| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(millions of Canadian dollars, except per share amounts)* | 2018 | 2017 | 2018 | 2017 |
| **Revenues** | | | | |
| Distribution (includes $68 related party revenues; (2017 – $70) and $205 (2017 - $213) for the three and nine months ended September 30, respectively) *(Note 23)* | 1,103 | 1,040 | 3,284 | 3,317 |
| Transmission (includes $475 related party revenues (2017 – $390) and $1,295 (2017 - $1,125) for the three and nine months ended September 30, respectively) *(Note 23)* | 493 | 471 | 1,344 | 1,199 |
| Other | 10 | 11 | 31 | 35 |
| | 1,606 | 1,522 | 4,659 | 4,551 |
| **Costs** | | | | |
| Purchased power (includes $324 related party costs (2017 – $278) and $1,089 (2017 - $1,177) for the three and nine months ended September 30, respectively) *(Note 23)* | 733 | 675 | 2,158 | 2,213 |
| Operation, maintenance and administration *(Note 23)* | 271 | 277 | 797 | 822 |
| Depreciation and amortization *(Note 5)* | 213 | 209 | 620 | 603 |
| | 1,217 | 1,161 | 3,575 | 3,638 |
| **Income before financing charges and income taxes** | **389** | **361** | **1,084** | **913** |
| Financing charges *(Note 6)* | 149 | 114 | 336 | 320 |
| **Income before income taxes** | **240** | **247** | **748** | **593** |
| Income taxes *(Note 7)* | 41 | 23 | 115 | 73 |
| **Net income** | **199** | **224** | **633** | **520** |
| Other comprehensive income | 2 | — | 2 | 1 |
| **Comprehensive income** | **201** | **224** | **635** | **521** |
| **Net income attributable to:** | | | | |
| Noncontrolling interest | 1 | 1 | 4 | 4 |
| Preferred shareholders | 4 | 4 | 13 | 13 |
| Common shareholders | 194 | 219 | 616 | 503 |
| | **199** | **224** | **633** | **520** |
| **Comprehensive income attributable to:** | | | | |
| Noncontrolling interest | 1 | 1 | 4 | 4 |
| Preferred shareholders | 4 | 4 | 13 | 13 |
| Common shareholders | 196 | 219 | 618 | 504 |
| | **201** | **224** | **635** | **521** |
| **Earnings per common share** *(Note 21)* | | | | |
| Basic | $0.33 | $0.37 | $1.03 | $0.85 |
| Diluted | $0.32 | $0.37 | $1.03 | $0.84 |
| **Dividends per common share declared** *(Note 20)* | $0.23 | $0.22 | $0.68 | $0.65 |

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

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

| *(millions of Canadian dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | 613 | 25 |
| Accounts receivable *(Note 8)* | 590 | 636 |
| Due from related parties | 310 | 253 |
| Other current assets *(Note 9)* | 129 | 105 |
| | 1,642 | 1,019 |
| Property, plant and equipment *(Note 10)* | 20,475 | 19,947 |
| Other long-term assets: | | |
| Regulatory assets *(Note 11)* | 3,227 | 3,049 |
| Deferred income tax assets | 783 | 987 |
| Intangible assets (net of accumulated amortization – $426; 2017 – $375) | 379 | 369 |
| Goodwill | 325 | 325 |
| Other assets | 6 | 5 |
| | 4,720 | 4,735 |
| **Total assets** | **26,837** | **25,701** |
| **Liabilities** | | |
| Current liabilities: | | |
| Short-term notes payable *(Note 14)* | 444 | 926 |
| Long-term debt payable within one year *(Notes 14, 16)* | 981 | 752 |
| Accounts payable and other current liabilities *(Note 12)* | 960 | 905 |
| Due to related parties | 6 | 157 |
| | 2,391 | 2,740 |
| Long-term liabilities: | | |
| Long-term debt (includes $839 measured at fair value; 2017 – $541) *(Notes 14, 16)* | 10,475 | 9,315 |
| Convertible debentures *(Notes 15, 16)* | 489 | 487 |
| Regulatory liabilities *(Note 11)* | 174 | 128 |
| Deferred income tax liabilities | 74 | 71 |
| Other long-term liabilities *(Note 13)* | 2,755 | 2,707 |
| | 13,967 | 12,708 |
| **Total liabilities** | **16,358** | **15,448** |
| *Contingencies and Commitments* *(Notes 25, 26)* | | |
| *Subsequent Events* *(Note 28)* | | |
| Noncontrolling interest subject to redemption | 21 | 22 |
| **Equity** | | |
| Common shares *(Note 19)* | 5,641 | 5,631 |
| Preferred shares *(Note 19)* | 418 | 418 |
| Additional paid-in capital | 54 | 49 |
| Retained earnings | 4,301 | 4,090 |
| Accumulated other comprehensive loss | (5) | (7) |
| Hydro One shareholders' equity | 10,409 | 10,181 |
| Noncontrolling interest | 49 | 50 |
| **Total equity** | **10,458** | **10,231** |
| | **26,837** | **25,701** |

