Hydro One Reports First Quarter Results and Increases Shareholder Dividend

Successful launch of enhanced operational efficiency platforms and online customer service solutions

Toronto, May 4, 2017 – Hydro One Limited, Ontario's largest electricity transmission and distribution company, today announced its financial and operating results for the first quarter ended March 31, 2017.

- Earnings per share of $0.28, compared to $0.35 last year, reflecting milder weather, interest rate driven reduction in allowed ROE, and favourable prior year bad debt comparisons.
- Placed $228 million of capital investments into service to improve the reliability and performance of Ontario's electric grid.
- Distribution segment five-year rate application filed under incentive regulatory framework.
- Tens of thousands of customers enrolled in enhanced paperless billing and usage alert features.
- New wireless field force automation platform launched to drive customer and operating efficiencies.
- Customer billing accuracy reaches all-time high, consistently exceeding 99%.
- Announced expansion of Hydro One Telecom's fiber-optic network to additional data centres and the launch of comprehensive cloud-based backup solutions.
- Fair Hydro Plan to be implemented later in 2017 to reduce customer electricity bills.
- Quarterly dividend increased 5% to $0.22 per share, payable June 30, 2017.

"Our enhanced executional capabilities and sharpened focus on customer service were clear during the quarter as we went live with advanced new mobile operational capabilities and enhanced customer service features," said Mayo Schmidt, President and Chief Executive Officer, Hydro One. "Our advocacy on behalf of our customers was also evident as the Province of Ontario announced its new Fair Hydro Plan which will bring significant savings to electric utility customers across Ontario starting this month."

Selected Consolidated Financial and Operating Highlights

	Three months ended March 31,	
(amounts throughout in millions of Canadian dollars, except as otherwise noted)	2017	2016
Revenues	1,658	1,686
Revenues, net of purchased power	769	790
Net income attributable to common shareholders	167	208
Basic earnings per common share (EPS)	$0.28	$0.35
Diluted EPS	$0.28	$0.35
Net cash from operating activities	471	368
Capital investments	350	379
Assets placed in-service	228	161
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,795	20,555
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,967	7,045

Key Financial Highlights

Revenues, net of power costs, for the first quarter were lower than last year by 2.7% primarily reflecting a lower average Ontario transmission peak demand and lower distribution customer energy consumption due to milder weather in the first quarter of 2017. Transmission and distribution revenues were also negatively impacted by a reduction in the 2017 allowed return on equity from 9.19% to 8.78%.

In addition to the items impacting revenue noted above, the comparability of first quarter earnings was affected by significantly lower bad debt expense in the first quarter of 2016 due to revised estimates of uncollectible accounts as a result of stabilization of the customer information system and increased financing charges primarily due to increased weighted average long-term debt outstanding during the first quarter in 2017, including long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016.

Hydro One continues to invest to improve the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new generation sources, and improve service to customers. The Company made capital investments of $350 million during the first quarter, and placed $228 million of new assets in-service.

Common Share Dividends

Following the conclusion of the first quarter, on May 3, 2017, the Company declared a quarterly cash dividend to common shareholders of $0.22 per share to be paid on June 30, 2017 to shareholders of record on June 13, 2017. This represents a dividend increase of 5% and is the first increase since the Company instituted a post-IPO common share dividend of $0.21 per share in February 2016. The increase reflects the Company's expectation of continued long-term earnings growth.

Selected Operating Highlights

In March, the Company filed a five-year rate application with the Ontario Energy Board for 2018 to 2022 distribution rates under the OEB's incentive-based regulatory framework. The application reflects the level of capital investments required to minimize degradation in overall system asset condition, to meet regulatory requirements, and to maintain current reliability levels, together with cost controls and efficiency savings to minimize the effect on customer bills.

Since launching the Company's enhanced paperless billing service earlier this year, tens of thousands of residential and small business customers have already enrolled, with many also opting to receive customized usage alert and billing arrival notifications. In addition, Hydro One's new enhanced web portal offers customers the ability to set personal preferences and receive detailed insights into their energy usage with the online Home Energy Assessment tool which provides a detailed breakdown of energy use and conservation recommendations.

The Company's new wireless field force automation platform is now launched across all operating zones. Approximately 1,800 field employees are now equipped with wireless tablets connecting them to the Company's core operating systems, including customer service programs and records. The new system is being used to process hundreds of field operations work orders every day with an expectation of better efficiency and data accuracy. Online access in the field to system mapping, site and service records, and meter bar code scanning capabilities is enabling a reduction in the number of individual service calls, improved scheduling efficiencies and enhanced workforce communications.

Customer billing accuracy has continued to improve to record levels. A combination of continued enhancements to the Company's systems, processes and quality assurance controls along every step in the meter-to-bill process, combined with ongoing fine tuning of its smart meter network to improve reliability of remote meter reading capabilities, led to time-of-use billing accuracy exceeding 99.4% for every month in the first quarter of 2017.

Hydro One Telecom announced the expansion of its broadband fiber-optic network to over 30 data centres across Ontario and Quebec, with plans to connect to 13 additional locations over the coming months. Hydro One Telecom also added comprehensive, cloud-based solutions to its portfolio to meet the growing needs of clients looking for a single, consolidated repository that simplifies backup, protection and recovery of critical data that is stored, while providing a real-time, enterprise-wide dashboard view of its status across all protected data sources.

In March, the Province announced its Fair Hydro Plan which will substantially reduce the price of electric power to our customers while improving the allocation of delivery charges across the rural and urban geographies of the province. These changes will provide significant relief to customers, particularly for those who need it the most – fixed-income, rural and Northern customers and small businesses. These initiatives were developed by the Province following extensive consultations with Hydro One and other industry participants, underscoring the Company's ongoing advocacy on behalf of its customers and is another way Hydro One is demonstrating that the Company is changing the way it does business by making every effort to lower costs and by putting customers first.

