Hydro One Reports Second Quarter Results

The Company continues to execute on its strategy to support economic growth and a clean energy future in Ontario with the filing of the leave to construct application for the Waasigan Transmission Line Project, groundbreaking of the Chatham to Lakeshore Transmission Line, and route selection of the St. Clair Transmission Line.

TORONTO, August 9, 2023 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the second quarter ended June 30, 2023.

Second Quarter Highlights

- Second quarter basic earnings per share (EPS) of $0.44 was 2.3% higher compared to EPS of $0.43 for the same period in 2022.
- EPS for the quarter was higher year-over-year largely due to higher revenues resulting from Ontario Energy Board (OEB)-approved 2023 transmission rates and lower asset removal costs resulting from fewer storm-related asset replacements, partially offset by higher operation, maintenance and administrative (OM&A) costs and higher financing charges.
- Subsequent to the quarter end, the Company announced that it filed an application with the OEB to seek approval to construct both phases of the Waasigan Transmission Line Project. The total project is expected to cost approximately $1,200 million and be in service close to the end of 2025 and 2027 for Phase 1 and Phase 2, respectively.
- The Company broke ground on its Chatham to Lakeshore Transmission Line which will provide clean electricity to support growth in the agri-food and manufacturing industries. The Company also announced the preferred route for the St. Clair Transmission Line that maximizes existing infrastructure while improving reliability.
- Hydro One and the Power Workers' Union (PWU) reached a tentative settlement for two collective agreements covering employees in front-line and customer facing roles across the Company's operations.
- Subsequent to the quarter, Hydro One released its annual sustainability report (www.hydroone.com/sustainability) that demonstrates continued progress in setting and meeting its sustainability goals.
- Hydro One and the Coaches Association of Ontario announced Hydro One has provided grants to 38 Indigenous coaches to boost representation in sports leadership.
- Hydro One received its 14th Emergency Response Award from the Edison Electric Institute (EEI) for restoration efforts after Winter Storm Elliot.
- Hydro One was recognized as one of the Best 50 Corporate Citizens in Canada by Corporate Knights.
- Hydro One announced that Brian Vaasjo, Helga Reidel and Mitch Panciuk have been appointed to the Company's Board of Directors.
- The Company's capital investments and in-service additions for the quarter were $649 million and $413 million, respectively, compared to $612 million and $547 million in 2022.
- Quarterly dividend declared at $0.2964 per share, payable September 29, 2023.

"The significant progress on our capital projects including the Waasigan Transmission Line, the Chatham to Lakeshore Transmission Line and the St. Clair Transmission Line, demonstrates our continued commitment to enable economic growth and a clean energy future in Ontario," said David Lebeter, President and CEO of Hydro One. "Today, we also released our sustainability report, that outlines our goals and the progress we are making in standing up for our people, our planet and our communities across Ontario."

Selected Consolidated Financial and Operating Highlights

(millions of Canadian dollars, except as otherwise noted)	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Revenues	1,857	1,840	3,931	3,887
Purchased power	798	852	1,808	1,866
Revenues, net of purchased power[1]	1,059	988	2,123	2,021
Net income attributable to common shareholders	265	255	547	565
Basic EPS	$0.44	$0.43	$0.91	$0.94
Diluted EPS	$0.44	$0.42	$0.91	$0.94
Net cash from operating activities	652	621	1,002	1,064
Capital investments	649	612	1,148	1,061
Assets placed in-service	413	547	650	776
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,932	20,167	20,080	20,422
Distribution: Electricity distributed to Hydro One customers (GWh)	6,811	6,754	15,353	15,649

[1] "Revenues, net of purchased power" is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under United States (US) generally accepted accounting principles (US GAAP) used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. See the section "Non-GAAP Financial Measures".

Key Financial Highlights

2023 Second Quarter Highlights

The Company reported net income attributable to common shareholders of $265 million during the quarter, compared to $255 million in the same period of 2022. This resulted in EPS of $0.44, compared to EPS of $0.43 in the prior year.

Revenues, net of purchased power[1] of $1,059 million for the second quarter were $71 million higher than revenues, net of purchased power[1] for the second quarter of 2022. The increase is mainly due to revenues resulting from OEB-approved 2023 transmission rates as well as higher revenues related to the OEB-approved recovery of historical cost deferrals recognized as regulatory assets in prior periods. The impacts of the recovery of regulatory assets are offset by a net increase in OM&A and income tax expense and are net income neutral in the period.

OM&A costs in the second quarter of 2023 were higher than the prior year as a result of higher corporate support costs, primarily attributable to lower capitalized overheads associated with the timing and volume of capital activity, the aforementioned recovery of historical cost deferrals which are offset in revenues and higher work program expenditures, including emergency restoration, information technology initiatives and stations maintenance.

Financing charges in the second quarter of 2023 were higher than the prior year resulting from higher weighted-average interest rates on long-term debt and short-term notes.

Depreciation, amortization and asset removal costs for the second quarter of 2023 were lower than the same period of the prior year primarily due to lower asset removal costs resulting from fewer storm-related asset replacements which was partially offset by higher depreciation and amortization expense related to the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Income tax expense for the second quarter of 2023 was slightly lower than the prior year primarily due to higher deductible timing differences compared to the prior year.

[1] Revenues, net of purchased power, is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under US GAAP used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. See the section "Non-GAAP Financial Measures".

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems by addressing aging power system infrastructure, facilitating connectivity to new load customers and generation sources, and improving service to customers. The Company made capital investments of $649 million during the second quarter of 2023 and placed $413 million of new assets in-service.

Selected Operating Highlights

The Company announced that it filed with the OEB a leave to construct application under Section 92 of the *Ontario Energy Board Act*, 1998, for its Waasigan Transmission Line Project. The project is expected to cost $1,200 million. The first phase is a proposed new double-circuit 230 kilovolt transmission line from Lakehead Transformer Station (TS) in the Municipality of Shuniah to Mackenzie TS in the Town of Atikokan to be in service as close to the end of 2025 as possible. Phase two is a proposed new single-circuit 230 kilovolt transmission line from Mackenzie TS to Dryden TS in the City of Dryden, which is expected to be in service by the end of 2027. The project is being built in partnership with nine First Nation communities.

The Company broke ground on its Chatham to Lakeshore Transmission Line. This $268 million investment will drive the province of Ontario's clean energy value chain and help make Southwestern Ontario the hub for agri-food and manufacturing. The Company has offered five First Nations in the region a 50% equity stake in the transmission line component of the project. The line is expected to be in service by the end of 2025.

The Company announced Route 2 as the preferred route for the proposed St. Clair Transmission Line after a thorough evaluation of five options. This option was selected as 80% of the route uses existing transmission corridors and upgrades an existing transmission line. The Company will offer proximate First Nations impacted by the project a 50% equity stake in the transmission line component of the project. The line is expected to be in service in 2028.

Hydro One reached tentative settlements for two collective agreements with the PWU which includes front-line staff and customer facing roles. Once ratified, these agreements will be in effect until September 30, 2025.

Hydro One released its sustainability report which provides a balanced account of its environmental, social and governance (ESG) performance against the sustainability targets released last year. Hydro One is committed to producing an annual sustainability update to continuously increase the transparency and accountability of our ESG disclosures. The sustainability report is available at www.hydroone.com/sustainability.

Hydro One received its 14th Emergency Response Award from EEI for restoration efforts after Winter Storm Elliot. The Company restored power to approximately 525,000 customers. The Emergency Response Awards are presented to EEI member companies for recovery and assistance efforts of electric companies following service disruptions caused by extreme weather or other natural events.

Hydro One announced that Brian Vaasjo, Helga Reidel and Mitch Panciuk were appointed to the Company's Board of Directors effective June 2, 2023. Brian Vaasjo recently retired from his position as President and CEO of Capital Power, a power generation company on which he has served since its initial public offering in 2009. Helga Reidel is a corporate director, who most recently served as President and Chief Executive Officer of ENWIN Utilities Ltd. from 2016 to 2022. Before that, she served as Chief Administrative Officer for the Corporation of the City of Windsor from 2009 to 2016. Mitch Panciuk is the managing partner of Boston Pizza in Belleville, Ontario, and previously served as the Mayor of the City of Belleville from 2018 to 2022. He also previously served on the board of Elexicon Corporation from 2018 to 2022 where he chaired the Audit, Finance and Risk Management Committee.

Common Share Dividends

Following the conclusion of the second quarter, on August 8, 2023, the Company declared a quarterly cash dividend to common shareholders of $0.2964 per share to be paid on September 29, 2023 to shareholders of record on September 13, 2023.

Supplemental Segment Information

(millions of Canadian dollars)	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Revenues				
Transmission	559	516	1,114	1,035
Distribution	1,285	1,314	2,794	2,831
Other	13	10	23	21
Total revenues	**1,857**	**1,840**	**3,931**	**3,887**
Revenues, net of purchased power[1]				
Transmission	559	516	1,114	1,035
Distribution	487	462	986	965
Other	13	10	23	21
Total revenues, net of purchased power[1]	**1,059**	**988**	**2,123**	**2,021**
Operation, maintenance and administration costs				
Transmission	124	97	247	196
Distribution	188	173	373	344
Other	24	16	44	34
Total operation, maintenance and administration costs	**336**	**286**	**664**	**574**
Income before financing charges and taxes				
Transmission	309	289	613	584
Distribution	181	163	373	385
Other	(14)	(8)	(26)	(17)
Total income before financing charges and taxes	**476**	**444**	**960**	**952**
Capital investments				
Transmission	373	311	671	588
Distribution	269	294	465	461
Other	7	7	12	12
Total capital investments	**649**	**612**	**1,148**	**1,061**
Assets placed in-service				
Transmission	213	295	328	415
Distribution	193	251	315	356
Other	7	1	7	5
Total assets placed in-service	**413**	**547**	**650**	**776**

[1] Revenues, net of purchased power, is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under US GAAP used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. See the section "Non-GAAP Financial Measures".

This press release should be read in conjunction with the Company's second quarter 2023 unaudited consolidated financial statements and MD&A. These financial statements and MD&A together with additional information about Hydro One, including the audited consolidated financial statements and MD&A for the year ended December 31, 2022 can be accessed at www.HydroOne.com/Investors and www.sedarplus.com.

Quarterly Investment Community Teleconference

The Company's second quarter 2023 results teleconference with the investment community will be held on August 9, 2023 at 8 a.m. ET, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should go to this link (https://register.vevent.com/register/BIba4c15b3a8634412b63efcd1f5c2f452) prior to the scheduled start time to access Hydro One's second quarter 2023 results call. Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

Hydro One Limited (TSX: H)

Hydro One Limited, through its wholly-owned subsidiaries, is Ontario's largest electricity transmission and distribution provider with approximately 1.5 million valued customers, approximately $31.5 billion in assets as at December 31, 2022, and annual revenues in 2022 of approximately $7.8 billion.

Our team of approximately 9,300 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2022, Hydro One invested approximately $2.1 billion in its transmission and distribution networks, and supported the economy through buying approximately $1.9 billion of goods and services.

We are committed to the communities where we live and work through community investment, sustainability and diversity initiatives. We are designated as a Sustainable Electricity Leader™ by Electricity Canada.

Hydro One Limited's common shares are listed on the TSX and certain of Hydro One Inc.'s medium term notes are listed on the NYSE. Additional information can be accessed at www.hydroone.com, www.sedarplus.com or www.sec.gov.

For More Information

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

Non-GAAP Financial Measures

Hydro One uses a number of financial measures to assess its performance. The Company presents "revenues, net of purchased power" to reflect revenues net of the cost of purchased power, which is a non-GAAP financial measure. Non-GAAP financial measures do not have a standardized meaning under GAAP used to prepare the Company's financial statements and might not be comparable to similar measures presented by other entities. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under US GAAP.

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of purchased power. Revenues, net of purchased power is used internally by management to assess the impacts of revenue on net income and is considered useful because it excludes the cost of power that is fully recovered through revenues and therefore net income neutral.

