

Hydro One (Q4 2025)

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Corporate Speakers:

- Wassem Khalil; Hydro One; Director of Investor Relations
- David Lebeter; Hydro One; President and Chief Executive Officer
- Harry Taylor; Hydro One; Chief Financial and Regulatory Officer

Participants:

- Robert Hope; Scotiabank; Analyst
- Maurice Choy; RBC Capital Markets; Analyst
- Mark Jarvi; CIBC; Analyst
- John Mould; TD Cowen; Analyst

PRESENTATION

Operator^ Good morning, ladies and gentlemen. And welcome to Hydro One Limited's Fourth Quarter 2025 Analyst Teleconference. (Operator Instructions) As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Mr. Wassem Khalil, Director of Investor Relations at Hydro One. Please go ahead.

Wassem Khalil^ Thanks, [Shannon]. Good morning. And thank you for joining us for our quarterly earnings call. Joining me on the call today are our President and CEO, David Lebeter; and our Chief Financial and Regulatory Officer, Harry Taylor.

On the call today, we'll provide an overview of our quarterly results, and then we'll answer as many questions as time permits. As a reminder, today's discussion will likely touch on estimates and other forward-looking information.

Listeners should review the cautionary language in today's earnings release and our MD&A which we filed this morning regarding the various factors, assumptions and risks that could cause our actual results to differ as they all apply to this call. With that, I'll turn the call over to our President and CEO, David Lebeter.

David Lebeter^ Thank you, Wassem. This morning, I'll provide an update on our recent activities and accomplishments during the quarter. Then Harry will take you through the financial results.

As I look back on 2025, I can't help but reflect on the growth in energy demand that's forecasted for Ontario over the next 25 years. This growth is driven by new homes, businesses, electric vehicle manufacturing and charging, mining, agriculture and advanced manufacturing, and it's reshaping the province's economic landscape.

For Hydro One, this represents both a responsibility and a tremendous opportunity, a responsibility to build in a safe and fiscally prudent manner, the infrastructure that will power Ontario's communities and businesses and create long-term value for our shareholders. We are acting now by delivering reliable power where it's needed the most when it's needed.

By building the lines that enable Ontario's success, we are positioning Hydro One for sustainable growth, supporting local jobs, businesses, Ontarians, strengthening the Ontario-based supply chain and delivering reliable electricity to all our customers.

We are connecting power and possibilities for the people of Ontario. I'm happy to report that we had another strong year for safety in 2025. And as we all know a safe workplace is an essential foundation of operational excellence. As of this month, we have worked 20 consecutive months without a high-energy serious injury or fatality.

And in 2025, our recordable injury rate was 0.68 per 200,000 hours, well below the world-class benchmark of 1. These achievements reflect the professionalism of our crews across the province and highlight what is possible when we work together to achieve a common goal. The extreme weather events in December put our operational capabilities to the test.

We experienced two back-to-back storms affecting more than 250,000 customers. In response, our teams mobilized quickly, safely restoring power under exceptionally challenging conditions. We were there when our customers needed us the most, and we didn't stop until every customer was restored.

Our focus on reliability, operational excellence and customer service continues to translate into strong customer satisfaction results. In 2025, residential and small business customer satisfaction remained strong at 88%. Commercial and industrial customers rated us at 82%. Transmission customers gave us 79%.

While we recognize there is more work ahead, these results demonstrate meaningful progress towards positioning Hydro One as a trusted energy partner, a partner whose investments deliver tangible value to its customers.

In 2025, we continue to invest in the infrastructure needed to support the province's rapid electrification and economic expansion. We deployed approximately \$3.4 billion of capital and in service approximately \$2.9 billion of assets, reinforcing our commitment to build a resilient, reliable, and future-ready grid.

At the same time we remain highly disciplined as stewards of the customers' dollars. Through our energy -- through our enhanced focus on productivity, we generated approximately \$254 million in savings across capital and operating expenditures. This reflects our commitment to fiscal prudence, optimizing every dollar we invest to generate the most value for our customers.

