Hydro One Reports Second Quarter Results

Second quarter results coincide with the release of Hydro One's sustainability report that will be the foundation upon which to build a sustainability strategy

TORONTO, August 9, 2019 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the second quarter ended June 30, 2019.

Second Quarter Highlights

- Earnings per share (EPS) of $0.26 and adjusted EPS of $0.26, compared to $0.34 and $0.33, respectively, for the same period in 2018, a decrease of 24% and 21%, reflecting less favourable weather, higher financing costs due to the issuance of long-term debt, and an increase in operation, maintenance and administration (OM&A) costs due to increase in vegetation management work and higher emergency power restoration costs in the quarter.
- Distribution reliability continued to improve in the second quarter of 2019 versus the same quarter last year by approximately 18%. The improved reliability was partly the result of our Optimal Cycle Protocol vegetation management program.
- In the first half of 2019, distribution customer satisfaction score with residential and small businesses reached 85%, a 9% increase over 2018, and the highest in 10 years.
- Hydro One was requested by the Independent Electricity System Operator (IESO) to build a new transmission line from Chatham to Leamington. This project shows the Company's continued commitment to and advocacy for its customers and its goal of supporting economic growth. Also, due to the increased load, this project is expected to help lower customer rates.
- The Company published its sustainability report that demonstrates a positive trend, and was recognized as one of the Best 50 Corporate Citizens in Canada by Corporate Knights.
- Senior management strength enhanced with the appointments of Paul Harricks as Chief Legal Officer and Saylor Millitz-Lee as Chief Human Resources Officer, along with the previously announced appointment of Chris Lopez as the Chief Financial Officer.
- Organized transition of Chair of the Board of Directors (Board) with the announced resignation of Tom Woods and the appointment of Tim Hodgson.
- Quarterly dividend declared at $0.2415 per share, payable September 30, 2019.

"The significant increase in our residential customer satisfaction in the first half of 2019 is proof of our unwavering commitment to put customers first, as well as our use of innovation to improve reliability, while reducing costs. Our Board and leadership will build on these strong foundations," said Mark Poweska, President and Chief Executive Officer of Hydro One. "We have made meaningful progress in building the foundations of a corporate sustainability strategy to deliver enduring value for our customers, employees, communities and shareholders. Through our focus on building a brighter future for all Ontarians, we will continue to improve our performance in Indigenous procurement, customer satisfaction, reliability, protecting the environment and supporting strong communities and thriving economies."

2019, as discussed above. Adjusted EPS, which adjusts for income and costs related to the Merger, was $0.26 and $0.78 for the three and six months ended June 30, 2019, compared to $0.33 and $0.68 in the comparable periods last year. The change in Adjusted EPS was driven by changes in net income for the three and six months ended June 30, 2019, as discussed above, but excluding the impact of items related to the Merger. See section "Non-GAAP Measures" for description and reconciliation of Adjusted EPS.

Revenues

	Three months ended June 30			Six months ended June 30		
(millions of dollars, except as otherwise noted)	2019	2018	Change	2019	2018	Change
Transmission	374	430	(13.0%)	802	851	(5.8%)
Distribution	1,029	1,036	(0.7%)	2,350	2,181	7.7%
Other	10	11	(9.1%)	20	21	(4.8%)
Total revenues	1,413	1,477	(4.3%)	3,172	3,053	3.9%
Transmission	374	430	(13.0%)	802	851	(5.8%)
Distribution, net of purchased power	376	362	3.9%	890	756	17.7%
Other	10	11	(9.1%)	20	21	(4.8%)
Total revenues, net of purchased power	760	803	(5.4%)	1,712	1,628	5.2%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	18,226	19,951	(8.6%)	19,494	19,883	(2.0%)
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,073	6,111	(0.6%)	13,811	13,517	2.2%

Transmission Revenues

Transmission revenues decreased by 13.0% during the quarter ended June 30, 2019, primarily due to the following:

- lower average monthly Ontario 60-minute peak demand driven by cooler weather in the second quarter of 2019;
- deferred tax regulatory adjustment related to Accelerated CCA which will flow through to customers and is offset in lower taxes, with no impact on regulated ROE; and
- revenue recognized in the second quarter of 2018 to reflect the Company's position with respect to the deferred tax asset, which was subsequently reversed following the OEB decision.

The decrease of 5.8% in transmission revenues for the six months ended June 30, 2019 was the result of similar factors as noted above.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 3.9% during the quarter ended June 30, 2019, primarily due to the following:

- impacts relating to the 2018 and 2019 distribution rates per OEB decision received in March 2019; partially offset by
- deferred tax regulatory adjustment related to Accelerated CCA which will flow through to customers and is offset in lower taxes, with no impact on regulated ROE.

The increase of 17.7% in distribution revenues, net of purchased power, for the six months ended June 30, 2019 was the result of similar factors as noted above.

OM&A Costs

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2019	2018	Change	2019	2018	Change
Transmission	101	95	6.3%	200	200	—%
Distribution	154	140	10.0%	300	285	5.3%
Other	12	21	(42.9%)	183	41	346.3%
	267	256	4.3%	683	526	29.8%

Transmission OM&A Costs

The increase of 6.3% in transmission OM&A costs for the quarter ended June 30, 2019 was primarily due to higher vegetation management coverage compared to the prior year.

Transmission OM&A costs for the six months ended June 30, 2019 were consistent with the prior year. Principal impacts on the levels of transmission OM&A costs included:

- higher vegetation management coverage compared to prior year; offset by
- lower volume of grid sustainment work and lower corporate support costs in 2019, compared to the prior year.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through FFO, 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 $2.3 billion in short-term notes with a term to maturity of up to 365 days. On March 25, 2019, the maximum number of short-term notes authorized for issuance was increased from $1.5 billion to $2.3 billion.

At June 30, 2019, Hydro One Inc. had $598 million in commercial paper borrowings outstanding, compared to $1,252 million outstanding at December 31, 2018. The interest rates on the commercial paper borrowings outstanding at June 30, 2019 ranged from 1.8% to 2.3%. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) with total availability of $2,550 million. On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended from 2021 and 2022 to 2024. At June 30, 2019 and December 31, 2018, no amounts were drawn on the Operating Credit Facilities. 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 FFO are expected to be sufficient to fund the Company's normal operating requirements.

On February 1, 2019, Hydro One entered into a credit agreement for a $170 million unsecured demand operating credit facility (Demand Facility) which was used to fund the payment of the Merger termination fee and other Merger-related costs. On June 6, 2019, the $170 million drawn on the Demand Facility was repaid, and the Demand Facility is no longer available.

At June 30, 2019, the Company had long-term debt outstanding in the principal amount of $11,987 million, which included $11,845 million of long-term debt issued by Hydro One Inc. and long-term debt in the principal amount of $142 million issued by HOSSM. The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium Term Note (MTN) Program. The long-term debt consists of notes and debentures that mature between 2019 and 2064, and at June 30, 2019, had a weighted-average term to maturity of approximately 15.5 years and a weighted-average coupon rate of 4.1%.

