

## Hydro One Reports Second Quarter Results

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

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

### Second Quarter Highlights

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

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

## Selected Consolidated Financial and Operating Highlights

(amounts throughout in millions of Canadian dollars, except as otherwise noted)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Revenues	1,413	1,477	3,172	3,053
Purchased power	653	674	1,460	1,425
Revenues, net of purchased power <sup>1</sup>	760	803	1,712	1,628
Net income attributable to common shareholders	155	200	326	422
Costs (income) related to acquisition of Avista	—	(6)	140	(18)
Adjusted net income attributable to common shareholders <sup>1</sup>	155	194	466	404
Basic EPS	\$0.26	\$0.34	\$0.55	\$0.71
Diluted EPS	\$0.26	\$0.33	\$0.54	\$0.71
Adjusted basic EPS <sup>1</sup>	\$0.26	\$0.33	\$0.78	\$0.68
Adjusted diluted EPS <sup>1</sup>	\$0.26	\$0.32	\$0.78	\$0.68
Net cash from operating activities	297	292	415	668
Capital investments	370	401	681	706
Assets placed in-service	276	477	421	622
Transmission: Average monthly Ontario 60-minute peak demand (MW)	18,226	19,951	19,494	19,883
Distribution: Electricity distributed to Hydro One customers (GWh)	6,073	6,111	13,811	13,517

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

### Key Financial Highlights

For the three months ended June 30, 2019, the Company reported net income attributable to common shareholders of \$155 million (2018 - \$200 million), a 22.5% decrease from last year, and EPS of \$0.26 (2018 - \$0.34). With no costs or income related to the proposed Avista Corporation acquisition (Merger) in the second quarter of 2019, adjusted EPS was \$0.26 for the quarter (2018 - \$0.33).

Revenues, net of purchased power, for the second quarter were lower than last year by 5.4% driven by less favourable weather and accelerated tax depreciation (Accelerated CCA) which will flow through to customers and is offset in lower taxes, with no impact on regulated return on equity. This has been partially offset by the impact of 2018 and 2019 distribution rates.

Second quarter OM&A costs were higher than prior year due to higher vegetation management coverage compared to the previous year arising from milder weather, and higher emergency power restoration costs due to a higher volume of non-storm related emergency calls. These were partially offset by lower project and asset write-offs and lower costs due to the repatriation of the Call Centre which resulted in operational improvements.

Financing costs increased in the second quarter of 2019 compared to the same quarter last year primarily due to an increase in long-term debt interest expense driven by a higher weighted-average long-term debt balance outstanding in 2019. 2018 also benefited from a favourable unrealized gain on the foreign-exchange contract related to the Merger.

The income tax recovery for the second quarter of 2019 was primarily attributable to a combination of incremental tax deductions resulting from the deferred tax asset sharing as mandated by the OEB, Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter, and lower income before taxes. Lower taxes as a result of deferred tax asset sharing and Accelerated CCA are offset by lower revenues, as these savings will be returned to customers. The latter has no impact on the regulated return on equity.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new load customers and generation sources, and improve service to customers. The Company made capital investments of \$370 million during the second quarter, and placed \$276 million worth of new assets in-service.

### **Selected Operating Highlights**

During the quarter, the Company was requested by the IESO to develop and construct a new 230 kilovolt (kV) transmission line from Chatham to Leamington. The project will support the growing greenhouse industry and is expected to be completed by the end of 2025. The new line will bring an additional 400 megawatts of power to the area.

The Company continues to pursue improvements in its distribution reliability performance. During the second quarter, System Average Interruption Duration Index (SAIDI) was 1.4 hours compared to 1.7 hours in the second quarter of 2018, an 18% reduction.

In the first half of 2019, customer satisfaction score with residential and small businesses reached 85%, a 9% increase over 2018. The increase is attributable to our customer-centric initiatives, improved reliability and growing trust with our customers.

In April, Hydro One's wholly-owned subsidiary, Hydro One Inc., raised \$1.5 billion of Medium Term Notes consisting of \$700 million aggregate principal amount of 2.54% Medium Term Notes, Series 42, due 2024, \$550 million aggregate principal amount of 3.02% Medium Term Notes, Series 43, due 2029, and \$250 million aggregate principal amount of 3.64% Medium Term Notes, Series 44, due 2050. Hydro One Inc. expects to use the net proceeds of this offering to repay short-term debt and for general corporate purposes.

Senior management strength enhanced with the appointments of Paul Harricks as Chief Legal Officer and Saylor Millitz-Lee as Chief Human Resources Officer, along with the previously announced appointment of Chris Lopez as the Chief Financial Officer.

On June 24, 2019, Hydro One announced that Board Chair Tom Woods would be stepping down from the Board on July 31, 2019. Subsequent to the quarter, on July 2, 2019, the Company announced that Tim Hodgson has been appointed by the Board to serve as the Board Chair commencing August 1, 2019.

The Company was presented with an Emergency Assistance Award 2018 by the Edison Electric Institute for its response efforts following a deadly California wildfire in November 2018.

Hydro One placed 16<sup>th</sup> (#24 in 2018) on the annual list of Best 50 Corporate Citizens by Corporate Knights, an organization dedicated to setting high standards for leadership in sustainability across Canada. Hydro One has appeared on the Best 50 Corporate Citizens in Canada list eight times in the last 10 years.

### **Common Share Dividends**

Following the conclusion of the second quarter, on August 8, 2019, the Company declared a quarterly cash dividend to common shareholders of \$0.2415 per share to be paid on September 30, 2019 to shareholders of record on September 12, 2019.

## Supplemental Segment Information

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>Revenues</b>				
Transmission	374	430	802	851
Distribution	1,029	1,036	2,350	2,181
Other	10	11	20	21
<b>Total revenues</b>	<b>1,413</b>	<b>1,477</b>	<b>3,172</b>	<b>3,053</b>
<b>Revenues, net of purchased power</b>				
Transmission	374	430	802	851
Distribution	376	362	890	756
Other	10	11	20	21
<b>Total revenues, net of purchased power</b>	<b>760</b>	<b>803</b>	<b>1,712</b>	<b>1,628</b>
<b>Income (loss) before financing charges and taxes</b>				
Transmission	159	228	375	441
Distribution	118	120	388	277
Other	(5)	(11)	(167)	(23)
<b>Total income before financing charges and taxes</b>	<b>272</b>	<b>337</b>	<b>596</b>	<b>695</b>
<b>Capital investments</b>				
Transmission	242	242	448	432
Distribution	126	157	229	271
Other	2	2	4	3
<b>Total capital investments</b>	<b>370</b>	<b>401</b>	<b>681</b>	<b>706</b>
<b>Assets placed in-service</b>				
Transmission	161	316	215	354
Distribution	114	158	202	263
Other	1	3	4	5
<b>Total assets placed in-service</b>	<b>276</b>	<b>477</b>	<b>421</b>	<b>622</b>

This press release should be read in conjunction with the Company's second quarter 2019 Consolidated Financial Statements and Management's Discussion and Analysis (MD&A). These financial statements and MD&A together with additional information about Hydro One, including the audited amended consolidated financial statements and amended MD&A for the year ended December 31, 2018 can be accessed at [www.HydroOne.com/Investors](http://www.HydroOne.com/Investors) and [www.sedar.com](http://www.sedar.com).

### Quarterly Investment Community Teleconference

The Company's second quarter 2019 results teleconference with the investment community will be held on August 9, 2019 at 8 a.m. ET, a webcast of which will be available at [www.HydroOne.com/Investors](http://www.HydroOne.com/Investors). Members of the financial community wishing to ask questions during the call should dial 1-866-221-1674 prior to the scheduled start time and request access to Hydro One's second quarter 2019 results call, conference ID 4148818 (international callers may dial 1-270-215-9604). 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](http://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 almost 1.4 million valued customers, almost \$25.7 billion in assets and 2018 annual revenues of almost \$6.2 billion. Our team of approximately 8,600 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2018, Hydro One

invested almost \$1.6 billion in its 30,000 circuit kilometres of high-voltage transmission and 123,000 circuit kilometres of primary distribution networks and injected approximately \$1.3 billion into the economy by buying goods and services in Ontario. We are committed to the communities where we live and work through community investment, sustainability and diversity initiatives. We are one of only six utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. Through Hydro One Telecom Inc.'s extensive fibre optic network, we also provide advanced broadband telecommunications services on a wholesale basis. 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](http://www.HydroOne.com) where you can find additional information including links to securities filings, historical financial reports, and information about the Company's governance practices, corporate social responsibility, customer solutions, and further information about its business.

### **Forward-Looking Statements and Information**

This press release may contain “forward-looking information” within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: sustainability strategy; improved corporate performance; vision and strategy; customer service and satisfaction; reliability and performance; connections; ongoing and planned investments, projects and initiatives, including anticipated timing and impacts; dividends; anticipated impacts of Accelerated CCA; anticipated impacts relating to the deferred tax asset; and Hydro One Inc.'s Medium Term Note Program. 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](http://www.sedar.com). Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

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**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the three and six months ended June 30, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the unaudited condensed interim consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and six months ended June 30, 2019, as well as the Company's audited amended consolidated financial statements and amended MD&A for the year ended December 31, 2018. 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. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canadian securities laws and regulations, which can vary from those of the US. This MD&A provides information for the three and six months ended June 30, 2019, based on information available to management as of August 8, 2019.

**CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS**

<i>(millions of dollars, except as otherwise noted)</i>	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Revenues	1,413	1,477	(4.3%)	3,172	3,053	3.9%
Purchased power	653	674	(3.1%)	1,460	1,425	2.5%
Revenues, net of purchased power <sup>1</sup>	760	803	(5.4%)	1,712	1,628	5.2%
Operation, maintenance and administration (OM&A) costs	267	256	4.3%	683	526	29.8%
Depreciation, amortization and asset removal costs	221	210	5.2%	433	407	6.4%
Financing charges	117	99	18.2%	280	187	49.7%
Income tax expense (recovery)	(6)	32	(118.8%)	(22)	74	(129.7%)
<b>Net income to common shareholders of Hydro One</b>	<b>155</b>	<b>200</b>	<b>(22.5%)</b>	<b>326</b>	<b>422</b>	<b>(22.7%)</b>
<b>Adjusted net income to common shareholders of Hydro One<sup>1</sup></b>	<b>155</b>	<b>194</b>	<b>(20.1%)</b>	<b>466</b>	<b>404</b>	<b>15.3%</b>
Basic earnings per common share (EPS)	\$0.26	\$0.34	(23.5%)	\$0.55	\$0.71	(22.5%)
Diluted EPS	\$0.26	\$0.33	(21.2%)	\$0.54	\$0.71	(23.9%)
Basic adjusted non-GAAP EPS (Adjusted EPS) <sup>1</sup>	\$0.26	\$0.33	(21.2%)	\$0.78	\$0.68	14.7%
Diluted Adjusted EPS <sup>1</sup>	\$0.26	\$0.32	(18.8%)	\$0.78	\$0.68	14.7%
Net cash from operating activities	297	292	1.7%	415	668	(37.9%)
Funds from operations (FFO) <sup>1</sup>	331	379	(12.7%)	555	793	(30.0%)
Capital investments	370	401	(7.7%)	681	706	(3.5%)
Assets placed in-service	276	477	(42.1%)	421	622	(32.3%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	18,226	19,951	(8.6%)	19,494	19,883	(2.0%)
Distribution: Electricity distributed to Hydro One customers (GWh)	6,073	6,111	(0.6%)	13,811	13,517	2.2%
					<b>2019</b>	<b>2018</b>
Debt to capitalization ratio <sup>2</sup>					56.6%	55.6%

<sup>1</sup> See section "Non-GAAP Measures" for description and reconciliation of adjusted net income, basic and diluted Adjusted EPS, FFO and revenues, net of purchased power.

<sup>2</sup> Debt to capitalization ratio has been presented at June 30, 2019 and December 31, 2018, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to noncontrolling interest.

**OVERVIEW**

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



**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2019 and 2018**

For the six months ended June 30, 2019 and 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

Six months ended June 30	2019	2018
Transmission	47%	52%
Distribution	52%	47%
Other	1%	1%

At June 30, 2019 and December 31, 2018, Hydro One's business segments accounted for the Company's total assets as follows:

	June 30, 2019	December 31, 2018
Transmission	56%	55%
Distribution	37%	36%
Other	7%	9%

**RESULTS OF OPERATIONS**

**Net Income**

Net income attributable to common shareholders for the quarter ended June 30, 2019 of \$155 million is a decrease of \$45 million or 22.5% from the prior year. Significant influences on net income included:

- lower revenues, net of purchased power, primarily resulting from:
  - lower average monthly Ontario 60-minute peak demand driven by cooler weather in the second quarter of 2019; and
  - deferred tax regulatory adjustment related to accelerated tax depreciation (Accelerated CCA) which will flow through to customers and is offset in lower taxes, with no impact on regulated return on equity (ROE); partially offset by
  - an increase in distribution revenues, net of purchased power, primarily due to the Ontario Energy Board's (OEB) decision on the 2018 and 2019 distribution rates;
- higher OM&A costs primarily resulting from:
  - higher vegetation management coverage compared to previous year;
  - higher emergency power restoration costs due to a higher volume of non-storm related emergency calls; partially offset by
  - lower project and asset write-offs; and
  - lower costs due to the repatriation of the Call Centre which resulted in operational improvements;
- higher financing charges primarily resulting from:
  - an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019; and
  - an increase in charges related to the proposed acquisition of Avista Corporation (Merger), including no amounts recognized in 2019, compared to unrealized gain on the foreign-exchange contract recorded in the second quarter of 2018; partially offset by a decrease in interest expense related to convertible debentures redeemed in February 2019;
- lower income tax expense primarily attributable to the following:
  - changes in income before taxes in 2019, net of costs related to the Merger, compared to 2018;
  - Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019; and
  - incremental tax deductions from deferred tax asset sharing mandated by the OEB.

Net income attributable to common shareholders for the six months ended June 30, 2019 of \$326 million is a decrease of \$96 million or 22.7% from the prior year. Year-to-date results were impacted by similar factors to those noted above, as well as the following items incurred in the first quarter of 2019:

- payment of the Merger termination fee;
- higher project write-offs, primarily driven by regulatory decision on the Lake Superior Link project;
- increased Merger-related financing charges due to the write-off of deferred financing costs related to convertible debentures, and the reversal of previously recorded unrealized gains on the foreign-exchange contract; and
- income tax recovery on the termination fee and financing charges related to the Merger.

**EPS and Adjusted EPS**

EPS was \$0.26 and \$0.55 for the three and six months ended June 30, 2019, respectively, compared to EPS of \$0.34 and \$0.71 in the comparable periods last year. The decrease in EPS was driven by lower earnings for the three and six months ended June 30,

**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2019 and 2018**

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

**Revenues**

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

Transmission Revenues

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

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

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

Distribution Revenues, Net of Purchased Power

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

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

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

**OM&A Costs**

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

Transmission OM&A Costs

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

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

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



**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2019 and 2018**

Distribution OM&A Costs

The increase of 10.0% in distribution OM&A costs for the quarter ended June 30, 2019 was primarily due to:

- higher vegetation management coverage compared to the prior year; and
- higher emergency power restoration costs due to a higher volume of non-storm related emergency calls; partially offset by
- lower project and inventory write-offs; and
- lower costs due to repatriation of the Call Centre which resulted in operational improvements.

The increase of 5.3% in distribution OM&A costs for the six months ended June 30, 2019 was primarily due to similar factors as noted above, as well as mutual storm assistance costs in the first quarter of 2018 (net income neutral).

Other OM&A Costs

The increase in other OM&A costs for the six months ended June 30, 2019 was primarily due to the payment of \$138 million Merger termination fee and higher project write-offs related to the regulatory decision on the Lake Superior Link project.

**Financing Charges**

The increase of \$18 million or 18.2% in financing charges for the quarter ended June 30, 2019 was primarily due to the following:

- no amounts were recognized in 2019, compared to unrealized gain on the foreign-exchange contract recorded in the second quarter of 2018; and
- an increase in interest expense on long-term debt driven by higher weighted-average long-term debt balance outstanding in 2019, mainly due to the issuance of \$1.5 billion long-term debt on April 5, 2019; partially offset by
- a decrease in interest expense related to convertible debentures redeemed in February 2019, following termination of the Merger agreement.

The increase of \$93 million or 49.7% in financing charges for the six months ended June 30, 2019 was primarily due to similar factors as noted above, as well as the following Merger-related items incurred in the first quarter of 2019:

- write-off of deferred financing costs related to convertible debentures; and
- reversal of previously recorded unrealized gains on the foreign-exchange contract.

**Income Tax Expense**

Income tax recovery was \$6 million and \$22 million for the three and six months ended June 30, 2019, respectively, compared to an expense of \$32 million and \$74 million in the comparable periods last year. The Company realized an effective tax rate (ETR) for the three and six months ended June 30, 2019 of approximately (3.9%) and (7.0%), respectively, compared to approximately 13.4% and 14.6% realized in the same periods last year.

As prescribed by the regulators, the Company recovers income taxes and is required to accrue its tax expense based on the tax liability determined without accounting for temporary differences recoverable from or refundable to customers in the future.

The decrease in income tax expense for the three months ended June 30, 2019 was primarily attributable to lower income before taxes in the three months ended June 30, 2019 compared to the same period last year, incremental tax deductions from deferred tax asset sharing mandated by the OEB and Accelerated CCA resulting from the enactment of certain 2019 federal and Ontario budget measures in the second quarter of 2019.

The decrease in income tax expense for the six months ended June 30, 2019 was primarily attributable to similar factors to those noted above, as well as income tax recovery on the termination fee and financing charges related to the Merger incurred in the first quarter of 2019.