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

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

| Nine months ended September 30, 2018<br>*(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 | — | — | — | 629 | — | 629 | 3 | 632 |
| Other comprehensive income | — | — | — | — | 2 | 2 | — | 2 |
| Distributions to noncontrolling interest | — | — | — | — | — | — | (4) | (4) |
| Dividends on preferred shares | — | — | — | (13) | — | (13) | — | (13) |
| Dividends on common shares | — | — | — | (405) | — | (405) | — | (405) |
| Common shares issued | 10 | — | (10) | — | — | — | — | — |
| Stock-based compensation | — | — | 15 | — | — | 15 | — | 15 |
| **September 30, 2018** | **5,641** | **418** | **54** | **4,301** | **(5)** | **10,409** | **49** | **10,458** |

| Nine months ended September 30, 2017<br>*(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, 2017 | 5,623 | 418 | 34 | 3,950 | (8) | 10,017 | 50 | 10,067 |
| Net income | — | — | — | 516 | — | 516 | 3 | 519 |
| Other comprehensive income | — | — | — | — | 1 | 1 | — | 1 |
| Distributions to noncontrolling interest | — | — | — | — | — | — | (3) | (3) |
| Dividends on preferred shares | — | — | — | (13) | — | (13) | — | (13) |
| Dividends on common shares | — | — | — | (387) | — | (387) | — | (387) |
| Common shares issued | 8 | — | (8) | — | — | — | — | — |
| Stock-based compensation | — | — | 18 | — | — | 18 | — | 18 |
| **September 30, 2017** | **5,631** | **418** | **44** | **4,066** | **(7)** | **10,152** | **50** | **10,202** |

*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 nine months ended September 30, 2018 and 2017**

| *(millions of Canadian dollars)* | Three months ended September 30 2018 | Three months ended September 30 2017 | Nine months ended September 30 2018 | Nine months ended September 30 2017 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | 199 | 224 | 633 | 520 |
| Environmental expenditures | (7) | (7) | (17) | (19) |
| Adjustments for non-cash items: | | | | |
| Depreciation and amortization (excluding asset removal costs) | 188 | 187 | 549 | 537 |
| Regulatory assets and liabilities | (29) | (32) | (32) | 92 |
| Deferred income taxes | 36 | 17 | 95 | 55 |
| Unrealized loss (gain) on foreign exchange contract | 24 | — | (25) | — |
| Other | 12 | 1 | 27 | 9 |
| Changes in non-cash balances related to operations *(Note 24)* | 85 | 52 | (54) | (1) |
| **Net cash from operating activities** | **508** | **442** | **1,176** | **1,193** |
| **Financing activities** | | | | |
| Long-term debt issued | — | — | 1,400 | — |
| Long-term debt repaid | — | — | (1) | (1) |
| Short-term notes issued | 445 | 1,232 | 2,987 | 2,810 |
| Short-term notes repaid | (1,049) | (1,053) | (3,469) | (2,385) |
| Convertible debentures issued *(Note 15)* | — | 513 | — | 513 |
| Dividends paid | (141) | (135) | (418) | (400) |
| Distributions paid to noncontrolling interest | (1) | (1) | (6) | (4) |
| Other | — | (27) | (6) | (27) |
| **Net cash from (used in) financing activities** | **(746)** | **529** | **487** | **506** |
| **Investing activities** | | | | |
| Capital expenditures *(Note 24)* | | | | |
| Property, plant and equipment | (370) | (358) | (1,022) | (1,071) |
| Intangible assets | (25) | (24) | (61) | (57) |
| Capital contributions received | — | — | — | 9 |
| Other | 1 | — | 8 | (8) |
| **Net cash used in investing activities** | **(394)** | **(382)** | **(1,075)** | **(1,127)** |
| **Net change in cash and cash equivalents** | (632) | 589 | 588 | 572 |
| Cash and cash equivalents, beginning of period | 1,245 | 33 | 25 | 50 |
| **Cash and cash equivalents, end of period** | **613** | **622** | **613** | **622** |

*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 September 30, 2018, the Province held approximately 47.4% (December 31, 2017 - 47.4%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

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

### Rate Setting

Transmission

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

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

Distribution

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

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

### Basis of Accounting

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

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

### Revenue Recognition

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

Nature of Revenues

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

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

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

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

**Employee Future Benefits**

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

Defined Benefit Pension

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

Post-Retirement and Post-Employment Benefits

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

## 3. NEW ACCOUNTING PRONOUNCEMENTS

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

**Recently Adopted Accounting Guidance**

| Guidance | Date issued | Description | Effective date | Impact on Hydro One |
|---|---|---|---|---|
| ASC 606 | May 2014 – November 2017 | ASC 606 *Revenue from Contracts with Customers* replaced ASC 605 *Revenue Recognition*. ASC 606 provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. | January 1, 2018 | Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients and there was no material impact to the Company's revenue recognition policy upon adoption. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption. |
| ASU 2017-07 | March 2017 | Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable. | January 1, 2018 | Hydro One applied for a regulatory asset to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption. See Note 2 - Significant Accounting Policies and Note 11 - Regulatory Assets and Liabilities. |

### Recently Issued Accounting Guidance Not Yet Adopted

| Guidance | Date issued | Description | Effective date | Anticipated impact on Hydro One |
|---|---|---|---|---|
| 2016-02<br>2018-01<br>2018-10<br>2018-11 | February 2016 – July 2018 | Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC 842 land easements that exist or expired before the entity's adoption of ASC 842 and that were not previously accounted for as leases under ASC 840. ASU 2018-10 amends narrow aspects of ASC 842. ASU 2018-11 provides entities with an additional and option transition method in adopting ASC 842. ASU 2018-11 also permits lessors to elect an optional practical expedient to not separate non-lease components from the associated lease component by underlying asset classes. | January 1, 2019 | The Company has reviewed a substantial number of existing leases and relevant contracts and continues its assessment activities. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date. |
| 2018-07 | June 2018 | Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees. | January 1, 2019 | Under assessment |
| 2018-13 | August 2018 | Disclosure requirements on fair value measurements in ASC 820 are modified to improve the effectiveness of disclosures in financial statement notes. | January 1, 2020 | Under assessment |
| 2018-14 | August 2018 | Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes. | January 1, 2021 | Under assessment |
| 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 | Under assessment |

## 4. BUSINESS COMBINATIONS

### Avista Corporation Purchase Agreement

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately $6.7 billion in an all-cash transaction. Avista Corporation is an investor-owned utility providing electric generation, transmission, and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger is subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions. Regulatory authorities in Washington and Oregon have extended the timetable for arriving at a decision in Hydro One's acquisition of Avista Corporation to mid-December 2018. In addition, the Idaho Public Utilities Commission rescheduled its hearing from July 23, 2018 to November 26-27, 2018.