The following table provides a reconciliation of GAAP (reported) Revenues to non-GAAP (adjusted) Revenues, Net of Purchased Power on a consolidated basis.

(millions of dollars)	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022
Revenues	1,857	1,840	3,931	3,887
Less: Purchased power	798	852	1,808	1,866
Revenues, net of purchased power	1,059	988	2,123	2,021

Forward-Looking Statements and Information

This press release contains “forward-looking information” within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: expectations regarding the Company's financing activities; the Company’s plans to improve reliability, including facilitating connectivity for new load customers and generation sources; the Company's ongoing and planned projects and expected capital investments and plan, including anticipated outcomes and impacts; expectations regarding offering First Nations 50% equity stake in the transmission line component of the St. Clair and Chatham to Lakeshore Transmission Line projects; sustainability goals; expectations related to an annual sustainability update; expectations regarding the Company's strategy to support clean energy, and economic growth in the province of Ontario; collective bargaining; and expectations regarding the ratification of collective agreements with the PWU; and payment of dividends. 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. In particular, the forward-looking information contained in this presentation is based on a variety of factors and assumptions including, but not limited to: the scope of the COVID-19 pandemic and duration thereof as well as the effect and severity of corporate and other mitigation measures on Hydro One’s operations, supply chain or employees; 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 required approvals; no unforeseen changes in rate orders or rate setting methodologies for Hydro One’s distribution and transmission businesses; the continued use and availability of US GAAP; no unfavourable changes in environmental regulation; a stable regulatory environment; no significant changes to Hydro One’s current credit ratings; no unforeseen impacts of new accounting pronouncements; no changes to expectations regarding electricity consumption; no unforeseen changes to economic and market conditions; recoverability of costs and expenses related to the COVID-19 pandemic, including the costs of customer defaults resulting from the pandemic; completion of operating and capital projects that have been deferred; and no significant event occurring outside the ordinary course of business. We caution that all forward-looking information is inherently subject to change and uncertainty and that actual results may differ materially from those expressed or implied by the forward-looking information. A number of risks, uncertainties and other factors could cause actual results and events to differ materially from those expressed or implied in the forward-looking information or could cause our current objectives, strategies and intentions to change, and many of these factors are beyond our control and current expectation or knowledge. 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.sedarplus.com. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the 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, 2023, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2022. The Consolidated Financial Statements 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 as at and for the three and six months ended June 30, 2023, based on information available to management as of August 8, 2023.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended June 30			Six months ended June 30		
(millions of dollars, except as otherwise noted)	2023	2022	Change	2023	2022	Change
Revenues	1,857	1,840	0.9%	3,931	3,887	1.1%
Purchased power	798	852	(6.3%)	1,808	1,866	(3.1%)
Revenues, net of purchased power[1]	1,059	988	7.2%	2,123	2,021	5.0%
Operation, maintenance and administration (OM&A) costs	336	286	17.5%	664	574	15.7%
Depreciation, amortization and asset removal costs	247	258	(4.3%)	499	495	0.8%
Financing charges	144	119	21.0%	280	236	18.6%
Income tax expense	65	68	(4.4%)	129	147	(12.2%)
Net income to common shareholders of Hydro One	**265**	**255**	**3.9%**	**547**	**565**	**(3.2%)**
Basic earnings per common share (EPS)	$0.44	$0.43	2.3%	$0.91	$0.94	(3.2%)
Diluted EPS	$0.44	$0.42	4.8%	$0.91	$0.94	(3.2%)
Net cash from operating activities	652	621	5.0%	1,002	1,064	(5.8%)
Funds from operations (FFO)[1]	558	523	6.7%	1,054	1,152	(8.5%)
Capital investments	649	612	6.0%	1,148	1,061	8.2%
Assets placed in-service	413	547	(24.5%)	650	776	(16.2%)
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,932	20,167	(1.2%)	20,080	20,422	(1.7%)
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,811	6,754	0.8%	15,353	15,649	(1.9%)

As at	June 30, 2023	December 31, 2022
Debt to capitalization ratio[2]	56.9%	56.4%

[1] The Company prepares and presents its financial statements in accordance with US GAAP. The Company also utilizes non-GAAP financial measures to assess its business and measure overall underlying business performance. Revenues, net of purchased power and FFO are non-GAAP financial measures. Non-GAAP financial measures do not have a standardized meaning under GAAP, which is used to prepare the Company's Consolidated Financial Statements and might not be comparable to similar financial measures presented by other entities. See section "Non-GAAP Financial Measures" for a discussion of these non-GAAP financial measures and a reconciliation of such measures to the most directly comparable GAAP measure.

[2] Debt to capitalization ratio is a non-GAAP ratio. Non-GAAP ratios do not have a standardized meaning under GAAP, which is used to prepare the Company's Consolidated Financial Statements and might not be comparable to similar financial measures presented by other entities. See section "Non-GAAP Financial Measures" for a discussion of this non-GAAP ratio and its component elements.

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), which includes Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP, as well as an approximately 66% interest in B2M Limited Partnership, and an approximately 55% interest in Niagara Reinforcement Limited Partnership.

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 Remotes).

The other segment consists primarily of Hydro One's subsidiary, Acronym Solutions Inc., which provides telecommunications support for the Company's transmission and distribution businesses, as well as a comprehensive suite of Information Communication Technology solutions. The other segment also consists of other investments, including a joint venture that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network brand, as well as certain corporate activities, and is not rate-regulated.

For the six months ended June 30, 2023 and 2022, Hydro One's segments accounted for the Company's total revenues, as follows:

Six months ended June 30	2023	2022
Transmission	28 %	26 %
Distribution	71 %	73 %
Other	1 %	1 %

When adjusted for the recovery of purchased power costs, Hydro One's segments accounted for the Company's total revenues, net of purchased power,[1] for the six months ended June 30, 2023 and 2022 as follows:

Six months ended June 30	2023	2022
Transmission	53 %	51 %
Distribution	46 %	48 %
Other	1 %	1 %

At June 30, 2023 and December 31, 2022, Hydro One's segments accounted for the Company's total assets as follows:

As at	June 30, 2023	December 31, 2022
Transmission	60 %	60 %
Distribution	39 %	38 %
Other	1 %	2 %

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders of Hydro One for the quarter ended June 30, 2023 of $265 million is an increase of $10 million, or 3.9%, compared to the same period in 2022. Significant influences on the change in net income attributable to common shareholders of Hydro One included:

- higher revenues, net of purchased power,[1] resulting from:
    - an increase in transmission revenues due to Ontario Energy Board (OEB)-approved 2023 transmission rates, partially offset by lower peak demand; and
    - an increase in distribution revenues, net of purchased power,[1] including the impact of higher energy consumption.
- higher OM&A costs primarily resulting from higher corporate support costs, and higher work program expenditures, including emergency restoration, information technology initiatives and stations maintenance.
- lower depreciation, amortization and asset removal costs primarily due to lower asset removal costs resulting from fewer storm-related asset replacements.
- higher financing charges attributable to higher weighted-average interest rates on long-term debt and short-term notes.
- lower income tax expense primarily attributable to higher deductible timing differences compared to the prior year.

Net income attributable to common shareholders of Hydro One for the six months ended June 30, 2023 of $547 million is $18 million, or 3.2%, lower compared to the same period in 2022. Year-to-date results were impacted by similar factors as noted above as well as higher depreciation, amortization and asset removal costs primarily resulting from the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program and higher environmental expenditures in the first quarter of 2023.

EPS

EPS of $0.44 and $0.91 for the three and six months ended June 30, 2023, compares to EPS of $0.43 and $0.94 in the same periods of 2022. The increase in EPS for the three months ended June 30, 2023 and decrease in EPS for the six months ended June 30, 2023 were primarily driven by the changes in earnings, as discussed above.

[1] Revenues, net of purchased power, is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

Revenues

(millions of dollars, except as otherwise noted)	Three months ended June 30 2023	2022	Change	Six months ended June 30 2023	2022	Change
Transmission	559	516	8.3%	1,114	1,035	7.6%
Distribution	1,285	1,314	(2.2%)	2,794	2,831	(1.3%)
Other	13	10	30.0%	23	21	9.5%
Total revenues	1,857	1,840	0.9%	3,931	3,887	1.1%
Transmission	559	516	8.3%	1,114	1,035	7.6%
Distribution revenues, net of purchased power[1]	487	462	5.4%	986	965	2.2%
Other	13	10	30.0%	23	21	9.5%
Total revenues, net of purchased power[1]	1,059	988	7.2%	2,123	2,021	5.0%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,932	20,167	(1.2%)	20,080	20,422	(1.7%)
Distribution: Electricity distributed to Hydro One customers *(GWh)*	6,811	6,754	0.8%	15,353	15,649	(1.9%)

[1] Revenues, net of purchased power, is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

Transmission Revenues

Transmission revenues increased by 8.3% compared to the quarter ended June 30, 2022, primarily due to the following:

- higher revenues resulting from OEB-approved 2023 rates; and
- higher revenues related to the OEB-approved recovery of historical cost deferrals recognized as regulatory assets in prior periods, which are offset in OM&A and income tax expense and are therefore net income neutral; partially offset by
- lower average monthly peak demand.

Transmission revenues increased by 7.6% compared to the six months ended June 30, 2022, primarily due to similar factors as noted above.

Distribution revenues

Distribution revenues decreased by 2.2% compared to the quarter ended June 30, 2022, primarily due to the following:

- lower purchased power costs, which are fully recovered from ratepayers and thus net income neutral; partially offset by
- higher revenues related to the OEB-approved recovery of historical cost deferrals recognized as regulatory assets in prior periods which are offset in OM&A and income tax expense and are therefore net income neutral; and
- higher energy consumption.

Distribution revenues decreased by 1.3% compared to the six months ended June 30, 2022, primarily due to similar factors noted above.

Distribution revenues, net of purchased power[2] increased by 5.4% and 2.2%, respectively, compared to the three and six months ended June 30, 2022, primarily due to the reasons noted above, adjusted for the recovery of purchased power costs.

[2] Revenues, net of purchased power, is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

OM&A Costs

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2023	2022	Change	2023	2022	Change
Transmission	124	97	27.8%	247	196	26.0%
Distribution	188	173	8.7%	373	344	8.4%
Other	24	16	50.0%	44	34	29.4%
	336	286	17.5%	664	574	15.7%

Transmission OM&A Costs

Transmission OM&A costs were 27.8% higher than the quarter ended June 30, 2022, primarily due to:

- higher work program expenditures including vegetation management, station maintenance work, as well as information technology initiatives;
- higher corporate support costs mainly attributable to lower capitalized overheads associated with the timing and volume of capital activity; and
- higher OM&A associated with the OEB-approved recovery of historical cost deferrals, which are offset in revenue and net income neutral.

Transmission OM&A costs increased by 26.0% compared to the six months ended June 30, 2022, primarily due to similar factors as noted above.

Distribution OM&A Costs

Distribution OM&A costs were 8.7% higher than the quarter ended June 30, 2022, primarily due to:

- higher corporate support costs mainly attributable to lower capitalized overheads associated with the timing and volume of capital activity;
- higher work program expenditures including emergency restoration; and
- higher OM&A associated with the OEB-approved recovery of historical cost deferrals, which are offset in revenue and net income neutral; partially offset by
- lower allowance for doubtful accounts.

Distribution OM&A costs were 8.4% higher than the six months ended June 30, 2022, primarily due to similar factors as noted above.

Depreciation, Amortization and Asset Removal Costs

Depreciation, amortization and asset removal costs decreased by $11 million for the quarter ended June 30, 2023, compared to the same period in 2022, primarily due to lower asset removal costs resulting from fewer storm-related asset replacements, partially offset by higher depreciation and amortization expense attributed to the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Depreciation, amortization and asset removal costs increased by $4 million for the six months ended June 30, 2023, compared to the same period in 2022, primarily due to similar factors as noted above as well as higher environmental expenditures in the first quarter of 2023.