**Common Share Dividends**

In 2019, the Company declared and paid cash dividends to common shareholders as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount per Share</u>	<u>Total Amount</u> <i>(millions of dollars)</i>
February 20, 2019	March 13, 2019	March 29, 2019	\$0.2300	137
May 8, 2019	June 12, 2019	June 28, 2019	\$0.2415	145
				<b>282</b>

Following the conclusion of the second quarter of 2019, the Company declared a cash dividend to common shareholders as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount per Share</u>	<u>Total Amount</u> <i>(millions of dollars)</i>
August 8, 2019	September 12, 2019	September 30, 2019	\$0.2415	144

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
For the three and six months ended June 30, 2019 and 2018

**QUARTERLY RESULTS OF OPERATIONS**

Quarter ended (millions of dollars, except EPS)	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Revenues	1,413	1,759	1,491	1,606	1,477	1,576	1,439	1,522
Purchased power	653	807	741	733	674	751	662	675
Revenues, net of purchased power <sup>1</sup>	760	952	750	873	803	825	777	847
Net income (loss) to common shareholders	155	171	(705)	194	200	222	155	219
Adjusted net income to common shareholders <sup>1</sup>	155	311	176	227	194	210	170	237
Basic EPS	\$0.26	\$0.29	(\$1.18)	\$0.33	\$0.34	\$0.37	\$0.26	\$0.37
Diluted EPS	\$0.26	\$0.29	(\$1.18)	\$0.32	\$0.33	\$0.37	\$0.26	\$0.37
Basic Adjusted EPS <sup>1</sup>	\$0.26	\$0.52	\$0.30	\$0.38	\$0.33	\$0.35	\$0.29	\$0.40
Diluted Adjusted EPS <sup>1</sup>	\$0.26	\$0.52	\$0.29	\$0.38	\$0.32	\$0.35	\$0.28	\$0.40

<sup>1</sup> See section "Non-GAAP Measures" for description of revenues, net of purchased power, adjusted net income and 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, as well as timing of regulatory decisions.

**CAPITAL INVESTMENTS**

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

**Assets Placed In-Service**

The following table presents Hydro One's assets placed in-service during the three and six months ended June 30, 2019 and 2018:

(millions of dollars)	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
Transmission	161	316	(49.1%)	215	354	(39.3%)
Distribution	114	158	(27.8%)	202	263	(23.2%)
Other	1	3	(66.7%)	4	5	(20.0%)
Total assets placed in-service	276	477	(42.1%)	421	622	(32.3%)

Transmission Assets Placed In-Service

Transmission assets placed in-service decreased by \$155 million or 49.1% during the second quarter of 2019 primarily due to the following:

- timing of assets placed in-service in the second quarter of 2018 for the Clarington transmission station; partially offset by
- timing of assets placed in-service in the second quarter of 2019 for station sustainment investments (primarily at Enfield and Hanmer transmission stations).

Transmission assets placed in-service decreased by \$139 million or 39.3% during the six months ended June 30, 2019 primarily due to similar factors as noted above, as well as timing of assets placed in-service in the first quarter of 2019 at St. Isidore, Cherrywood, Kenilworth and Horning transmission stations, partially offset by Orillia transmission station.

Distribution Assets Placed In-Service

Distribution assets placed in-service decreased by \$44 million or 27.8% during the second quarter of 2019 primarily due to lower volume of storm-related asset replacements in the second quarter of 2019 compared to prior year.

Distribution assets placed in-service decreased by \$61 million or 23.2% during the six months ended June 30, 2019 primarily due to the factor noted above, as well as cumulative investments that were placed in-service for the Advanced Distribution System project and the Advanced Metering Infrastructure Wireless project work in the first half of 2018.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
For the three and six months ended June 30, 2019 and 2018

**Capital Investments**

The following table presents Hydro One's capital investments during the three and six months ended June 30, 2019 and 2018:

<i>(millions of dollars)</i>	Three months ended June 30			Six months ended June 30		
	2019	2018	Change	2019	2018	Change
<b>Transmission</b>						
Sustaining	208	211	(1.4%)	382	366	4.4%
Development	30	24	25.0%	49	47	4.3%
Other	4	7	(42.9%)	17	19	(10.5%)
	242	242	—%	448	432	3.7%
<b>Distribution</b>						
Sustaining	64	101	(36.6%)	110	160	(31.3%)
Development	53	48	10.4%	97	94	3.2%
Other	9	8	12.5%	22	17	29.4%
	126	157	(19.7%)	229	271	(15.5%)
<b>Other</b>	2	2	—%	4	3	33.3%
<b>Total capital investments</b>	370	401	(7.7%)	681	706	(3.5%)

Transmission Capital Investments

Transmission capital investments during the second quarter of 2019 were consistent with the prior year. Principal impacts on the levels of capital investments included:

- higher volume of station refurbishments and replacements;
- timing of investments in multi-year development projects;
- timing of power transformer purchases for the spare transformer program to provide adequate coverage of aging transformer failures;
- lower volume of overhead lines refurbishments and replacements; and
- timing of information technology (IT) projects, including Tech Transformation and Windows 10 projects, and delayed minor asset purchases in 2019.

Transmission capital investments increased by \$16 million or 3.7% during the six months ended June 30, 2019 primarily due to the following:

- higher volume of overhead lines refurbishments and replacements; and
- higher volume of work for the North American Electric Reliability Corporation Critical Infrastructure Protection project; partially offset by:
- timing of IT projects, including Tech Transformation and Windows 10 projects, and delayed minor asset purchases in 2019.

Distribution Capital Investments

Distribution capital investments decreased by \$31 million or 19.7% during the second quarter of 2019. Principal impacts on the levels of capital investments included:

- lower volume of storm-related asset replacements;
- lower spend in metering programs due to the completion of the Advanced Metering Infrastructure Wireless project last year, and lower volume of meter sustainment work;
- lower expenditures due to disallowance of pension costs as a result of the OEB decision on the 2018-2022 distribution application; and
- timing of IT projects, including Tech Transformation and Windows 10 projects, and delayed minor asset purchases in 2019; partially offset by
- higher volume of equipment replacements due to emergency calls;
- higher volume of new connections; and
- higher volume of station refurbishments and replacements.

Distribution capital investments decreased by \$42 million or 15.5% during the six months ended June 30, 2019 primarily due to the following:

- lower volume of storm-related asset replacements; and
- lower costs due to disallowance of pension costs as a result of the OEB decision on the 2018-2022 distribution application; partially offset by:
- higher volume of new connections;

**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2019 and 2018**

- higher volume of equipment replacements due to emergency calls; and
- higher volume of station refurbishments and replacements.

**Major Transmission Capital Investment Projects**

The following table summarizes the status of significant transmission projects as at June 30, 2019:

Project Name	Location	Type	Anticipated In-Service Date (year)	Estimated Cost (millions of dollars)	Capital Cost To Date
<b>Development Projects:</b>					
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line	2019 <sup>1</sup>	135	127
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2022 <sup>2</sup>	157	28
Waasigan Transmission Line	Thunder Bay-Atikokan Northwestern Ontario	New transmission line	2024 <sup>3</sup>	35 <sup>3</sup>	1 <sup>3</sup>
Wataynikaneyap Power LP Line Connection	Northwestern Ontario	New transmission connection	2021	31	1
Leamington Area Transmission Reinforcement <sup>4</sup>	Leamington Southwestern Ontario	New transmission line and stations	2026 <sup>4</sup>	325 <sup>4</sup>	—
<b>Sustainment Projects:</b>					
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2020	109	104
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2020	147	130
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	112	71
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	111	69
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	117 <sup>5</sup>	16

<sup>1</sup> See section Regulation - Niagara Reinforcement Limited Partnership for additional information.

<sup>2</sup> The majority of the East-West Tie Station Expansion project is expected to be placed in-service in 2021, enabling the connection and energization of the new East-West Tie transmission line. Additional work to complete the upgrades is expected to be placed in-service in 2022.

<sup>3</sup> The in-service date and the costs of the Waasigan Transmission Line project (formerly known as Northwest Bulk Transmission Line Development project) relate to the development phase.

<sup>4</sup> The Leamington Area Transmission Reinforcement project consists of the construction of a new double-circuit line between Chatham and Leamington and associated transmission stations and connections. The project is currently in the development stage. The anticipated in-service dates for the line and stations are between 2020 and 2026, and the total estimated cost is in the range of \$290 million to \$325 million, with approximately \$143 million of the total estimated cost included in the projected capital investments tables in section "Future Capital Investments" below.

<sup>5</sup> Approximately \$107 million of the total estimated cost is included in the projected capital investments tables in section "Future Capital Investments" below.

**Future Capital Investments**

Following is a summary of estimated capital investments by Hydro One over the years 2019 to 2023. The Company's estimates are based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework.

The 2019 to 2022 distribution capital investments estimates differ from prior disclosures, representing a decrease to reflect Hydro One's five-year rate application for 2018-2022 distribution rates. The projections and the timing of the transmission 2020-2023 expenditures are subject to approval by the OEB.

The following table summarizes Hydro One's annual projected capital investments for 2019 to 2023, by business segment:

(millions of dollars)	2019	2020	2021	2022	2023
Transmission	1,049	1,203	1,329	1,380	1,381
Distribution	632	671	645	620	757
Other	13	15	26	9	10
<b>Total capital investments</b>	<b>1,694</b>	<b>1,889</b>	<b>2,000</b>	<b>2,009</b>	<b>2,148</b>

**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2019 and 2018**

The following table summarizes Hydro One's annual projected capital investments for 2019 to 2023, by category:

<i>(millions of dollars)</i>	2019	2020	2021	2022	2023
Sustainment	1,068	1,182	1,397	1,479	1,530
Development	408	493	419	376	468
Other <sup>1</sup>	218	214	184	154	150
<b>Total capital investments</b>	<b>1,694</b>	<b>1,889</b>	<b>2,000</b>	<b>2,009</b>	<b>2,148</b>

<sup>1</sup> "Other" capital expenditures consist of special projects, such as those relating to IT.