The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is $4.0 billion, and at June 30, 2019, $1.1 billion remained available for issuance until April 2020.

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. On November 23, 2018, Hydro One Holdings Limited (HOHL), an indirect wholly-owned subsidiary of Hydro One, filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US for the purposes of, but not limited to, funding a portion of the cash purchase price of the Merger. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At June 30, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

Acquisition Credit Facilities

In June 2018, for the purpose of bridge financing for the Merger, 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). As a result of the termination of the Merger agreement, on January 24, 2019, the Company cancelled the Acquisition Credit Facilities. In addition, the foreign-exchange contract entered into in October 2017 that was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed by the issuance of convertible debentures was revalued to $nil, resulting in a loss of $22 million recorded in the six months ended June 30, 2019, compared to an unrealized gain of $49 million recorded in the six months ended June 30, 2018.

Compliance

At June 30, 2019, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

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.

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, 2019 *(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	11,987	1,153	1,406	833	8,595
Long-term debt - interest payments	8,494	486	909	846	6,253
Short-term notes payable	598	598	—	—	—
Pension contributions[1]	437	78	156	162	41
Environmental and asset retirement obligations	180	24	62	59	35
Outsourcing and other agreements	237	135	82	5	15
Lease obligations	34	10	13	4	7
Long-term software/meter agreement	35	18	13	3	1
Total contractual obligations	22,002	2,502	2,641	1,912	14,947
Other commercial commitments *(by year of expiry)*					
Operating Credit Facilities[2]	2,550	—	—	2,550	—
Letters of credit[3]	171	171	—	—	—
Guarantees[4]	330	330	—	—	—
Total other commercial commitments	3,051	501	—	2,550	—

[1] Contributions to the Hydro One Pension Fund are generally made one month in arrears. Company and employee contributions to the Pension Plan are based on actuarial reports, including valuations performed at least every three years, and actual or projected levels of pensionable earnings, as applicable.

[2] On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

[3] Letters of credit consist of $163 million letters of credit related to retirement compensation arrangements, $5 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.

[4] Guarantees consist of $325 million prudential support provided to the Independent Electricity System Operator (IESO) by Hydro One Inc. on behalf of its subsidiaries, and guarantees totalling $5 million provided by Hydro One to the Minister of Natural Resources relating to Ontario Charging Network LP (OCN LP).

SHARE CAPITAL

The common shares of Hydro One are publicly traded on the Toronto Stock Exchange (TSX) under the trading symbol "H". Hydro One is authorized to issue an unlimited number of common shares. The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant. At August 8, 2019, Hydro One had 596,605,054 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. The Company has two series of preferred shares authorized for issuance: the Series 1 preferred shares and Series 2 preferred shares. At August 8, 2019, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

The number of additional common shares of Hydro One that would be issued if all outstanding awards under the share grant plans and the Long-term Incentive Plan (LTIP) were vested and exercised as at August 8, 2019 was 5,133,223.

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 with the OEB:

Application	Years	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision received[1]
Hydro One Networks	2019	Transmission – Revenue Cap	OEB decision received
Hydro One Networks	2020-2022	Transmission – Custom	OEB decision pending
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision received[2]
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
B2M LP	2020-2024	Transmission – Revenue Cap	OEB decision pending
HOSSM	2017-2026	Transmission – Revenue Cap	OEB decision received
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power	n/a	Acquisition	OEB decision pending[3]
Peterborough Distribution	n/a	Acquisition	OEB decision pending
Leave to Construct			
East-West Tie Station Expansion	n/a	Section 92	OEB decision received
Lake Superior Link Project	n/a	Section 92	OEB decision received[4]

[1] On March 7, 2019, the OEB upheld its Original Decision relating to the deferred tax asset. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court.
[2] On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court, which is being held in abeyance pending the outcome of the motion.
[3] In September 2018, Hydro One filed a new MAAD application with the OEB to acquire Orillia Power.
[4] On February 11, 2019, the OEB issued its decision awarding the construction of the East-West Tie Line to NextBridge, as directed by the Province of Ontario (Province) on January 30, 2019.

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	2019	n/a[1]	n/a[1]	Filed in October 2018	Approved in June 2019
	2020	8.98% (F)	$12,375 million[2] (F)	Filed in March 2019	To be filed
	2021	8.98% (F)	$13,093 million[2] (F)	Filed in March 2019	To be filed
	2022	8.98% (F)	$13,917 million[2] (F)	Filed in March 2019	To be filed
B2M LP	2019	8.98% (A)	$496 million (A)	Approved in December 2015	Approved in December 2018
B2M LP	2020-2024	8.98% (F)	$490 million (F)	Filed in July 2019	To be filed
HOSSM	2017-2026	9.19% (A)	$218 million (A)	Approved in October 2016	Approved in July 2019[3]
Distribution					
Hydro One Networks	2018	9.00% (A)	$7,637 million (F)	Filed in March 2017[4]	Approved in June 2019
	2019	8.98% (A)	$7,894 million (F)	Filed in March 2017[4]	Approved in June 2019
	2020	8.98% (F)	$8,175 million (F)	Filed in March 2017[4]	To be filed in 2019
	2021	8.98% (F)	$8,517 million (F)	Filed in March 2017[4]	To be filed in 2020
	2022	8.98% (F)	$8,813 million (F)	Filed in March 2017[4]	To be filed in 2021

[1] The Revenue Cap application is a formulaic adjustment to the approved revenue requirement and does not consider ROE or rate base.
[2] On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments.
[3] In October 2016, the OEB approved the 2017-2026 revenue requirements. In June 2019, the OEB approved the request for an inflationary increase (revenue cap escalator index) to the 2019 revenue requirement. On July 18, 2019, the OEB issued the final rate order including a final 2019 revenue requirement of $38 million to be included in the 2019 Uniform Transmission Rates (UTRs).
[4] On June 11, 2019, the OEB approved Hydro One Networks' rate order which included the rate base amounts shown above.

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 (Original Decision), with 2017 rates effective January 1, 2017.

In its Original 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, 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One 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 a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Original Decision relating to the deferred tax asset to an OEB panel for reconsideration.

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019 the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of $474 million and Hydro One Networks' transmission deferred income tax regulatory asset of $558 million, an increase in deferred income tax regulatory liability of $81 million, and a decrease in the foregone revenue deferral regulatory asset of $68 million. After recognition of the related $314 million deferred tax asset, the Company recorded an $867 million one-time decrease in net income as a reversal of revenues of $68 million, and charge to deferred tax expense of $799 million, which is expected to result in an annual decrease to FFO in the range of $50 million to $60 million. Notwithstanding the recognition of the effects of the decision in the 2018 financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax asset decision. The appeal is scheduled to be heard on November 21, 2019.