As I mentioned earlier, Hydro One is playing a central role in enabling Ontario's growth through the development of new large-scale transmission infrastructure. We continue to work collaboratively with partners to develop and build the critical lines to support this growth.

In November, we were designated to develop and seek all necessary approvals for the construction of a new priority 500 kV double circuit transmission line between Bowmanville and the Greater Toronto area.

The line will support economic growth in the region and deliver clean electricity from the first four small modular reactors in the Darlington nuclear facility. It is expected to be in service in the early 2030s.

We also filed a leave to construct, our Section 92 application with the Ontario Energy Board for a 230 kV double circuit transmission line in the Niagara region in Southern Ontario. The line will run from Thorold to Welland, supporting capacity and reliability in the region's clean energy future. The approximately \$311 million project is expected to be completed by 2029.

Subsequent to the quarter, we were designated to develop and seek all necessary approvals for the construction of the Greenstone transmission line in Northern Ontario. The project will be a 230-kilometer single-circuit transmission line that will be designated for future expansion.

The line will enhance reliability for Northern communities and support economic growth in the mining sector. This project is expected to be in service in 2032. Lastly, earlier this week, Hydro One was designated to develop and seek all necessary approvals for the construction of the Barrie to Sudbury Transmission Line.

The project will be approximately 290-kilometer long, single-circuit, 500 kV transmission line and is expected to be in service in 2032. Development work on a single -- on a second single circuit 500 kV transmission line will also be carried out to support new generation opportunities in Northern Ontario.

All of these projects -- across each of these projects, our 50-50 First Nations equity partnership model ensures that proximate First Nations share directly in the value created by the transmission line components.

I also want to highlight the successful completion of the Chatham to Lakeshore transmission line in 2024 which represented the first project to be completed through our 50-50 First Nations equity partnership model.

As of earlier this month, all five partner First Nations have secured financing and are now equity partners, marking a milestone in how well -- marking a milestone in how we advance reconciliation, community partnerships, and economic inclusion.

None of this progress is possible without the dedication of our employees. They are the heartbeat of Hydro One and their commitment drives our success.

I am pleased to share that the collective agreement that was reached with the Society of United Professionals on January 13, 2026, was ratified by the union members earlier this month. The collective agreement covers engineering, supervisory and other professional roles and takes effect from October 1, 2025, and runs through March 31, 2028.

I want to thank both bargaining teams for negotiating in good faith to reach an agreement that supports employees, customers and long-term health of our company. Before I pass the call to Harry, I want to acknowledge the Hydro One's recognition as one of Canada's best employers for 2026 by Forbes and Statista.

The ranking is based on recommendations from employees and professionals who view Hydro One as a desirable employer. These rankings are derived from independent surveys of more than 37,000 Canadian-based employees working in companies with a minimum of 500 employees in Canada.

We are proud of the culture we continue to build, one rooted in inclusion, empowerment and a sense of belonging. Our teams feel heard, valued and motivated to excel. Just as importantly, we share a strong sense of purpose.

The work we do matters to this province and to everyday Ontarians who rely on us. That commitment fuels our culture and drives our success. With that, I'll turn things over to Harry to discuss our financial results. Harry, over to you.

Harry Taylor^ Thank you, David. Good morning. And thank you all for joining us today. As David highlighted, we had a very strong finish to the year, and we look forward to continuing to deliver on our commitments in 2026.

In the fourth quarter, we delivered basic earnings per share of \$0.39 compared to \$0.33 in the fourth quarter of 2024. On a full year basis, earnings per share were \$2.23 compared to \$1.93 in 2024.

Our net income in the quarter was higher by 16.5% compared to the same period from a year ago. The key drivers behind the result this quarter include revenue growth driven by volume growth in transmission and distribution as well as OEB-approved 2025 rates and also lower OM&A costs, primarily due to the lower corporate support costs.

Now these were partially offset by reductions in revenue net of purchased power due to regulatory adjustments, primarily resulting from higher earnings sharing which we account for in the fourth quarter, a higher interest expense due to an increase in long-term debt outstanding and higher income tax expense due to the increase in pretax earnings.