See Note 14 - Debt and Credit Agreements, Note 15 - Convertible Debentures and Note 16 - Fair Value of Financial Instruments and Risk Management for details of bridge financing, convertible debentures and foreign exchange contract, respectively, related to financing of the Merger.

### Orillia Power Purchase Agreement

In August 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for approximately $41 million, including the assumption of approximately $15 million in outstanding indebtedness and regulatory liabilities, subject to closing adjustments and regulatory approval by the OEB. In September 2016, Hydro One filed an application with the OEB to acquire Orillia Power, which was denied by the OEB on April 12, 2018. On September 26, 2018, Hydro One filed a new application with the OEB for approval to acquire Orillia Power.

### Peterborough Distribution Purchase Agreement

On July 31, 2018, Hydro One reached an agreement to acquire the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution), an electricity distribution company located in east central Ontario, from the City of Peterborough. Hydro One will pay the City of Peterborough $105 million for the transaction. The acquisition is conditional upon the satisfaction of customary closing conditions and approval by the OEB and the Competition Bureau. On October 12, 2018, the Company filed an application with the OEB for approval of the acquisition.

## 5. DEPRECIATION AND AMORTIZATION

| *(millions of dollars)* | Three months ended September 30 2018 | 2017 | Nine months ended September 30 2018 | 2017 |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | 163 | 164 | 481 | 473 |
| Asset removal costs | 25 | 22 | 71 | 66 |
| Amortization of intangible assets | 18 | 16 | 51 | 45 |
| Amortization of regulatory assets | 7 | 7 | 17 | 19 |
| | 213 | 209 | 620 | 603 |

## 6. FINANCING CHARGES

| *(millions of dollars)* | Three months ended September 30 2018 | 2017 | Nine months ended September 30 2018 | 2017 |
|---|---|---|---|---|
| Interest on long-term debt | 118 | 115 | 332 | 342 |
| Unrealized loss (gain) on foreign exchange contract *(Note 16)* | 24 | — | (25) | — |
| Interest on convertible debentures | 15 | 9 | 46 | 9 |
| Interest on short-term notes | 2 | 1 | 9 | 3 |
| Other | 4 | 3 | 14 | 8 |
| Less: Interest capitalized on construction and development in progress | (14) | (14) | (40) | (42) |
| | 149 | 114 | 336 | 320 |

## 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:

| *(millions of dollars)* | Nine months ended September 30 2018 | 2017 |
|---|---|---|
| Income before income taxes | 748 | 593 |
| Income taxes at statutory rate of 26.5% (2017 - 26.5%) | 198 | 157 |
| Increase (decrease) resulting from: | | |
| Net temporary differences recoverable in future rates charged to customers: | | |
| Capital cost allowance in excess of depreciation and amortization | (40) | (38) |
| Overheads capitalized for accounting but deducted for tax purposes | (12) | (12) |
| Interest capitalized for accounting but deducted for tax purposes | (11) | (13) |
| Pension contributions in excess of pension expense | (6) | (11) |
| Environmental expenditures | (5) | (6) |
| Other | (9) | (7) |
| Net temporary differences | (83) | (87) |
| Net permanent differences | — | 3 |
| Total income taxes | 115 | 73 |
| Effective income tax rate | 15.4% | 12.3% |

## 8. ACCOUNTS RECEIVABLE

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable – billed | 318 | 298 |
| Accounts receivable – unbilled | 297 | 367 |
| Accounts receivable, gross | 615 | 665 |
| Allowance for doubtful accounts | (25) | (29) |
| Accounts receivable, net | 590 | 636 |

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

| *(millions of dollars)* | Nine months ended September 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Allowance for doubtful accounts – beginning | (29) | (35) |
| Write-offs | 16 | 25 |
| Additions to allowance for doubtful accounts | (12) | (19) |
| Allowance for doubtful accounts – ending | (25) | (29) |

## 9. OTHER CURRENT ASSETS

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Regulatory assets *(Note 11)* | 47 | 46 |
| Materials and supplies | 20 | 18 |
| Prepaid expenses and other assets | 40 | 41 |
| Derivative instrument - foreign exchange contract *(Note 16)* | 22 | — |
| | 129 | 105 |

## 10. PROPERTY, PLANT AND EQUIPMENT

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Property, plant and equipment | 29,683 | 29,025 |
| Less: accumulated depreciation | (10,791) | (10,455) |
| | 18,892 | 18,570 |
| Construction in progress | 1,424 | 1,215 |
| Future use land, components and spares | 159 | 162 |
| | 20,475 | 19,947 |

