require a variety of inputs, including contractual terms, forward price yield curves, probability of closing the Avista Corporation acquisition, and the contract settlement date. The Company's valuation models also reflect measurements for credit risk. The fair value of the foreign exchange contract includes significant unobservable inputs, and therefore has been classified accordingly as Level 3. The significant unobservable inputs used in the fair value measurement of the foreign exchange contract relates to the assessment of probability of closing the Avista Corporation acquisition and the contract settlement date.

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Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the six months ended June 30, 2018 and the year ended December 31, 2017:

<i>(millions of dollars)</i>	Six months ended June 30, 2018	Year ended December 31, 2017
Fair value of asset (liability) - beginning	(3)	—
Unrealized gain (loss) on foreign exchange contract included in financing charges	49	(3)
Fair value of asset (liability) - ending	46	(3)

There were no transfers between any of the fair value levels during the six months ended June 30, 2018 and the year ended December 31, 2017.

Risk Management

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

Market Risk

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

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. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the three and six months ended June 30, 2018 and 2017.

The Company is exposed to foreign exchange fluctuations as a result of entering into a deal-contingent foreign exchange forward agreement. This agreement is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three and six months ended June 30, 2018 and 2017 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At June 30, 2018 and December 31, 2017, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At June 30, 2018 and December 31, 2017, there was no material accounts receivable balance due from any single customer.

At June 30, 2018, the Company's allowance for doubtful accounts was \$26 million (December 31, 2017 – \$29 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At June 30, 2018, approximately 6% (December 31, 2017 – 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current 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 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 June 30, 2018 and December 31, 2017, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At June 30, 2018, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

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Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term operating liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the Operating Credit Facilities. The short-term liquidity under the Commercial Paper Program, Operating Credit Facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada to replace the universal base shelf prospectus that expired on April 30, 2018. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020.

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

Estimated annual defined benefit pension plan contributions for 2018, 2019 and 2020 are approximately \$71 million, \$70 million, and \$70 million, respectively, based on an actuarial valuation as at December 31, 2017 and projected levels of pensionable earnings. Employer contributions made during the six months ended June 30, 2018 were \$25 million (2017 – \$47 million).

The following tables provide the components of the net periodic benefit costs for the three and six months ended June 30, 2018 and 2017:

Three months ended June 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2018	2017	2018	2017
Current service cost	44	37	12	12
Interest cost	70	76	14	17
Expected return on plan assets, net of expenses ¹	(116)	(111)	—	—
Amortization of actuarial losses	21	20	—	2
Net periodic benefit costs	19	22	26	31
Charged to results of operations ²	2	8	9	13

Six months ended June 30 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2018	2017	2018	2017
Current service cost	88	73	24	24
Interest cost	141	152	28	34
Expected return on plan assets, net of expenses ¹	(233)	(221)	—	—
Amortization of actuarial losses	42	40	1	4
Net periodic benefit costs	38	44	53	62
Charged to results of operations ²	11	21	21	27

¹ The expected long-term rate of return on pension plan assets for the year ending December 31, 2018 is 6.5% (2017 – 6.5%).

² The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and six months ended June 30, 2018, pension costs of \$4 million (2017 - \$16 million) and \$25 million (2017 - \$46 million), respectively, were attributed to labour, of which \$2 million (2017 - \$8 million) and \$11 million (2017 - \$21 million), respectively, were charged to operations, and \$2 million (2017 - \$8 million) and \$14 million (2017 - \$25 million) respectively, were capitalized as part of the cost of property, plant and equipment and intangible assets.

18. ENVIRONMENTAL LIABILITIES

The following table shows the movements in environmental liabilities for the six months ended June 30, 2018 and the year ended December 31, 2017:

(millions of dollars)	Six months ended June 30, 2018	Year ended December 31, 2017
Environmental liabilities – beginning	196	204
Interest accretion	4	8
Expenditures	(10)	(24)
Revaluation adjustment	—	8
Environmental liabilities – ending	190	196
Less: current portion	(33)	(28)
	157	168

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

<i>(millions of dollars)</i>	June 30, 2018	December 31, 2017
Undiscounted environmental liabilities	196	206
Less: discounting environmental liabilities to present value	(6)	(10)
Discounted environmental liabilities	190	196

At June 30, 2018, the estimated future environmental expenditures were as follows:

<i>(millions of dollars)</i>	
Remainder of 2018	18
2019	27
2020	32
2021	34
2022	31
Thereafter	54
	196

19. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At June 30, 2018, the Company had 595,882,438 common shares issued and outstanding (December 31, 2017 - 595,386,711).

The following table presents the changes to common shares during the six months ended June 30, 2018.