On a full year basis, our net income was higher by 15.8% with the key drivers of the increase being higher revenues net of purchased power due to OEB-approved 2025 rates

as well as higher average monthly peak demand in transmission and growth in customer count and energy consumption in distribution, partially offset by the accounting for the higher earnings sharing mentioned earlier and also lower OM&A costs, primarily due to lower work program expenditures as well as lower corporate support costs.

Now these positive drivers were partially offset by higher depreciation, amortization and asset removal costs due to the growth in our capital assets, higher interest expense and higher income tax expense.

Both our transmission and distribution segments performed well this year. And as a result of our efforts, we were pleased to share approximately \$166 million with our customers through the reduction in future rates.

On the productivity front, we are happy to report that our efforts in the year resulted in us achieving approximately \$254 million in productivity savings. This achievement continues the trend we have delivered in prior years and reinforces our commitment to keeping costs as low as possible. The savings were delivered as absolute reductions in spending, reduced unit costs or greater noncustomer revenue, all of which flow back to our customers in the form of reduced rates in our next rate period.

Our fourth quarter revenue, net of purchased power decreased year-over-year by 5.2%. Transmission revenues decreased by 2.8%, primarily due to regulatory adjustments including the higher earnings sharing. These were partially offset by stronger average monthly peak demand and increased revenues from OEB-approved 2025 rates. Distribution revenues, net of purchased power decreased by 10.1%, mainly due to the regulatory adjustments including higher earnings sharing and lower revenue associated with mutual storm assistance costs recovered from third parties.

These were offset by increased revenues from OEB approved 2025 rates, higher energy consumption and higher customer count. On the cost front, operating, maintenance and administration expenses in the quarter decreased by approximately 30.8% year-over-year.

In the Transmission segment, costs were lower by 37.5%, mainly due to lower corporate support costs and lower work program expenditures attributable to facilities maintenance and vegetation management.

In the Distribution segment, costs decreased by 25% due to reduced mutual storm assistance costs and lower fuel costs of Hydro One Remotes as well as lower corporate support costs.

These were partially offset by higher work program expenditures including emergency restoration and vegetation management. Depreciation, amortization and asset removal expenses for the fourth quarter were essentially unchanged year-over-year. With respect to our financing activities, we saw a 10.8% increase in interest expense year-over-year.

This was mainly due to the increase in our outstanding long-term debt following the additional issuances we executed during the year, partially offset by capitalized interest. During the quarter, Hydro One issued \$1.6 billion of medium-term notes. This consisted of \$1.2 billion of 3.9% notes due in 2033 and \$400 million of 4.8% notes due in 2056.

In 2025, Hydro One issued a total of approximately \$2.7 billion in medium-term notes to support our capital program and to refinance maturing debt. All of the issued notes were completed under our sustainable financing framework.

Our balance sheet continues to be in excellent shape, along with our creditworthiness. Our FFO to net debt ratio as at December 31 was 14.2% and remains well above the threshold limits the rating agencies use to trigger a credit rating review.

Turning to taxes. Our income tax expense in the quarter was \$30 million compared to \$17 million in the same quarter last year. The increase year-over-year was primarily due to the increase in pretax earnings.

As a result, our effective tax rate this quarter was 11.4% compared to 7.8% a year ago. On a full year basis, our 2025 effective tax rate was 14% compared to 13.4% realized in 2024.

We continue to expect our effective tax rate to be between 13% to 16% for the remainder of the JRAP '23 period. Looking at our capital expenditures. In the fourth quarter, we invested \$939 million which was an increase of 17.5% over the same period in 2024.

The increase resulted from investments in our Transmission segment, specifically the Waasigan transmission line, the St. Clair transmission line and other major development projects as well as higher spend on distribution customer connections. These were partially offset by a lower volume of line refurbishments and a lower volume of wood pole replacements in both the transmission and distribution segments.