On October 26, 2018, Hydro One filed a one-year inflation based application with the OEB for 2019 transmission revenue requirement. On December 20, 2018, the OEB issued a decision approving Hydro One's 2018 revenue requirement as interim for 2019. On April 25, 2019, the OEB issued its decision on Hydro One's 2019 transmission rate application, and set the revenue index at 1.4% on a final basis effective May 1, 2019.

On March 21, 2019, the Company filed a three-year Custom Incentive Rate application with the OEB for 2020-2022 transmission rates. On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments. The OEB decision is pending.

Hydro One Networks - Distribution

On March 31, 2017, Hydro One Networks filed a custom application with the OEB for 2018-2022 distribution rates under the OEB's incentive-based regulatory framework (2018-2022 Distribution Application), which was subsequently updated on June 7 and December 21, 2017. The application reflects the level of capital investments required to minimize degradation in overall system asset condition, to meet regulatory requirements, and to maintain current reliability levels.

On March 7, 2019, the OEB rendered its decision on the 2018-2022 Distribution Application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of $1,459 million for 2018, $1,498 million for 2019, $1,532 million for 2020, $1,578 million for 2021, and $1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements. See above in "- Hydro One Networks - Transmission" for impacts relating to the distribution deferred income tax regulatory asset.

On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs, and on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court. The appeal is being held in abeyance pending the outcome of the motion.

Hydro One Remote Communities

On November 5, 2018, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.8% effective May 1, 2019. On February 11, 2019, the OEB issued a draft decision approving the requested increase, which was later finalized on March 28, 2019.

Hydro One Remote Communities is fully financed by debt and is operated as a break-even entity with no ROE.

Niagara Reinforcement Limited Partnership (NRLP)

On September 19, 2018, NRLP was formed to own and operate a new 230 kV transmission line in the Niagara region that will enable generators in the Niagara area to connect to the load centres of the Greater Toronto and Hamilton areas. NRLP is designed to include minority participation of local First Nations partners in a structure similar to B2M LP.

On September 27, 2018, Hydro One filed a transmission licence application with the OEB for NRLP. On October 25, 2018, Hydro One filed two other applications with the OEB relating to NRLP requesting approval for Hydro One Networks to sell the applicable assets to NRLP and approval of interim rates to include in the 2019 UTRs. On December 20, 2018, the OEB issued a decision finding that the request for approval for an interim revenue requirement effective January 1, 2019 was premature but indicated that there would be an opportunity to adjudicate the matter at a later date.

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.

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2019	2018	2019	2018
Net cash from operating activities	297	292	415	668
Changes in non-cash balances related to operations	40	93	155	139
Preferred share dividends	(4)	(4)	(9)	(9)
Distributions to noncontrolling interest	(2)	(2)	(6)	(5)
FFO	331	379	555	793

Adjusted Net Income and Adjusted EPS

The following adjusted net income, and basic and diluted Adjusted EPS have been calculated by management on a supplementary basis which adjusts net income under US GAAP for income and costs related to the Merger. Adjusted net income and Adjusted EPS are used internally by management to assess the Company's performance and are considered useful because they exclude the impact of Merger-related costs and loss or gain on the foreign-exchange contract. Adjusted net income and Adjusted EPS provide users with a comparative basis to evaluate the current ongoing operations of the Company compared to prior year.

	Three months ended June 30		Six months ended June 30	
(millions of dollars, except number of shares and EPS)	2019	2018	2019	2018
Net income attributable to common shareholders	155	200	326	422
Impacts related to Merger:				
OM&A - Merger-related costs (before tax)	—	2	138	4
Financing charges - Merger-related costs (before tax)	—	15	31	29
Financing charges - loss (gain) on foreign-exchange contract (before tax)	—	(22)	22	(49)
Tax impact	—	(1)	(51)	(2)
Merger-related impacts (after tax)	—	(6)	140	(18)
Adjusted net income attributable to common shareholders	155	194	466	404
Weighted average number of shares				
Basic	596,503,988	595,867,452	596,234,123	595,628,410
Effect of dilutive stock-based compensation plans	2,442,181	2,130,394	2,368,823	2,282,375
Diluted	598,946,169	597,997,846	598,602,946	597,910,785
Adjusted EPS				
Basic	$0.26	$0.33	$0.78	$0.68
Diluted	$0.26	$0.32	$0.78	$0.68

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of 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.

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2019	2018	2019	2018
Revenues	1,413	1,477	3,172	3,053
Less: Purchased power	653	674	1,460	1,425
Revenues, net of purchased power	760	803	1,712	1,628

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2019	2018	2019	2018
Distribution revenues	1,029	1,036	2,350	2,181
Less: Purchased power	653	674	1,460	1,425
Distribution revenues, net of purchased power	376	362	890	756

FFO, basic and diluted Adjusted EPS, adjusted net Income, revenues, net of purchased power, and distribution 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.

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.3% ownership at June 30, 2019. 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. OCN LP is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2019 and 2018:

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	**Transaction**	**2019**	**2018**	**2019**	**2018**
Province	Dividends paid	72	69	142	136
IESO	Power purchased	259	245	809	758
	Revenues for transmission services	370	414	783	819
	Amounts related to electricity rebates	104	103	242	240
	Distribution revenues related to rural rate protection	60	61	118	118
	Distribution revenues related to the supply of electricity to remote northern communities	9	8	18	16
	Funding received related to Conservation and Demand Management programs	8	10	23	22
OPG	Power purchased	2	2	5	6
	Revenues related to provision of services and supply of electricity	1	2	3	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
OCN LP	Investment in OCN LP	—	—	2	—

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, 2019, that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

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 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;
- 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 risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- the risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- 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 2018 amended 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, the US Securities and Exchange Commission's EDGAR website at www.sec.gov/edgar.shtml, 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, 2019 and 2018

(millions of Canadian dollars, except per share amounts)	Three months ended June 30 2019	2018	Six months ended June 30 2019	2018
Revenues				
Distribution (includes related party revenues of $70 and $139 (2018 - $70 and $137) for the three and six months ended June 30, respectively) *(Note 24)*	1,029	1,036	2,350	2,181
Transmission (includes related party revenues of $370 and $783 (2018 - $415 and $820) for the three and six months ended June 30, respectively) *(Note 24)*	374	430	802	851
Other	10	11	20	21
	1,413	1,477	3,172	3,053
Costs				
Purchased power (includes related party costs of $261 and $815 (2018 - $247 and $765) for the three and six months ended June 30, respectively) *(Note 24)*	653	674	1,460	1,425
Operation, maintenance and administration *(Notes 4, 24)*	267	256	683	526
Depreciation, amortization and asset removal costs *(Note 5)*	221	210	433	407
	1,141	1,140	2,576	2,358
Income before financing charges and income taxes	**272**	**337**	**596**	**695**
Financing charges *(Notes 4, 6)*	117	99	280	187
Income before income taxes	**155**	**238**	**316**	**508**
Income tax expense (recovery) *(Note 7)*	(6)	32	(22)	74
Net income	**161**	**206**	**338**	**434**
Other comprehensive income (loss)	—	—	(1)	—
Comprehensive income	**161**	**206**	**337**	**434**
Net income attributable to:				
Noncontrolling interest	2	2	3	3
Preferred shareholders	4	4	9	9
Common shareholders	155	200	326	422
	161	**206**	**338**	**434**
Comprehensive income attributable to:				
Noncontrolling interest	2	2	3	3
Preferred shareholders	4	4	9	9
Common shareholders	155	200	325	422
	161	**206**	**337**	**434**
Earnings per common share *(Note 22)*				
Basic	$0.26	$0.34	$0.55	$0.71
Diluted	$0.26	$0.33	$0.54	$0.71
Dividends per common share declared *(Note 21)*	$0.24	$0.23	$0.47	$0.45