Financing Charges

Financing charges increased by $25 million and $44 million for the three and six months ended June 30, 2023, respectively, primarily due to higher weighted-average interest rates on long-term debt and short-term notes.

Income Tax Expense

Income tax expense was $65 million for the quarter ended June 30, 2023, compared to $68 million for the same period in 2022. The $3 million decrease in income tax expense for the quarter ended June 30, 2023, was primarily due to the following:

- higher deductible timing differences compared to the prior year; partially offset by
- higher tax expense related to the OEB-approved recovery of regulatory accounts, which is offset in revenue and therefore net income neutral; and
- higher earnings compared to the prior year.

Income tax expense was $129 million for the six months ended June 30, 2023, compared to $147 million for the same period in 2022. The $18 million decrease in income tax expense for the six months ended June 30, 2023, compared to the same period in 2022, was primarily due to similar factors as noted above as well as lower earnings on a year-to-date basis compared to the prior year.

The Company realized an effective tax rate of approximately 19.6% and 19.0% for the three and six months ended June 30, 2023, respectively, compared to approximately 20.9% and 20.5% realized in the same periods in 2022. The decrease of 1.3% and 1.5%, respectively, was primarily attributable to the factors noted above.

Common Share Dividends

In 2023, the Company declared and paid cash dividends to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
February 13, 2023	March 15, 2023	March 31, 2023	$0.2796	167
May 4, 2023	June 7, 2023	June 30, 2023	$0.2964	178
				345

Following the conclusion of the second quarter of 2023, the Company declared a cash dividend to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
August 8, 2023	September 13, 2023	September 29, 2023	$0.2964	178

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of dollars, except EPS and ratio)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Revenues	1,857	2,074	1,862	2,031	1,840	2,047	1,779	1,913
Purchased power	798	1,010	895	963	852	1,014	914	933
Revenues, net of purchased power[1]	1,059	1,064	967	1,068	988	1,033	865	980
Net income to common shareholders	265	282	178	307	255	310	159	300
Basic EPS	$0.44	$0.47	$0.30	$0.51	$0.43	$0.52	$0.27	$0.50
Diluted EPS	$0.44	$0.47	$0.30	$0.51	$0.42	$0.52	$0.26	$0.50
Earnings coverage ratio[2]	3.1	3.2	3.3	3.3	3.3	3.2	3.1	3.1

[1] Revenues, net of purchased power is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

[2] Earnings coverage ratio is a non-GAAP ratio. Non-GAAP ratios do not have a standardized meaning under GAAP, which is used to prepare the Company's Consolidated Financial Statements and might not be comparable to similar financial measures presented by other entities. See section "Non-GAAP Financial Measures" for a discussion of this non-GAAP ratio and its component elements.

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 additions to both 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, 2023 and 2022:

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2023	2022	Change	2023	2022	Change
Transmission	213	295	(27.8%)	328	415	(21.0%)
Distribution	193	251	(23.1%)	315	356	(11.5%)
Other	7	1	600.0%	7	5	40.0%
Total assets placed in-service	413	547	(24.5%)	650	776	(16.2%)

Transmission Assets Placed In-Service

Transmission assets placed in-service decreased by $82 million, or 27.8%, for the quarter ended June 30, 2023, compared to the same period in 2022, primarily due to the following:

- timing of investments placed in-service for major development projects, primarily the new Lakeshore Transformer Station and East-West Tie Connection in the prior year, partially offset by the new shunt reactors at Lennox Transformer Station placed in-service in the current year; and
- lower investments placed in-service for transmission line refurbishments and replacements; partially offset by
- timing of investments placed in-service for station equipment refurbishments and replacements primarily at the Arnprior Transformer Station; and
- higher volume of work on wood pole replacements.

Transmission assets placed in-service decreased by $87 million, or 21.0%, for the six months ended June 30, 2023, compared to the same period in 2022, primarily due to similar factors noted above.

Distribution Assets Placed In-Service

Distribution assets placed in-service decreased by $58 million, or 23.1%, for the quarter ended June 30, 2023, compared to the quarter ended June 30, 2022, primarily due to the following:

- lower volume of storm-related asset replacements; partially offset by
- higher volume of work associated with customer connections, line refurbishments and wood pole replacements; and
- timing of investments placed in-service for system capability reinforcement projects.

Distribution assets placed in-service decreased by $41 million, or 11.5%, for the six months ended June 30, 2023, compared to the six months ended June 30, 2022, primarily due to similar factors noted above, partially offset by higher assets placed in-service attributable to higher storm-related asset replacements and a higher volume of customer connections in the first quarter.

Capital Investments

The following table presents Hydro One's capital investments during the three and six months ended June 30, 2023 and 2022:

	Three months ended June 30			Six months ended June 30		
(millions of dollars)	2023	2022	Change	2023	2022	Change
Transmission						
Sustaining	248	239	3.8%	468	445	5.2%
Development	105	53	98.1%	167	98	70.4%
Other	20	19	5.3%	36	45	(20.0%)
	373	311	19.9%	671	588	14.1%
Distribution						
Sustaining	112	184	(39.1%)	193	251	(23.1%)
Development	130	89	46.1%	230	172	33.7%
Other	27	21	28.6%	42	38	10.5%
	269	294	(8.5%)	465	461	0.9%
Other	7	7	—%	12	12	—%
Total capital investments	649	612	6.0%	1,148	1,061	8.2%

Transmission Capital Investments

Transmission capital investments increased by $62 million, or 19.9%, in the second quarter of 2023 compared to the second quarter of 2022, primarily due to the following:

- higher investments in the new Chatham to Lakeshore and Waasigan Transmission Line projects; and
- higher volume of station refurbishments and equipment replacements.

Transmission capital investments increased by $83 million, or 14.1%, in the six months ended June 30, 2023, primarily due to similar factors as noted above.

Distribution Capital Investments

Distribution capital investments decreased by $25 million, or 8.5%, in the second quarter of 2023 compared to the second quarter of 2022, primarily due to the following:

- lower spend on storm-related asset replacements; partially offset by
- timing of work on system capability reinforcement projects;
- higher volume of work on customer connections;
- higher volume of externally driven work attributable to joint use assets and line relocations; and
- higher volume of line refurbishments and wood pole replacements.

Distribution capital investments increased by $4 million, or 0.9%, in the six months ended June 30, 2023, primarily due to similar factors noted above as well as higher expenditures attributable to storm-related asset replacements and information technology initiatives in the first quarter of 2023.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects at June 30, 2023:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
			(year)	*(millions of dollars)*	
Development Projects:					
Barrie Area Transmission Upgrade	Barrie-Innisfil Southern Ontario	Upgraded transmission line and stations	2023	125	76
East-West Tie Station Expansion[1]	Northern Ontario	New transmission connection and station expansion	2024	191	185
Chatham to Lakeshore Transmission Line[2]	Southwestern Ontario	New transmission line and station expansion	2025	268	104
St. Clair Transmission Line[3]	Southwestern Ontario	New transmission line and station expansion	2025	38	12
Islington Transmission Station	Toronto Southern Ontario	New transmission station and connection	2025	109	3
Waasigan Transmission Line[4]	Thunder Bay-Atikokan-Dryden Northwestern Ontario	New transmission line and station expansion	2027	1,200	50
Longwood to Lakeshore Transmission Line[5]	Southwestern Ontario	New transmission line and station expansion	TBD	TBD	TBD
Second Longwood to Lakeshore Transmission Line[5]	Southwestern Ontario	New transmission line and station expansion	TBD	TBD	TBD
Lakeshore to Windsor Transmission Line[5]	Southwestern Ontario	New transmission line and station expansion	TBD	TBD	TBD
Sustainment Projects:					
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2023	135	118
Cherrywood Transmission Station Circuit Breaker Replacement	Pickering Central Ontario	Station sustainment	2023	115	95
Bruce B Switching Station Circuit Breaker Replacement	Tiverton Southwestern Ontario	Station sustainment	2024	185	169
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	184	128
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2026	152	122
Esplanade x Terauley Underground Cable Replacement	Toronto Southwestern Ontario	Line sustainment	2026	117	26
Bruce A Transmission Station Switchyard Replacement	Tiverton Southwestern Ontario	Station sustainment	2027	555	24

[1] The East-West Tie Station Expansion project has been placed in-service in phases, with significant portions of the project placed in-service over the 2021-22 period, and final project in-service expected in 2024.

[2] The Chatham to Lakeshore Transmission Line project includes the line and associated facilities and is further discussed in the section "Other Developments - Supporting Critical Infrastructure in Southwestern Ontario".

[3] The estimated cost of the St. Clair Transmission Line relates to the development phase of the project and the anticipated in-service date reflects the anticipated completion date of the development phase only. Completion of the line remains subject to stakeholder consultation and regulatory approvals.

[4] The Waasigan Transmission Line Project includes both phase 1 and phase 2, inclusive of necessary stations enhancements to support energization of the new lines. The estimated cost relates to the development and construction phases of the project and the anticipated in-service date reflects the anticipated completion of Phase 2 by the end of 2027. The first phase of the project is expected to be in-serviced as close to the end of 2025 as possible. On May 4, 2022 and November 18, 2022, under Hydro One's equity partnership model, Hydro One entered into agreements with First Nations communities that provide them the opportunity to acquire a 50% equity stake in the transmission line component of the project. Completion of the project remains subject to stakeholder consultation and regulatory approvals. See section "Other Developments - Supporting Critical Infrastructure in Northwestern Ontario" for further details.

[5] The scope and timing of these Southwestern Ontario transmission reinforcements are currently under review.

Future Capital Investments

The Company estimates future capital investments 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 2023 to 2027 capital estimates differ from prior disclosures, reflecting the estimated impact of the Waasigan Transmission Line Project that was filed with the OEB on July 31, 2023 through a leave-to-construct application (see section "Other Developments - Supporting Critical Infrastructure in Northwestern Ontario" for further details).

The following tables summarize Hydro One's annual projected capital investments for 2023 to 2027 by business segment and by category:

By business segment: *(millions of dollars)*	2023	2024	2025	2026	2027
Transmission[1]	1,636	1,798	1,802	1,692	1,772
Distribution	924	1,027	1,043	1,001	989
Other	23	18	15	11	10
Total capital investments[2]	2,583	2,843	2,860	2,704	2,771

By category: *(millions of dollars)*	2023	2024	2025	2026	2027
Sustainment	1,534	1,658	1,629	1,548	1,480
Development[1]	764	962	1,025	947	1,124
Other[3]	285	223	206	209	167
Total capital investments[2]	2,583	2,843	2,860	2,704	2,771

[1] Figures include investments in certain development projects of Hydro One Networks not included in the investment plan approved by the OEB in the Joint Rate Application (JRAP) decision.

[2] On March 29, 2021, the Independent Electricity Service Operator (IESO) requested Hydro One to initiate work to develop and construct a new transmission line between Chatham and Lambton (the St. Clair Line) to support agricultural growth in Southwestern Ontario. On March 31, 2022, the Minister of Energy directed the OEB to amend Hydro One Networks' transmission licence to require it to develop and seek approvals for this and three other priority transmission lines to meet growing demand in Southwestern Ontario (see section "Other Developments"). The future capital investments presented do not include capital expenditures of the three additional lines, as Hydro One is currently evaluating the scope and timing of this work.

[3] "Other" capital expenditures include investments in fleet, real estate, IT, and operations technology and related functions.

SUMMARY OF SOURCES AND USES OF CASH

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

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Net cash from operating activities	652	621	1,002	1,064
Net cash used in financing activities	(17)	(69)	(313)	(545)
Net cash used in investing activities	(654)	(556)	(1,195)	(1,028)
Decrease in cash and cash equivalents	(19)	(4)	(506)	(509)

Net cash from operating activities

Cash from operating activities increased by $31 million for the three months ended June 30, 2023, compared to the same period in 2022. The increase was mostly driven by changes in regulatory account balances.

Cash from operating activities decreased by $62 million for the six months ended June 30, 2023, compared to the same period in 2022. The decrease was impacted by various factors, including the following:

- changes in regulatory account balances; and
- lower pre-tax income; partially offset by
- increase in net working capital deficiency primarily attributable to lower payables for energy purchased from embedded generators and lower cost of power payable to the IESO related to the Global Adjustment Rate.