## 11. REGULATORY ASSETS AND LIABILITIES

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| **Regulatory assets:** | | |
| Deferred income tax regulatory asset | 1,872 | 1,762 |
| Pension benefit regulatory asset | 1,001 | 981 |
| Environmental | 184 | 196 |
| Post-retirement and post-employment benefits | 59 | 36 |
| Foregone revenue deferral | 56 | 23 |
| Share-based compensation | 40 | 40 |
| Debt premium | 23 | 27 |
| Distribution system code exemption | 10 | 10 |
| B2M LP start-up costs | 2 | 4 |
| Other | 27 | 16 |
| Total regulatory assets | 3,274 | 3,095 |
| Less: current portion | 47 | 46 |
| | 3,227 | 3,049 |
| **Regulatory liabilities:** | | |
| Pension cost variance | 56 | 23 |
| Green Energy expenditure variance | 54 | 60 |
| External revenue variance | 29 | 46 |
| Retail settlement variance account | 20 | — |
| Conservation and Demand Management deferral variance | 8 | 28 |
| 2015-2017 rate rider | 6 | 6 |
| Deferred income tax regulatory liability | 5 | 5 |
| Other | 17 | 17 |
| Total regulatory liabilities | 195 | 185 |
| Less: current portion | 21 | 57 |
| | 174 | 128 |

### Deferred Income Tax Regulatory Asset

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately $515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately $370 million related to Hydro One Networks' distribution deferred income tax regulatory asset. The exposure from the potential impairments would be a one-time decrease in net income and the deferred income tax regulatory assets of up to approximately $885 million. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. 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. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

### Foregone Revenue Deferral

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

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

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

## 12. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts payable | 159 | 177 |
| Accrued liabilities | 650 | 572 |
| Accrued interest | 130 | 99 |
| Regulatory liabilities *(Note 11)* | 21 | 57 |
| | 960 | 905 |

## 13. OTHER LONG-TERM LIABILITIES

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Post-retirement and post-employment benefit liability | 1,561 | 1,519 |
| Pension benefit liability | 1,001 | 981 |
| Environmental liabilities *(Note 18)* | 152 | 168 |
| Asset retirement obligations | 9 | 9 |
| Long-term accounts payable and other liabilities | 32 | 30 |
| | 2,755 | 2,707 |

## 14. DEBT AND CREDIT AGREEMENTS

**Short-Term Notes and Operating Credit Facilities**

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

At September 30, 2018, Hydro One's consolidated committed, unsecured and undrawn credit facilities (Operating Credit Facilities) totalling $2,550 million included Hydro One's credit facilities of $250 million and Hydro One Inc.'s credit facilities of $2.3 billion. At September 30, 2018, no amounts have been drawn on the Operating Credit Facilities.

**Acquisition Credit Facilities**

For the purpose of bridge financing for the pending acquisition of Avista Corporation, the Company secured a $1.0 billion non-revolving equity bridge credit facility, and a US$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities) in June 2018. The equity bridge credit facility matures 90 days after the drawdown date and in any event not later than June 30, 2019. The debt bridge credit facility is available until March 31, 2019, and matures one year after the drawdown date. At September 30, 2018, no amounts have been drawn on the Acquisition Credit Facilities.

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

**Long-Term Debt**

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

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Hydro One Inc. long-term debt *(a)* | 11,323 | 9,923 |
| HOSSM long-term debt *(b)* | 172 | 176 |
| | 11,495 | 10,099 |
| Add: Net unamortized debt premiums | 13 | 14 |
| Add: Unrealized mark-to-market gain[1] | (11) | (9) |
| Less: Unamortized deferred debt issuance costs | (41) | (37) |
| Total long-term debt | 11,456 | 10,067 |
| Less: Long-term debt payable within one year | (981) | (752) |
| | 10,475 | 9,315 |

[1] The unrealized mark-to-market net gain relates to $50 million of the Series 33 notes due 2020, $500 million Series 37 notes due 2019 and $300 million Series 39 notes due 2021. The unrealized mark-to-market net gain is offset by an $11 million (December 31, 2017 - $9 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

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

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

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

No long-term debt was repaid during the nine months ended September 30, 2018 or 2017.

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

At September 30, 2018, long-term debt of $172 million (December 31, 2017 - $176 million), with a principal amount of $145 million (December 31, 2017 - $146 million) was held by HOSSM. During the three and nine months ended September 30, 2018 and 2017, no long-term debt was issued, and $1 million (2017 - $1 million) of long-term debt was repaid, all in the second quarter.

**Principal and Interest Payments**

Principal repayments and related weighted-average interest rates are summarized by the number of years to maturity in the following table:

| Years to Maturity | Long-term Debt Principal Repayments *(millions of dollars)* | Weighted-average Interest Rate *(%)* |
|---|---|---|
| 1 year | 981 | 2.7 |
| 2 years | 1,153 | 2.3 |
| 3 years | 803 | 2.1 |
| 4 years | 603 | 3.2 |
| 5 years | 133 | 6.1 |
| | 3,673 | 2.7 |
| 6 – 10 years | 850 | 2.9 |
| Over 10 years | 6,945 | 5.1 |
| | 11,468 | 4.1 |

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

| Year | Interest Payments (millions of dollars) |
|---|---|
| Remainder of 2018 | 148 |
| 2019 | 448 |
| 2020 | 429 |
| 2021 | 411 |
| 2022 | 393 |
| | 1,829 |
| 2023-2027 | 1,834 |
| 2028+ | 4,666 |
| | 8,329 |

## 15. CONVERTIBLE DEBENTURES

| (millions of dollars) | Nine months ended September 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Carrying value - beginning | 487 | — |
| Receipt of Initial Instalment, net of deferred financing costs | — | 486 |
| Amortization of deferred financing costs | 2 | 1 |
| Carrying value - ending | 489 | 487 |
| | | |
| Face value - ending | 513 | 513 |