Supplemental Segment Information

(millions of Canadian dollars)	Three months ended March 31, 2017	2016
Revenues		
Transmission	367	386
Distribution	1,279	1,286
Other	12	14
Total revenues	**1,658**	**1,686**
Revenues, net of purchased power		
Transmission	367	386
Distribution	390	390
Other	12	14
Total revenues, net of purchased power	**769**	**790**
Income (loss) before financing charges and taxes		
Transmission	164	195
Distribution	153	156
Other	(14)	(7)
Total income before financing charges and taxes	**303**	**344**
Capital investments		
Transmission	209	235
Distribution	138	143
Other	3	1
Total capital investments	**350**	**379**
Assets placed in-service		
Transmission	82	51
Distribution	146	107
Other	–	3
Total assets placed in-service	**228**	**161**

This press release should be read in conjunction with the Company's first quarter 2017 Consolidated Financial Statements and Management's Discussion and Analysis (MD&A). These statements and MD&A together with additional information about Hydro One, including the full year 2016 Consolidated Financial Statements and Management's Discussion and Analysis, can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's first quarter 2017 results teleconference with the investment community will be held on May 4, 2017 at 8:00 a.m. Eastern Time, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's first quarter 2017 results call, conference ID 79536095 (international callers may dial 1-440-996-5689). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One Limited

We are Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, $25 billion in assets and annual revenues of over $6.5 billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only four utility companies in Canada to achieve the Sustainable Energy Company designation from the Canadian Electrical Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fibre optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

For More Information

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

Forward-Looking Statements and Information

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

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the condensed interim unaudited consolidated financial statements and accompanying notes thereto (the Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three months ended March 31, 2017, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2016. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A provides information for the three months ended March 31, 2017, based on information available to management as of May 3, 2017.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	2017	2016	Change
Revenues	1,658	1,686	(1.7%)
Purchased power	889	896	(0.8%)
Revenues, net of purchased power	769	790	(2.7%)
Operation, maintenance and administration costs	271	256	5.9%
Depreciation and amortization	195	190	2.6%
Financing charges	103	96	7.3%
Income tax expense	27	33	(18.2%)
Net income attributable to common shareholders of Hydro One	**167**	**208**	**(19.7%)**
Basic earnings per common share (EPS)	$0.28	$0.35	(19.7%)
Diluted EPS	$0.28	$0.35	(19.7%)
Net cash from operating activities	471	368	28.0%
Funds from operations (FFO)[1]	389	382	1.8%
Capital investments	350	379	(7.7%)
Assets placed in-service	228	161	41.6%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,795	20,555	(3.7%)
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,967	7,045	(1.1%)

	March 31, 2017	December 31, 2016
Debt to capitalization ratio[2]	52.5%	52.6%

[1] See section "Non-GAAP Measures" for description and reconciliation of FFO.

[2] Debt to capitalization ratio has been calculated as total debt (includes total long-term debt and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to non-controlling interest.

OVERVIEW

For the three months ended March 31, 2017, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

	Transmission	Distribution	Other
Percentage of Company's total revenues, net of purchased power	48%	51%	1%

At March 31, 2017, Hydro One's business segments accounted for the Company's total assets as follows:

	Transmission	Distribution	Other
Percentage of Company's total assets	52%	37%	11%

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended March 31, 2017 of $167 million is a decrease of $41 million or 19.7% from the prior year. Significant influences on net income included:

- milder weather in the first quarter of 2017 resulted in a decrease in transmission revenues, mainly due to lower average Ontario peak demand, and a decrease in distribution revenues, as energy consumption declined. Transmission and distribution revenues were also impacted by a reduction in the 2017 allowed regulated return on equity (ROE) from 9.19% to 8.78%;
- higher operation, maintenance and administration (OM&A) costs primarily resulting from lower bad debt expense in 2016 due to revised estimates of uncollectible accounts as a result of stabilization of the customer information system (excluding this adjustment in 2016, bad debt expense would have been relatively flat year-over-year); and
- increased financing charges primarily due to increased weighted average long-term debt outstanding during the first quarter of 2017 compared to the first quarter of 2016, including long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016.

EPS

EPS was $0.28 in the first quarter of 2017, compared to EPS of $0.35 in the first quarter of 2016. The decrease in EPS was driven by lower net income in the first quarter of 2017, as discussed above.

Revenues

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	**2017**	**2016**	**Change**
Transmission	367	386	(4.9%)
Distribution	1,279	1,286	(0.5%)
Other	12	14	(14.3%)
	1,658	1,686	(1.7%)
Transmission volumes:			
Average monthly Ontario 60-minute peak demand *(MW)*	19,795	20,555	(3.7%)
Distribution volumes:			
Electricity distributed to Hydro One customers *(GWh)*	6,967	7,045	(1.1%)

Transmission Revenues

Transmission revenues decreased by 4.9% for the first quarter primarily due to the following:

- lower average monthly Ontario 60-minute peak demand mainly due to milder weather in 2017; and
- decreased Ontario Energy Board (OEB)-approved transmission rates primarily reflecting a reduction in 2017 allowed ROE for the transmission business from 9.19% to 8.78%; partially offset by
- additional revenues resulting from the acquisition of Hydro One Sault Ste. Marie in the fourth quarter of 2016.

Distribution Revenues

Distribution revenues decreased by 0.5% for the first quarter primarily due to the following:

- lower power costs from generators that are passed on to customers; and
- lower energy consumption resulting from milder weather in 2017; partially offset by
- increased OEB-approved distribution rates for 2017, net of a reduction in 2017 allowed ROE for the distribution business from 9.19% to 8.78%.

OM&A Costs

Three months ended March 31 (millions of dollars)	2017	2016	Change
Transmission	102	96	6.3%
Distribution	145	141	2.8%
Other	24	19	26.3%
	271	256	5.9%

Transmission OM&A Costs

The increase of 6.3% in transmission OM&A costs for the quarter ended March 31, 2017 was primarily due to higher consulting costs related to efficiency studies, and additional OM&A costs resulting from the acquisition of Hydro One Sault Ste. Marie in the fourth quarter of 2016.

Distribution OM&A Costs

The increase of 2.8% in distribution OM&A costs for the quarter ended March 31, 2017 was primarily due to the following:

- lower bad debt expense in 2016 due to revised estimates of uncollectible accounts as a result of stabilization of the customer information system (excluding this adjustment in 2016, bad debt expense would have been relatively flat year-over-year); and
- higher consulting costs related to customer initiatives; partially offset by
- lower emergency power and storm restoration costs in 2017 as last year's costs were elevated by an ice storm in March 2016.

Other OM&A Costs

The increase in other OM&A costs for the quarter ended March 31, 2017 was primarily due to higher consulting costs related to strategy development and higher corporate management costs.