Net cash used in financing activities

Cash used in financing activities decreased by $52 million and $232 million, respectively, for the three and six months ended June 30, 2023, compared to the same periods in 2022. This was impacted by various factors, including the following:

Uses of cash

- the Company repaid $1,425 million and $3,635 million of short-term notes in the three and six month periods ended June 30, 2023, respectively, compared to $1,364 million and $2,470 million repaid in the same periods last year.
- the Company repaid $131 million and $731 million of long-term debt in the three and six month periods ended June 30, 2023, respectively, compared to $1 million and $601 million in the same periods of 2022.
- common share dividends paid in the three and six month periods ended June 30, 2023 were $178 million and $345 million, respectively, compared to dividends of $168 million and $327 million paid in the same periods last year.

Sources of cash

- the Company received proceeds of $1,720 million and $3,360 million from the issuance of short-term notes in the three and six month periods ended June 30, 2023, respectively, compared to $1,470 million and $2,860 million received in the same periods last year.
- the Company issued $nil and $1,050 million of long-term debt in the three and six months ended June 30, 2023, respectively, compared to no long-term debt issued in either period of 2022.

Net cash used in investing activities

Cash used in investing activities increased by $98 million and $167 million for the three and six months ended June 30, 2023, respectively, compared to the same period in 2022 as a result of higher capital investments in the current quarter and year-to-date period. See section "Capital Investments" for comparability of capital investments made by the Company during the three and six months ended June 30, 2023 compared to the prior year.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through FFO,[3] 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 $2,300 million in short-term notes with a term to maturity of up to 365 days.

At June 30, 2023, Hydro One Inc. had $1,101 million in commercial paper borrowings outstanding, compared to $1,374 million outstanding at December 31, 2022. The Company also has revolving bank credit facilities (Operating Credit Facilities) with a total available balance of $2,550 million at June 30, 2023. In January 2022, Hydro One successfully amended its Operating Credit Facilities to incorporate environmental, social and governance targets. The facilities now include a pricing adjustment which can increase or decrease Hydro One's cost of funding based on its performance on certain Sustainability Performance Measures, which are related to Hydro One's sustainability goals. On June 1, 2023, the maturity date for the Operating Credit Facilities was extended from 2027 to 2028. No amounts were drawn on the Operating Credit Facilities at June 30, 2023 or December 31, 2022. The Company may use the Operating Credit Facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, available cash on hand and anticipated levels of FFO[3] are expected to be sufficient to fund the Company's operating requirements.

At June 30, 2023, the Company had long-term debt outstanding in the principal amount of $14,120 million, which included $425 million of long-term debt issued by Hydro One and $13,695 million of long-term debt issued by Hydro One Inc. The long-term debt issued by Hydro One was issued under its short form base shelf prospectus (Universal Base Shelf Prospectus), as further described below. The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium-Term Note (MTN) Program, as further described below. On January 12, 2023, Hydro One published a Sustainable Financing Framework, which allows the Company and its subsidiaries to issue sustainable financing instruments and allocate the net proceeds to investments in eligible green and social project categories. The Company's total long-term debt consists of notes and debentures that mature between 2024 and 2064, and at June 30, 2023, had a weighted-average term to maturity of approximately 14.2 years (December 31, 2022 - 14.0 years) and a weighted-average coupon rate of 4.0% (December 31, 2022 - 3.9%).

In June 2022, Hydro One Inc. filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, and expires in July 2024. At June 30, 2023, $2,200 million remained available for issuance under the MTN Program prospectus.

On August 15, 2022, Hydro One filed the 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 $2,000 million of debt, equity or other securities, or any combination thereof, during the 25-month period ending on September 16, 2024. At June 30, 2023, no securities have been issued under the Universal Base Shelf Prospectus.

[3] FFO is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

On November 22, 2022, Hydro One Holdings Limited (HOHL) filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US to replace a previous prospectus that would otherwise have expired in January 2023. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3,000 million of debt securities, unconditionally guaranteed by Hydro One, expiring in December 2024. At June 30, 2023, no securities have been issued under the US Debt Shelf Prospectus.

Compliance

At June 30, 2023, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

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

Summary of Contractual Obligations and Other Commercial Commitments

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

As at June 30, 2023 *(millions of dollars)*	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations *(due by year)*					
Long-term debt - principal repayments	14,120	700	1,250	1,175	10,995
Long-term debt - interest payments	8,524	565	1,078	1,029	5,852
Short-term notes payable	1,101	1,101	—	—	—
Pension contributions	522	45	162	152	163
Environmental and asset retirement obligations	101	21	22	4	54
Outsourcing and other agreements	209	95	91	10	13
Lease obligations	54	12	22	17	3
Long-term software/meter agreement	24	4	15	2	3
Total contractual obligations	24,655	2,543	2,640	2,389	17,083
Other commercial commitments *(by year of expiry)*					
Operating Credit Facilities	2,550	—	—	2,550	—
Letters of credit[1]	172	171	1	—	—
Guarantees[2]	517	517	—	—	—
Total other commercial commitments	3,239	688	1	2,550	—

[1] Letters of credit consist of $163 million letters of credit related to retirement compensation arrangements, a $4 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

[2] Guarantees consist of $475 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, as well as guarantees provided by Hydro One to the Minister of Natural Resources (Canada) and ONroute of $7 million and $30 million, respectively, relating to OCN LP (OCN Guarantee) and $5 million relating to Aux Energy Inc., the Company's indirect subsidiary. Ontario Power Generation Inc. (OPG) has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee.

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's Board of Directors (Board) and is established on the basis of Hydro One's results of OM&A 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. As at August 8, 2023, Hydro One had 599,076,654 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At August 8, 2023, the Company had no 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 at August 8, 2023 was 1,969,733.

REGULATION

Hydro One Networks

On November 29, 2022 the OEB issued a Decision and Order approving Hydro One Networks' JRAP for distribution rates and transmission revenue requirement for the period 2023-2027. The following table lists the rate base and revenue requirements arising from the approved rate application:

	Hydro One Networks - Transmission		Hydro One Networks - Distribution	
Year	Rate Base	Revenue Requirement	Rate Base	Revenue Requirement
2023	$14,534 million	$1,952 million	$9,460 million	$1,727 million
2024	$15,342 million	$2,073 million	$9,979 million	$1,813 million
2025	$16,271 million	$2,168 million	$10,573 million	$1,886 million
2026	$17,148 million	$2,277 million	$11,153 million	$1,985 million
2027	$17,940 million	$2,362 million	$11,656 million	$2,071 million

Following the OEB approval of the JRAP Settlement and the completion of the recovery of deferred tax asset (DTA) amounts previously shared with ratepayers in 2023, Hydro One's effective tax rate over the next five years is expected to be between 13% and 16%.

Deferred Tax Asset

On April 8, 2021, the OEB rendered its decision regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). In its DTA Implementation Decision, the OEB approved recovery of the DTA amounts allocated to ratepayers and included in customer rates for the 2017 to 2021 period, plus carrying charges, over a two-year recovery period from July 1, 2021 to June 30, 2023.

The recovery of the previously shared DTA amounts plus carrying charges resulted in a $67 million increase in FFO[4] for the six months ended June 30, 2023 (2022 - $68 million). In addition, the DTA Implementation Decision required that Hydro One adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further tax savings flowing to customers. This is expected to result in additional FFO[4] of approximately $46 million for 2023, but is anticipated to decline annually thereafter.

Hydro One Remotes

On August 31, 2022, Hydro One Remotes filed its distribution rate application for 2023-2027. On March 2, 2023, the OEB approved Hydro One Remote Communities' 2023 revenue requirement of $128 million with a price cap escalator index for 2023-2027, and a 3.72% rate increase effective May 1, 2023.

OTHER DEVELOPMENTS

Collective Agreements

On June 23, 2023 Hydro One Inc. reached a tentative renewal agreement for the collective agreement with the Power Workers' Union (PWU) for Customer Service Operations which had expired on September 30, 2022. On the same date, Hydro One also reached a tentative renewal agreement with the PWU for the main collective agreement that had expired on March 31, 2023. Both agreements are subject to ratification by the PWU membership and results of the ratification votes are expected by the end of August. If ratified, both agreements are expected to expire on September 30, 2025.

The collective agreement with the Society of United Professionals expired on March 31, 2023. Negotiations to renew this agreement commenced on January 16, 2023 and are ongoing.

Supporting Critical Transmission Infrastructure in Southwestern Ontario

On May 9, 2022, Hydro One Networks filed a leave-to-construct application seeking OEB approval for the Chatham to Lakeshore Transmission Line project in Southwestern Ontario. On November 24, 2022, the OEB issued its Decision and Order granting leave to construct as requested in the application, with standard conditions of approval. On December 28, 2022, the Haudenosaunee Development Institute (HDI) filed an appeal to the Divisional Court, under s.22 of the *Ontario Energy Board Act, 1998* (OEBA), of this decision. The appeal, among other items, asked to set aside the OEB's decision granting Hydro One approval to construct the Chatham to Lakeshore Transmission Line project and to deny the application. The HDI filed their appeal materials on March 1, 2023. The OEB and Hydro One filed their responding materials on May 1, 2023.

[4] FFO is a non-GAAP financial measure. See section "Non-GAAP Financial Measures".

On June 8, 2023, all parties mutually agreed to a dismissal of the appeal without costs, and the appeal was dismissed by the Divisional Court on June 12, 2023. On June 15, 2023, Hydro One commenced construction of the Chatham to Lakeshore Transmission Line project, which is expected to be in-service by the end of 2025.

Supporting Critical Transmission Infrastructure in Northwestern Ontario

In 2013, the Province issued an Order in Council with a directive from the Minister of Energy to the OEB, requiring Hydro One Networks to develop and seek approvals for the Northwest Bulk Transmission Line (now the Waasigan Transmission Line). In response to the 2013 directive, the OEB amended Hydro One Networks' transmission license in 2014 to develop and seek approval for the project. Hydro One is currently undertaking an environmental assessment which includes both phases of the project (see section "Major Transmission Capital Investment Projects"). Hydro One has agreements with nine First Nation communities providing them the opportunity to acquire 50% ownership in the transmission line component of the project.

On April 25, 2023, the Company received a letter from the IESO confirming the need for reliable electricity in Northwestern Ontario. In this letter, the IESO recommends that Phase 2 of the Waasigan Transmission Line project, a single-circuit 230 kilovolt transmission line between Mackenzie Transformer Station in the Town of Atikokan and Dryden Transformer Station in the City of Dryden, should be in-serviced as soon as practically possible following Phase 1 of the project. This follows an IESO letter received in May 2022 in which it recommended construction of Phase 1 to proceed with an in-service date as close to the end of 2025 as possible.

On July 31, 2023, Hydro One Networks filed a leave-to-construct application seeking OEB approval for the Waasigan Transmission Line project. See section "Major Transmission Capital Investment Projects".

Supporting Critical Transmission Infrastructure in Northeastern and Eastern Ontario

On July 10, 2023, the Ministry of Energy (Ministry) announced a proposal to take certain actions to facilitate the timely development of three transmission projects across the Northeast and Eastern Ontario. The Ministry is proposing to bring forward an Order in Council that would, if approved, declare the following three transmission projects, recommended to be in-service by 2029, to be priority projects under s. 96.1 (1) of the OEBA:

- The Mississagi to Third Line Line – a 230-kilovolt transmission line that is expected to run approximately 75 kilometers from Mississagi Transformer Station (west of Sudbury) to Third Line Transformer Station (Sault Ste Marie);
- The Hanmer to Mississagi Line – a 500-kilovolt transmission line that is expected to run approximately 205 kilometers from Hanmer Transformer Station (Greater Sudbury) to Mississagi Transformer Station (west of Sudbury); and
- The Greater Toronto Area East Line – a 230-kilovolt transmission line that is expected to run approximately 50 kilometers from either Cherrywood Transformer Station (Pickering) or Clarington Transformer Station (Oshawa) into Dobbin Transformer Station (Peterborough).