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

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

The Convertible Debentures will mature on September 30, 2027. A coupon rate of 4% is paid on the $1,540 million aggregate principal amount of the Convertible Debentures, and based on the carrying value of the Initial Instalment, this translates into an effective annual yield of 12%. After the Final Instalment Date, the interest rate will be 0%. The interest expense recorded during the three and nine months ended September 30, 2018 was $15 million and $46 million (2017 - $9 million and $9 million), respectively.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the closing of the Debenture Offering, holders of the Convertible Debentures who have paid the Final Instalment on or before the Final Instalment Date will be entitled to receive, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the closing of the Debenture Offering had the Convertible Debentures remained outstanding and continued to accrue interest until and including such date (Make-Whole Payment). No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the closing of the Debenture Offering.

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

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

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

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

### Non-Derivative Financial Assets and Liabilities

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

### Fair Value Measurements of Long-Term Debt

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

| | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| *(millions of dollars)* | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt measured at fair value: | | | | |
| $50 million of MTN Series 33 notes | 49 | 49 | 49 | 49 |
| $500 million MTN Series 37 notes | 493 | 493 | 492 | 492 |
| $300 million MTN Series 39 notes | 297 | 297 | — | — |
| Other notes and debentures | 10,617 | 11,586 | 9,526 | 11,027 |
| Long-term debt, including current portion | 11,456 | 12,425 | 10,067 | 11,568 |

### Fair Value Measurements of Derivative Instruments

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

- a $50 million fixed-to-floating interest-rate swap agreement to convert $50 million of the $350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt;
- two $125 million and one $250 million fixed-to-floating interest-rate swap agreements to convert the $500 million MTN Series 37 notes maturing November 18, 2019 into three-month variable rate debt; and
- a $300 million fixed-to-floating interest-rate swap agreement to convert the $300 million MTN Series 39 notes maturing June 25, 2021 into three-month variable rate debt.

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

In October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert $1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract is contingent on the Company closing the proposed Avista Corporation acquisition and is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed upon approval of the acquisition up to March 31, 2019. This contract is an economic hedge and does not qualify for hedge accounting. It has been accounted for as an undesignated contract with changes in fair value being recorded in earnings as they occur.

### Fair Value Hierarchy

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

| September 30, 2018 *(millions of dollars)* | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and cash equivalents | 613 | 613 | 613 | — | — |
| Derivative instrument | | | | | |
| Foreign exchange contract | 22 | 22 | — | — | 22 |
| | 635 | 635 | 613 | — | 22 |
| **Liabilities:** | | | | | |
| Short-term notes payable | 444 | 444 | 444 | — | — |
| Long-term debt, including current portion | 11,456 | 12,425 | — | 12,425 | — |
| Convertible debentures | 489 | 398 | 398 | — | — |
| Derivative instruments | | | | | |
| Fair value hedges – interest-rate swaps | 11 | 11 | — | 11 | — |
| | 12,400 | 13,278 | 842 | 12,436 | — |

| December 31, 2017 *(millions of dollars)* | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and cash equivalents | 25 | 25 | 25 | — | — |
| | 25 | 25 | 25 | — | — |
| **Liabilities:** | | | | | |
| Short-term notes payable | 926 | 926 | 926 | — | — |
| Long-term debt, including current portion | 10,067 | 11,568 | — | 11,568 | — |
| Convertible debentures | 487 | 574 | 574 | — | — |
| Derivative instruments | | | | | |
| Fair value hedges – interest-rate swaps | 9 | 9 | — | 9 | — |
| Foreign exchange contract | 3 | 3 | — | — | 3 |
| | 11,492 | 13,080 | 1,500 | 11,577 | 3 |

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

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

The fair value of the convertible debentures is based on their closing price on September 28, 2018 (last business day in September 2018), as posted on the Toronto Stock Exchange.

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

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 nine months ended September 30, 2018 and the year ended December 31, 2017:

| *(millions of dollars)* | Nine months ended September 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Fair value of asset (liability) - beginning | (3) | — |
| Unrealized gain (loss) on foreign exchange contract included in financing charges | 25 | (3) |
| Fair value of asset (liability) - ending | 22 | (3) |

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

**Risk Management**

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

Market Risk

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

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

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

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

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

Credit Risk

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

At September 30, 2018, the Company's allowance for doubtful accounts was $25 million (December 31, 2017 – $29 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At September 30, 2018, approximately 6% (December 31, 2017 – 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At September 30, 2018 and December 31, 2017, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At September 30, 2018, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

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

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

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

Estimated annual defined benefit pension plan contributions for 2018, 2019 and 2020 are approximately $50 million, $70 million, and $70 million, respectively, based on an actuarial valuation as at December 31, 2017 and projected levels of pensionable earnings. Employer contributions made during the nine months ended September 30, 2018 were $37 million (2017 – $67 million).