Financing Charges

The increase of $7 million or 7.3% in financing charges for the quarter ended March 31, 2017 was primarily due to an increase in interest expense on long-term debt driven by an increase in the weighted average long-term debt balance outstanding during the first quarter of 2017, including the long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016. This was partially offset by a decrease in the weighted average interest rate for long-term debt.

Income Tax Expense

The effective tax rate for the three months ended March 31, 2017 was 13.5% compared to 13.3% for the three months ended March 31, 2016. The decrease in income tax expense of $6 million for the quarter ended March 31, 2017 was primarily due to lower income before taxes, partially offset by changes in temporary differences included in the rate setting process such as capital cost allowance in excess of depreciation and pension contributions in excess of pension expense.

Common Share Dividends

In 2017, the Company declared and paid cash dividends to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 9, 2017	March 14, 2016	March 31, 2017	$0.21	125

Following the conclusion of the first quarter of 2017, the Company declared a cash dividend to common shareholders reflecting an increase of 5% as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
May 3, 2017	June 13, 2017	June 30, 2017	$0.22	131

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS)	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015
Revenues	1,658	1,614	1,706	1,546	1,686	1,522	1,645	1,563
Purchased power	889	858	870	803	896	786	856	838
Revenues, net of purchased power	769	756	836	743	790	736	789	725
Net income to common shareholders	167	128	233	152	208	143	188	131
Basic EPS	$0.28	$0.22	$0.39	$0.26	$0.35	$0.26	$0.39	$0.27
Diluted EPS	$0.28	$0.21	$0.39	$0.25	$0.35	$0.26	$0.39	$0.27
Basic Adjusted EPS[1]	$0.28	$0.22	$0.39	$0.26	$0.35	$0.24	$0.32	$0.22
Diluted Adjusted EPS[1]	$0.28	$0.21	$0.39	$0.25	$0.35	$0.24	$0.32	$0.22

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

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

CAPITAL INVESTMENTS

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

The following table presents Hydro One's assets placed in-service during the three months ended March 31, 2017 and 2016:

Three months ended March 31 (millions of dollars)	2017	2016	Change
Transmission	82	51	60.8%
Distribution	146	107	36.4%
Other	–	3	(100.0%)
Total assets placed in-service	**228**	**161**	**41.6%**

Transmission assets placed in-service increased by $31 million or 60.8% during the first quarter of 2017 primarily due to the timing of a larger number of sustainment investments that were placed in-service early in 2017, including the station refurbishment projects at Richview, Nepean, Hinchinbrooke, Bruce A, and Strathroy transmission stations.

Distribution assets placed in-service increased by $39 million or 36.4% during the first quarter of 2017 primarily due to the following:

- the completion of an operation center in Bolton in February 2017;
- timing of distribution station refurbishments and spare transformer purchases as work and vendor deliveries were deferred from 2016; and
- higher volume of trouble calls and power restoration work.

The following table presents Hydro One's capital investments during the three months ended March 31, 2017 and 2016:

Three months ended March 31 (millions of dollars)	2017	2016	Change
Transmission			
Sustaining	162	181	(10.5%)
Development	37	40	(7.5%)
Other	10	14	(28.6%)
	209	235	(11.1%)
Distribution			
Sustaining	72	86	(16.3%)
Development	47	39	20.5%
Other	19	18	5.6%
	138	143	(3.5%)
Other	3	1	200.0%
Total capital investments	**350**	**379**	**(7.7%)**

Transmission Capital Investments

Transmission capital investments decreased by $26 million or 11.1% during the first quarter of 2017. Principal impacts on the levels of capital investments for the quarter included:

- lower volume of sustainment project work;
- timing of work related to the Clarington Transmission Station project;
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects; and
- completion of the Guelph Area Transmission Refurbishment project; partially offset by
- continued work on major local area supply network development projects, such as the Holland Transmission Station and the Hawthorne Transmission Station.

Distribution Capital Investments

Distribution capital investments decreased by $5 million or 3.5% during the first quarter of 2017. Principal impacts on the levels of capital investments for the quarter included:

- lower volume of wood pole replacements;
- lower volume of work within station refurbishment programs; and
- decreased storm restoration work compared to prior year mainly as a result of the ice storm in March 2016; partially offset by
- higher volume of work in new connections and upgrades due to increased demand; and
- higher volume of emergency power restorations.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at March 31, 2017:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date
Development Projects:					
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	$73 million	$16 million
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	$267 million	$203 million
East-West Tie Station Expansion	Northern Ontario	Station expansion	2020	$166 million	–
Northwest Bulk Transmission Line	Thunder Bay Northwestern Ontario	New transmission line	To be determined	To be determined	–
Sustainment Projects:					
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2019	$109 million	$90 million
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	$102 million	$72 million
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2020	$95 million	$25 million
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2021	$93 million	$35 million

SUMMARY OF SOURCES AND USES OF CASH

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

Three months ended March 31 *(millions of dollars)*	2017	2016
Cash provided by operating activities	471	368
Cash provided by (used in) financing activities	(148)	147
Cash used in investing activities	(350)	(356)
Increase (decrease) in cash and cash equivalents	**(27)**	159

Cash provided by operating activities

The increase in cash provided by operating activities is primarily due to decreased energy-related receivables as a result of lower revenues in the first quarter of 2017 primarily reflecting a lower average Ontario peak demand and lower energy consumption due to milder weather in the first quarter of 2017.

Cash provided by financing activities

Sources of cash

- The Company did not issue long-term debt in the first quarter of 2017, compared to proceeds from the issuance of $1,350 million in the first quarter of 2016.
- The Company received proceeds of $572 million from issuance of short-term notes in the first quarter of 2017, compared to $731 million received in the first quarter of 2016.

Uses of cash

- Dividends paid in the first quarter of 2017 were $130 million, consisting of $125 million common share dividends and $5 million preferred share dividends, compared to $208 million paid in the prior year, consisting of $202 million common share dividends and $6 million preferred share dividends. Common share dividends paid in the first quarter of 2016 included $77 million for the post-Initial Public Offering (IPO) period from November 5 to December 31, 2015, and $125 million for the quarter ended March 31, 2016.
- The Company repaid $590 million of short-term notes, compared to $1,267 million repaid in the first quarter of 2016.
- The Company repaid no long-term debt in the first quarter of 2017 compared to $450 million repaid in the first quarter of 2016.