**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.

<i>(millions of dollars)</i>	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Cash provided by operating activities	297	292	415	668
Cash provided by (used in) financing activities	91	1,309	(198)	1,233
Cash used in investing activities	(357)	(384)	(665)	(681)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>31</b>	<b>1,217</b>	<b>(448)</b>	<b>1,220</b>

**Cash provided by operating activities**

Cash from operating activities increased by \$5 million during the three months ended June 30, 2019, compared to the same period in 2018. Changes in cash from operating activities were primarily impacted by various factors, including lower cash earnings in the second quarter of 2019, changes in receivable balances related to energy sales, and changes in accrual balances related to purchased power.

Cash from operating activities decreased by \$253 million during the six months ended June 30, 2019, compared to the same period in 2018. Changes in cash from operating activities were primarily impacted by various factors, including lower cash earnings in 2019, changes in certain regulatory variance and deferral accounts, and changes in accrual balances related to purchased power.

**Cash provided by (used in) financing activities**

Sources of cash

- During the second quarter and six months ended June 30, 2019, the Company issued \$1.5 billion of long-term debt, compared to \$1.4 billion long-term debt issued in the same periods last year.
- The Company received proceeds of \$482 million and \$2,592 million from the issuance of short-term notes in the three and six months ended June 30, 2019, respectively, compared to \$1,370 million and \$2,542 million received in the same periods last year.

Uses of cash

- The Company repaid \$1,734 million and \$3,246 million of short-term notes in the three and six months ended June 30, 2019, respectively, compared to \$1,311 million and \$2,420 million repaid in the same periods last year.
- The Company redeemed \$513 million of convertible debentures in the six months ended June 30, 2019, compared to no convertible debentures redeemed in the same periods last year.
- The Company repaid \$1 million and \$229 million of long-term debt during the three and six months ended June 30, 2019, respectively, compared to \$1 million and \$1 million of long-term debt repaid in the same periods last year.
- Dividends paid in the three and six months ended June 30, 2019 were \$149 million and \$291 million, respectively, consisting of \$145 million and \$282 million of common share dividends and \$4 million and \$9 million of preferred share dividends, respectively. In comparison, dividends of \$141 million and \$277 million were paid in the same periods last year, consisting of \$137 million and \$268 million of common share dividends and \$4 million and \$9 million of preferred share dividends, respectively.

**Cash used in investing activities**

Uses of cash

- Capital expenditures were \$28 million and \$24 million lower in the second quarter of 2019 and year-to-date 2019, respectively, primarily due to lower volume and timing of capital investment work.

## **LIQUIDITY AND FINANCING STRATEGY**

Short-term liquidity is provided through FFO, Hydro One Inc.'s commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One Inc. is authorized to issue up to \$2.3 billion in short-term notes with a term to maturity of up to 365 days. On March 25, 2019, the maximum number of short-term notes authorized for issuance was increased from \$1.5 billion to \$2.3 billion.

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

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

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

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

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada to replace the universal base shelf prospectus that expired on April 30, 2018. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. On November 23, 2018, Hydro One Holdings Limited (HOHL), an indirect wholly-owned subsidiary of Hydro One, filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US for the purposes of, but not limited to, funding a portion of the cash purchase price of the Merger. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US\$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At June 30, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

### **Acquisition Credit Facilities**

In June 2018, for the purpose of bridge financing for the Merger, the Company secured a \$1.0 billion non-revolving equity bridge credit facility, and a US\$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities). As a result of the termination of the Merger agreement, on January 24, 2019, the Company cancelled the Acquisition Credit Facilities. In addition, the foreign-exchange contract entered into in October 2017 that was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed by the issuance of convertible debentures was revalued to \$nil, resulting in a loss of \$22 million recorded in the six months ended June 30, 2019, compared to an unrealized gain of \$49 million recorded in the six months ended June 30, 2018.

### **Compliance**

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

## **OTHER OBLIGATIONS**

### **Off-Balance Sheet Arrangements**

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



**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
For the three and six months ended June 30, 2019 and 2018

**Summary of Contractual Obligations and Other Commercial Commitments**

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

June 30, 2019 (millions of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual obligations (due by year)</b>					
Long-term debt - principal repayments	11,987	1,153	1,406	833	8,595
Long-term debt - interest payments	8,494	486	909	846	6,253
Short-term notes payable	598	598	—	—	—
Pension contributions <sup>1</sup>	437	78	156	162	41
Environmental and asset retirement obligations	180	24	62	59	35
Outsourcing and other agreements	237	135	82	5	15
Lease obligations	34	10	13	4	7
Long-term software/meter agreement	35	18	13	3	1
<b>Total contractual obligations</b>	<b>22,002</b>	<b>2,502</b>	<b>2,641</b>	<b>1,912</b>	<b>14,947</b>
<b>Other commercial commitments (by year of expiry)</b>					
Operating Credit Facilities <sup>2</sup>	2,550	—	—	2,550	—
Letters of credit <sup>3</sup>	171	171	—	—	—
Guarantees <sup>4</sup>	330	330	—	—	—
<b>Total other commercial commitments</b>	<b>3,051</b>	<b>501</b>	<b>—</b>	<b>2,550</b>	<b>—</b>

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

<sup>2</sup> On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

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

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

**SHARE CAPITAL**

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

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

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

**REGULATION**

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

**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2019 and 2018**

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

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

<sup>1</sup> On March 7, 2019, the OEB upheld its Original Decision relating to the deferred tax asset. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court.

<sup>2</sup> On March 26, 2019, the Company filed a motion to review and vary the OEB's decision with respect to recovery of pension costs. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court, which is being held in abeyance pending the outcome of the motion.

<sup>3</sup> In September 2018, Hydro One filed a new MAAD application with the OEB to acquire Orillia Power.

<sup>4</sup> On February 11, 2019, the OEB issued its decision awarding the construction of the East-West Tie Line to NextBridge, as directed by the Province of Ontario (Province) on January 30, 2019.

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

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base Allowed (A) or Forecast (F)	Rate Application Status	Rate Order Status
<b>Transmission</b>					
Hydro One Networks	2019	n/a <sup>1</sup>	n/a <sup>1</sup>	Filed in October 2018	Approved in June 2019
	2020	8.98% (F)	\$12,375 million <sup>2</sup> (F)	Filed in March 2019	To be filed
	2021	8.98% (F)	\$13,093 million <sup>2</sup> (F)	Filed in March 2019	To be filed
	2022	8.98% (F)	\$13,917 million <sup>2</sup> (F)	Filed in March 2019	To be filed
B2M LP	2019	8.98% (A)	\$496 million (A)	Approved in December 2015	Approved in December 2018
B2M LP	2020-2024	8.98% (F)	\$490 million (F)	Filed in July 2019	To be filed
HOSSM	2017-2026	9.19% (A)	\$218 million (A)	Approved in October 2016	Approved in July 2019 <sup>3</sup>
<b>Distribution</b>					
Hydro One Networks	2018	9.00% (A)	\$7,637 million (F)	Filed in March 2017 <sup>4</sup>	Approved in June 2019
	2019	8.98% (A)	\$7,894 million (F)	Filed in March 2017 <sup>4</sup>	Approved in June 2019
	2020	8.98% (F)	\$8,175 million (F)	Filed in March 2017 <sup>4</sup>	To be filed in 2019
	2021	8.98% (F)	\$8,517 million (F)	Filed in March 2017 <sup>4</sup>	To be filed in 2020
	2022	8.98% (F)	\$8,813 million (F)	Filed in March 2017 <sup>4</sup>	To be filed in 2021

<sup>1</sup> The Revenue Cap application is a formulaic adjustment to the approved revenue requirement and does not consider ROE or rate base.

<sup>2</sup> On June 19, 2019, Hydro One filed updates to the application reflecting recent financial results and other adjustments.

<sup>3</sup> In October 2016, the OEB approved the 2017-2026 revenue requirements. In June 2019, the OEB approved the request for an inflationary increase (revenue cap escalator index) to the 2019 revenue requirement. On July 18, 2019, the OEB issued the final rate order including a final 2019 revenue requirement of \$38 million to be included in the 2019 Uniform Transmission Rates (UTRs).

<sup>4</sup> On June 11, 2019, the OEB approved Hydro One Networks' rate order which included the rate base amounts shown above.

## Electricity Rates Applications

### Hydro One Networks - Transmission

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision), with 2017 rates effective January 1, 2017.

In its Original Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act, 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a

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decision and order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Original Decision relating to the deferred tax asset to an OEB panel for reconsideration.