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

| | Pension Benefits | | Post-Retirement and Post-Employment Benefits | |
|---|---|---|---|---|
| **Three months ended September 30** *(millions of dollars)* | **2018** | **2017** | **2018** | **2017** |
| Current service cost | 44 | 36 | 12 | 12 |
| Interest cost | 71 | 76 | 14 | 17 |
| Expected return on plan assets, net of expenses[1] | (117) | (110) | — | — |
| Amortization of actuarial losses | 21 | 20 | 1 | 2 |
| Net periodic benefit costs | 19 | 22 | 27 | 31 |
| Charged to results of operations[2] | 6 | 10 | 12 | 14 |

| | Pension Benefits | | Post-Retirement and Post-Employment Benefits | |
|---|---|---|---|---|
| **Nine months ended September 30** *(millions of dollars)* | **2018** | **2017** | **2018** | **2017** |
| Current service cost | 132 | 109 | 36 | 36 |
| Interest cost | 212 | 228 | 42 | 51 |
| Expected return on plan assets, net of expenses[1] | (350) | (331) | — | — |
| Amortization of actuarial losses | 63 | 60 | 2 | 6 |
| Net periodic benefit costs | 57 | 66 | 80 | 93 |
| Charged to results of operations[2] | 17 | 31 | 33 | 41 |

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

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and nine months ended September 30, 2018, pension costs of $14 million (2017 - $22 million) and $39 million (2017 - $68 million), respectively, were attributed to labour, of which $6 million (2017 - $10 million) and $17 million (2017 - $31 million), respectively, were charged to operations, and $8 million (2017 - $12 million) and $22 million (2017 - $37 million) respectively, were capitalized as part of the cost of property, plant and equipment and intangible assets.

## 18. ENVIRONMENTAL LIABILITIES

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

| *(millions of dollars)* | **Nine months ended September 30, 2018** | **Year ended December 31, 2017** |
|---|---|---|
| Environmental liabilities - beginning | 196 | 204 |
| Interest accretion | 5 | 8 |
| Expenditures | (17) | (24) |
| Revaluation adjustment | — | 8 |
| Environmental liabilities - ending | 184 | 196 |
| Less: current portion | (32) | (28) |
| | 152 | 168 |

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

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Undiscounted environmental liabilities | 188 | 206 |
| Less: discounting environmental liabilities to present value | (4) | (10) |
| Discounted environmental liabilities | 184 | 196 |

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

| *(millions of dollars)* | |
|---|---|
| Remainder of 2018 | 8 |
| 2019 | 29 |
| 2020 | 32 |
| 2021 | 34 |
| 2022 | 31 |
| Thereafter | 54 |
| | 188 |

## 19. SHARE CAPITAL

### Common Shares

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

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

| *(number of shares)* | |
|---|---|
| Common shares – December 31, 2017 | 595,386,711 |
| Common shares issued – share grants[1] | 481,227 |
| Common shares issued – share grants[2] | 119 |
| Common shares issued – LTIP[3] | 14,381 |
| Common shares – September 30, 2018 | 595,882,438 |

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

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

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

### Preferred Shares

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

## 20. DIVIDENDS

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

During the nine months ended September 30, 2018, preferred share dividends in the amount of $13 million (2017 - $13 million) and common share dividends in the amount of $405 million (2017 - $387 million) were declared and paid.

## 21. EARNINGS PER COMMON SHARE

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

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income attributable to common shareholders *(millions of dollars)* | 194 | 219 | 616 | 503 |
| Weighted-average number of shares | | | | |
| Basic | 595,882,438 | 595,386,308 | 595,714,016 | 595,254,201 |
| Effect of dilutive stock-based compensation plans | 1,968,856 | 2,130,453 | 2,128,211 | 2,172,635 |
| Diluted | 597,851,294 | 597,516,761 | 597,842,227 | 597,426,836 |
| EPS | | | | |
| Basic | $0.33 | $0.37 | $1.03 | $0.85 |
| Diluted | $0.32 | $0.37 | $1.03 | $0.84 |

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS until conditions for closing the Avista Corporation acquisition are met (see Note 4 - Business Combinations for details of the acquisition).

## 22. STOCK-BASED COMPENSATION

### Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the Power Workers' Union (the PWU Share Grant Plan) and one for the benefit of certain members of The Society of United Professionals (formerly The Society of Energy Professionals) (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and nine months ended September 30, 2018 and 2017 is presented below:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(number of share grants)* | 2018 | 2017 | 2018 | 2017 |
| Share grants outstanding – beginning | 4,344,386 | 4,962,804 | 4,825,732 | 5,334,415 |
| Vested and issued[1,2] | — | — | (481,346) | (371,611) |
| Share grants outstanding – ending | 4,344,386 | 4,962,804 | 4,344,386 | 4,962,804 |

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

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

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

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(number of DSUs)* | 2018 | 2017 | 2018 | 2017 |
| DSUs outstanding - beginning | 243,660 | 141,553 | 187,090 | 99,083 |
| Granted | 10,764 | 22,504 | 67,334 | 64,974 |
| DSUs outstanding - ending | 254,424 | 164,057 | 254,424 | 164,057 |

At September 30, 2018, a liability of $5 million (December 31, 2017 - $4 million) related to previously awarded Directors' DSUs to the Company's former Board of Directors (Board) has been recorded at the June 29, 2018 (last business day in June 2018) closing price of the Company's common shares of $20.04 (December 31, 2017 - $22.40) and is included in accounts payable and other current liabilities (December 31, 2017 - included in long-term accounts payable and other liabilities) on the Consolidated Balance Sheets.

The liability related to the Company's new Board is not significant and has been recorded at the September 28, 2018 (last business day in September 2018) closing price of the Company's common shares of $19.64. This liability is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

**Management DSU Plan**

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(number of DSUs)* | 2018 | 2017 | 2018 | 2017 |
| DSUs outstanding - beginning | 105,870 | 67,583 | 67,829 | — |
| Granted | 1,242 | 657 | 39,283 | 68,240 |
| DSUs outstanding - ending | 107,112 | 68,240 | 107,112 | 68,240 |

At September 30, 2018, a liability of $1 million (December 31, 2017 - $1 million) related to previously awarded Management DSUs to the Company's former President and Chief Executive Officer (CEO) has been recorded at the June 29, 2018 (last business day in June 2018) closing price of the Company's common shares of $20.04 (December 31, 2017 - $22.40) and is included in accounts payable and other current liabilities (December 31, 2017 - included in long-term accounts payable and other liabilities) on the Consolidated Balance Sheets.