Cash used in investing activities

Uses of cash

- Capital expenditures were $22 million lower in the first quarter of 2017, primarily due to lower volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through funds from operations, Hydro One Inc.'s commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One Inc. is authorized to issue up to $1.5 billion in short-term notes with a term to maturity of up to 365 days. At March 31, 2017, Hydro One Inc. had $451 million in commercial paper borrowings outstanding, compared to $469 million outstanding at December 31, 2016. In addition, the Company and Hydro One Inc. have revolving bank credit facilities totalling $2,550 million maturing in 2021. The Company may use the credit facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the credit facilities and anticipated levels of funds from operations are expected to be sufficient to fund the Company's normal operating requirements.

At March 31, 2017, the Company's long-term debt in the principal amount of $10,671 million included $10,523 million long-term debt issued under Hydro One Inc.'s Medium Term Note (MTN) Program and long-term debt in the principal amount of $148 million held by Hydro One Sault Ste. Marie. At March 31, 2017, the maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 was $3.5 billion, with $1.2 billion remaining available for issuance until January 2018. The long-term debt consists of notes and debentures that mature between 2017 and 2064, and at March 31, 2017, had an average term to maturity of approximately 15.6 years and a weighted average coupon rate of 4.3%.

In addition, at March 31, 2017, Hydro One had $6,030 million available under its universal short form base shelf prospectus (Universal Base Shelf Prospectus) filed in March 2016, which allows Hydro One to offer, from time to time in one or more public offerings, up to $8.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on April 30, 2018.

At March 31, 2017, the Company and Hydro One Inc. were in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

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

Summary of Contractual Obligations and Other Commercial Commitments

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

March 31, 2017 *(millions of dollars)*	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations *(due by year)*					
Long-term debt – principal repayments	10,671	602	1,484	1,756	6,829
Long-term debt – interest payments	8,058	456	826	749	6,027
Short-term notes payable	451	451	–	–	–
Pension contributions[1]	188	103	85	–	–
Environmental and asset retirement obligations	228	28	52	66	82
Outsourcing agreements	327	152	163	6	6
Operating lease commitments	49	12	19	14	4
Long-term software/meter agreement	68	16	34	14	4
Total contractual obligations	20,040	1,820	2,663	2,605	12,952
Other commercial commitments *(by year of expiry)*					
Credit facilities	2,550	–	–	2,550	–
Letters of credit[2]	169	169	–	–	–
Guarantees[3]	325	325	–	–	–
Total other commercial commitments	3,044	494	–	2,550	–

[1] Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2017 and 2018 minimum pension contributions are based on an actuarial valuation as at December 31, 2015 and projected levels of pensionable earnings.

[2] Letters of credit consist of a $150 million letter of credit related to retirement compensation arrangements, a $12 million letter of credit provided to the IESO for prudential support, $6 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

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

REGULATION

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

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

Application	Year(s)	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision pending
Hydro One Networks	2015-2017	Distribution – Custom	OEB decision received
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision pending
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
Hydro One Sault Ste. Marie	2017	Transmission – Cost-of-service	OEB decision pending
Mergers Acquisitions Amalgamations and Divestitures			
Orillia Power Distribution Corporation	n/a	Acquisition	OEB decision pending

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

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2017	8.78% (A)	$10,554 million	Filed in May 2016	To be filed in 2017 Q2
	2018	8.78% (F)	$11,226 million	Filed in May 2016	To be filed in 2017 Q4
B2M LP	2017	8.78% (A)	$509 million	Approved in December 2015	Filed in December 2016
	2018	8.78% (F)	$502 million	Approved in December 2015	To be filed in 2017 Q4
	2019	8.78% (F)	$496 million	Approved in December 2015	To be filed in 2018 Q4
Hydro One Sault Ste. Marie	2017	9.19% (F)	$218 million	Filed in December 2016	Filed in December 2016
Distribution					
Hydro One Networks	2017	8.78% (A)	$7,190 million	Approved in March 2015	Approved in December 2016
	2018	8.78% (F)	$7,672 million	Filed in March 2017	To be filed in 2017 Q4
	2019	8.78% (F)	$8,049 million	Filed in March 2017	To be filed in 2018 Q4
	2020	8.78% (F)	$8,477 million	Filed in March 2017	To be filed in 2019 Q4
	2021	8.78% (F)	$9,035 million	Filed in March 2017	To be filed in 2020 Q4
	2022	8.78% (F)	$9,435 million	Filed in March 2017	To be filed in 2021 Q4

Hydro One Networks

On March 31, 2017, Hydro One Networks filed a custom application with the OEB for 2018-2022 distribution rates under the OEB's incentive-based regulatory framework. The application reflects the level of capital investments required to minimize degradation in overall system asset condition, to meet regulatory requirements, and to maintain current reliability levels. Management expects that a decision will be received in the first half of 2018, and that new rates will be effective on January 1, 2018.

Other Regulatory Developments

Fair Hydro Plan and First Nations Rate Assistance Program

In March 2017, Ontario's Minister of Energy announced its Fair Hydro Plan, which included changes to the Global Adjustment, the Rural or Remote Electricity Rate Protection (RRRP) program, the introduction of the First Nations Rate Assistance program, and improving the allocation of delivery charges across the rural and urban geographies of the province. Hydro One worked collaboratively with the OEB on the First Nations Rate Assistance program, and was a key stakeholder in providing solutions that address both the Global Adjustment and RRRP elements. The Company's recommendation to provide a credit on the delivery charge for on-reserve First Nations customers is expected to be implemented. The Province of Ontario (Province) also launched a new Affordability Fund aimed at assisting electricity customers who cannot qualify for low-income conservation programs. Additional enhancements are also planned to the existing Ontario Electricity Support Program.

Starting in the summer of 2017, a reduction of 25% is expected to be introduced on electricity bills for typical Ontario residents. This reduction is expected to include the 8% rebate from the *Ontario Rebate for Electricity Consumers Act, 2016*. The RRRP and First Nations Rate Assistance program delivery charge credit is expected to be funded from Provincial revenues, reducing regulatory charges for Ontario ratepayers. Funding for the Ontario Electricity Support Program is expected to be increased by 50%, and it is expected that the changes to the RRRP will result in distribution cost reductions of about 10% for an average low-density and medium-density Hydro One customer, consuming 1,150 kWh and 900 kWh, respectively. These changes, once implemented, are not expected to have an impact on the net revenues of the Company.