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

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

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

#### Hydro One Networks - Distribution

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

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

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

#### Hydro One Remote Communities

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

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

#### Niagara Reinforcement Limited Partnership (NRLP)

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

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

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In January 2019, construction on the project was halted due to a land dispute with the Haudenosaunee Confederacy Chiefs Council (HCCC). On March 1, 2019, Hydro One filed a letter with the OEB requesting that the three previously-filed applications be heard together once the land dispute is resolved. On March 15, 2019, the OEB put the NRLP applications in abeyance per Hydro One's request.

Hydro One filed an application with the Ontario Superior Court of Justice for injunctive relief (injunction) against members of the HCCC amongst others. On July 15, 2019, Hydro One was granted an injunction order. Hydro One has resumed construction. On August 1, 2019, Hydro One filed an update to the three previously-filed OEB applications and asked that the OEB resume adjudication of the applications.

#### HOSSM

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

#### B2M LP

On July 31, 2019, B2M LP filed a transmission rate application for 2020-2024, seeking a base revenue requirement of \$36 million for 2020, and a 1.4% revenue cap escalator index for 2021 to 2024.

### **MAAD Applications**

#### Orillia Power MAAD Application

In 2016, Hydro One filed a MAAD application (2016 Application) with the OEB to acquire Orillia Power Distribution Corporation (Orillia Power) from the City of Orillia, Ontario. On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power. On September 26, 2018, Hydro One filed a new MAAD application (2018 Application) with the OEB to acquire Orillia Power. The evidence in the 2018 Application is similar to that provided in the 2016 Application. However, it includes additional information that was not available at the time Hydro One filed its 2016 MAAD Application, including updates to reflect current variables to costs and other metrics, as well as future cost structures pertaining to the acquired entity.

On October 16, 2018, the School Energy Coalition (SEC) filed a motion with the OEB seeking an order dismissing the 2018 Application. On January 16, 2019, Hydro One and Orillia Power filed submissions on the SEC motion, maintaining that the motion should be dismissed, and that the 2018 Application should be heard by the OEB. On March 12, 2019, the OEB dismissed SEC's motion. At the request of Hydro One, on March 21, 2019, the OEB cancelled the deadlines for interrogatories to allow Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's 2018-2022 Distribution Application. Hydro One filed the supplemental evidence on April 26, 2019. A transcribed technical conference is scheduled for October 3-4, 2019. The OEB decision is pending.

#### Peterborough Distribution MAAD Application

On October 12, 2018, the Company filed an application with the OEB for approval of the acquisition of business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution). On October 25, 2018, an advance ruling certification application was filed with the Competition Bureau. On November 14, 2018, the Competition Bureau issued a no action letter, meaning that transaction can proceed from the Competition Bureau's perspective. At the request of Hydro One, on March 21, 2019, the OEB allowed Hydro One to file amended or supplemental evidence in response to the OEB decision on Hydro One's 2018-2022 Distribution Application. Hydro One filed the supplemental evidence on April 26, 2019. A transcribed technical conference is scheduled for October 3-4, 2019. The OEB decision is pending.

### **OTHER DEVELOPMENTS**

#### **Collective Agreements**

On March 25, 2019, Hydro One and the Society of United Professionals (Society) announced the tentative settlement of a two-year collective agreement covering approximately 1,500 employees in critical engineering, supervisory and administrative roles. The agreement covering the period from April 1, 2019 to March 31, 2021 was ratified by the Society on April 30, 2019.

#### **Litigation**

##### Class Action Lawsuit

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

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Litigation Relating to the Merger

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

**2019 Federal and Ontario Budgets**

Impact

Certain 2019 federal and Ontario budget measures enacted during the six months ended June 30, 2019 provide certain time-limited investment incentives permitting Hydro One to deduct Accelerated CCA of up to three times the first-year rate for eligible capital investments acquired after November 20, 2018 and placed in-service before January 1, 2028. The Accelerated CCA resulted in a temporary reduction in the Company's ETR and the recognition of a tax regulatory liability relating to the Accelerated CCA that has not been reflected in the OEB approved rates. The timing of the disposition of the tax regulatory liability is subject to OEB approval, and may have a material impact on Hydro One's future cash flows in the near term.

Estimated ETR Change

Hydro One expects that the OEB's March 7, 2019 decision relating to the sharing of the Company's deferred tax asset, the Merger-related costs, and the Accelerated CCA will lower the Company's ETR to approximately 2% in 2019, and to a range of approximately 8% to 11% in the next 5 years.

**Avista Corporation**

On January 23, 2019, Hydro One and Avista Corporation announced that the companies had mutually agreed to terminate the Merger agreement. As a result of the termination of the Merger agreement, on January 24, 2019, Hydro One paid a US\$103 million termination fee to Avista Corporation as required by the Merger agreement. On January 24, 2019, the Company cancelled the Acquisition Credit Facilities, with no amounts drawn. On February 1, 2019, Hydro One entered into the Demand Facility for the purpose of funding the payment of the termination fee and other Merger-related costs. On February 8, 2019, Hydro One redeemed the convertible debentures and paid the holders of the instalment receipts \$513 million (\$333 per \$1,000 principal amount) plus accrued and unpaid interest of \$7 million. The redemption of the convertible debentures was paid with cash on hand. As a result of the termination of the Merger agreement, no payment is due or receivable by Hydro One on the foreign-exchange contract.

The following amounts related to the termination of the Merger agreement were recorded by the Company during the six months ended June 30, 2019. All amounts were recognized in the first quarter.

- \$138 million for payment of the US\$103 million Merger termination fee recorded in OM&A costs;
- \$22 million financing charges, due to reversal of previously recorded unrealized gains upon termination of the foreign-exchange contract;
- redemption of \$513 million convertible debentures and payments of related interest of \$7 million; and
- \$24 million financing charges, due to derecognition of the deferred financing costs related to convertible debentures.

**HYDRO ONE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS**

**Board of Directors**

On June 24, 2019, Hydro One announced that Board of Directors (Board) Chair Tom Woods would be stepping down from the Board on July 31, 2019. On July 2, 2019, Hydro One announced that Tim Hodgson has been appointed by the Board to serve as the Board Chair commencing August 1, 2019.

**Executive Officers**

On March 28, 2019, Hydro One announced the appointment of Mark Poweska as President and Chief Executive Officer (CEO) of Hydro One and Hydro One Inc., effective May 10, 2019.

In April 2019, Greg Kiraly, Chief Operating Officer, and Jamie Scarlett, Executive Vice President and Chief Legal Officer, left the Company following a period of planned leadership transition.

On May 8, 2019, Chris Lopez was appointed as the Chief Financial Officer of Hydro One and Hydro One Inc., effective May 9, 2019.

On July 10, 2019, Hydro One announced the appointment of Saylor Millitz-Lee, as Executive Vice President and Chief Human Resources Officer, effective immediately.

**Executive Compensation**

On March 8, 2019, Hydro One released a revised executive compensation framework for its Board, the CEO and other executives that was approved by the Management Board of Cabinet of the Province.

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**NON-GAAP MEASURES**

**FFO**

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

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

**Adjusted Net Income and Adjusted EPS**

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

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



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**Revenues, Net of Purchased Power**

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

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

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

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

**RELATED PARTY TRANSACTIONS**

The Province is a shareholder of Hydro One with approximately 47.3% ownership at June 30, 2019. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. OCN LP is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2019 and 2018:

<i>(millions of dollars)</i>	Related Party	Transaction	Three months ended June 30		Six months ended June 30	
			2019	2018	2019	2018
	<b>Province</b>	Dividends paid	72	69	142	136
	<b>IESO</b>	Power purchased	259	245	809	758
		Revenues for transmission services	370	414	783	819
		Amounts related to electricity rebates	104	103	242	240
		Distribution revenues related to rural rate protection	60	61	118	118
		Distribution revenues related to the supply of electricity to remote northern communities	9	8	18	16
		Funding received related to Conservation and Demand Management programs	8	10	23	22
	<b>OPG</b>	Power purchased	2	2	5	6
		Revenues related to provision of services and supply of electricity	1	2	3	4
		Costs related to the purchase of services	1	—	1	—
	<b>OEFC</b>	Power purchased from power contracts administered by the OEFC	—	—	1	1
	<b>OEB</b>	OEB fees	2	2	4	4
	<b>OCN LP</b>	Investment in OCN LP	—	—	2	—

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

There were no changes in the Company's internal control over financial reporting during the three months ended June 30, 2019, that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

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**NEW ACCOUNTING PRONOUNCEMENTS**

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

**Recently Adopted Accounting Guidance**

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 to the financial statements for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption
ASU 2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Hydro One early-adopted this ASU on April 1, 2019. The ASU was applied prospectively and there was no material impact upon adoption.