A liability of $1 million (December 31, 2017 - not significant) related to other Management DSUs has been recorded at the September 28, 2018 (last business day in September 2018) closing price of the Company's common shares of $19.64 (December 31, 2017 - $22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

**LTIP**

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

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

| | PSUs | | RSUs | |
|---|---|---|---|---|
| **Three months ended September 30** *(number of units)* | 2018 | 2017 | 2018 | 2017 |
| Units outstanding - beginning | 846,520 | 443,095 | 700,070 | 409,645 |
| Granted | 4,320 | 35,790 | 3,160 | 21,040 |
| Vested | — | (609) | — | (609) |
| Forfeited | (1,630) | (9,036) | (5,160) | (7,676) |
| Settled | (238,030) | — | (158,310) | — |
| Units outstanding - ending | 611,180 | 469,240 | 539,760 | 422,400 |

| | PSUs | | RSUs | |
|---|---|---|---|---|
| **Nine months ended September 30** *(number of units)* | 2018 | 2017 | 2018 | 2017 |
| Units outstanding - beginning | 429,980 | 230,600 | 393,430 | 254,150 |
| Granted | 445,120 | 303,240 | 345,790 | 239,990 |
| Vested | — | (609) | (13,470) | (14,079) |
| Forfeited | (25,890) | (63,991) | (27,680) | (57,661) |
| Settled | (238,030) | — | (158,310) | — |
| Units outstanding - ending | 611,180 | 469,240 | 539,760 | 422,400 |

The grant date total fair value of the awards granted during the three and nine months ended September 30, 2018 was $nil and $16 million (2017 - $1 million and $13 million), respectively. The compensation expense related to these awards recognized by the Company during the three and nine months ended September 30, 2018 was $7 million and $12 million (2017 - $2 million and $5 million), respectively. The expense recognized in the third quarter of 2018 included $5 million related to previously awarded PSUs and RSUs to the Company's former President and CEO for which costs had not previously been recognized. These awards, consisting of 238,030 PSUs and 158,310 RSUs, were settled in the third quarter of 2018 through a one-time cash settlement arrangement.

Stock Options

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

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

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

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

[1] Hydro One common share price on the date of the grant.
[2] Based on dividend and Hydro One common share price on the date of the grant.
[3] Based on average daily volatility of peer entities for a 4.5-year term.
[4] Based on bond yield for an equivalent Canadian government bond.
[5] Determined using the option term and the vesting period.

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(number of stock options)* | 2018 | 2017 | 2018 | 2017 |
| Stock options outstanding - beginning | 1,450,880 | — | — | — |
| Granted[1] | — | — | 1,450,880 | — |
| Cancelled[2] | (500,970) | — | (500,970) | — |
| Stock options outstanding - ending[1] | 949,910 | — | 949,910 | — |

[1] All stock options granted and outstanding at September 30, 2018 are non-vested.
[2] During the three months ended June 30, 2018, 500,970 stock options previously awarded to the Company's former President and CEO were cancelled. The unrecognized compensation expense related to the cancelled stock options was $1 million.

The compensation expense related to stock options recognized by the Company during the three and nine months ended September 30, 2018 was not significant. At September 30, 2018, there was $1 million of unrecognized compensation expense related to stock options not yet vested, which is expected to be recognized over a weighted-average period of approximately three years.

## 23. RELATED PARTY TRANSACTIONS

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

| *(millions of dollars)* | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| Related Party | Transaction | 2018 | 2017 | 2018 | 2017 |
| **Province** | Dividends paid | 69 | 69 | 205 | 231 |
| **IESO** | Power purchased | 321 | 276 | 1,079 | 1,169 |
| | Revenues for transmission services | 474 | 390 | 1,293 | 1,124 |
| | Amounts related to electricity rebates | 113 | 181 | 353 | 321 |
| | Distribution revenues related to rural rate protection | 59 | 61 | 177 | 185 |
| | Distribution revenues related to the supply of electricity to remote northern communities | 8 | 8 | 24 | 24 |
| | Funding received related to Conservation and Demand Management programs | 11 | 18 | 33 | 44 |
| **OPG** | Power purchased | 2 | 2 | 8 | 7 |
| | Revenues related to provision of construction and equipment maintenance services | 2 | 2 | 6 | 6 |
| | Costs related to the purchase of services | — | — | — | 1 |
| **OEFC** | Power purchased from power contracts administered by the OEFC | 1 | — | 2 | 1 |
| **OEB** | OEB fees | 2 | 2 | 6 | 6 |

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

## 24. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(millions of dollars)* | 2018 | 2017 | 2018 | 2017 |
| Accounts receivable | (7) | 50 | 46 | 241 |
| Due from related parties | 27 | (38) | (57) | (136) |
| Materials and supplies | — | — | (2) | — |
| Prepaid expenses and other assets | 5 | 9 | 2 | 6 |
| Accounts payable | 22 | (10) | (14) | (9) |
| Accrued liabilities | 3 | (16) | 78 | (57) |
| Due to related parties | 1 | 2 | (151) | (141) |
| Accrued interest | 32 | 37 | 31 | 35 |
| Long-term accounts payable and other liabilities | (5) | (3) | (6) | (1) |
| Post-retirement and post-employment benefit liability | 7 | 21 | 19 | 61 |
| | 85 | 52 | (54) | (1) |