NON-GAAP MEASURES

FFO

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

Three months ended March 31 *(millions of dollars)*	2017	2016
Net cash from operating activities	471	368
Changes in non-cash balances related to operations	(77)	23
Preferred share dividends	(5)	(6)
Distributions to noncontrolling interest	–	(3)
FFO	**389**	**382**

Adjusted EPS

The basic and diluted Adjusted EPS has been calculated by management on a supplementary basis which assumes that the total number of common shares outstanding was 595,000,000 in each of the quarters presented. Adjusted EPS has been used internally by management subsequent to the IPO of the Company's common shares in November 2015 to assess the Company's performance and is considered useful because it eliminates the impact of a different and non-comparable number of shares outstanding and held by the Province prior to the IPO. EPS is considered an important measure and management believes that presenting it consistently for all periods based on the number of outstanding shares on, and subsequent to, the IPO provided users with a comparative basis to evaluate the operations of the Company.

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

RELATED PARTY TRANSACTIONS

The Province is the majority shareholder of Hydro One with approximately 70.1% ownership at March 31, 2017. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Hydro One Brampton was a related party until February 28, 2017, when it was acquired from the Province by Alectra Inc. and subsequent to the acquisition by Alectra Inc. is no longer a related party to Hydro One. The following is a summary of the Company's related party transactions during the three months ended March 31, 2017 and 2016:

		Three months ended March 31	
		2017	2016
Related Party	Transaction	*(millions of dollars)*	
Province	Dividends paid	92	176
IESO	Power purchased	651	710
	Revenues for transmission services	369	376
	Amounts related to electricity rebates	77	–
	Distribution revenues related to rural rate protection	61	31
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	16	7
OPG	Power purchased	4	2
	Revenues related to provision of construction and equipment maintenance services	–	1
	Costs expensed related to the purchase of services	–	1
OEFC	Power purchased from power contracts administered by the OEFC	1	–
OEB	OEB fees	2	4
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	–	1

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in Hydro One's internal controls over financial reporting during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

The following table presents Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
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	Under assessment
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05	May 2014 – February 2017	ASU 2014-09 was issued in May 2014 and 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. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One has completed its initial assessment and has identified relevant revenue streams. No quantitative determination has been made as a detailed assessment is underway and will continue through to the third quarter of 2017. The Company is on track for implementation of this standard by the effective date.
2016-02	February 2016	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting rates and expected timing of decisions; the Company's liquidity and capital resources and operational requirements; the standby credit facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB; future pension contributions and valuations; dividends; non-GAAP measures; the Fair Hydro Plan and First Nations Rate Assistance Program, including expected outcomes and impacts; recent accounting-related guidance; the Universal Base Shelf Prospectus; and the Company's acquisitions, including Orillia Power Distribution Corporation. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking statements, except as required by law.

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

- risks associated with the Province's share ownership of Hydro One and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders, actual performance against forecasts and capital expenditures;
- the risk that the Company may be unable to comply with regulatory and legislative requirements or that the Company may incur additional costs for compliance that are not recoverable through rates;
- the risk of exposure of the Company's facilities to the effects of severe weather conditions, natural disasters or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- public opposition to and delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk that Hydro One may incur significant costs associated with transferring assets located on reserves (as defined in the *Indian Act* (Canada));
- the risks associated with information system security and maintaining a complex information technology system infrastructure;
- the risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit risk;
- the risk that the Company may not be able to execute plans for capital projects necessary to maintain the performance of the Company's assets or to carry out projects in a timely manner;
- the risk of non-compliance with environmental regulations or failure to mitigate significant health and safety risks and inability to recover environmental expenditures in rate applications;
- the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;
- the risk of not being able to recover the Company's pension expenditures in future rates and uncertainty regarding the future regulatory treatment of pension, other post-employment benefits and post-retirement benefits costs;
- the potential that Hydro One may incur significant expenses to replace functions currently outsourced if agreements are terminated or expire before a new service provider is selected;
- the risks associated with economic uncertainty and financial market volatility;
- the inability to prepare financial statements using US GAAP; and
- the impact of the ownership by the Province of lands underlying the Company's transmission system.

Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section entitled "Risk Management and Risk Factors" in the 2016 MD&A.

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

Additional information about Hydro One, including the Company's Annual Information Form for the year ended December 31, 2016, is available on SEDAR at www.sedar.com and the Company's website at www.HydroOne.com/Investors.

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three months ended March 31, 2017 and 2016

Three months ended March 31 *(millions of Canadian dollars, except per share amounts)*	**2017**	**2016**
Revenues		
Distribution (includes $69 related party revenues; 2016 – $40) *(Note 19)*	1,279	1,286
Transmission (includes $369 related party revenues; 2016 – $377) *(Note 19)*	367	386
Other	12	14
	1,658	1,686
Costs		
Purchased power (includes $656 related party costs; 2016 – $712) *(Note 19)*	889	896
Operation, maintenance and administration *(Note 19)*	271	256
Depreciation and amortization *(Note 4)*	195	190
	1,355	1,342
Income before financing charges and income taxes	303	344
Financing charges	103	96
Income before income taxes	200	248
Income taxes *(Note 5)*	27	33
Net income	**173**	**215**
Other comprehensive income	1	–
Comprehensive income	**174**	**215**
Net income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	6
Common shareholders	167	208
	173	**215**
Comprehensive income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	6
Common shareholders	168	208
	174	**215**
Earnings per common share *(Note 17)*		
Basic	$0.28	$0.35
Diluted	$0.28	$0.35
Dividends per common share declared *(Note 16)*	$0.21	$0.34

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At March 31, 2017 and December 31, 2016