The Ministry is also proposing to bring forward an Order in Council (to be recommended by the Minister of Energy) and companion Directive, to be made pursuant to s. 28.6.1 of the OEBA, that would, if approved, direct the OEB to amend Hydro One Networks' transmitter licence to require it to undertake development work and seek all necessary approvals to construct the transmission projects listed above. The 60-day consultation closes on September 8, 2023.

Sustainability Report

The Hydro One 2022 Sustainability Report entitled "Enabling Ontario's Clean Energy Future" is available on the Company's website at www.hydroone.com/sustainability.

The 2022 Sustainability Report discloses the Company's environmental, social and governance performance and provides a better understanding of how Hydro One manages the opportunities and challenges associated with its business. The report also includes disclosure relating to the Company's current efforts in its priority areas of People, Planet and Community.

HYDRO ONE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

On June 2, 2023, Mitch Panciuk, Helga Reidel and Brian Vaasjo were appointed by the Board of Hydro One. Their appointments replaced William (Bill) Sheffield, Blair Cowper-Smith and Russel Robertson who did not stand for re-election.

Executive Officers

On January 10, 2023, the Board of Hydro One announced the appointment of David Lebeter as President and Chief Executive Officer effective February 1, 2023. On February 1, 2023, Bill Sheffield stepped down from his role as Interim President and Chief Executive Officer, however, continued in his role as a director of Hydro One until the Annual General Meeting on June 2, 2023 where he did not stand for re-election.

On April 13, 2023, Hydro One announced the appointment of Teri French as Executive Vice President (EVP), Operations and Customer Experience and Andrew Spencer as EVP, Capital Portfolio Delivery. On the same day, the Company announced expanded mandates for Megan Telford as EVP, Strategy, Energy Transition, Human Resources and Safety and Chris Lopez as EVP, Chief Financial and Regulatory Officer.

On April 13, 2023, Paul Harricks announced his intention to retire and stepped down from his role as EVP, Chief Legal Officer. On the same day, Cassidy McFarlane was named General Counsel of Hydro One. Paul Harricks is remaining with Hydro One as a Senior Advisor to the Chief Executive Officer until the end of the year.

Effective June 30, 2023, Brad Bowness resigned as Chief Information Officer of Hydro One.

NON-GAAP FINANCIAL MEASURES

Hydro One uses a number of financial measures to assess its performance. The Company presents FFO or "funds from operations" to reflect a measure of the Company's cash flow; and revenues, net of purchased power to reflect revenues net of the cost of purchased power. FFO and revenues, net of purchased power are non-GAAP financial measures which do not have a standardized meaning prescribed by GAAP and might not be comparable to similar measures presented by other entities. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under GAAP.

Hydro One also uses financial ratios that are non-GAAP ratios such as debt to capitalization ratio and earnings coverage ratio. Non-GAAP ratios do not have a standardized meaning prescribed by GAAP and might not be comparable to similar measures presented by other entities. They should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under US GAAP.

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, management believes that FFO provides a consistent measure of the cash generating performance of the Company's assets.

The following table provides a reconciliation of GAAP (reported) results to non-GAAP (adjusted) results on a consolidated basis.

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Net cash from operating activities	652	621	1,002	1,064
Changes in non-cash balances related to operations	(92)	(96)	58	94
Distributions to noncontrolling interest	(2)	(2)	(6)	(6)
FFO	558	523	1,054	1,152

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less the cost of purchased power; distribution revenues, net of purchased power is defined as distribution revenues less the cost of purchased power. These measures are used internally by management to assess the impacts of revenue on net income and are considered useful because they exclude the cost of power that is fully recovered through revenues and therefore net income neutral.

The following tables provide a reconciliation of GAAP (reported) revenues to non-GAAP (adjusted) revenues, net of purchased power on a consolidated basis.

Quarter ended *(millions of dollars)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Revenues	1,857	2,074	1,862	2,031	1,840	2,047	1,779	1,913
Less: Purchased power	798	1,010	895	963	852	1,014	914	933
Revenues, net of purchased power	1,059	1,064	967	1,068	988	1,033	865	980

Quarter ended *(millions of dollars)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Distribution revenues	1,285	1,509	1,371	1,458	1,314	1,517	1,347	1,395
Less: Purchased power	798	1,010	895	963	852	1,014	914	933
Distribution revenues, net of purchased power	487	499	476	495	462	503	433	462

Debt to Capitalization Ratio

The Company believes that the debt to capitalization ratio is an important non-GAAP ratio in the management of its debt levels. This non-GAAP ratio does not have a standardized meaning under US GAAP and may not be comparable to similar measures presented by other entities. Debt to capitalization ratio has been calculated as total debt (including total long-term debt and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, but excluding any amounts related to noncontrolling interest. Management believes that the debt to capitalization ratio is helpful as a measure of the proportion of debt in the Company's capital structure.

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Short-term notes payable	1,101	1,374
Less: cash and cash equivalents	(24)	(530)
Long-term debt (current portion)	700	733
Long-term debt (long-term portion)	13,377	13,030
Total debt (A)	**15,154**	**14,607**
Shareholders' equity (excluding noncontrolling interest)	11,497	11,306
Total debt plus shareholders' equity (B)	**26,651**	**25,913**
Debt-to-capitalization ratio (A/B)	**56.9 %**	**56.4 %**

Earnings Coverage Ratio

Earnings coverage ratio is defined as earnings before income taxes and financing charges attributable to shareholders, divided by the sum of financing charges and capitalized interest, and is calculated on a rolling twelve-month basis. The Company believes that the earnings coverage ratio is an important non-GAAP measure in the management of its liquidity. This non-GAAP ratio does not have a standardized meaning under US GAAP and may not be comparable to similar measures presented by other entities.

Quarter ended *(millions of dollars)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Net income to common shareholders	265	282	178	307	255	310	159	300
Income tax expense	65	64	41	100	68	79	55	71
Financing charges	144	136	128	122	119	117	123	118
Earnings before income taxes and financing charges attributable to common shareholders	209	482	347	529	442	506	337	489

Twelve months ended *(millions of dollars)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Earnings before income taxes and financing charges attributable to common shareholders (A)	**1,832**	**1,800**	**1,824**	**1,814**	**1,774**	**1,700**	**1,604**	**1,574**

Quarter ended *(millions of dollars)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Financing charges	144	136	128	122	119	117	123	118
Capitalized interest	18	15	16	16	16	15	16	15
Financing charges and capitalized interest	162	151	144	138	135	132	139	133

Twelve months ended *(millions of dollars)*	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Financing charges and capitalized interest (B)	**595**	**568**	**549**	**544**	**539**	**524**	**521**	**514**
Earnings coverage ratio = A/B	**3.1**	**3.2**	**3.3**	**3.3**	**3.3**	**3.2**	**3.1**	**3.1**

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.1% ownership at June 30, 2023. The IESO, OPG, Ontario Electricity Financial Corporation (OEFC), and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry. 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, 2023 and 2022:

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	**Transaction**	**2023**	**2022**	**2023**	**2022**
Province	Dividends paid	84	79	163	154
IESO	Power purchased	358	408	1,145	1,186
	Revenues for transmission services	554	512	1,105	1,028
	Amounts related to electricity rebates	199	243	429	544
	Distribution revenues related to rural rate protection	63	60	124	121
	Distribution revenues related to supply of electricity to remote northern communities	12	9	23	18
	Distribution revenues related to Wataynikaneyap Power LP	13	—	27	—
	Funding received related to CDM programs	—	—	1	—
OPG[1]	Power purchased	3	5	7	11
	Revenues related to provision of services and supply of electricity	2	2	4	4
	Capital contribution received from OPG	—	—	3	2
	Costs related to the purchase of services	1	1	1	1
OEFC	Power purchased from power contracts administered by the OEFC	1	—	1	1
OEB	OEB fees	3	3	6	5
OCN LP[2]	Investment in OCN LP	—	1	—	1

[1] OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee. See section "Other Obligations - Summary of Contractual Obligations and Other Commercial Commitments" for details related to the OCN Guarantee.

[2] OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

RISK MANAGEMENT AND RISK FACTORS

Hydro One is subject to numerous risks and uncertainties. Critical to Hydro One's success is the identification, management, and to the extent possible, mitigation of these risks. Hydro One's Enterprise Risk Management program assists decision-makers throughout the organization with the management of key business risks, including new and emerging risks and opportunities.

A discussion of the material risks relating to Hydro One and its business that the Company believes would be the most likely to influence an investor's decision to purchase Hydro One's securities can be found under the heading "Risk Management and Risk Factors" in the 2022 MD&A.

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, 2023 that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

The following tables present 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
ASU 2021-08	October 2021	The amendments address how to determine whether a contractual obligation represents a liability to be recognized by the acquirer in a business combination.	January 1, 2023	No impact upon adoption
ASU 2022-02	March 2022	The amendments eliminate the troubled debt restructuring (TDR) accounting model for entities that have adopted Topic 326 Financial Instrument – Credit Losses and modifies the guidance on vintage disclosure requirements to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023	No impact upon adoption

HYDRO ONE HOLDINGS LIMITED - CONSOLIDATING SUMMARY FINANCIAL INFORMATION

Hydro One Limited fully and unconditionally guarantees the payment obligations of its wholly-owned subsidiary, HOHL, issuable under the short form base shelf prospectus dated November 22, 2022. 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 at June 30, 2023 and December 31, 2022 and for the three and six months ended June 30, 2023 and June 30, 2022 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 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)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	$ 178	$ 168	$ —	$ —	$ 2,084	$ 2,035	$ (405)	$ (363)	$ 1,857	$ 1,840
Net Income (Loss) Attributable to Common Shareholders	$ 176	$ 167	$ —	$ —	$ 441	$ 434	$ (352)	$ (346)	$ 265	$ 255

Six months ended June 30 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	$ 345	$ 327	$ —	$ —	$ 4,364	$ 4,273	$ (778)	$ (713)	$ 3,931	$ 3,887
Net Income (Loss) Attributable to Common Shareholders	$ 343	$ 326	$ —	$ —	$ 907	$ 920	$ (703)	$ (681)	$ 547	$ 565

As at June 30, 2023 and December 31, 2022 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022	Jun. 2023	Dec. 2022
Current Assets	$ 113	$ 117	$ —	$ —	$ 2,746	$ 3,067	$ (1,588)	$ (1,324)	$ 1,271	$ 1,860
Non-Current Assets	$ 3,478	$ 3,469	$ —	$ —	$ 47,337	$ 45,973	$ (20,212)	$ (19,845)	$ 30,603	$ 29,597
Current Liabilities	$ 514	$ 509	$ —	$ —	$ 4,312	$ 4,455	$ (1,593)	$ (1,312)	$ 3,233	$ 3,652
Non-Current Liabilities	$ 425	$ 425	$ —	$ —	$ 29,796	$ 28,801	$ (13,161)	$ (12,813)	$ 17,060	$ 16,413

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, the industry, regulatory and economic environments in which it operates, and includes 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 the JRAP and its proposed investment plan, resulting and related decisions including the DTA Implementation Decision, as well as resulting rates, recovery and expected impacts and timing; expected timing of the Company's update to its transmission and distribution rate base and revenue requirements; expectations about the Company's liquidity and capital resources and operational requirements; sustainability goals; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; the Company's ongoing and planned projects, initiatives and expected capital investments, including expected results, costs and in-service and completion dates; contractual obligations and other commercial commitments; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans; collective bargaining and expectations regarding the ratification of collective agreements with the PWU and the ability to negotiate renewal collective agreements; expectations regarding the Ministry of Energy's consultation; expectations regarding the Waasigan Transmission Line project; future pension contributions; dividends; non-GAAP financial measures; internal controls over financial reporting and disclosure; the MTN Program; the Universal Base Shelf Prospectus; and the US Debt Shelf Prospectus. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "would", "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: the scope of the COVID-19 pandemic and duration thereof as well as the effect and severity of corporate and other mitigation measures on the Company's operations, supply chain or employees; 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 required regulatory approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's distribution and transmission businesses; no unfavourable changes in environmental regulation; continued use of US GAAP; a stable regulatory environment; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; no changes to expectations regarding electricity consumption; no unforeseen changes to economic and market conditions; recoverability of costs and expenses related to the COVID-19 pandemic, including the costs of customer defaults resulting from the pandemic; completion of operating and capital projects that have been deferred; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to the Company, including information obtained from third-party sources. Actual results may differ materially from those predicted by such forward-looking statements. While Hydro One does not know what impact any of these differences may have, the Company's business, results of operations, financial condition and credit stability may be materially adversely affected if any such differences occur. 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:

- regulatory risks and risks relating to Hydro One's revenues, including risks relating to actual performance against forecasts, competition with other transmitters and other applications to the OEB, the rate-setting models for transmission and distribution, the recoverability of capital expenditures, obtaining rate orders or recoverability of total compensation costs;
- 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, risks associated with the Province's exercise of further legislative and regulatory powers, risks relating to the ability of the Company to attract and retain qualified executive talent or the risk of a credit rating downgrade for the Company and its impact on the Company's funding and liquidity;
- risks relating to the location of the Company's assets on Reserve lands, that the company's operations and activities may give rise to the Crown's duty to consult and potentially accommodate Indigenous communities, and the risk that Hydro One may incur significant costs associated with transferring assets located on Reserves;
- 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, man-made events or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- the risk of non-compliance with environmental regulations and inability to recover environmental expenditures in rate applications and the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;

- risks associated with information system security and maintaining complex information technology and operational technology system infrastructure, including system failures or risks of cyber-attacks or unauthorized access to corporate information technology and operational technology systems;
- 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 or the risk of increased competition for the development of large transmission projects or legislative changes affecting the selection of transmitters;
- risks relating to an outbreak of infectious disease, including the COVID-19 pandemic (including a significant expansion in length or severity of the COVID-19 pandemic, including the spread of its variants, restricting or prohibiting the Company's operations or significantly impacting the Company's supply chain or workforce; severity of mitigation measures relating to the COVID-19 pandemic and delays in completion of and increases in costs of operating and capital projects; and the regulatory and accounting treatment of incremental costs and lost revenues of the Company related to the COVID-19 pandemic);
- the risk of labour disputes and inability to negotiate or renew appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- the risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures or the risk of a downgrade in the Company's credit ratings;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit and financial instrument risk;
- risks associated with economic uncertainty and financial market volatility;
- risks associated with asset condition, capital projects and innovation, including public opposition to or delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk of failure to mitigate significant health and safety risks;
- 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 impact of the ownership by the Province of lands underlying the Company's transmission system;
- the risk associated with legal proceedings that could be costly, time-consuming or divert the attention of management and key personnel from the Company's business operations;
- the impact if the Company does not have valid occupational rights on third-party owned or controlled lands and the risks associated with occupational rights of the Company that may be subject to expiry;
- risks relating to adverse reputational events or political actions;
- 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;
- risks relating to acquisitions, including the failure to realize the anticipated benefits of such transactions at all, or within the time periods anticipated, and unexpected costs incurred in relation thereto;
- the inability to continue to prepare financial statements using U.S. GAAP; and
- the risk related to the impact of any 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 entitled "Risk Management and Risk Factors" in this 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.sedarplus.com, the US Securities and Exchange Commission's EDGAR website at www.sec.gov/edgar.shtml, and the Company's website at www.HydroOne.com/Investors.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)

For the three and six months ended June 30, 2023 and 2022

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars, except per share amounts)	2023	2022	2023	2022
Revenues				
Distribution (includes related party revenues of $90 and $177 (2022 - $70 and $142) for the three and six months ended June 30, respectively) *(Note 23)*	1,285	1,314	2,794	2,831
Transmission (includes related party revenues of $554 and $1,106 (2022 - $513 and $1,029) for the three and six months ended June 30, respectively) *(Note 23)*	559	516	1,114	1,035
Other	13	10	23	21
	1,857	1,840	3,931	3,887
Costs				
Purchased power (includes related party costs of $362 and $1,153 (2022 - $413 and $1,198) for the three and six months ended June 30, respectively) *(Note 23)*	798	852	1,808	1,866
Operation, maintenance and administration *(Note 23)*	336	286	664	574
Depreciation, amortization and asset removal costs *(Note 4)*	247	258	499	495
	1,381	1,396	2,971	2,935
Income before financing charges and income tax expense	**476**	**444**	**960**	**952**
Financing charges *(Note 5)*	144	119	280	236
Income before income tax expense	**332**	**325**	**680**	**716**
Income tax expense *(Note 6)*	65	68	129	147
Net income	**267**	**257**	**551**	**569**
Other comprehensive (loss) income *(Note 7)*	(8)	5	(12)	12
Comprehensive income	**259**	**262**	**539**	**581**
Net income attributable to:				
Noncontrolling interest	2	2	4	4
Common shareholders	265	255	547	565
	267	**257**	**551**	**569**
Comprehensive income attributable to:				
Noncontrolling interest	2	2	4	4
Common shareholders	257	260	535	577
	259	**262**	**539**	**581**
Earnings per common share *(Note 21)*				
Basic	$0.44	$0.43	$0.91	$0.94
Diluted	$0.44	$0.42	$0.91	$0.94
Dividends per common share declared *(Note 20)*	$0.30	$0.28	$0.58	$0.55

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At June 30, 2023 and December 31, 2022

As at *(millions of Canadian dollars)*	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	24	530
Accounts receivable *(Note 8)*	750	767
Due from related parties *(Note 23)*	296	282
Other current assets *(Note 9)*	201	281
	1,271	1,860
Property, plant and equipment *(Note 10)*	25,849	25,077
Other long-term assets:		
Regulatory assets *(Note 12)*	3,089	2,964
Deferred income tax assets	116	114
Intangible assets *(Note 11)*	624	608
Goodwill	373	373
Other assets *(Note 13)*	552	461
	4,754	4,520
Total assets	**31,874**	**31,457**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 16)*	1,101	1,374
Long-term debt payable within one year *(Notes 16, 17)*	700	733
Accounts payable and other current liabilities *(Note 14)*	1,336	1,274
Due to related parties *(Note 23)*	96	271
	3,233	3,652
Long-term liabilities:		
Long-term debt *(Notes 16, 17)*	13,377	13,030
Regulatory liabilities *(Note 12)*	1,226	1,123
Deferred income tax liabilities	891	715
Other long-term liabilities *(Note 15)*	1,566	1,545
	17,060	16,413
Total liabilities	**20,293**	**20,065**
Contingencies and Commitments (Notes 25, 26)		
Subsequent Events (Note 28)		
Noncontrolling interest subject to redemption	17	20
Equity		
Common shares *(Note 19)*	5,706	5,699
Additional paid-in capital	28	34
Retained earnings	5,764	5,562
Accumulated other comprehensive (loss) income	(1)	11
Hydro One shareholders' equity	11,497	11,306
Noncontrolling interest	67	66
Total equity	**11,564**	**11,372**
	31,874	**31,457**

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, 2023 and 2022

Six months ended June 30, 2023 *(millions of Canadian dollars)*	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2023	5,699	34	5,562	11	11,306	66	11,372
Net income	—	—	547	—	547	3	550
Other comprehensive loss *(Note 7)*	—	—	—	(12)	(12)	—	(12)
Distributions to noncontrolling interest	—	—	—	—	—	(2)	(2)
Dividends on common shares *(Note 20)*	—	—	(345)	—	(345)	—	(345)
Common shares issued	7	(7)	—	—	—	—	—
Stock-based compensation	—	1	—	—	1	—	1
June 30, 2023	**5,706**	**28**	**5,764**	**(1)**	**11,497**	**67**	**11,564**

Six months ended June 30, 2022 *(millions of Canadian dollars)*	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2022	5,688	38	5,174	(12)	10,888	68	10,956
Net income	—	—	565	—	565	3	568
Other comprehensive income *(Note 7)*	—	—	—	12	12	—	12
Distributions to noncontrolling interest	—	—	—	—	—	(5)	(5)
Dividends on common shares *(Note 20)*	—	—	(327)	—	(327)	—	(327)
Common shares issued	11	(8)	—	—	3	—	3
Stock-based compensation	—	3	—	—	3	—	3
June 30, 2022	**5,699**	**33**	**5,412**	**—**	**11,144**	**66**	**11,210**

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, 2023 and 2022

	Three months ended June 30		Six months ended June 30	
(millions of Canadian dollars)	2023	2022	2023	2022
Operating activities				
Net income	267	257	551	569
Environmental expenditures	(10)	(11)	(24)	(19)
Adjustments for non-cash items:				
Depreciation and amortization *(Note 4)*	215	214	436	425
Regulatory assets and liabilities	22	(8)	(25)	21
Deferred income tax expense	52	62	106	135
Other	14	11	16	27
Changes in non-cash balances related to operations *(Note 24)*	92	96	(58)	(94)
Net cash from operating activities	**652**	**621**	**1,002**	**1,064**
Financing activities				
Long-term debt issued	—	—	1,050	—
Long-term debt repaid	(131)	(1)	(731)	(601)
Short-term notes issued	1,720	1,470	3,360	2,860
Short-term notes repaid	(1,425)	(1,364)	(3,635)	(2,470)
Dividends paid *(Note 20)*	(178)	(168)	(345)	(327)
Distributions paid to noncontrolling interest	(2)	(2)	(6)	(6)
Common shares issued	—	—	—	3
Costs to obtain financing	(1)	(4)	(6)	(4)
Net cash used in financing activities	**(17)**	**(69)**	**(313)**	**(545)**
Investing activities				
Capital expenditures *(Note 24)*				
Property, plant and equipment	(578)	(536)	(1,062)	(974)
Intangible assets	(35)	(27)	(59)	(53)
Change in future use assets	(41)	—	(74)	(5)
Capital contributions received	—	10	2	10
Other	—	(3)	(2)	(6)
Net cash used in investing activities	**(654)**	**(556)**	**(1,195)**	**(1,028)**
Net change in cash and cash equivalents	(19)	(4)	(506)	(509)
Cash and cash equivalents, beginning of period	43	35	530	540
Cash and cash equivalents, end of period	**24**	**31**	**24**	**31**

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). At June 30, 2023, the Province held approximately 47.1% (December 31, 2022 - 47.2%) 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.

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, which include 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), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP).

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 Remotes).

Rate Setting

<u>Hydro One Networks</u>

On August 15, 2021, Hydro One Networks filed a custom Joint Rate Application (JRAP) for distribution rates and transmission revenue requirement for the period from 2023-2027. On November 29, 2022, the Ontario Energy Board (OEB) issued a Decision and Order approving the application and issued its final rate order for 2023-2027 transmission and distribution rates. As part of this decision, the OEB approved revenue requirement of $1,952 million for 2023, $2,073 million for 2024, $2,168 million for 2025, $2,277 million for 2026 and $2,362 million for 2027 for the Transmission Business. The OEB also approved revenue requirement of $1,727 million for 2023, $1,813 million for 2024, $1,886 million for 2025, $1,985 million for 2026 and $2,071 million for 2027 for the Distribution Business.

<u>Deferred Tax Asset (DTA)</u>

On March 7, 2019, the Ontario Energy Board (OEB) issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the DTA resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On July 16, 2020, the Ontario Divisional Court rendered its decision on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order (DTA Implementation Decision) regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. See Note 12 - Regulatory Assets and Liabilities for additional details.

<u>Hydro One Remotes</u>

On August 31, 2022, Hydro One Remotes filed its distribution rate application for 2023-2027. On March 2, 2023, the OEB approved Hydro One Remote Communities' 2023 revenue requirement of $128 million with a price cap escalator index for 2023-2027, and a 3.72% rate increase effective May 1, 2023.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation

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 (US) Generally Accepted Accounting Principles (GAAP) for interim financial statements and in Canadian dollars.