### Capital Expenditures

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

| | Three months ended September 30, 2018 | | | Nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| *(millions of dollars)* | Property, Plant and Equipment | Intangible Assets | Total | Property, Plant and Equipment | Intangible Assets | Total |
| Capital investments | (374) | (28) | (402) | (1,047) | (61) | (1,108) |
| Reconciling items | 4 | 3 | 7 | 25 | — | 25 |
| Cash outflow for capital expenditures | (370) | (25) | (395) | (1,022) | (61) | (1,083) |

| | Three months ended September 30, 2017 | | | Nine months ended September 30, 2017 | | |
|---|---|---|---|---|---|---|
| *(millions of dollars)* | Property, Plant and Equipment | Intangible Assets | Total | Property, Plant and Equipment | Intangible Assets | Total |
| Capital investments | (359) | (21) | (380) | (1,087) | (49) | (1,136) |
| Reconciling items | 1 | (3) | (2) | 16 | (8) | 8 |
| Cash outflow for capital expenditures | (358) | (24) | (382) | (1,071) | (57) | (1,128) |

### Supplementary Information

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(millions of dollars)* | 2018 | 2017 | 2018 | 2017 |
| Net interest paid | 106 | 89 | 356 | 308 |
| Income taxes paid | 1 | 3 | 13 | 11 |

## 25. CONTINGENCIES

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

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal was heard on October 16, 2018, and it is likely that the court will render its decision before the end of 2018.

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding

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

## 26. COMMITMENTS

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

| September 30, 2018 *(millions of dollars)* | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|
| Outsourcing agreements | 124 | 99 | 39 | 3 | 2 | 4 |
| Long-term software/meter agreement | 14 | 17 | 6 | 1 | 2 | 1 |
| Operating lease commitments | 9 | 10 | 6 | 2 | 1 | 3 |

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

| September 30, 2018 *(millions of dollars)* | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|
| Operating Credit Facilities[1] | — | — | — | 2,550 | — | — |
| Letters of credit[2] | 162 | 5 | — | — | — | — |
| Guarantees[3] | 325 | — | — | — | — | — |

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

[2] Letters of credit consist of a $154 million letter of credit related to retirement compensation arrangements, a $7 million letter of credit provided to the IESO for prudential support, $5 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

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

## 27. SEGMENTED REPORTING

Hydro One has three reportable segments:

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

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

| Three months ended September 30, 2018 *(millions of dollars)* | Transmission | Distribution | Other | Consolidated |
|---|---|---|---|---|
| Revenues | 493 | 1,103 | 10 | 1,606 |
| Purchased power | — | 733 | — | 733 |
| Operation, maintenance and administration | 95 | 150 | 26 | 271 |
| Depreciation and amortization | 111 | 100 | 2 | 213 |
| **Income (loss) before financing charges and income taxes** | 287 | 120 | (18) | 389 |
| | | | | |
| **Capital investments** | 261 | 138 | 3 | 402 |

| Three months ended September 30, 2017 *(millions of dollars)* | Transmission | Distribution | Other | Consolidated |
|---|---|---|---|---|
| Revenues | 471 | 1,040 | 11 | 1,522 |
| Purchased power | — | 675 | — | 675 |
| Operation, maintenance and administration | 95 | 149 | 33 | 277 |
| Depreciation and amortization | 105 | 102 | 2 | 209 |
| **Income (loss) before financing charges and income taxes** | 271 | 114 | (24) | 361 |
| **Capital investments** | 240 | 138 | 2 | 380 |

| Nine months ended September 30, 2018 *(millions of dollars)* | Transmission | Distribution | Other | Consolidated |
|---|---|---|---|---|
| Revenues | 1,344 | 3,284 | 31 | 4,659 |
| Purchased power | — | 2,158 | — | 2,158 |
| Operation, maintenance and administration | 295 | 435 | 67 | 797 |
| Depreciation and amortization | 321 | 294 | 5 | 620 |
| **Income (loss) before financing charges and income taxes** | 728 | 397 | (41) | 1,084 |
| **Capital investments** | 693 | 409 | 6 | 1,108 |

| Nine months ended September 30, 2017 *(millions of dollars)* | Transmission | Distribution | Other | Consolidated |
|---|---|---|---|---|
| Revenues | 1,199 | 3,317 | 35 | 4,551 |
| Purchased power | — | 2,213 | — | 2,213 |
| Operation, maintenance and administration | 296 | 447 | 79 | 822 |
| Depreciation and amortization | 309 | 288 | 6 | 603 |
| **Income (loss) before financing charges and income taxes** | 594 | 369 | (50) | 913 |
| **Capital investments** | 701 | 427 | 8 | 1,136 |

### Total Assets by Segment:

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Transmission | 14,013 | 13,608 |
| Distribution | 9,426 | 9,259 |
| Other | 3,398 | 2,834 |
| **Total assets** | 26,837 | 25,701 |

### Total Goodwill by Segment:

| *(millions of dollars)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| 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.

## 28. SUBSEQUENT EVENTS

### Dividends

On November 7, 2018, preferred share dividends in the amount of $5 million and common share dividends in the amount of $137 million ($0.23 per common share) were declared.

### Repayment of Long-term Debt

On October 9, 2018, Hydro One Inc. repaid $750 million of maturing long-term debt notes (MTN Series 28 notes) under its MTN Program.

### Directors' DSUs

In October 2018, $4 million related to previously awarded Directors' DSUs to the Company's former Board was paid.