<i>(number of shares)</i>	
Common shares – December 31, 2017	595,386,711
Common shares issued – share grants ¹	481,227
Common shares issued – share grants ²	119
Common shares issued – LTIP ³	14,381
Common shares – June 30, 2018	595,882,438

¹ On April 1, 2018, Hydro One issued from treasury 481,227 common shares in accordance with provisions of the Power Workers' Union (PWU) and the Society of Energy Professionals (Society) Share Grant Plans.

² On May 14, 2018, Hydro One issued from treasury 119 common shares in accordance with provisions of the PWU Share Grant Plan.

³ On May 31, 2018, Hydro One issued from treasury 14,381 common shares in accordance with provisions of the LTIP.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At June 30, 2018 and December 31, 2017, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares. At June 30, 2018 and December 31, 2017, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

20. DIVIDENDS

During the three months ended June 30, 2018, preferred share dividends in the amount of \$4 million (2017 - \$4 million) and common share dividends in the amount of \$137 million (2017 - \$131 million) were declared and paid.

During the six months ended June 30, 2018, preferred share dividends in the amount of \$9 million (2017 - \$9 million) and common share dividends in the amount of \$268 million (2017 - \$256 million) were declared and paid.

21. EARNINGS PER COMMON SHARE

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

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net income attributable to common shareholders <i>(millions of dollars)</i>	200	117	422	284
Weighted average number of shares				
Basic	595,867,452	595,372,048	595,628,410	595,187,052
Effect of dilutive stock-based compensation plans	2,130,394	2,224,550	2,282,375	2,239,626
Diluted	597,997,846	597,596,598	597,910,785	597,426,678
EPS				
Basic	\$0.34	\$0.20	\$0.71	\$0.48
Diluted	\$0.33	\$0.20	\$0.71	\$0.48

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS until conditions for closing the Avista Corporation acquisition are met.

22. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the 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). A summary of share grant activity under the Share Grant Plans during the three and six months ended June 30, 2018 and 2017 is presented below:

<i>(number of share grants)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Share grants outstanding – beginning	4,825,732	5,334,415	4,825,732	5,334,415
Vested and issued ^{1,2}	(481,346)	(371,611)	(481,346)	(371,611)
Share grants outstanding – ending	4,344,386	4,962,804	4,344,386	4,962,804

¹ On April 1, 2018, Hydro One issued from treasury 481,227 common shares to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

² On May 14, 2018, Hydro One issued from treasury 119 common shares to an eligible employee in accordance with provisions of the PWU Share Grant Plan.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSUs activity under the Directors' DSU Plan during the three and six months ended June 30, 2018 and 2017 is presented below:

<i>(number of DSUs)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
DSUs outstanding - beginning	214,843	119,763	187,090	99,083
Granted	28,817	21,790	56,570	42,470
DSUs outstanding - ending	243,660	141,553	243,660	141,553

At June 30, 2018, a liability of \$5 million (December 31, 2017 - \$4 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$20.04 (December 31, 2017 - \$22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets. See Note 28 - Subsequent Events for changes related to the Directors' DSU Plan.

Management DSU Plan

A summary of DSUs activity under the Management DSU Plan during the three and six months ended June 30, 2018 and 2017 is presented below:

<i>(number of DSUs)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
DSUs outstanding - beginning	104,638	66,952	67,829	—
Granted	1,232	631	38,041	67,583
DSUs outstanding - ending	105,870	67,583	105,870	67,583

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At June 30, 2018, a liability of \$2 million (December 31, 2017 - \$2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$20.04 (December 31, 2017 - \$22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

LTIP

Performance Share Units (PSU) and Restricted Share Units (RSU)

A summary of PSU and RSU awards activity under the LTIP during the three and six months ended June 30, 2018 and 2017 is presented below:

Three months ended June 30 (number of units)	PSUs		RSUs	
	2018	2017	2018	2017
Units outstanding - beginning	844,700	483,615	715,990	457,215
Granted	12,860	—	10,190	—
Vested	—	—	(13,470)	(13,470)
Forfeited	(11,040)	(40,520)	(12,640)	(34,100)
Units outstanding - ending	846,520	443,095	700,070	409,645

Six months ended June 30 (number of units)	PSUs		RSUs	
	2018	2017	2018	2017
Units outstanding - beginning	429,980	230,600	393,430	254,150
Granted	440,800	267,450	342,630	218,950
Vested	—	—	(13,470)	(13,470)
Forfeited	(24,260)	(54,955)	(22,520)	(49,985)
Units outstanding - ending	846,520	443,095	700,070	409,645

The grant date total fair value of the awards granted during the three and six months ended June 30, 2018 was \$nil and \$16 million (2017 - \$nil and \$12 million), respectively. The compensation expense related to these awards recognized by the Company during the three and six months ended June 30, 2018 was \$3 million and \$5 million (2017 - \$2 million and \$3 million), respectively. See Note 28 - Subsequent Events for changes related to PSUs and RSUs.