(millions of Canadian dollars)	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	23	50
Accounts receivable *(Note 6)*	740	838
Due from related parties	203	158
Other current assets *(Note 7)*	99	102
	1,065	1,148
Property, plant and equipment *(Note 8)*	19,324	19,140
Other long-term assets:		
Regulatory assets	3,154	3,145
Deferred income tax assets	1,180	1,235
Intangible assets (net of accumulated amortization – \$344; 2016 – \$330)	347	349
Goodwill	327	327
Other assets	8	7
	5,016	5,063
Total assets	**25,405**	**25,351**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 11)*	451	469
Long-term debt payable within one year *(Notes 11, 12)*	602	602
Accounts payable and other current liabilities *(Note 9)*	984	945
Due to related parties	111	147
	2,148	2,163
Long-term liabilities:		
Long-term debt (includes \$549 measured at fair value; 2016 – \$548) *(Notes 11, 12)*	10,080	10,078
Regulatory liabilities	211	209
Deferred income tax liabilities	61	60
Other long-term liabilities *(Note 10)*	2,766	2,752
	13,118	13,099
Total liabilities	**15,266**	**15,262**
Contingencies and Commitments *(Notes 21, 22)*		
Subsequent Events *(Note 24)*		
Noncontrolling interest subject to redemption	22	22
Equity		
Common shares *(Note 15)*	5,623	5,623
Preferred shares *(Note 15)*	418	418
Additional paid-in capital	40	34
Retained earnings	3,992	3,950
Accumulated other comprehensive loss	(7)	(8)
Hydro One shareholders' equity	10,066	10,017
Noncontrolling interest	51	50
Total equity	**10,117**	**10,067**
	25,405	**25,351**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the three months ended March 31, 2017 and 2016

Three months ended March 31, 2017 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive 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	–	–	–	172	–	172	1	173
Other comprehensive income	–	–	–	–	1	1	–	1
Dividends on preferred shares	–	–	–	(5)	–	(5)	–	(5)
Dividends on common shares	–	–	–	(125)	–	(125)	–	(125)
Stock-based compensation	–	–	6	–	–	6	–	6
March 31, 2017	**5,623**	**418**	**40**	**3,992**	**(7)**	**10,066**	**51**	**10,117**

Three months ended March 31, 2016 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2016	5,623	418	10	3,806	(8)	9,849	52	9,901
Net income	–	–	–	214	–	214	1	215
Distributions to noncontrolling interest	–	–	–	–	–	–	(2)	(2)
Dividends on preferred shares	–	–	–	(6)	–	(6)	–	(6)
Dividends on common shares	–	–	–	(202)	–	(202)	–	(202)
Stock-based compensation	–	–	5	–	–	5	–	5
March 31, 2016	**5,623**	**418**	**15**	**3,812**	**(8)**	**9,860**	**51**	**9,911**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2017 and 2016

Three months ended March 31 *(millions of Canadian dollars)*	2017	2016
Operating activities		
Net income	173	215
Environmental expenditures	(4)	(3)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	174	166
Regulatory assets and liabilities	31	(10)
Deferred income taxes	20	21
Other	–	2
Changes in non-cash balances related to operations *(Note 20)*	77	(23)
Net cash from operating activities	471	368
Financing activities		
Long-term debt issued	–	1,350
Long-term debt repaid	–	(450)
Short-term notes issued	572	731
Short-term notes repaid	(590)	(1,267)
Dividends paid	(130)	(208)
Distributions paid to noncontrolling interest	–	(3)
Other	–	(6)
Net cash from (used in) financing activities	(148)	147
Investing activities		
Capital expenditures *(Note 20)*		
Property, plant and equipment	(335)	(358)
Intangible assets	(14)	(13)
Capital contributions received	7	15
Other	(8)	–
Net cash used in investing activities	(350)	(356)
Net change in cash and cash equivalents	(27)	159
Cash and cash equivalents, beginning of period	50	94
Cash and cash equivalents, end of period	**23**	**253**

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). At March 31, 2017, the Province of Ontario (Province) held approximately 70.1% (December 31, 2016 – 70.1%) of the common shares of Hydro One.

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.

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) 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, 2016. 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 2016 annual audited consolidated financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following table presents Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
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	Under assessment
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05	May 2014 – February 2017	ASU 2014-09 was issued in May 2014 and 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. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One has completed its initial assessment and has identified relevant revenue streams. No quantitative determination has been made as a detailed assessment is underway and will continue through to the third quarter of 2017. The Company is on track for implementation of this standard by the effective date.
2016-02	February 2016	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

4. DEPRECIATION AND AMORTIZATION

Three months ended March 31 *(millions of dollars)*	2017	2016
Depreciation of property, plant and equipment	155	150
Asset removal costs	21	24
Amortization of intangible assets	15	13
Amortization of regulatory assets	4	3
	195	190

5. INCOME TAXES

Income taxes differ 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:

Three months ended March 31 *(millions of dollars)*	2017	2016
Income taxes at statutory rate	53	66
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(11)	(14)
Pension contributions in excess of pension expense	(5)	(7)
Overheads capitalized for accounting but deducted for tax purposes	(4)	(4)
Interest capitalized for accounting but deducted for tax purposes	(4)	(5)
Environmental expenditures	(3)	(2)
Other	–	(1)
Net temporary differences	(27)	(33)
Net permanent differences	1	–
Total income taxes	27	33
Effective income tax rate	13.5%	13.3%

6. ACCOUNTS RECEIVABLE

(millions of dollars)	March 31, 2017	December 31, 2016
Accounts receivable – billed	437	431
Accounts receivable – unbilled	338	442
Accounts receivable, gross	775	873
Allowance for doubtful accounts	(35)	(35)
Accounts receivable, net	740	838

The following table shows the movements in the allowance for doubtful accounts for the three months ended March 31, 2017 and the year ended December 31, 2016:

(millions of dollars)	Three months ended March 31, 2017	Year ended December 31, 2016
Allowance for doubtful accounts – beginning	(35)	(61)
Write-offs	6	37
Additions to allowance for doubtful accounts	(6)	(11)
Allowance for doubtful accounts – ending	(35)	(35)

7. OTHER CURRENT ASSETS

(millions of dollars)	March 31, 2017	December 31, 2016
Regulatory assets	35	37
Materials and supplies	19	19
Prepaid expenses and other assets	45	46
	99	102

8. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	March 31, 2017	December 31, 2016
Property, plant and equipment	27,907	27,687
Less: accumulated depreciation	(10,090)	(9,935)
	17,817	17,752
Construction in progress	1,345	1,234
Future use land, components and spares	162	154
	19,324	19,140

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(millions of dollars)	March 31, 2017	December 31, 2016
Accounts payable	171	181
Accrued liabilities	680	659
Accrued interest	130	105
Regulatory liabilities	3	–
	984	945

10. OTHER LONG-TERM LIABILITIES

(millions of dollars)	March 31, 2017	December 31, 2016
Post-retirement and post-employment benefit liability	1,664	1,641
Pension benefit liability	894	900
Environmental liabilities *(Note 14)*	173	177
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	26	25
	2,766	2,752

11. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of $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 March 31, 2017, Hydro One's consolidated committed, unsecured and undrawn 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.