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At June 30, 2019 and December 31, 2018

(millions of Canadian dollars)	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	35	483
Accounts receivable *(Note 8)*	602	628
Due from related parties *(Note 24)*	342	255
Other current assets *(Note 9)*	143	125
	1,122	1,491
Property, plant and equipment *(Note 10)*	20,946	20,687
Other long-term assets:		
Regulatory assets *(Note 11)*	1,869	1,721
Deferred income tax assets	911	1,018
Intangible assets (net of accumulated amortization - $475; 2018 - $445)	437	410
Goodwill	325	325
Other assets *(Note 12)*	37	5
	3,579	3,479
Total assets	**25,647**	**25,657**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 15)*	598	1,252
Long-term debt payable within one year *(Notes 15, 17)*	1,153	731
Accounts payable and other current liabilities *(Note 13)*	958	956
Due to related parties *(Note 24)*	5	89
	2,714	3,028
Long-term liabilities:		
Long-term debt (includes $851 measured at fair value; 2018 - $845) *(Notes 15, 17)*	10,825	9,978
Convertible debentures *(Notes 16, 17)*	—	489
Regulatory liabilities *(Note 11)*	204	326
Deferred income tax liabilities	60	58
Other long-term liabilities *(Note 14)*	2,155	2,135
	13,244	12,986
Total liabilities	**15,958**	**16,014**
Contingencies and Commitments (Notes 26, 27)		
Subsequent Events (Note 29)		
Noncontrolling interest subject to redemption	20	21
Equity		
Common shares *(Note 20)*	5,657	5,643
Preferred shares *(Note 20)*	418	418
Additional paid-in capital	48	56
Retained earnings	3,503	3,459
Accumulated other comprehensive loss	(4)	(3)
Hydro One shareholders' equity	9,622	9,573
Noncontrolling interest	47	49
Total equity	**9,669**	**9,622**
	25,647	**25,657**

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, 2019 and 2018

Six months ended June 30, 2019 *(millions of Canadian dollars)*	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, 2019	5,643	418	56	3,459	(3)	9,573	49	9,622
Net income	—	—	—	335	—	335	2	337
Other comprehensive income (loss)	—	—	—	—	(1)	(1)	—	(1)
Distributions to noncontrolling interest	—	—	—	—	—	—	(4)	(4)
Dividends on preferred shares	—	—	—	(9)	—	(9)	—	(9)
Dividends on common shares	—	—	—	(282)	—	(282)	—	(282)
Common shares issued	14	—	(11)	—	—	3	—	3
Stock-based compensation	—	—	3	—	—	3	—	3
June 30, 2019	**5,657**	**418**	**48**	**3,503**	**(4)**	**9,622**	**47**	**9,669**

Six months ended June 30, 2018 *(millions of Canadian dollars)*	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**

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, 2019 and 2018

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	2019	2018	2019	2018
Operating activities				
Net income	161	206	338	434
Environmental expenditures	(8)	(6)	(16)	(10)
Adjustments for non-cash items:				
Depreciation and amortization *(Note 5)*	193	182	384	361
Regulatory assets and liabilities	(3)	(11)	(173)	(3)
Deferred income taxes	(14)	24	(37)	59
Unrealized loss (gain) on foreign-exchange contract	—	(22)	22	(49)
Derecognition of deferred financing costs	—	—	24	—
Other	8	12	28	15
Changes in non-cash balances related to operations *(Note 25)*	(40)	(93)	(155)	(139)
Net cash from operating activities	**297**	**292**	**415**	**668**
Financing activities				
Long-term debt issued	1,500	1,400	1,500	1,400
Long-term debt repaid	(1)	(1)	(229)	(1)
Short-term notes issued	482	1,370	2,592	2,542
Short-term notes repaid	(1,734)	(1,311)	(3,246)	(2,420)
Convertible debentures redeemed	—	—	(513)	—
Dividends paid	(149)	(141)	(291)	(277)
Distributions paid to noncontrolling interest	(2)	(2)	(6)	(5)
Common shares issued *(Note 20)*	3	—	3	—
Costs to obtain financing	(8)	(6)	(8)	(6)
Net cash from (used in) financing activities	**91**	**1,309**	**(198)**	**1,233**
Investing activities				
Capital expenditures *(Note 25)*				
Property, plant and equipment	(336)	(366)	(616)	(652)
Intangible assets	(24)	(22)	(48)	(36)
Capital contributions received	3	—	3	—
Other	—	4	(4)	7
Net cash used in investing activities	**(357)**	**(384)**	**(665)**	**(681)**
Net change in cash and cash equivalents	31	1,217	(448)	1,220
Cash and cash equivalents, beginning of period	4	28	483	25
Cash and cash equivalents, end of period	**35**	**1,245**	**35**	**1,245**

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, 2019, the Province held approximately 47.3% (December 31, 2018 - 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

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON) in respect of the Bruce-to-Milton transmission line. Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Transmission

On March 7, 2019, the Ontario Energy Board (OEB) issued a decision on its reconsideration of its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirement dated September 28, 2017 (Original Decision) with respect to the rate-setting treatment of the benefits of the deferred tax asset resulting from the transition from the payments in lieu of tax regime under the *Electricity Act 1998* (Ontario) to tax payments under the federal and provincial tax regimes which occurred when Hydro One became a public company listed on the Toronto Stock Exchange. See Note 11 - Regulatory Assets and Liabilities for additional information. On October 26, 2018, Hydro One filed a one-year inflation-based application with the OEB for 2019 transmission revenue requirement. On April 25, 2019, the OEB issued its decision on Hydro One Networks' 2019 transmission rate application, and set the revenue index at 1.4% on a final basis effective May 1, 2019.

On November 23, 2018, B2M LP filed a revised 2019 revenue requirement with the OEB using the updated cost of capital parameters. On December 20, 2018, the OEB issued its decision approving the requested 2019 revenue requirement of $33 million, effective January 1, 2019.