On a full year basis, capital expenditures were approximately \$3.4 billion, representing an increase of 9.9% compared to 2024, primarily due to the items mentioned earlier. Looking at our assets placed in service. In the fourth quarter, we placed \$1.3 billion in service for our customers which was an increase of 19.1% compared to the prior year.

In the Transmission segment, we saw an increase of 26.4% year-over-year, primarily due to timing of assets placed in service for station refurbishments and replacements as well as investments placed in service for customer connection projects.

These were partially offset by the absence or overlap of the in-service addition relating to our Chatham by Lakeshore transmission line which was placed in service in 2024 as well as a lower volume of line refurbishments and wood pole replacements.

In the Distribution segment, in-service additions increased by 2.6% from the prior year due to investments in the broadband initiative and the advanced metering infrastructure or

AMI 2.0 system. These were partially offset by a lower volume of wood pole replacements and line refurbishments.

For the full year, we placed approximately \$2.9 billion of assets in service for our customers which was an increase of 17.8% compared to full year 2024. And that year-over-year increase was mainly due to the higher distribution and service additions.

Looking ahead, we continue to expect earnings per share to grow between 6% and 8% annually for this rate period using the normalized 2022 EPS of \$1.61 as a base.

Finally, I'm also pleased to report that our Board of Directors declared a dividend of \$0.3331 per share payable to common shareholders of record on March 11, 2026. With that, we will open the phone lines and be happy to take questions.

Wassem Khalil^ Thank you, David and Harry. We'll now open the call for questions. The operator will explain the Q&A polling process. We ask that you limit your questions to one question and one follow-up.

If you have additional questions, we request you rejoin the queue. In case we can't address your questions today, my team and I are always available to respond to follow-up questions. Please go ahead, [Shannon].

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Robert Hope with Scotiabank.

Robert Hope^ Question is on the IESO launching the new competitive procurement for transmission in the province. How do you think future large-scale transmission projects could fall under this program? And how does Hydro One position itself in a competitive environment?

David Lebeter^ Robert, thanks for that question. As you know the IESO has just kicked off that process, and they're still taking input from the different participants who might bid into that market such as ourselves. So we're hopeful that they're going to come up with realistic criteria for determining which transmission lines do go into the competitive process.

I feel fairly comfortable saying that it probably won't include lines that are time constrained, need to be built quickly or infrastructure on our existing right of ways that we use the same corridors that we do.

What they will be looking for, I anticipate is transmission lines, we have a bit longer runway because we all know the competitive process takes more time and they're greenfield for the full length which eliminates a lot of conflict.

But we've been participating, as I said, providing feedback on our thought process. I know others have, and we look forward to hearing what they can bring forward later on this year.

Robert Hope^ Appreciate that. And then sticking with the government. So the Ontario launched the expert panel on local electric distribution, the [Pulse Panel.] What would you like to see come out of this? And do you think we could see increased consolidation on the back of this?

David Lebeter^ Yes. I think there is a potential for increased consolidation further out, but that isn't the government's intent when I talk to them.

What they were trying to do is make sure that all the local distribution companies, whether they be large, such as ourselves or the small ones are adequately financed to make the investments they need to make in a system which is, in many cases, end of life and in many cases, not for the economic activity or the growth that it needs to support.

So I'm looking forward to the results of the panel. I think it will be positive for this industry. I do expect it will identify some local distribution companies that do have funding challenges which may lead to consolidation. But as I said, that wasn't their original intent. And I think it will give a clearer picture of the state of the electric -- the distribution system in Ontario.

Operator^ Our next question comes from the line of Maurice Choy with RBC Capital Markets.

Maurice Choy^ I just wanted to ask about the five partner First Nations that have secured financing for the Chatham to Lakeshore line.

I recognize that there are different First Nation groups across different projects. So not all these projects have the same five partners. But was there any indication in your process that would suggest to you that we wouldn't have the same outcome across all your backlog projects?

David Lebeter^ Maurice, David Lebeter. It was a very good process. We had many, many long conversations with the partners. I believe if you were to speak with them, they would say they're very happy with the partnership and where they landed with the financing they were able to arrange. And I don't see any indication that this will get more challenging as we move across.