The accounting policies applied are consistent with those outlined in Hydro One's annual audited consolidated financial statements for the year ended December 31, 2022, with the exception of the adoption of new accounting standards as described in Note 3. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2022.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standard 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
ASU 2021-08	October 2021	The amendments address how to determine whether a contractual obligation represents a liability to be recognized by the acquirer in a business combination.	January 1, 2023	No impact upon adoption
ASU 2022-02	March 2022	The amendments eliminate the troubled debt restructuring (TDR) accounting model for entities that have adopted Topic 326 Financial Instrument – Credit Losses and modifies the guidance on vintage disclosure requirements to require disclosure of current-period gross write-offs by year of origination.	January 1, 2023	No impact upon adoption

4. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Depreciation of property, plant and equipment	186	184	374	367
Amortization of intangible assets	19	19	38	39
Amortization of regulatory assets	10	11	24	19
Depreciation and amortization	215	214	436	425
Asset removal costs	32	44	63	70
	247	258	499	495

5. FINANCING CHARGES

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Interest on long-term debt	144	125	282	248
Interest on short-term notes	10	4	22	5
Interest on regulatory accounts	5	1	9	2
Realized (gain) loss on cash flow hedges (interest-rate swap agreements) *(Notes 7, 17)*	—	1	(2)	4
Other	5	4	9	8
Less: Interest capitalized on construction and development in progress	(18)	(16)	(33)	(31)
Interest earned on cash and cash equivalents	(2)	(1)	(7)	(1)
DTA carrying charges	—	1	—	1
	144	119	280	236

6. INCOME TAXES

As a rate regulated utility company, the Company recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated business. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable from, or refundable to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax recovery or expense, respectively. The Company's consolidated tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recovered from, or refunded to, customers in future rates. Thus, the Company's income tax expense or recovery 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:

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Income before income tax expense	332	325	680	716
Income tax expense at statutory rate of 26.5% (2022 - 26.5%)	88	86	180	190
Increase (decrease) resulting from:				
Net temporary differences recoverable in future rates charged to customers:				
Capital cost allowance in excess of depreciation and amortization	(28)	(24)	(60)	(52)
Impact of DTA Implementation Decision[1]	24	24	48	48
Overheads capitalized for accounting but deducted for tax purposes	(8)	(6)	(18)	(13)
Pension and post-retirement benefit contributions in excess of pension expense	(5)	(4)	(10)	(10)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)	(9)	(9)
Environmental expenditures	(3)	(4)	(4)	(7)
Other	—	—	1	(1)
Net temporary differences attributable to regulated business	(24)	(18)	(52)	(44)
Net permanent differences	1	—	1	1
Total income tax expense	65	68	129	147
Effective income tax rate	19.6%	20.9%	19.0%	20.5%

[1] Pursuant to the DTA Implementation Decision, the amounts represent the recovery of DTA amounts that were previously shared with ratepayers. See Note 12 - Regulatory Assets and Liabilities.

7. OTHER COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Gain (loss) on cash flow hedges (interest-rate swap agreements) *(Notes 5, 17)*[1]	—	4	(4)	10
Gain (loss) on transfer of other post-employment benefits (OPEB) *(Note 18)*	(8)	1	(8)	2
	(8)	5	(12)	12

[1] No realized gain for the three months ended June 30, 2023 (2022 - after-tax $1 million loss and before-tax $1 million loss) and $2 million after-tax realized gain (2022 - $2 million loss) and $2 million before-tax realized gain (2022 - $4 million loss) on cash flow hedges reclassified to financing charges for six months ended June 30, 2023.

8. ACCOUNTS RECEIVABLE

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Accounts receivable - billed	388	357
Accounts receivable - unbilled	426	473
Accounts receivable, gross	814	830
Allowance for doubtful accounts	(64)	(63)
Accounts receivable, net	750	767

The following table shows the movements in the allowance for doubtful accounts for the six months ended June 30, 2023 and the year ended December 31, 2022:

(millions of dollars)	June 30, 2023	December 31, 2022
Allowance for doubtful accounts – beginning	(63)	(56)
Write-offs	10	25
Additions to allowance for doubtful accounts	(11)	(32)
Allowance for doubtful accounts – ending	(64)	(63)

9. OTHER CURRENT ASSETS

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Regulatory assets *(Note 12)*	76	189
Materials and supplies	42	25
Prepaid expenses and other assets	83	62
Derivative assets *(Note 17)*	—	5
	201	281

10. PROPERTY, PLANT AND EQUIPMENT

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Property, plant and equipment	37,857	37,218
Less: accumulated depreciation	(13,691)	(13,371)
	24,166	23,847
Construction in progress	1,683	1,230
	25,849	25,077

11. INTANGIBLE ASSETS

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Intangible assets	1,194	1,184
Less: accumulated depreciation	(781)	(743)
	413	441
Development in progress	211	167
	624	608

12. 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:

As at *(millions of dollars)*	**June 30, 2023**	**December 31, 2022**
Regulatory assets:		
Deferred income tax regulatory asset	2,866	2,724
Post-retirement and post-employment benefits - non-service cost	117	141
Environmental	70	93
Rural and Remote Rate Protection variance	30	25
Stock-based compensation	28	34
Conservation and Demand Management variance	12	25
Deferred tax asset sharing	5	73
Other	37	38
Total regulatory assets	3,165	3,153
Less: current portion	(76)	(189)
	3,089	2,964
Regulatory liabilities:		
Post-retirement and post-employment benefits	506	506
Pension benefit regulatory liability	451	358
Distribution rate riders	126	2
Earnings sharing mechanism deferral (ESM)	61	75
Tax rule changes variance	42	100
External revenue variance	40	50
Asset removal costs cumulative variance	32	41
Capitalized overhead tax variance	17	16
Deferred income tax regulatory liability	4	4
Pension cost differential	2	26
Green energy expenditure variance	—	5
Retail settlement variance account (RSVA)	10	53
Other	28	26
Total regulatory liabilities	1,319	1,262
Less: current portion	(93)	(139)
	1,226	1,123

Deferred Tax Asset Sharing

At June 30, 2023, Hydro One has a regulatory asset of $5 million (December 31, 2022 - $73 million) representing the interest accrued within the Transmission Business on the cumulative DTA amounts shared with ratepayers over the 2017 to 2021 period, net of the amount recovered from ratepayers since July 1, 2021 pursuant to the DTA Implementation Decision. At December 31, 2022, the regulatory asset of $73 million consists of $24 million and $49 million for Hydro One Networks' distribution and transmission segments, respectively. The principal balance of this regulatory account was fully recovered as at June 30, 2023. The Company will seek recovery of the remaining interest balance in the next rate application.

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

This balance includes the rider established for the disposition of the approved balances from Hydro One Networks' JRAP for 2023-2027 rates.

Distribution Rate Riders

As part of the decision received in November 2022 for Hydro One Networks' JRAP, the OEB approved the disposition of certain deferral and variance account balances as at December 31, 2020, including accrued interest. These approved balances, including those for RSVA, tax rule changes variance, pension cost differential, and ESM were accumulated in distribution rate riders which makes up the majority of this balance. The amounts are being disposed of over a period of 36 months ending December 31, 2025.

13. OTHER LONG-TERM ASSETS

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Deferred pension assets *(Note 18)*	451	358
Right-of-Use assets	50	56
Investments	37	35
Other long-term assets	14	12
	552	461

14. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Accrued liabilities	798	683
Accounts payable	281	295
Accrued interest	139	120
Regulatory liabilities *(Note 12)*	93	139
Environmental liabilities	14	25
Lease obligations	11	12
	1,336	1,274

15. OTHER LONG-TERM LIABILITIES

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Post-retirement and post-employment benefit liability *(Note 18)*	1,410	1,376
Environmental liabilities	56	68
Lease obligations	39	43
Asset retirement obligations	30	28
Other long-term liabilities	31	30
	1,566	1,545

16. 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 $2,300 million. 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 revolving standby credit facilities totalling $2,300 million.

At June 30, 2023, Hydro One's consolidated committed, unsecured, and revolving 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 $2,300 million. In January 2022, Hydro One successfully amended its Operating Credit Facilities to incorporate environmental, social and governance targets. On June 1, 2023, the maturity date for the Operating Credit Facilities was extended from 2027 to 2028. At June 30, 2023, no amounts have been drawn on the Operating Credit Facilities.

The Company may use the Operating Credit Facilities for working capital and general corporate purposes. If used, interest on the Operating 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, 2023, no debt securities have been issued by HOHL.

Long-Term Debt

The following table presents long-term debt outstanding at June 30, 2023 and December 31, 2022:

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Hydro One Inc. long-term debt (a)	13,695	13,245
Hydro One long-term debt (b)	425	425
HOSSM long-term debt (c)	—	133
	14,120	13,803
Add: Net unamortized debt premiums	8	8
Less: Unamortized deferred debt issuance costs	(51)	(48)
Total long-term debt	14,077	13,763
Less: Long-term debt payable within one year	(700)	(733)
	13,377	13,030

(a) Hydro One Inc. long-term debt

At June 30, 2023, long-term debt of $13,695 million (December 31, 2022 - $13,245 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. In June 2022, Hydro One Inc. filed a short form base shelf prospectus in connection with its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, and expires in July 2024. At June 30, 2023, $2,200 million remained available for issuance under the MTN Program prospectus. During the three and six months ended June 30, 2023, $nil and $1,050 million long-term debt was issued, respectively, (2022 - $nil) and no long-term debt was repaid (2022 - $600 million).

(b) Hydro One long-term debt

At June 30, 2023, long-term debt of $425 million (December 31, 2022 - $425 million) was outstanding under Hydro One's short form base shelf prospectus (Universal Base Shelf Prospectus). On August 15, 2022, Hydro One filed the 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 $2,000 million of debt, equity or other securities, or any combination thereof, during the 25-month period ending on September 16, 2024. At June 30, 2023, no securities have been issued under the Universal Base Shelf Prospectus. During the three and six months ended June 30, 2023 and 2022, no long-term debt was issued or repaid.

(c) HOSSM long-term debt

On June 16, 2023, the HOSSM long-term debt matured and was fully repaid, leaving no debt outstanding at June 30, 2023 (December 31, 2022 - $133 million). During the three and six months ended June 30, 2023 and 2022, $131 million of long-term debt was repaid (2022 - $1 million) and 2022, no long-term debt was issued.

Principal and Interest Payments

At June 30, 2023, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments *(millions of dollars)*	Interest Payments *(millions of dollars)*	Weighted-Average Interest Rate *(%)*
Year 1	700	565	2.5
Year 2	750	548	2.3
Year 3	500	530	2.8
Year 4	—	516	—
Year 5	1,175	513	3.6
	3,125	2,672	2.9
Years 6-10	3,450	2,083	4.0
Thereafter	7,545	3,769	4.5
	14,120	8,524	4.0

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At June 30, 2023 and December 31, 2022, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at June 30, 2023 and December 31, 2022 are as follows:

	June 30, 2023		December 31, 2022	
As at *(millions of dollars)*	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	14,077	13,525	13,763	13,026

Fair Value Measurements of Derivative Instruments

Fair Value Hedges

At June 30, 2023 and December 31, 2022, Hydro One Inc. had no fair value hedges.

Cash Flow Hedges

At June 30, 2023 and December 31, 2022, Hydro One Inc. had $nil and a total of $800 million, respectively, in pay-fixed, receive-floating interest-rate swap agreements designated as cash flow hedges. These cash flow hedges were intended to offset the variability of interest rates on the issuances of short-term commercial paper between January 9, 2020 and March 9, 2023.

At June 30, 2023 and December 31, 2022, the Company had no derivative instruments classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at June 30, 2023 and December 31, 2022 is as follows:

As at June 30, 2023 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Liabilities:					
Long-term debt, including current portion	14,077	13,525	—	13,525	—

As at December 31, 2022 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative instruments *(Note 9)*					
Cash flow hedges, including current portion	5	5	—	5	—
Liabilities:					
Long-term debt, including current portion	13,763	13,026	—	13,026	—

The fair value of the interest rate swaps designated as cash flow hedges is determined using a discounted cash flow method based on period-end swap yield curves.