HOSSM is under a 10-year deferred rebasing period for years 2017-2026, as approved in the OEB Mergers Acquisitions Amalgamations and Divestitures (MAAD) decision dated October 13, 2016. In July 2018, HOSSM filed a 2019 application for permission to include a revenue cap escalator index, which would allow for inflationary increases to its previously approved revenue requirement. On June 20, 2019, the OEB approved the revenue cap escalator index at 1.1% (net) which was applied to HOSSM's base revenue requirement for 2019, effective February 1, 2019, and also approved the 2019-2026 revenue cap framework.

Distribution

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates. On March 7, 2019, the OEB rendered its decision on the distribution rates application. In accordance with the OEB decision, the Company filed its draft rate order reflecting updated revenue requirements of $1,459 million for 2018, $1,498 million for 2019, $1,532 million for 2020, $1,578 million for 2021, and $1,624 million for 2022. On June 11, 2019, the OEB approved the rate order confirming these updated revenue requirements. See Note 11 - Regulatory Assets and Liabilities for additional information.

On November 5, 2018, Hydro One Remote Communities filed an application with the OEB seeking approval for increased base rates of 1.8% effective May 1, 2019. On February 11, 2019, the OEB issued a draft decision approving the requested increase, which was later finalized on March 28, 2019.

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. Inter-company transactions and balances have been eliminated.

Basis of Accounting

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

The accounting policies applied are consistent with those outlined in Hydro One's annual audited amended consolidated financial statements for the year ended December 31, 2018, with the exception of the adoption of new accounting standards as described below and in Note 3. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual audited 2018 amended consolidated financial statements.

Leases

Effective January 1, 2019, the Company adopted Accounting Standards Codification (ASC) 842 - *Leases* using the modified retrospective transition approach using the effective date of January 1, 2019, as its date of initial application. In the Company's transition to ASC 842, the Company elected the package of practical expedients and the land easement practical expedient. As a result, there was a $27 million impact to the Consolidated Balance Sheet and no adjustments were made to prior period reported financial statement amounts. There was no material impact to the Consolidated Statement of Operations and Comprehensive Income. On adoption, the Company did not identify any finance leases.

At the commencement date of a lease, the minimum lease payments are discounted and recognized as a lease obligation. Discount rates used correspond to the Company's incremental borrowing rates. Renewal options are assessed for their likelihood of being exercised and are included in the measurement of the lease obligation when it is reasonably certain they will be exercised. The Company does not recognize leases with a term of less than 12 months. A corresponding Right-of-Use (ROU) asset is recognized at the commencement date of a lease. The ROU asset is measured as the lease obligation adjusted for any lease payments made and/or any lease incentives and initial direct costs incurred. ROU assets are included in other long-term assets, and corresponding lease obligations are included in other current liabilities and other long-term liabilities on the Consolidated Balance Sheets.

Subsequent to the commencement date, the lease expense recognized at each reporting period is the total remaining lease payments over the remaining lease term. Lease obligations are measured as the present value of the remaining unpaid lease payments using the discount rate established at commencement date. The amortization of the ROU assets are calculated as the difference between the lease expense and the accretion of interest, which is calculated on the effective interest method. Lease modifications and impairments are assessed at each reporting period to assess the need for a re-measurement of the lease obligations or ROU assets.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	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.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 to the financial statements for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 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	No impact upon adoption
ASU 2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Hydro One early-adopted this ASU on April 1, 2019. The ASU was applied prospectively and there was no material impact upon adoption.

6. FINANCING CHARGES

(millions of dollars)	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Interest on long-term debt	123	108	234	214
Derecognition of deferred financing costs *(Notes 4, 16)*	—	—	24	—
Unrealized loss (gain) on foreign-exchange contract *(Notes 4, 17)*	—	(22)	22	(49)
Interest on short-term notes	5	4	13	7
Interest on convertible debentures *(Notes 4, 16)*	—	16	7	31
Other	6	6	9	10
Less: Interest capitalized on construction and development in progress	(13)	(13)	(24)	(26)
Interest earned on cash and cash equivalents	(4)	—	(5)	—
	117	99	280	187

7. INCOME TAXES

As a rate-regulated utility company, the Company's effective tax rate excludes temporary differences that are recoverable in future rates charged to customers. 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:

Six months ended June 30 *(millions of dollars)*	2019	2018
Income before income taxes	316	508
Income taxes at statutory rate of 26.5% (2018 - 26.5%)	84	135
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization[1]	(45)	(25)
Overheads capitalized for accounting but deducted for tax purposes	(9)	(9)
Pension and post-retirement benefit contributions in excess of expense	(8)	(4)
Interest capitalized for accounting but deducted for tax purposes	(6)	(7)
Environmental expenditures	(4)	(4)
Other	(6)	(8)
Net temporary differences	(78)	(57)
Incremental tax deductions from deferred tax asset sharing[2]	(32)	—
Net permanent differences	4	(4)
Total income tax expense (recovery)	(22)	74
Effective income tax rate	(7.0%)	14.6%

[1] Included in current period's amount is the accelerated tax depreciation (Accelerated CCA) of up to three times the first-year rate for certain eligible capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028, as introduced in the 2019 federal and Ontario budgets and enacted in the second quarter of 2019.

[2] Incremental tax deductions from deferred tax sharing represents the OEB's prescribed allocation to ratepayers of the net deferred tax asset that originated from the transition from the payments in lieu of tax regime under the *Electricity Act 1998* (Ontario) to tax payments under the federal and provincial tax regime.

8. ACCOUNTS RECEIVABLE

(millions of dollars)	June 30, 2019	December 31, 2018
Accounts receivable - billed	315	292
Accounts receivable - unbilled	309	357
Accounts receivable, gross	624	649
Allowance for doubtful accounts	(22)	(21)
Accounts receivable, net	602	628

The following table shows the movements in the allowance for doubtful accounts for the six months ended June 30, 2019 and the year ended December 31, 2018:

(millions of dollars)	Six months ended June 30, 2019	Year ended December 31, 2018
Allowance for doubtful accounts - beginning	(21)	(29)
Write-offs	8	25
Additions to allowance for doubtful accounts	(9)	(17)
Allowance for doubtful accounts - ending	(22)	(21)

9. OTHER CURRENT ASSETS

(millions of dollars)	June 30, 2019	December 31, 2018
Regulatory assets *(Note 11)*	61	42
Prepaid expenses and other assets	62	41
Materials and supplies	20	20
Derivative instrument - foreign-exchange contract *(Notes 4, 17)*	—	22
	143	125

10. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	June 30, 2019	December 31, 2018
Property, plant and equipment	30,850	30,485
Less: accumulated depreciation	(11,218)	(10,900)
	19,632	19,585
Construction in progress	1,156	947
Future use land, components and spares	158	155
	20,946	20,687

11. REGULATORY ASSETS AND LIABILITIES

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

(millions of dollars)	June 30, 2019	December 31, 2018
Regulatory assets:		
Deferred income tax regulatory asset	971	908
Pension benefit regulatory asset	528	547
Environmental	151	165
Foregone revenue deferral	99	—
Post-retirement and post-employment benefits - non-service cost	56	39
Stock-based compensation	39	43
Pension cost differential	26	—
Debt premium	19	22
Distribution system code exemption	10	10
Conservation and Demand Management (CDM) deferral variance	6	—
Other	25	29
Total regulatory assets	1,930	1,763
Less: current portion	(61)	(42)
	1,869	1,721
Regulatory liabilities:		
Post-retirement and post-employment benefits	130	130
Green Energy expenditure variance	48	52
Retail settlement variance account	36	39
Tax rule changes variance	24	5
Pension cost differential	17	55
External revenue variance	11	26
2015-2017 rate rider	6	6
Deferred income tax regulatory liability	5	86
Other	13	18
Total regulatory liabilities	290	417
Less: current portion	(86)	(91)
	204	326

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates.