There are 129 different nations in the province of Ontario. And of course, given the transmission build that we have, we're going to be interacting with many of them. But the goal was to set a foundation or a template, if you like, that we can replicate across the province. And we've gotten support from our First Nations partners in doing that.

It makes it easier for them, makes it easier for us which allows the projects to move forward faster and creates certainty for everybody in what they can expect as we move forward.

Harry Taylor^ And Maurice, it's Harry here. I would just add, Chatham by Lakeshore was a watershed both for us, for our First Nations partners, but also the financial institutions supporting the nations. I think everybody learned through the process of the five nations, there are four different providers of capital, one of which is not supported by a federal or provincial guarantee.

So everybody learned a lot, and we're pretty optimistic as we look ahead to our future partnerships that things will get easier and we know what to do, how to do it, what the processes that the different institutions use, et cetera.

So we are really excited about the opportunity and the potential for our partnerships and the support that they -- our partners receive from different elements of the communities.

Maurice Choy^ Maybe as a quick follow-up to that. Is there a way to size up the capacity that they have given that your backlog is just growing right now from 10 to 14 right now. And if they participate across the transmission projects at a 50% rate, you have an ability to issue equity. Do they have the similar ability? Or is it capped at some point?

David Lebeter^ Maurice, what we've seen is a great expansion in the market of people willing to lend to the nations on these types of projects. These are, as you know low-risk projects, so they're ideal for them to go out and borrow money.

At this point in time we don't see any concerns, but it's certainly something everybody is keeping an eye on, and I'll just reiterate, the expansion of the capital market that's willing to support these type of projects was really impressive to see.

Maurice Choy^ That's great news. Maybe just to finish off, obviously as a regulated utility, managing affordability is part of your day-to-day operations. So nothing new there.

But ahead of your JRAP filing, I wonder if you could just give us some color on your early engagement with some of the stakeholder groups, what their sentiment is like, what they're willing to accept in terms of rate increases? Or are they going to prioritize investments in?

Harry Taylor^ Maurice, we have engaged in two rounds of -- well customer engagement, laying things out quite clearly in terms of what we're proposing and what the impacts on. And we have been very happy with the results.

We see very strong support for the investments we're proposing to both expand the capacity of our -- both distribution and transmission networks, but also support improved

reliability. So the bill impacts are explicit in our customer engagement, and we put them through exercises of trade-offs.

It isn't crazy, but the support for significant investment has been both reassuring and comforting for us. So I can't give much more for that. You'll see a lot of the details in our rate application which we will be filing late summer, early fall this year.

David Lebeter^ Maurice, if I might just add on top of that. The last time we went out, we did about 40,000, 45,000 customer interviews for JRAP '23. For JRAP '28, we reached out and connected with over 100,000 customers. So we think we got a really strong feedback from that group.

We have a good understanding what they want. And a lot of these investments are focused on improving reliability and expanding capacity. These are investments that communities, citizens and businesses value.

Maurice Choy^ Is there a way to compare the sentiment and tone between the '23 and '28 JRAP engagements?

Harry Taylor^ It's largely the same in terms of the support for what the proposals are. And that's across all customer segments. So we have residential. We also have small commercial industrial, large commercial industrial, and then there's another group as well. And consistently, the support is there.

I think statistically, we're down a little bit, but it's still more than -- more than two-thirds or something are supportive or very supportive and willing to -- they understand the bill impacts and still support it.

Operator^ Our next question comes from the line of Mark Jarvi with CIBC.

Mark Jarvi^ Just wanted to follow up on the last question and answer. Obviously with the transmission lines being awarded to you, there's certainly a timeliness and urgency of that.

Just when you think about the other things that you could flex in your budget, you're planning for next JRAP when you talk to customers, what's sort of the dialogue around deferring some sustaining CapEx? Obviously reliability is important. I'm just wondering what they're thinking in terms of growth versus reliability trade-offs right now.