**Recently Issued Accounting Guidance Not Yet Adopted**

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 <i>Financial Instruments - Credit Losses</i> , Topic 815 <i>Derivatives and Hedging</i> and Topic 825 <i>Financial Instruments</i> .	January 1, 2020	Under assessment
ASU 2019-05	May 2019	The amendments in this update provide entities with an option to irrevocably elect the fair value option to be applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326.	January 1, 2020	Under assessment

**HYDRO ONE HOLDINGS LIMITED - UNAUDITED CONSOLIDATING SUMMARY FINANCIAL INFORMATION**

Hydro One Limited fully and unconditionally guarantees the payment obligations of its wholly-owned subsidiary Hydro One Holdings Limited (HOHL) issuable under the short form base shelf prospectus dated November 23, 2018. Accordingly, the following consolidating summary financial information is provided in compliance with the requirements of section 13.4 of National Instrument 51-102 - *Continuous Disclosure Obligations* providing for an exemption for certain credit support issuers. The tables below contain consolidating summary financial information as at June 30, 2019 and December 31, 2018 and for the three and six months ended June 30, 2019 and 2018 for: (i) Hydro One Limited; (ii) HOHL; (iii) the subsidiaries of Hydro One Limited, other than HOHL, on a combined basis, (iv) consolidating adjustments, and (v) Hydro One Limited and all of its subsidiaries on a consolidated basis, in each case for the periods indicated. Such summary financial information is intended to provide investors with meaningful and

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comparable financial information about Hydro One Limited and its subsidiaries. This summary financial information should be read in conjunction with Hydro One Limited's most recently issued annual and interim financial statements. This summary financial information has been prepared in accordance with US GAAP, as issued by the FASB.

Three months ended June 30 (millions of dollars, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Revenue	2	2	—	—	1,445	1,494	(34)	(19)	1,413
Net Income (Loss) Attributable to Common Shareholders	(4)	(19)	—	20	177	219	(18)	(20)	155	200

Six months ended June 30 (millions of dollars, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Revenue	13	8	—	—	3,236	3,093	(77)	(48)	3,172
Net Income (Loss) Attributable to Common Shareholders	(128)	(34)	(19)	43	523	444	(50)	(31)	326	422

At June 30, 2019 and December 31, 2018 (millions of dollars, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Jun.2019	Dec.2018	Jun.2019	Dec.2018	Jun.2019	Dec.2018	Jun.2019	Dec.2018	Jun.2019	Dec.2018
	Current Assets	135	159	—	22	2,779	2,054	(1,792)	(744)	1,122
Non-Current Assets	3,936	5,799	—	—	40,009	41,597	(19,420)	(23,230)	24,525	24,166
Current Liabilities	129	97	—	—	4,364	4,391	(1,779)	(1,460)	2,714	3,028
Non-Current Liabilities	—	1,516	—	3	23,969	22,373	(10,725)	(10,906)	13,244	12,986

**FORWARD-LOOKING STATEMENTS AND INFORMATION**

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company's liquidity and capital resources and operational requirements; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects and initiatives, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; expected impacts relating to the deferred tax asset; Hydro One's appeal of the OEB's deferred tax asset decision; the motion to review and vary the OEB's decision relating to recovery of pension costs and the related appeal; NRLP, related regulatory applications, and expectations related to the project, including timing; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans and the LTIP; collective agreements; the pension plan, future pension contributions, valuations and expected impacts; dividends; the anticipated impacts of the Accelerated CCA on Hydro One, including timing of such impacts; the Company's expectations relating to its ETR; non-GAAP measures; internal control over financial reporting and disclosure; recent accounting-related guidance; the Universal Base Shelf Prospectus; the US Debt Shelf Prospectus; and the Company's acquisitions and mergers, including Orillia Power and Peterborough Distribution. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking statements, except as required by law.

These forward-looking statements are based on a variety of factors and assumptions including, but not limited to, the following: no unforeseen changes in the legislative and operating framework for Ontario's electricity market or for Hydro One specifically; favourable decisions from the OEB and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining the required approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's distribution and transmission businesses; continued use of US GAAP; a stable regulatory environment; no unfavourable changes in environmental regulation; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to the Company, including information obtained from third party sources. Actual results may differ materially from those predicted by such forward-looking statements. While Hydro One does not know what impact any of these

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differences may have, the Company's business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

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

Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risk Factors" in the 2018 amended MD&A.

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

Additional information about Hydro One, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com), the US Securities and Exchange Commission's EDGAR website at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml), and the Company's website at [www.HydroOne.com/Investors](http://www.HydroOne.com/Investors).

**HYDRO ONE LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)**  
**For the three and six months ended June 30, 2019 and 2018**

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

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

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

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

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



**HYDRO ONE LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)**  
For the six months ended June 30, 2019 and 2018

Six months ended June 30, 2019 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2019	5,643	418	56	3,459	(3)	9,573	49	9,622
Net income	—	—	—	335	—	335	2	337
Other comprehensive income (loss)	—	—	—	—	(1)	(1)	—	(1)
Distributions to noncontrolling interest	—	—	—	—	—	—	(4)	(4)
Dividends on preferred shares	—	—	—	(9)	—	(9)	—	(9)
Dividends on common shares	—	—	—	(282)	—	(282)	—	(282)
Common shares issued	14	—	(11)	—	—	3	—	3
Stock-based compensation	—	—	3	—	—	3	—	3
<b>June 30, 2019</b>	<b>5,657</b>	<b>418</b>	<b>48</b>	<b>3,503</b>	<b>(4)</b>	<b>9,622</b>	<b>47</b>	<b>9,669</b>

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

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

**HYDRO ONE LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
For the three and six months ended June 30, 2019 and 2018

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

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

## **1. DESCRIPTION OF THE BUSINESS**

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At June 30, 2019, the Province held approximately 47.3% (December 31, 2018 - 47.4%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

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

### **Rate Setting**

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

### Transmission

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

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

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

### Distribution

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

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Consolidation**

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

### **Basis of Accounting**

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

The accounting policies applied are consistent with those outlined in Hydro One's annual audited amended consolidated financial statements for the year ended December 31, 2018, with the exception of the adoption of new accounting standards as described below and in Note 3. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2019 and 2018

to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual audited 2018 amended consolidated financial statements.

**Leases**

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

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

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

**3. NEW ACCOUNTING PRONOUNCEMENTS**

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

**Recently Adopted Accounting Guidance**

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC 842	February 2016 - January 2019	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	Hydro One adopted ASC 842 on January 1, 2019 using the modified retrospective transition approach using the effective date of January 1, 2019 as its date of initial application. See Note 2 to the financial statements for impact of adoption. The Company has included the disclosure requirements of ASC 842 for interim periods in Note 19 to the financial statements.
ASU 2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results.	January 1, 2019	No impact upon adoption
ASU 2018-07	June 2018	Expansion in the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from non-employees. Previously, ASC 718 was only applicable to share-based payment transactions for acquiring goods and services from employees.	January 1, 2019	No impact upon adoption
ASU 2018-15	August 2018	The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement is not affected by the amendment.	January 1, 2020	Hydro One early-adopted this ASU on April 1, 2019. The ASU was applied prospectively and there was no material impact upon adoption.

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2019 and 2018

**Recently Issued Accounting Guidance Not Yet Adopted**

Guidance	Date issued	Description	Effective date	Anticipated impact on Hydro One
ASU 2019-01	March 2019	This amendment carries forward the exemption previously provided under ASC 840 relating to the determination of the fair value of underlying assets by lessors that are not manufacturers or dealers. It also provides for clarification on cash-flow presentation of sales-type and financing leases and clarifies that transition disclosures under Topic 250 will not be applicable in the adoption of ASC 842.	January 1, 2020	Under assessment
ASU 2019-04	April 2019	This amendment clarifies, corrects and improves several aspects of the guidance under Topic 326 <i>Financial Instruments - Credit Losses</i> , Topic 815 <i>Derivatives and Hedging</i> and Topic 825 <i>Financial Instruments</i> .	January 1, 2020	Under assessment
ASU 2019-05	May 2019	The amendments in this update provide entities with an option to irrevocably elect the fair value option to be applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326.	January 1, 2020	Under assessment

**4. BUSINESS COMBINATIONS**

**Avista Corporation Purchase Agreement**

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger). On January 23, 2019, Hydro One and Avista Corporation announced that the companies have mutually agreed to terminate the Merger agreement. As a result of the termination of the Merger agreement, on January 24, 2019, Hydro One paid a US\$103 million termination fee to Avista Corporation as required by the Merger agreement. On January 24, 2019, the Company cancelled the \$1.0 billion non-revolving equity bridge credit facility and on January 25, 2019, Hydro One terminated the US\$2.6 billion non-revolving debt bridge credit facility (Acquisition Credit Facilities). No amounts had been drawn on the Acquisition Credit Facilities. On February 1, 2019, Hydro One entered into a credit agreement for a \$170 million unsecured demand operating credit facility (Demand Facility) for the purpose of funding the payment of the termination fee and other Merger related costs. On February 8, 2019, Hydro One redeemed the convertible debentures and paid the holders of the Instalment Receipts \$513 million (\$333 per \$1,000 principal amount) plus accrued and unpaid interest of \$7 million. The redemption of the convertible debentures was paid with cash on hand. As a result of the termination of the Merger agreement, no payment was due or receivable by Hydro One on the foreign-exchange contract.

The following amounts related to the termination of the Merger agreement were recorded by the Company during the six months ended June 30, 2019. All amounts were recognized in the first quarter.

- \$138 million for payment of the US\$103 million Merger termination fee recorded in operation, maintenance and administration costs;
- \$22 million financing charges, due to reversal of previously recorded unrealized gains upon termination of the foreign-exchange contract;
- redemption of \$513 million convertible debentures and payments of related interest of \$7 million; and
- \$24 million financing charges, due to derecognition of the deferred financing costs related to convertible debentures.