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision). In its Original 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 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One 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 a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Decision relating to the deferred tax asset to an OEB panel for reconsideration.

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019, the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of $474 million and Hydro One Networks' transmission deferred income tax regulatory asset of $558 million, an increase in deferred income tax regulatory liability of $81 million, and a decrease in the foregone revenue deferral regulatory asset of $68 million. The regulatory balances relating to deferred tax asset sharing will continue to decrease as the tax savings are shared with ratepayers. Notwithstanding the recognition of the effects of the decision in the financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax benefit decision. The appeal is scheduled to be heard on November 21, 2019.

Foregone Revenue Deferral

The foregone revenue deferral account records the difference between revenue earned based on distribution rates approved by the OEB in Hydro One Networks' 2018-2022 distribution rates application, effective May 1, 2018, and revenue earned under the interim rates until the approved 2018 and 2019 rates were implemented on July 1, 2019. The balance of this account is being recovered from ratepayers over an 18-month period ending December 31, 2020. The foregone revenue deferral account also records the difference between revenue earned based on transmission rates approved by the OEB in Hydro One Networks' 2019 transmission rate application, effective May 1, 2019, and the revenue earned under the interim rates until the approved 2019 rates were implemented on July 1, 2019. The balance of this account is being recovered from ratepayers over a 6-month period ending December 31, 2019.

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

Hydro One applied to the OEB for a regulatory asset account 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 and March 2019, the OEB approved the regulatory asset account for Hydro One Networks' Transmission Business and Distribution Business, respectively. 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.

Pension Cost Differential

Variances between the pension cost recognized and the cost embedded in rates as part of the rate-setting process for Hydro One Networks' transmission and distribution businesses are recognized as a regulatory asset or regulatory liability, as the case may be. As part of its March 2019 decision on Hydro One Networks' 2018-2022 distribution rates, the OEB denied Hydro One's request to recover pension costs. On March 26, 2019, Hydro One filed a Motion to Review and Vary to the OEB and on April 5, 2019, an appeal to the Ontario Divisional Court was filed in respect to the recovery of pension contributions. The Company's position in the aforementioned motion and appeal is that the OEB made errors in its decision to disallow the recovery of Hydro One's pension contributions. Therefore, the Company has reflected the impact of this position in Hydro One Networks' distribution Pension Cost Differential regulatory account. The appeal is being held in abeyance pending the outcome of the motion.

Tax Rule Changes Variance

Subsequent to the 2019 federal and Ontario budgets (budgets) being enacted in the second quarter of 2019, Hydro One recorded the revenue requirement impact of accelerated depreciation rules in the tax rule changes variance account which gave rise to regulatory liabilities to be refunded to ratepayers in the future. The budgets provided certain time-limited investment incentives permitting Hydro One to deduct accelerated capital cost allowance of up to three times the first-year rate for capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028.

12. OTHER LONG-TERM ASSETS

(millions of dollars)	June 30, 2019	December 31, 2018
ROU assets *(Note 19)*	25	—
Other	12	5
	37	5

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(millions of dollars)	June 30, 2019	December 31, 2018
Accounts payable	132	179
Accrued liabilities	628	590
Accrued interest	104	96
Regulatory liabilities *(Note 11)*	86	91
Lease obligations *(Note 19)*	8	—
	958	956

14. OTHER LONG-TERM LIABILITIES

(millions of dollars)	June 30, 2019	December 31, 2018
Post-retirement and post-employment benefit liability *(Note 18)*	1,453	1,417
Pension benefit liability *(Note 18)*	528	547
Environmental liabilities	126	139
Lease obligations *(Note 19)*	18	—
Long-term accounts payable	11	12
Asset retirement obligations	10	10
Other liabilities	9	10
	2,155	2,135

15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of $2.3 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.

At June 30, 2019, 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. On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended from 2021 and 2022 to 2024. At June 30, 2019, no amounts have been drawn on the Operating Credit Facilities.

On February 1, 2019, Hydro One entered into a credit agreement for a $170 million unsecured demand operating credit facility (Demand Facility) which was used to fund the payment of the Merger termination fee and other Merger-related costs. On June 6, 2019, the $170 million drawn on the Demand Facility was repaid, and the Demand Facility is no longer available.

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

Subsidiary Debt Guarantee

Hydro One Holdings Limited (HOHL) is an indirect wholly-owned subsidiary of Hydro One that may offer and sell debt securities. Any debt securities issued by HOHL are fully and unconditionally guaranteed by the Company. At June 30, 2019, no debt securities have been issued by HOHL.

Long-Term Debt

The following table presents long-term debt outstanding at June 30, 2019 and December 31, 2018:

(millions of dollars)	June 30, 2019	December 31, 2018
Hydro One Inc. long-term debt (a)	11,845	10,573
HOSSM long-term debt (b)	164	168
	12,009	10,741
Add: Net unamortized debt premiums	12	13
Add: Unrealized mark-to-market loss (gain)[1]	1	(5)
Less: Unamortized deferred debt issuance costs	(44)	(40)
Total long-term debt	11,978	10,709
Less: Long-term debt payable within one year	(1,153)	(731)
	10,825	9,978

[1] The unrealized mark-to-market net loss of $1 million (December 31, 2018 - $5 million 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 loss is offset by a $1 million unrealized mark-to-market net gain (December 31, 2018 - $5 million 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, 2019, long-term debt of $11,845 million (December 31, 2018 - $10,573 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

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at June 30, 2019 and December 31, 2018 are as follows:

(millions of dollars)	June 30, 2019 Carrying Value	June 30, 2019 Fair Value	December 31, 2018 Carrying Value	December 31, 2018 Fair Value
Long-term debt measured at fair value:				
$50 million of MTN Series 33 notes	50	50	49	49
$500 million MTN Series 37 notes	498	498	495	495
$300 million MTN Series 39 notes	303	303	301	301
Other notes and debentures	11,127	13,111	9,864	10,820
Long-term debt, including current portion	11,978	13,962	10,709	11,665