David Lebeter^ When we do the customer interaction, we actually tell them what the investments are going to do, whether they're going to create reliability, whether they're enabling non-wire solutions, whatever that happens to be. And given the growth that we're going through right now our asset planning team is really pushing anything that isn't urgent out.

We don't want to be spending money where we don't need to because we want to recognize the impact on the bills. So it's really our investments are focused on the areas that the equipment is at end of life or the reliability isn't up to standard. It's a lower reliability.

We want to improve that or there might be economic growth in the area that's being held back because of capacity. Those are the sort of investments we're doing. Where we can delay and the way we do this is we can put a monitoring on the equipment, so we have a better understanding of what's happening. We can change our maintenance regime.

So we look at it more frequently or touch it more frequently to keep it going or in some cases, we're able to change the loading on a circuit or a system that helps prolong the life. So we're trying to extend the life so we get the maximum value out of every asset we have and put the dollars where they're most needed.

Mark Jarvi^ Makes sense. And then Harry, maybe you can comment in terms of the incremental capital you plan to spend in '26 and '27, how might that impact earnings? Like I'm not sure if you get a recovery on that. Does it create a little bit of a drag with higher financing costs? Just how does that higher CapEx translate to earnings over the next couple of years?

Harry Taylor^ It's a limited impact, Mark. We will have some incremental interest expense; however, we've been able to achieve some really good coupons on the bonds that we're issuing.

We're actually ahead of where our expectations were for this year -- we were for last year, and I'm hoping we will for this year. Most of it will not go in service. Most of the incremental will not go in service this year.

So we won't be earning anything on it. But we do not think it will create any drag. It's why we're sticking with the guidance that we previously published.

Operator^ Our next question comes from the line of John Mould with TD Cowen.

John Mould^ Maybe just going back to your [OM&A] profile. On an annual basis, it was down about \$100 million year-over-year. Can you give us a little more color on, I guess, a, what the lower corporate support costs were? And then b, how should we think about your OM&A run rate going forward, just given your assets in service at the end of 2025?

Harry Taylor^ John, it's Harry here. The reduction were driven twofold from a corporate and more broad period.

One, we had a pretty significant severance accrual in last year for a voluntary separation program that we ran at the beginning of this year. And that paid off in terms of reductions in both corporate but also field costs.

In addition, with our growth in capital expenditures and in-service assets, we capitalized some corporate overhead support costs, all in line with the OEB approved model.

So between the overlap of the severance, the reduction in salaries and benefits and corporate costs and capitalization of more on a year-to-year basis, we saw that significant reduction. The run rate will be used this year as a base and start to move.

Our productivity initiatives are certainly paying off and helping us, less in corporate, although they're there, but also in field as well. And so I'm confident our OM&A cost run rate will not suddenly spike back up, if you will, that this is a sustainable level.

David Lebeter^ John, it's David. You can take a look at the Joint Rate Application '23 filing, you'll see the approved envelopes that we got for the OEB. We are going to live within those envelopes. So you can use that as a proxy for our run rate for the next two years.

John Mould^ Yes. That's great. And then just on M&A, in the past, you've mentioned a willingness to consider M&A outside of Ontario, but limited to neighboring jurisdictions. Wondering what you're seeing in that in the market in terms of potential opportunities that might fit within the criteria you've laid.

David Lebeter^ Yes. We haven't seen anything. We've got lots of work on our plate in Ontario. As I said in other calls, we're not outside Ontario looking for opportunities.

But if the right opportunity came along, and it wasn't going to distract us from our primary focus which is building the 14 transmission lines and running our distribution system in Ontario, we would certainly take a look at it. But we don't have anything on our plate right now and we're not actively looking.

Operator^ And that does conclude our Q&A session for today. I'd like to turn the call back over to Wassem Khalil for any further remarks.

Wassem Khalil^ Thank you, [Shannon]. The management team at Hydro One thanks everyone for their time with us this morning.

We appreciate your interest and your continued support. If you have any questions that weren't addressed on the call please feel free to reach out, and we'll get them answered for you. Thank you again, and enjoy the rest of your day.

Operator^ Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. And you may all disconnect. Have a great day.