See Note 16 - Convertible Debentures and Note 17 - Fair Value of Financial Instruments and Risk Management for details of the convertible debentures and the foreign-exchange contract, respectively.

**5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS**

(millions of dollars)	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Depreciation of property, plant and equipment	164	160	328	318
Amortization of intangible assets	21	16	40	33
Amortization of regulatory assets	8	6	16	10
Depreciation and amortization	193	182	384	361
Asset removal costs	28	28	49	46
	221	210	433	407

**HYDRO ONE LIMITED**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
For the three and six months ended June 30, 2019 and 2018

**6. FINANCING CHARGES**

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

**7. INCOME TAXES**

As a rate-regulated utility company, the Company's effective tax rate excludes temporary differences that are recoverable in future rates charged to customers. Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

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

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

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

**8. ACCOUNTS RECEIVABLE**

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



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

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

**9. OTHER CURRENT ASSETS**

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

**10. PROPERTY, PLANT AND EQUIPMENT**

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

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**11. REGULATORY ASSETS AND LIABILITIES**

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

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

**Deferred Income Tax Regulatory Asset and Liability**

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

On September 28, 2017, the OEB issued its decision and order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Original Decision). In its Original Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act 1998* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a decision and order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of a portion of both Hydro One Networks' transmission and distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Original Decision and filed an appeal with the Ontario Divisional Court (Appeal). In both cases, the Company's position was that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. On August 31, 2018, the OEB granted the Motion and returned the portion of the Decision relating to the deferred tax asset to an OEB panel for reconsideration.

On March 7, 2019, the OEB issued its reconsideration decision and concluded that their Original Decision was reasonable and should be upheld. Also, on March 7, 2019, the OEB issued its decision for Hydro One Networks' 2018-2022 distribution rates, in which it directed the Company to apply the Original Decision to Hydro One Networks' distribution rates. As a result, as at December 31, 2018, the Company recognized an impairment charge of Hydro One Networks' distribution deferred income tax regulatory asset of \$474 million and Hydro One Networks' transmission deferred income tax regulatory asset of \$558 million, an increase in deferred income tax regulatory liability of \$81 million, and a decrease in the foregone revenue deferral regulatory asset of \$68 million. The

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regulatory balances relating to deferred tax asset sharing will continue to decrease as the tax savings are shared with ratepayers. Notwithstanding the recognition of the effects of the decision in the financial statements, on April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's deferred tax benefit decision. The appeal is scheduled to be heard on November 21, 2019.

**Foregone Revenue Deferral**

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

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

Hydro One applied to the OEB for a regulatory asset account to record the components other than service costs relating to its post-retirement and post-employment benefits that would have previously been capitalized to property, plant and equipment and intangible assets prior to adoption of ASU 2017-07. In May 2018 and March 2019, the OEB approved the regulatory asset account for Hydro One Networks' Transmission Business and Distribution Business, respectively. Hydro One has recorded the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets, in the Post-Retirement and Post-Employment Benefits - Non-Service Cost regulatory asset.

**Pension Cost Differential**

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

**Tax Rule Changes Variance**

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

**12. OTHER LONG-TERM ASSETS**

<i>(millions of dollars)</i>	June 30, 2019	December 31, 2018
ROU assets <i>(Note 19)</i>	25	—
Other	12	5
	<b>37</b>	<b>5</b>

**13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

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

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**14. OTHER LONG-TERM LIABILITIES**

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

**15. DEBT AND CREDIT AGREEMENTS**

**Short-Term Notes and Credit Facilities**

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

At June 30, 2019, Hydro One's consolidated committed, unsecured and undrawn credit facilities (Operating Credit Facilities) totalling \$2,550 million included Hydro One's credit facilities of \$250 million and Hydro One Inc.'s credit facilities of \$2.3 billion. On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended from 2021 and 2022 to 2024. At June 30, 2019, no amounts have been drawn on the Operating Credit Facilities.

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

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

**Subsidiary Debt Guarantee**

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

**Long-Term Debt**

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

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

<sup>1</sup> The unrealized mark-to-market net loss of \$1 million (December 31, 2018 - \$5 million net gain) relates to \$50 million of the Series 33 notes due 2020, \$500 million Series 37 notes due 2019, and \$300 million Series 39 notes due 2021. The unrealized mark-to-market net loss is offset by a \$1 million unrealized mark-to-market net gain (December 31, 2018 - \$5 million net loss) on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At June 30, 2019, long-term debt of \$11,845 million (December 31, 2018 - \$10,573 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of

notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion. At June 30, 2019, \$1.1 billion remained available for issuance until April 2020.

During the three and six months ended June 30, 2019, Hydro One issued long-term debt totalling \$1.5 billion (2018 - \$1.4 billion) under its MTN Program as follows:

- \$700 million Series 42 notes with a maturity date of April 5, 2024 and a coupon rate of 2.54%;
- \$550 million Series 43 notes with a maturity date of April 5, 2029 and a coupon rate of 3.02%; and
- \$250 million Series 44 notes with a maturity date of April 5, 2050 and a coupon rate of 3.64%.

During the six months ended June 30, 2019, \$228 million of long-term debt was repaid (2018 - \$nil) under the MTN Program. No long-term debt was repaid during the three months ended June 30, 2019 (2018 - \$nil).

#### (b) HOSSM long-term debt

At June 30, 2019, HOSSM long-term debt of \$164 million (December 31, 2018 - \$168 million), with a principal amount of \$142 million (December 31, 2018 - \$143 million) was outstanding. During the three and six months ended June 30, 2019 and 2018, no long-term debt was issued, and \$1 million (2018 - \$1 million) of long-term debt was repaid.

### Principal and Interest Payments

At June 30, 2019, principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments <i>(millions of dollars)</i>	Interest Payments <i>(millions of dollars)</i>	Weighted-Average Interest Rate <i>(%)</i>
Year 1	1,153	486	2.3
Year 2	803	463	2.1
Year 3	603	446	3.2
Year 4	133	427	6.1
Year 5	700	419	2.5
	3,392	2,241	2.6
Years 6-10	1,400	1,922	2.9
Thereafter	7,195	4,331	5.0
	11,987	8,494	4.1

### 16. CONVERTIBLE DEBENTURES

The following table presents the change in convertible debentures during the six months ended June 30, 2019 and the year ended December 31, 2018:

<i>(millions of dollars)</i>	Six months ended June 30, 2019	Year ended December 31, 2018
Carrying value - beginning	489	487
Amortization of deferred financing costs	—	2
Derecognition of deferred financing costs <i>(Notes 4, 6)</i>	24	—
Redemption	(513)	—
Carrying value - ending	—	489
Face value - ending	—	513

As a result of the termination of the Merger agreement (see Note 4 - Business Combinations), on February 8, 2019, Hydro One redeemed the Convertible Debentures and paid the holders of the instalment receipts \$513 million (\$333 per \$1,000 principal amount) plus accrued and unpaid interest of \$7 million.

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

#### Non-Derivative Financial Assets and Liabilities

At June 30, 2019 and December 31, 2018, 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.

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**Fair Value Measurements of Long-Term Debt**

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

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

**Fair Value Measurements of Derivative Instruments**

At June 30, 2019, Hydro One Inc. had interest-rate swaps with a total notional amount of \$850 million (December 31, 2018 - \$850 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. Hydro One Inc.'s fair value hedge exposure was approximately 7% (December 31, 2018 - 8%) of its total long-term debt. At June 30, 2019, Hydro One Inc. had the following interest-rate swaps designated as fair value hedges:

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

At June 30, 2019 and December 31, 2018, the Company had no interest-rate swaps classified as undesignated contracts.

In October 2017, the Company entered into a deal-contingent foreign-exchange forward contract (foreign-exchange contract) to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract was contingent on the Company closing the proposed Merger (see Note 4 - Business Combinations) and was intended to mitigate the foreign currency risk related to the portion of the Merger purchase price financed with the issuance of Convertible Debentures. This contract was an economic hedge and did not qualify for hedge accounting. It has been accounted for as an undesignated contract with changes in fair value being recorded in earnings as they occurred. As a result of the termination of the Merger agreement (see Note 4 - Business Combinations) in January 2019, the foreign-exchange contract was terminated and previously recorded unrealized gains of \$22 million were reversed in financing charges. No payment was due or payable by Hydro One related to the foreign-exchange contract.

**Fair Value Hierarchy**

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

<i>June 30, 2019 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Derivative instruments - fair value hedges (interest-rate swaps)	3	3	—	3	—
	<b>3</b>	<b>3</b>	<b>—</b>	<b>3</b>	<b>—</b>
<b>Liabilities:</b>					
Long-term debt, including current portion	11,978	13,962	—	13,962	—
Derivative instruments - fair value hedges (interest-rate swaps)	2	2	—	2	—
	<b>11,980</b>	<b>13,964</b>	<b>—</b>	<b>13,964</b>	<b>—</b>
<i>December 31, 2018 (millions of dollars)</i>	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Derivative instrument - foreign-exchange contract	22	22	—	—	22
	<b>22</b>	<b>22</b>	<b>—</b>	<b>—</b>	<b>22</b>
<b>Liabilities:</b>					
Long-term debt, including current portion	10,709	11,665	—	11,665	—
Convertible debentures	489	491	491	—	—
Derivative instruments - fair value hedges (interest-rate swaps)	5	5	—	5	—
	<b>11,203</b>	<b>12,161</b>	<b>491</b>	<b>11,670</b>	<b>—</b>



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

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

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the six months ended June 30, 2019 and the year ended December 31, 2018:

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

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

**Risk Management**

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

Market Risk

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

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

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a material decrease in Hydro One's net income for the three and six months ended June 30, 2019 and 2018.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three and six months ended June 30, 2019 and 2018 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At June 30, 2019 and December 31, 2018, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At June 30, 2019 and December 31, 2018, there was no material accounts receivable balance due from any single customer.