Fair Value Measurements of Derivative Instruments

At June 30, 2019, Hydro One Inc. had interest-rate swaps with a total notional amount of $850 million (December 31, 2018 - $850 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 7% (December 31, 2018 - 8%) of its total long-term debt. At June 30, 2019, 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, 2019 and December 31, 2018, 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 (foreign-exchange 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 was contingent on the Company closing the proposed Merger (see Note 4 - Business Combinations) and was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed with the issuance of Convertible Debentures. This contract was an economic hedge and did not qualify for hedge accounting. It has been accounted for as an undesignated contract with changes in fair value being recorded in earnings as they occurred. As a result of the termination of the Merger agreement (see Note 4 - Business Combinations) in January 2019, the foreign-exchange contract was terminated and previously recorded unrealized gains of $22 million were reversed in financing charges. No payment was due or payable by Hydro One related to the foreign-exchange contract.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at June 30, 2019 and December 31, 2018 is as follows:

June 30, 2019 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instruments - fair value hedges (interest-rate swaps)	3	3	—	3	—
	3	3	—	3	—
Liabilities:					
Long-term debt, including current portion	11,978	13,962	—	13,962	—
Derivative instruments - fair value hedges (interest-rate swaps)	2	2	—	2	—
	11,980	13,964	—	13,964	—

December 31, 2018 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instrument - foreign-exchange contract	22	22	—	—	22
	22	22	—	—	22
Liabilities:					
Long-term debt, including current portion	10,709	11,665	—	11,665	—
Convertible debentures	489	491	491	—	—
Derivative instruments - fair value hedges (interest-rate swaps)	5	5	—	5	—
	11,203	12,161	491	11,670	—

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.

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, 2019 and the year ended December 31, 2018:

(millions of dollars)	Six months ended June 30, 2019	Year ended December 31, 2018
Fair value of asset (liability) - beginning	22	(3)
Unrealized gain (loss) on foreign-exchange contract included in financing charges	(22)	25
Fair value of asset - ending	—	22

There were no transfers between any of the fair value levels during the six months ended June 30, 2019 and the year ended December 31, 2018.

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 material decrease in Hydro One's net income for the three and six months ended June 30, 2019 and 2018.

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, 2019 and 2018 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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, there was no material accounts receivable balance due from any single customer.

At June 30, 2019, the Company's provision for bad debts was $22 million (December 31, 2018 - $21 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At June 30, 2019, approximately 7% (December 31, 2018 - 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 on both an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At June 30, 2019 and December 31, 2018, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At June 30, 2019, 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.

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. 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. On November 23, 2018, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At June 30, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

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

Estimated annual Pension Plan contributions for the years 2019, 2020, 2021, 2022, 2023 and 2024 are approximately $78 million, $77 million, $78 million, $79 million, $81 million and $83 million, respectively. The most recent actuarial valuation was performed effective December 31, 2017, and the next actuarial valuation will be performed no later than effective December 31, 2020. Employer contributions during the six months ended June 30, 2019 were $39 million (2018 - $25 million).

The following tables provide the components of the net periodic benefit costs for the three and six months ended June 30, 2019 and 2018:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended June 30 *(millions of dollars)*	**2019**	**2018**	**2019**	**2018**
Current service cost	36	44	14	12
Interest cost	75	70	15	14
Expected return on plan assets, net of expenses[1]	(115)	(116)	—	—
Amortization of actuarial losses	14	21	—	—
Net periodic benefit costs	10	19	29	26
Charged to results of operations[2]	6	2	11	9

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Six months ended June 30 *(millions of dollars)*	**2019**	**2018**	**2019**	**2018**
Current service cost	73	88	28	24
Interest cost	151	141	30	28
Expected return on plan assets, net of expenses[1]	(231)	(233)	—	—
Amortization of actuarial losses	28	42	1	1
Net periodic benefit costs	21	38	59	53
Charged to results of operations[2]	14	11	23	21

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2019 is 6.5% (2018 - 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, 2019, pension costs of $14 million (2018 - $4 million) and $33 million (2018 - $25 million), respectively, were attributed to labour, of which $6 million (2018 - $2 million) and $14 million (2018 - $11 million), respectively, was charged to operations, $4 million (2018 - $nil) and $9 million (2018 - $nil), respectively, was recorded as regulatory assets, and $4 million (2018 - $2 million) and $10 million (2018 - $14 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets.

19. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years with renewal options of additional three to five year terms at prevailing market rates at the time of extension. Renewal options are included in the lease term when their exercise is reasonably certain.

Other information related to the Company's operating leases was as follows:

(millions of dollars)	Three months ended June 30 2019	Six months ended June 30 2019
Lease expense	3	5
Lease payments made	2	4

June 30, 2019	
Weighted-average remaining lease term	5
Weighted-average discount rate	2.9%

At June 30, 2019, future minimum operating lease payments were as follows:

(millions of dollars)	
Remainder of 2019	4
2020	12
2021	5
2022	2
2023	1
2024	1
Thereafter	3
Total undiscounted minimum lease payments	28
Less: discounting minimum lease payments to present value	(2)
Total discounted minimum lease payments	26

At December 31, 2018, future minimum operating lease payments were as follows:

(millions of dollars)	
2019	7
2020	11
2021	4
2022	1
2023	1
Thereafter	4
Total undiscounted minimum lease payments	28

Hydro One presents its ROU assets and lease obligations on the Consolidated Balance Sheets as follows:

(millions of dollars)	June 30, 2019
Other long-term assets *(Note 12)*	25
Accounts payable and other current liabilities *(Note 13)*	8
Other long-term liabilities *(Note 14)*	18

20. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At June 30, 2019, the Company had 596,605,054 common shares issued and outstanding (December 31, 2018 - 595,938,975).

The following table presents the changes to common shares during the six months ended June 30, 2019:

(number of shares)	
Common shares - December 31, 2018	595,938,975
Common shares issued - LTIP[1]	203,137
Common shares issued - share grants[2]	462,942
Common shares - June 30, 2019	596,605,054

[1] During the six months ended June 30, 2019, Hydro One issued from treasury 203,137 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP). This included the exercise of 129,780 stock options for $3 million.

[2] During the six months ended June 30, 2019, Hydro One issued from treasury 462,942 common shares in accordance with provisions of the Power Workers' Union (PWU) and the Society of United Professionals (Society) Share Grant Plans.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At June 30, 2019 and December 31, 2018, two series of preferred shares were authorized for issuance: Series 1 preferred shares and Series 2 preferred shares. At June 30, 2019 and December 31, 2018, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

21. DIVIDENDS

During the three months ended June 30, 2019, preferred share dividends in the amount of $4 million (2018 - $4 million) and common share dividends in the amount of $145 million (2018 - $137 million) were declared and paid.