Stock Options

The Company is authorized to grant stock options under its LTIP to certain eligible employees. During the six months ended June 30, 2018, the Company granted 1,450,880 stock options (2017 - nil), all in the first quarter of 2018. The stock options granted are exercisable for a period not to exceed seven years from the date of grant and vest evenly over a three-year period on each anniversary of the date of grant.

The fair value based method is used to measure compensation expense related to stock options and the expense is recognized over the vesting period on a straight-line basis. The fair value of the stock option awards granted was estimated on the date of grant using a Black-Scholes valuation model.

Stock options granted and the weighted average assumptions used in the valuation model for options granted during the six months ended June 30, 2018 are as follows:

Exercise price ¹	\$	20.70
Grant date fair value per option	\$	1.66
Valuation assumptions:		
Expected dividend yield ²		3.78%
Expected volatility ³		15.01%
Risk-free interest rate ⁴		2.00%
Expected option term ⁵		4.5 years

¹ Hydro One common share price on the date of the grant.

² Based on dividend and Hydro One common share price on the date of the grant.

³ Based on average daily volatility of peer entities for a 4.5-year term.

⁴ Based on bond yield for an equivalent Canadian government bond.

⁵ Determined using the option term and the vesting period.

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A summary of stock options activity during the three and six months ended June 30, 2018 and 2017 is presented below:

<i>(number of stock options)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Stock options outstanding - beginning	1,450,880	—	—	—
Granted ¹	—	—	1,450,880	—
Stock options outstanding - ending ¹	1,450,880	—	1,450,880	—

¹ All stock options granted and outstanding at June 30, 2018 are non-vested.

The compensation expense related to stock options recognized by the Company during the three and six months ended June 30, 2018 was not significant. At June 30, 2018, there was \$2 million of unrecognized compensation expense related to stock options not yet vested, which is expected to be recognized over a weighted average period of approximately three years. See Note 28 - Subsequent Events for changes related to Stock Options.

23. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at June 30, 2018. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province.

<i>(millions of dollars)</i>		Three months ended June 30		Six months ended June 30	
Related Party	Transaction	2018	2017	2018	2017
Province	Dividends paid	69	70	136	162
IESO	Power purchased	245	242	758	893
	Revenues for transmission services	414	365	819	734
	Amounts related to electricity rebates	103	63	240	140
	Distribution revenues related to rural rate protection	61	63	118	124
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	16	16
	Funding received related to Conservation and Demand Management programs	10	10	22	26
OPG	Power purchased	2	1	6	5
	Revenues related to provision of construction and equipment maintenance services	2	3	4	4
	Costs related to the purchase of services	—	1	—	1
OEFC	Power purchased from power contracts administered by the OEFC	—	—	1	1
OEB	OEB fees	2	2	4	4

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest-free and settled in cash.

24. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Accounts receivable	5	100	53	191
Due from related parties	(94)	(53)	(84)	(98)
Materials and supplies	—	—	(2)	—
Prepaid expenses and other assets	6	(3)	(3)	(3)
Accounts payable	(5)	4	(36)	1
Accrued liabilities	42	(61)	75	(41)
Due to related parties	(32)	(107)	(152)	(143)
Accrued interest	(18)	(27)	(1)	(2)
Long-term accounts payable and other liabilities	(2)	—	(1)	2
Post-retirement and post-employment benefit liability	5	17	12	40
	(93)	(130)	(139)	(53)

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the Consolidated Statements of Cash Flows for the three and six months ended June 30, 2018 and 2017. The reconciling items include net change in accruals and capitalized depreciation.

(millions of dollars)	Three months ended June 30, 2018			Six months ended June 30, 2018		
	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(380)	(21)	(401)	(673)	(33)	(706)
Reconciling items	14	(1)	13	21	(3)	18
Cash outflow for capital expenditures	(366)	(22)	(388)	(652)	(36)	(688)

(millions of dollars)	Three months ended June 30, 2017			Six months ended June 30, 2017		
	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(391)	(15)	(406)	(728)	(28)	(756)
Reconciling items	13	(4)	9	15	(5)	10
Cash outflow for capital expenditures	(378)	(19)	(397)	(713)	(33)	(746)

Supplementary Information

(millions of dollars)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net interest paid	145	131	250	219
Income taxes paid	6	4	12	8

25. CONTINGENCIES

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

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal is scheduled to be heard on October 16, 2018, and it is possible that no decision will be rendered by the appeal court until the first quarter of 2019. At this time, an estimate of a possible loss related to this claim cannot be made.