At June 30, 2019, the Company's provision for bad debts was \$22 million (December 31, 2018 - \$21 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At June 30, 2019, approximately 7% (December 31, 2018 - 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

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

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At June 30, 2019 and December 31, 2018, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At June 30, 2019, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term operating liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper,

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and the Operating Credit Facilities. The short-term liquidity under the Commercial Paper Program, Operating Credit Facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

On June 18, 2018, Hydro One filed a short form base shelf prospectus (Universal Base Shelf Prospectus) with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to \$4.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on July 18, 2020. On November 23, 2018, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US\$3.0 billion of debt securities, unconditionally guaranteed by Hydro One, during the 25-month period ending on December 23, 2020. At June 30, 2019, no securities have been issued under the Universal Base Shelf Prospectus or the US Debt Shelf Prospectus.

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

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

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

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

  

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

<sup>1</sup> The expected long-term rate of return on pension plan assets for the year ending December 31, 2019 is 6.5% (2018 - 6.5%).

<sup>2</sup> The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and six months ended June 30, 2019, pension costs of \$14 million (2018 - \$4 million) and \$33 million (2018 - \$25 million), respectively, were attributed to labour, of which \$6 million (2018 - \$2 million) and \$14 million (2018 - \$11 million), respectively, was charged to operations, \$4 million (2018 - \$nil) and \$9 million (2018 - \$nil), respectively, was recorded as regulatory assets, and \$4 million (2018 - \$2 million) and \$10 million (2018 - \$14 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets.

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**19. LEASES**

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

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

<i>(millions of dollars)</i>	Three months ended June 30 2019	Six months ended June 30 2019
Lease expense	3	5
Lease payments made	2	4
<b>June 30, 2019</b>		
Weighted-average remaining lease term		5
Weighted-average discount rate		2.9%

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

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

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

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

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

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

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**20. SHARE CAPITAL**

**Common Shares**

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

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

<i>(number of shares)</i>	
Common shares - December 31, 2018	595,938,975
Common shares issued - LTIP <sup>1</sup>	203,137
Common shares issued - share grants <sup>2</sup>	462,942
<b>Common shares - June 30, 2019</b>	<b>596,605,054</b>

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

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

**Preferred Shares**

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

**21. DIVIDENDS**

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

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

**22. EARNINGS PER COMMON SHARE**

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

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

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

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

### 23. STOCK-BASED COMPENSATION

#### Share Grant Plans

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

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

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

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

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

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

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

#### Management DSU Plan

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

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

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

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**LTIP**

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

A summary of PSU and RSU awards activity under the LTIP during the three and six months ended June 30, 2019 and 2018 is presented below:

<u>Three months ended June 30 (number of units)</u>	PSUs		RSUs	
	2019	2018	2019	2018
Units outstanding - beginning	484,430	844,700	397,300	715,990
Granted	—	12,860	—	10,190
Vested and issued	(516)	—	(780)	(13,470)
Forfeited	(6,214)	(11,040)	(4,750)	(12,640)
Settled	(167,360)	—	(41,350)	—
<b>Units outstanding - ending<sup>1</sup></b>	<b>310,340</b>	<b>846,520</b>	<b>350,420</b>	<b>700,070</b>

<u>Six months ended June 30 (number of units)</u>	PSUs		RSUs	
	2019	2018	2019	2018
Units outstanding - beginning	605,180	429,980	442,470	393,430
Granted	—	440,800	—	342,630
Vested and issued	(77,748)	—	(21,756)	(13,470)
Forfeited	(15,182)	(24,260)	(11,674)	(22,520)
Settled	(201,910)	—	(58,620)	—
<b>Units outstanding - ending<sup>1</sup></b>	<b>310,340</b>	<b>846,520</b>	<b>350,420</b>	<b>700,070</b>

<sup>1</sup> Units outstanding at June 30, 2019 include 16,620 PSUs and 102,260 RSUs that may be settled in cash if certain conditions are met. At June 30, 2019, a liability of \$3 million has been recorded with respect to these awards and is included in accrued liabilities on the Consolidated Balance Sheet.

No awards were granted during the three and six months ended June 30, 2019. The fair value of awards granted during the three and six months ended June 30, 2018 was \$nil and \$16 million, respectively. The compensation expense related to the PSU and RSU awards recognized by the Company during the three and six months ended June 30, 2019 was \$4 million and \$9 million (2018 - \$3 million and \$5 million), respectively.

Stock Options

A summary of stock options activity during the three and six months ended June 30, 2019 and 2018 is presented below:

<u>(number of stock options)</u>	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Stock options outstanding - beginning	949,910	1,450,880	949,910	—
Granted	—	—	—	1,450,880
Exercised	(129,780)	—	(129,780)	—
<b>Stock options outstanding - ending<sup>1</sup></b>	<b>820,130</b>	<b>1,450,880</b>	<b>820,130</b>	<b>1,450,880</b>

<sup>1</sup> During the six months ended June 30, 2019, 706,070 stock options have vested, of which 129,780 were exercised. At June 30, 2019, 243,840 stock options remain non-vested.

At June 30, 2019, the unrecognized compensation expense related to stock options not yet vested was \$1 million (December 31, 2018 - \$1 million).



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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**  
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**24. RELATED PARTY TRANSACTIONS**

The Province is a shareholder of Hydro One with approximately 47.3% ownership at June 30, 2019. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Ontario Charging Network LP (OCN LP) is a joint-venture limited partnership between a subsidiary of Hydro One and OPG.

<i>(millions of dollars)</i>		Three months ended June 30		Six months ended June 30	
Related Party	Transaction	2019	2018	2019	2018
<b>Province</b>	Dividends paid	72	69	142	136
<b>IESO</b>	Power purchased	259	245	809	758
	Revenues for transmission services	370	414	783	819
	Amounts related to electricity rebates	104	103	242	240
	Distribution revenues related to rural rate protection	60	61	118	118
	Distribution revenues related to the supply of electricity to remote northern communities	9	8	18	16
	Funding received related to CDM programs	8	10	23	22
<b>OPG</b>	Power purchased	2	2	5	6
	Revenues related to provision of services and supply of electricity	1	2	3	4
	Costs related to the purchase of services	1	—	1	—
<b>OEFC</b>	Power purchased from power contracts administered by the OEFC	—	—	1	1
<b>OEB</b>	OEB fees	2	2	4	4
<b>OCN LP</b>	Investment in OCN LP	—	—	2	—

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

**25. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

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

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**Capital Expenditures**

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the Consolidated Statements of Cash Flows for the three and six months ended June 30, 2019 and 2018. The reconciling items include net change in accruals and capitalized depreciation.

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

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

**Supplementary Information**

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

**26. CONTINGENCIES**

**Legal Proceedings**

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

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

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

**27. COMMITMENTS**

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

June 30, 2019 <i>(millions of dollars)</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	135	74	8	2	3	15
Long-term software/meter agreement	18	12	1	2	1	1
Operating lease commitments	10	9	4	3	1	7

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

June 30, 2019 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities <sup>1</sup>	—	—	—	—	2,550	—
Letters of credit <sup>2</sup>	171	—	—	—	—	—
Guarantees <sup>3</sup>	330	—	—	—	—	—

<sup>1</sup> On June 3, 2019, the maturity dates for the Operating Credit Facilities were extended to 2024.

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

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

## 28. SEGMENTED REPORTING

Hydro One has three reportable segments:

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

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

Three months ended June 30, 2019 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	374	1,029	10	1,413
Purchased power	—	653	—	653
Operation, maintenance and administration	101	154	12	267
Depreciation and amortization	114	104	3	221
<b>Income (loss) before financing charges and income taxes</b>	<b>159</b>	<b>118</b>	<b>(5)</b>	<b>272</b>
<b>Capital investments</b>	<b>242</b>	<b>126</b>	<b>2</b>	<b>370</b>

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

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

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Six months ended June 30, 2018 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	851	2,181	21	3,053
Purchased power	—	1,425	—	1,425
Operation, maintenance and administration	200	285	41	526
Depreciation and amortization	210	194	3	407
<b>Income (loss) before financing charges and income taxes</b>	<b>441</b>	<b>277</b>	<b>(23)</b>	<b>695</b>
<b>Capital investments</b>	<b>432</b>	<b>271</b>	<b>3</b>	<b>706</b>

**Total Assets by Segment:**

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

**Total Goodwill by Segment:**

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

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

**29. SUBSEQUENT EVENTS**

**Dividends**

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