During the six months ended June 30, 2019, preferred share dividends in the amount of $9 million (2018 - $9 million) and common share dividends in the amount of $282 million (2018 - $268 million) were declared and paid.

22. EARNINGS PER COMMON SHARE

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

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Net income attributable to common shareholders *(millions of dollars)*	155	200	326	422
Weighted-average number of shares				
Basic	596,503,988	595,867,452	596,234,123	595,628,410
Effect of dilutive stock-based compensation plans	2,442,181	2,130,394	2,368,823	2,282,375
Diluted	598,946,169	597,997,846	598,602,946	597,910,785
EPS				
Basic	$0.26	$0.34	$0.55	$0.71
Diluted	$0.26	$0.33	$0.54	$0.71

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS for the three and six months ended June 30, 2019 and 2018, as conditions for closing the Merger were not met. As a result of the termination of the Merger agreement (see Note 4 - Business Combinations), the Convertible Debentures were redeemed on February 8, 2019.

23. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (the PWU Share Grant Plan) and one for the benefit of certain members of the Society (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and six months ended June 30, 2019 and 2018 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of share grants)	2019	2018	2019	2018
Share grants outstanding - beginning	4,234,155	4,825,732	4,234,155	4,825,732
Vested and issued[1]	(462,942)	(481,346)	(462,942)	(481,346)
Share grants outstanding - ending	3,771,213	4,344,386	3,771,213	4,344,386

[1] On April 1, 2019, Hydro One issued from treasury 462,942 common shares to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

Directors' Deferred Share Units (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three and six months ended June 30, 2019 and 2018 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	2019	2018	2019	2018
DSUs outstanding - beginning	35,205	214,843	46,697	187,090
Granted	6,608	28,817	19,131	56,570
Settled	—	—	(24,015)	—
DSUs outstanding - ending	41,813	243,660	41,813	243,660

At June 30, 2019, a liability of $1 million (December 31, 2018 - $1 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of $22.84 (December 31, 2018 - $20.25) and was included in other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

A summary of DSU awards activity under the Management DSU Plan during the three and six months ended June 30, 2019 and 2018 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	2019	2018	2019	2018
DSUs outstanding - beginning	79,387	104,638	108,296	67,829
Granted	548	1,232	23,984	38,041
Settled	(27,438)	—	(79,783)	—
DSUs outstanding - ending	52,497	105,870	52,497	105,870

At June 30, 2019, a liability of $1 million (December 31, 2018 - $2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $22.84 (December 31, 2018 - $20.25) and was included in other liabilities on the Consolidated Balance Sheets.

24. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.3% ownership at June 30, 2019. The Independent Electricity System Operator (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. Ontario Charging Network LP (OCN LP) is a joint-venture limited partnership between a subsidiary of Hydro One and OPG.

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	**Transaction**	**2019**	**2018**	**2019**	**2018**
Province	Dividends paid	72	69	142	136
IESO	Power purchased	259	245	809	758
	Revenues for transmission services	370	414	783	819
	Amounts related to electricity rebates	104	103	242	240
	Distribution revenues related to rural rate protection	60	61	118	118
	Distribution revenues related to the supply of electricity to remote northern communities	9	8	18	16
	Funding received related to CDM programs	8	10	23	22
OPG	Power purchased	2	2	5	6
	Revenues related to provision of services and supply of electricity	1	2	3	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
OCN LP	Investment in OCN LP	—	—	2	—

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

25. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	**2019**	**2018**	**2019**	**2018**
Accounts receivable	33	5	23	53
Due from related parties	(79)	(94)	(87)	(84)
Other assets	3	6	(23)	(5)
Accounts payable	(6)	(5)	(43)	(36)
Accrued liabilities	28	42	31	75
Due to related parties	(11)	(32)	(84)	(152)
Accrued interest	(16)	(18)	8	(1)
Long-term accounts payable and other liabilities	1	(2)	1	(1)
Post-retirement and post-employment benefit liability	7	5	19	12
	(40)	(93)	(155)	(139)

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, 2019 and 2018. The reconciling items include net change in accruals and capitalized depreciation.

	Three months ended June 30, 2019			Six months ended June 30, 2019		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(344)	(26)	(370)	(634)	(47)	(681)
Reconciling items	8	2	10	18	(1)	17
Cash outflow for capital expenditures	(336)	(24)	(360)	(616)	(48)	(664)

	Three months ended June 30, 2018			Six months ended June 30, 2018		
(millions of dollars)	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)

Supplementary Information

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2019	2018	2019	2018
Net interest paid	145	145	244	250
Income taxes paid	3	6	16	12

26. CONTINGENCIES

Legal Proceedings

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, and Norfolk Power Distribution Inc. were defendants in a class action suit commenced in 2015 in which the representative plaintiff was seeking up to $125 million in damages related to allegations of improper billing practices. In March 2019, the plaintiff's application for leave to appeal the lower court's refusal to certify the lawsuit as a class action was denied by the Ontario Court of Appeal, which means that the lawsuit has effectively ended.

There were four putative class action lawsuits filed by Avista Corporation shareholders in relation to the Merger. The plaintiffs in the four lawsuits were, respectively, Fink, Jenß, Samuel and Sharpenter. All of these class action lawsuits have now been dismissed.

27. 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, 2019 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	135	74	8	2	3	15
Long-term software/meter agreement	18	12	1	2	1	1
Operating lease commitments	10	9	4	3	1	7

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, 2019 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities[1]	—	—	—	—	2,550	—
Letters of credit[2]	171	—	—	—	—	—
Guarantees[3]	330	—	—	—	—	—

[1] On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

[2] Letters of credit consist of $163 million letters of credit related to retirement compensation arrangements, $5 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.

[3] Guarantees consist of $325 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees totalling $5 million provided by Hydro One to the Minister of Natural Resources relating to OCN LP.

28. 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, 2019 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	374	1,029	10	1,413
Purchased power	—	653	—	653
Operation, maintenance and administration	101	154	12	267
Depreciation and amortization	114	104	3	221
Income (loss) before financing charges and income taxes	159	118	(5)	272
Capital investments	242	126	2	370

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

Six months ended June 30, 2019 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	802	2,350	20	3,172
Purchased power	—	1,460	—	1,460
Operation, maintenance and administration	200	300	183	683
Depreciation and amortization	227	202	4	433
Income (loss) before financing charges and income taxes	375	388	(167)	596
Capital investments	448	229	4	681

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

Total Assets by Segment:

(millions of dollars)	June 30, 2019	December 31, 2018
Transmission	14,273	13,973
Distribution	9,501	9,325
Other	1,873	2,359
Total assets	25,647	25,657

Total Goodwill by Segment:

(millions of dollars)	June 30, 2019	December 31, 2018
Transmission	157	157
Distribution	168	168
Total goodwill	325	325

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

29. SUBSEQUENT EVENTS

Dividends

On August 8, 2019, preferred share dividends of $4 million and common share dividends of $144 million ($0.2415 per common share) were declared.