Long-Term Debt

At March 31, 2017, $10,523 million long-term debt was outstanding 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 December 2015 is $3.5 billion. At March 31, 2017, $1.2 billion remained available for issuance until January 2018. In addition, at March 31, 2017, the Company had long-term debt of $184 million held by Hydro One Sault Ste. Marie.

The following table presents long-term debt outstanding at March 31, 2017 and December 31, 2016:

(millions of dollars)	March 31, 2017	December 31, 2016
Notes and debentures	10,707	10,707
Add: Net unamortized debt premiums	15	15
Add: Unrealized mark-to-market gain[1]	(1)	(2)
Less: Deferred debt issuance costs	(39)	(40)
Total long-term debt	10,682	10,680
Less: Long-term debt payable within one year	(602)	(602)
	10,080	10,078

[1] The unrealized mark-to-market net gain relates to $50 million of the Series 33 notes due 2020 and the $500 million Series 37 notes due 2019. The unrealized mark-to-market net gain is offset by a $1 million (December 31, 2016 – $2 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.

During the three months ended March 31, 2017, Hydro One did not issue (2016 – $1,350 million) long-term debt under the MTN Program, and made no repayments (2016 – $450 million) of long-term debt.

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	602	5.2
2 years	981	2.4
3 years	503	1.5
4 years	1,153	2.5
5 years	603	3.2
	3,842	2.9
6 – 10 years	634	3.5
Over 10 years	6,195	5.2
	10,671	4.3

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

Year	Interest Payments *(millions of dollars)*
Remainder of 2017	369
2018	425
2019	402
2020	384
2021	370
	1,950
2022-2026	1,703
2027+	4,405
	8,058

12. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016 are as follows:

(millions of dollars)	March 31, 2017 Carrying Value	March 31, 2017 Fair Value	December 31, 2016 Carrying Value	December 31, 2016 Fair Value
Long-term debt, including current portion				
$50 million of MTN Series 33 notes	50	50	50	50
$500 million MTN Series 37 notes	499	499	498	498
Other notes and debentures	10,133	11,556	10,132	11,462
	10,682	12,105	10,680	12,010

Fair Value Measurements of Derivative Instruments

At March 31, 2017, Hydro One Inc. had interest-rate swaps in the amount of $550 million (December 31, 2016 – $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 5% (December 31, 2016 – 5%) of its total long-term debt. At March 31, 2017, 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; and
- 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.

At March 31, 2017 and December 31, 2016, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at March 31, 2017 and December 31, 2016 is as follows:

March 31, 2017 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	23	23	23	–	–
	23	23	23	–	–
Liabilities:					
Short-term notes payable	451	451	451	–	–
Long-term debt, including current portion	10,682	12,105	–	12,105	–
Derivative instruments					
Fair value hedges – interest-rate swaps	1	1	1	–	–
	11,134	12,557	452	12,105	–

December 31, 2016 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	50	50	50	–	–
	50	50	50	–	–
Liabilities:					
Short-term notes payable	469	469	469	–	–
Long-term debt, including current portion	10,680	12,010	–	12,010	–
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	2	–	–
	11,151	12,481	471	12,010	–

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.

There were no transfers between any of the fair value levels during the three months ended March 31, 2017 or year ended December 31, 2016.

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 or material foreign exchange 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 months ended March 31, 2017 and 2016.

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 months ended March 31, 2017 and 2016 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, there was no material accounts receivable balance due from any single customer.

At March 31, 2017, the Company's provision for bad debts was $35 million (December 31, 2016 – $35 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At March 31, 2017, approximately 6% (December 31, 2016 – 6%) 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 March 31, 2017 and December 31, 2016, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At March 31, 2017, 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 liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby credit facilities. The short-term liquidity under the Commercial Paper Program, revolving standby credit facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

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

Defined Benefit Pension Plan, Supplementary Pension Plan, and Post-Retirement and Post-Employment Plans

Estimated annual defined benefit pension plan contributions for 2017 and 2018 are approximately $105 million and $102 million, respectively, based on the actuarial valuation as at December 31, 2015 and projected levels of pensionable earnings. Employer contributions made during the three months ended March 31, 2017 were $28 million (2016 – $46 million).

The following table provides the components of the net periodic benefit costs for the three months ended March 31, 2017 and 2016:

Three months ended March 31 *(millions of dollars)*	Pension Benefits 2017	Pension Benefits 2016	Post-Retirement and Post-Employment Benefits 2017	Post-Retirement and Post-Employment Benefits 2016
Current service cost	36	36	12	11
Interest cost	76	77	17	17
Expected return on plan assets, net of expenses[1]	(110)	(109)	–	–
Actuarial loss amortization	20	24	2	2
Net periodic benefit costs	22	28	31	30
Charged to results of operations[2]	13	22	14	13

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2017 is 6.5% (2016 – 6.5%).

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three months ended March 31, 2017, pension costs of $30 million (2016 – $50 million) were attributed to labour, of which $13 million (2016 – $22 million) was charged to operations and $17 million (2016 – $28 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

14. ENVIRONMENTAL LIABILITIES

The following table shows the movements in environmental liabilities for the three months ended March 31, 2017 and the year ended December 31, 2016:

(millions of dollars)	Three months ended March 31, 2017	Year ended December 31, 2016
Environmental liabilities – beginning	204	207
Interest accretion	2	8
Expenditures	(4)	(20)
Revaluation adjustment	–	9
Environmental liabilities – ending	202	204
Less: current portion	29	27
	173	177

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

(millions of dollars)	March 31, 2017	December 31, 2016
Undiscounted environmental liabilities	219	224
Less: discounting accumulated liabilities to present value	17	20
Discounted environmental liabilities	202	204

Future expenditures have been discounted using factors ranging from approximately 2.0% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. At March 31, 2017, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2017[1]	22
2018	26
2019	25
2020	29
2021	36
Thereafter	81
	219

[1] The amounts disclosed represent amounts for the period from April 1, 2017 to December 31, 2017.

15. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At March 31, 2017 and December 31, 2016, the Company had 595 million common shares issued and outstanding.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At March 31, 2017 and December 31, 2016, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares. At March 31, 2017 and December 31, 2016, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

16. DIVIDENDS

During the three months ended March 31, 2017, preferred share dividends in the amount of $5 million (2016 – $6 million) and common share dividends in the amount of $125 million (2016 – $202 million) were declared and paid.