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß*, *Samuel*, and *Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and six months ended June 30, 2018 and 2017

26. COMMITMENTS

The following table presents a summary of Hydro One's commitments under leases, outsourcing and other agreements due in the next 5 years and thereafter:

June 30, 2018 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	134	105	62	2	2	6
Long-term software/meter agreement	18	17	9	2	1	2
Operating lease commitments	11	9	8	3	1	3

The following table presents a summary of Hydro One's other commercial commitments by year of expiry in the next 5 years and thereafter:

June 30, 2018 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities ¹	—	—	—	2,550	—	—
Letters of credit ²	165	—	—	—	—	—
Guarantees ³	325	—	—	—	—	—

¹ For repayment and expiry details of the Acquisition Credit Facilities, please see Note 14 - Debt and Credit Agreements.

² Letters of credit consist of a \$154 million letter of credit related to retirement compensation arrangements, a \$4 million letter of credit provided to the IESO for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

³ Guarantees consist of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries.

27. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of 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 Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Segment, 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 services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income taxes from continuing operations (excluding certain allocated corporate governance costs).

Three months ended June 30, 2018 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	430	1,036	11	1,477
Purchased power	—	674	—	674
Operation, maintenance and administration	95	140	21	256
Depreciation and amortization	107	102	1	210
Income (loss) before financing charges and income taxes	228	120	(11)	337
Capital investments	242	157	2	401

Three months ended June 30, 2017 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	361	998	12	1,371
Purchased power	—	649	—	649
Operation, maintenance and administration	99	153	22	274
Depreciation and amortization	103	94	2	199
Income (loss) before financing charges and income taxes	159	102	(12)	249
Capital investments	252	151	3	406

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For the three and six months ended June 30, 2018 and 2017

Six months ended June 30, 2018 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	851	2,181	21	3,053
Purchased power	—	1,425	—	1,425
Operation, maintenance and administration	200	285	41	526
Depreciation and amortization	210	194	3	407
Income (loss) before financing charges and income taxes	441	277	(23)	695

Capital investments	432	271	3	706
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Six months ended June 30, 2017 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	728	2,277	24	3,029
Purchased power	—	1,538	—	1,538
Operation, maintenance and administration	201	298	46	545
Depreciation and amortization	204	186	4	394
Income (loss) before financing charges and income taxes	323	255	(26)	552

Capital investments	461	289	6	756
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Total Assets by Segment:

(millions of dollars)	June 30, 2018	December 31, 2017
Transmission	13,868	13,608
Distribution	9,401	9,259
Other	4,047	2,834
Total assets	27,316	25,701

Total Goodwill by Segment:

(millions of dollars)	June 30, 2018	December 31, 2017
Transmission	157	157
Distribution	168	168
Total goodwill	325	325

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

28. SUBSEQUENT EVENTS

Dividends

On August 13, 2018, preferred share dividends in the amount of \$4 million and common share dividends in the amount of \$137 million (\$0.23 per common share) were declared.

Changes to Hydro One's Board of Directors and Chief Executive Officer

On July 11, 2018, Hydro One announced that it entered into an agreement with the Province (Agreement) for the purpose of the orderly replacement of the Company's Board of Directors (Board) and the retirement of Mr. Mayo Schmidt as the President and Chief Executive Officer effective July 11, 2018. As previously disclosed on July 11, 2018, in connection with Mr. Schmidt's retirement, he will receive amounts consistent with Hydro One's retirement policies and his employment agreement and will not be entitled to severance. Mr. Schmidt will receive a \$0.4 million lump sum payment in lieu of all post-retirement benefits and allowances. The provisions of the Agreement relating to the retirement of Mr. Schmidt will result in an additional charge in the third quarter of approximately \$5.6 million of compensation costs, which includes the \$0.4 million lump sum payment and primarily relates to previously awarded stock-based compensation under the LTIP for which costs had not yet been recognized. Additionally, Mr. Schmidt's stock options were cancelled for no consideration.

In addition, as a result of the orderly replacement of the Board, the liability relating to the Directors' DSUs is expected to be settled within the next 6 months.

Peterborough Distribution Purchase Agreement

On July 31, 2018, Hydro One reached an agreement to acquire the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution), an electricity distribution company located in east central Ontario, from the City of Peterborough. Hydro One will pay the City of Peterborough \$105 million for the transaction. The acquisition is conditional upon the satisfaction of customary closing conditions and approval by the OEB and the Competition Bureau.