17. EARNINGS PER 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, which are calculated using the treasury stock method.

Three months ended March 31	2017	2016
Net income attributable to common shareholders *(millions of dollars)*	167	208
Weighted average number of shares		
Basic	595,000,000	595,000,000
Effect of dilutive stock-based compensation plans	2,239,305	1,131,071
Diluted	597,239,305	596,131,071
EPS		
Basic	$0.28	$0.35
Diluted	$0.28	$0.35

18. STOCK-BASED COMPENSATION

Management Deferred Share Units (DSU) Plan

Under the Company's Management DSU Plan, eligible executive employees can elect to receive a specified proportion of their annual short-term incentive in a notional account of DSUs in lieu of cash. Each DSU represents a unit with an underlying value equivalent to the value of one common share of the Company and is entitled to accrue common share dividend equivalents in the form of additional DSUs at the time dividends are paid, subsequent to declaration by Hydro One's Board of Directors.

Three months ended March 31 *(number of DSUs)*	2017	2016
DSUs outstanding – January 1	–	–
DSUs granted	66,952	–
DSUs outstanding – March 31	66,952	–

At March 31, 2017, a liability of $2 million (December 31, 2016 – $nil), related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $24.25 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Long-term Incentive Plan

During the three months ended March 31, 2017 and 2016, the Company granted awards under its Long-term Incentive Plan, consisting of Performance Stock Units (PSUs) and Restricted Stock Units (RSUs), all of which are equity settled, as follows:

Three months ended March 31, 2017	Number of PSUs	Number of RSUs
Units outstanding – January 1, 2017	230,600	254,150
Units granted	267,450	218,950
Units forfeited	(14,435)	(15,885)
Units outstanding – March 31, 2017	483,615	457,215

Three months ended March 31, 2016	Number of PSUs	Number of RSUs
Units outstanding – January 1, 2016	–	–
Units granted	124,120	149,120
Units outstanding – March 31, 2016	124,120	149,120

The grant date total fair value of the awards granted during the three months ended March 31, 2017 was $12 million (2016 – $7 million). The compensation expense recognized by the Company relating to LTIP awards during the three months ended March 31, 2017 was $1 million (2016 – $nil).

19. RELATED PARTY TRANSACTIONS

The Province is the majority shareholder of Hydro One. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Hydro One Brampton was a related party until February 28, 2017, when it was acquired from the Province by Alectra Inc., and subsequent to the acquisition by Alectra Inc., is no longer a related party to Hydro One.

		Three months ended March 31	
		2017	2016
Related Party	Transaction	*(millions of dollars)*	
Province	Dividends paid	92	176
IESO	Power purchased	651	710
	Revenues for transmission services	369	376
	Amounts related to electricity rebates	77	–
	Distribution revenues related to rural rate protection	61	31
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	16	7
OPG	Power purchased	4	2
	Revenues related to provision of construction and equipment maintenance services	–	1
	Costs expensed related to the purchase of services	–	1
OEFC	Power purchased from power contracts administered by the OEFC	1	–
OEB	OEB fees	2	4
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	–	1

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.

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Three months ended March 31 *(millions of dollars)*	2017	2016
Accounts receivable	91	(80)
Due from related parties	(45)	21
Materials and supplies	–	1
Prepaid expenses and other assets	–	(6)
Accounts payable	(3)	6
Accrued liabilities	20	(7)
Due to related parties	(36)	(2)
Accrued interest	25	24
Long-term accounts payable and other liabilities	2	–
Post-retirement and post-employment benefit liability	23	20
	77	(23)

Capital Expenditures

The following table reconciles investments in property, plant and equipment and the amounts presented in the Consolidated Statements of Cash Flows after accounting for capitalized depreciation and the net change in related accruals:

Three months ended March 31 *(millions of dollars)*	2017	2016
Capital investments in property, plant and equipment	(337)	(367)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	2	9
Capital expenditures – property, plant and equipment	(335)	(358)

The following table reconciles investments in intangible assets and the amounts presented in the Consolidated Statements of Cash Flows after accounting for the net change in related accruals:

Three months ended March 31 *(millions of dollars)*	2017	2016
Capital investments in intangible assets	(13)	(12)
Net change in accruals included in capital investments in intangible assets	(1)	(1)
Capital expenditures – intangible assets	(14)	(13)

Supplementary Information

Three months ended March 31 *(millions of dollars)*	2017	2016
Net interest paid	88	80
Income taxes paid	4	9

21. CONTINGENCIES

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

22. 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.

March 31, 2017 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	152	93	70	2	4	6
Long-term software/meter agreement	16	17	17	13	1	4
Operating lease commitments	12	11	8	10	4	4

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

March 31, 2017 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Credit facilities	–	–	–	–	2,550	–
Letters of credit[1]	169	–	–	–	–	–
Guarantees[2]	325	–	–	–	–	–

[1] Letters of credit consist of a $150 million letter of credit related to retirement compensation arrangements, a $12 million letter of credit provided to the IESO for prudential support, $6 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

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

23. 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 March 31, 2017 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	367	1,279	12	1,658
Purchased power	–	889	–	889
Operation, maintenance and administration	102	145	24	271
Depreciation and amortization	101	92	2	195
Income (loss) before financing charges and income taxes	164	153	(14)	303
Capital investments	209	138	3	350

Three months ended March 31, 2016 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	386	1,286	14	1,686
Purchased power	–	896	–	896
Operation, maintenance and administration	96	141	19	256
Depreciation and amortization	95	93	2	190
Income (loss) before financing charges and income taxes	195	156	(7)	344
Capital investments	235	143	1	379

Total Assets by Segment:

(millions of dollars)	March 31, 2017	December 31, 2016
Transmission	13,178	13,071
Distribution	9,384	9,379
Other	2,843	2,901
Total assets	25,405	25,351

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

24. SUBSEQUENT EVENTS

Dividends

On May 3, 2017, preferred share dividends in the amount of $4 million and common share dividends in the amount of $131 million ($0.22 per common share) were declared.

Share Grant Plans

On April 1, 2017, Hydro One issued from treasury 371,611 common shares to eligible employees in accordance with provisions of the Power Workers' Union Share Grant Plan.