The fair value of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

There were no transfers between any of the fair value levels during the three-months ended June 30, 2023 or the year ended December 31, 2022.

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 values, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates, as its regulated return on equity is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk or material foreign exchange risk.

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company may utilize interest-rate swaps 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, such as cash flow hedges, to manage its exposure to short-term interest rates or to lock in interest-rate levels on forecasted financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would have resulted in an increase to financing charges for the three and six months ended June 30, 2023 of $2 million and $4 million, respectively. There would have been no significant decrease in Hydro One's net income for the three and six months ended June 30, 2022.

For derivative instruments that are designated and qualify as cash flow hedges, the unrealized gain or loss, after tax, on the derivative instrument is recorded as OCI or OCL and is reclassified to results of operations in the same period during which the hedged transaction affects results of operations. During the three months ended June 30, 2023, there was a $nil after-tax change (2022 - $4 million gain), $nil before-tax change (2022 - $5 million gain), recorded in OCI, and a $nil after-tax realized gain (2022 - less than $1 million loss), $nil before-tax gain (2022 - $1 million loss), reclassified to financing charges. During the six months ended June 30, 2023, a $2 million after-tax change (2022 - $8 million gain), $3 million before-tax change (2022 - $11 million gain), was recorded in OCI, and a $2 million after-tax realized gain (2022 - $2 million loss), $2 million before-tax gain (2022 - $4 million loss), was reclassified to financing charges. This resulted in an accumulated other comprehensive income (AOCI) of $nil related to cash flow hedges at June 30, 2023 (December 31, 2022 - $4 million).

The Pension Plan manages market risk by diversifying investments in accordance with the Pension Plan's Statement of Investment Policies and Procedures. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the Pension Plan's financial instruments. In addition, changes in interest rates can also impact discount rates which impact the valuation of the pension and post-retirement and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments. See Note 18 - Pension and Post-Retirement and Post-Employment Benefits for further details.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At June 30, 2023 and 2022, 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, 2023 and 2022, there was no material accounts receivable balance due from any single customer.

At June 30, 2023, the Company's allowance for doubtful accounts was $64 million (December 31, 2022 - $63 million). The allowance for doubtful accounts reflects the Company's Current Expected Credit Loss (CECL) for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At June 30, 2023, approximately 7% (December 31, 2022 - 4%) 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 (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) 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 maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts in an asset position at the reporting date. At June 30, 2023, there was no counterparty party risk. At June 30, 2022, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade corporate and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions and by ensuring that exposure is diversified across counterparties.

Liquidity Risk

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

At June 30, 2023, $2,200 million remained available for issuance under the MTN Program prospectus, and $2,000 million remained available for issuance under the Universal Base Shelf Prospectus.

On November 22, 2022, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US to replace a previous prospectus that would otherwise have expired in January 2023. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3,000 million of debt securities, unconditionally guaranteed by Hydro One, expiring in December 2024. At June 30, 2023, no securities have been issued under the US Debt Shelf Prospectus.

The Pension Plan's short-term liquidity is provided through cash and cash equivalents, contributions, investment income and proceeds from investment transactions. In the event that investments must be sold quickly to meet current obligations, the majority of the Pension Plan's assets are invested in securities that are traded in an active market and can be readily disposed of as liquidity needs arise.

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

The following table provides the components of the net periodic benefit costs for the three and six months ended June 30, 2023 and 2022:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended June 30 *(millions of dollars)*	**2023**	**2022**	**2023**	**2022**
Current service cost	25	54	13	16
Interest cost	99	71	19	15
Expected return on plan assets, net of expenses[1]	(142)	(127)	—	—
Prior service cost amortization	(1)	—	2	2
Amortization of actuarial losses	(5)	15	(7)	0
Net periodic benefit (recovery) costs	(24)	13	27	33
Charged to results of operations[2]	7	9	19	22

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Six months ended June 30 *(millions of dollars)*	**2023**	**2022**	**2023**	**2022**
Current service cost	50	108	26	32
Interest cost	198	142	37	30
Expected return on plan assets, net of expenses[1]	(284)	(254)	—	—
Prior service cost amortization	(1)	1	4	7
Amortization of actuarial losses	(10)	30	(14)	1
Net periodic benefit (recovery) costs	(47)	27	53	70
Charged to results of operations[2]	13	16	36	41

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2023 is 7.00% (2022 - 6.00%).

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and six months ended June 30, 2023, pension costs of $24 million (2022 - $21 million) and $46 million (2022 - $39 million), respectively were attributed to labour, of which $7 million (2022 - $9 million) and $13 million (2022 - $16 million), respectively, was charged to operations, and $17 million (2022 - $12 million) and $33 million (2022 - $23 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets

Transfers from Other Plans

Hydro One and Inergi LP agreed to transfer the employment of certain Inergi LP employees (Transferred Employees) to Hydro One Networks. Employees related to the Information Technology Operations, Finance and Accounting, Payroll, Source to Pay, Settlements and certain Shared Services functions transferred over a period ending January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) became participants in the Hydro One Pension Plan (the Plan) upon transfer to Hydro One Networks. On March 2, 2023, the assets and liabilities of the Inergi Plan were transferred to the Plan. The value of assets and liabilities of the Inergi Plan transferred to the Plan were approximately $378 million and $333 million, respectively, at the date of transfer. Inergi and Hydro One Networks also agreed to transfer OPEB liabilities related to the Transferred Employees to Hydro One's post-retirement and post-employment benefit plans, which occurred on the date of transfer of each group of Transferred Employees.

The transfer of Finance and Accounting, Payroll and certain Shared Services functions occurred on January 1, 2022 and the transfer of the OPEB liability of $9 million related to these Employees was completed in the first quarter of 2022. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totalling $10 million was transferred to Hydro One and recorded as an asset with an offset to OCI. Both the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the expected average remaining service lifetime (EARSL) of the Finance and Accounting, Payroll and certain Shared Services employees.

Eligible Inergi retirees were transferred to the Plan on June 1, 2023. The transfer of the OPEB liability of $15 million related to these retirees was completed in the second quarter of 2023. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totalling $3 million was transferred to Hydro One, in accordance with the agreement. Both the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of OPEB liabilities are being recognized in net income over the expected average remaining life expectancy of the Retirees and Other Former Members employees.

19. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At June 30, 2023, the Company had 599,076,654 (December 31, 2022 - 598,714,704) common shares issued and outstanding.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At June 30, 2023 and December 31, 2022, the Company had no preferred shares issued and outstanding.

20. DIVIDENDS

During the three months ended June 30, 2023, common share dividends in the amount of $178 million (2022 - $168 million) were declared and paid.

During the six months ended June 30, 2023, common share dividends in the amount of $345 million (2022 - $327 million) were declared and paid. See Note 28 - Subsequent Events for dividends declared subsequent to June 30, 2023.

21. EARNINGS PER COMMON SHARE

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

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

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Net income attributable to common shareholders *(millions of dollars)*	265	255	547	565
Weighted-average number of shares				
Basic	599,072,677	598,710,144	598,894,679	598,516,859
Effect of dilutive stock-based compensation plans	1,675,390	2,042,012	1,743,789	2,112,440
Diluted	600,748,067	600,752,156	600,638,468	600,629,299
EPS				
Basic	$0.44	$0.43	$0.91	$0.94
Diluted	$0.44	$0.42	$0.91	$0.94

22. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the 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, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of share grants)	**2023**	**2022**	**2023**	**2022**
Share grants outstanding - beginning	2,189,616	2,662,000	2,189,616	2,662,000
Vested and issued[1]	(361,950)	(388,321)	(361,950)	(388,321)
Share grants outstanding - ending	1,827,666	2,273,679	1,827,666	2,273,679

[1] During the three and six months ended June 30, 2023, Hydro One issued 361,950 (2022 - 388,321) common shares from treasury to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three and six months ended June 30, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	**2023**	**2022**	**2023**	**2022**
DSUs outstanding - beginning	118,050	85,973	99,939	80,813
Granted	4,472	5,026	22,583	10,186
Paid	(30,104)	—	(30,104)	—
DSUs outstanding - ending	92,418	90,999	92,418	90,999

At June 30, 2023, a liability of $3 million (December 31, 2022 - $4 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of $37.85 (December 31, 2022 - $36.27). This liability is included in other long-term 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, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of DSUs)	**2023**	**2022**	**2023**	**2022**
DSUs outstanding - beginning	136,996	124,849	118,505	90,240
Granted	1,085	1,017	19,576	35,626
DSUs outstanding - ending	138,081	125,866	138,081	125,866

At June 30, 2023, a liability of $5 million (December 31, 2022 - $4 million) related to Management DSUs has been recorded at the closing price of the Company's common shares of $37.85 (December 31, 2022 - $36.27). This liability is included in other long-term liabilities on the consolidated balance sheets.

Long-term Incentive Plan (LTIP)

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

A summary of PSU and RSU awards activity under the LTIP during the six months ended June 30, 2023 and 2022 is presented below:

	PSUs		RSUs	
Six months ended June 30 *(number of units)*	**2023**	**2022**	**2023**	**2022**
Units outstanding - beginning	—	—	—	—
Granted	142,067	—	188,013	—
Units outstanding - ending	142,067	—	188,013	—

The grant date total fair value of the awards granted during the six months ended June 30, 2023 was $13 million (2022 – $nil). The compensation expense recognized by the Company relating to these awards during the six months ended June 30, 2023 was $1 million (2022 – $nil).

Society RSU Plan

A summary of RSU awards activity under the Society RSU Plan during the three and six months ended June 30, 2023 and 2022 is presented below:

	Three months ended June 30		Six months ended June 30	
(number of RSUs)	2023	2022	2023	2022
RSUs outstanding - beginning	—	36,556	36,124	71,053
Granted	—	—	—	1,667
Vested and issued	—	—	(33,031)	(34,346)
Settled	—	—	(2,964)	(1,106)
Forfeited	—	—	(129)	(712)
RSUs outstanding - ending	—	36,556	—	36,556

23. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.1% ownership at June 30, 2023. 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 Ministry of Energy. Ontario Charging Network (OCN LP) is a joint-venture limited partnership between OPG and a subsidiary of Hydro One. The following is a summary of the Company's related party transactions during the three and six months ended June 30, 2023 and 2022:

(millions of dollars)		Three months ended June 30		Six months ended June 30	
Related Party	Transaction	2023	2022	2023	2022
Province	Dividends paid	84	79	163	154
IESO	Power purchased	358	408	1,145	1,186
	Revenues for transmission services	554	512	1,105	1,028
	Amounts related to electricity rebates	199	243	429	544
	Distribution revenues related to rural rate protection	63	60	124	121
	Distribution revenues related to supply of electricity to remote northern communities	12	9	23	18
	Distribution revenues related to Wataynikaneyap Power LP	13	—	27	—
	Funding received related to Conservation and Demand Management programs	—	—	1	—
OPG[1]	Power purchased	3	5	7	11
	Revenues related to provision of services and supply of electricity	2	2	4	4
	Capital contribution received from OPG	—	—	3	2
	Costs related to the purchase of services	1	1	1	1
OEFC	Power purchased from power contracts administered by the OEFC	1	—	1	1
OEB	OEB fees	3	3	6	5
OCN LP[2]	Investment in OCN LP	—	1	—	1

[1] OPG has provided a $3 million guarantee to Hydro One related to the OCN Guarantee. See Note 26 - Commitments for details related to the OCN Guarantee.
[2] OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

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. Invoices are issued monthly, and amounts are due and paid on a monthly basis.

24. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Accounts receivable	50	70	17	14
Due from related parties	(11)	6	(14)	(19)
Materials and supplies *(Note 9)*	(11)	—	(17)	(1)
Prepaid expenses and other assets *(Note 9)*	(4)	—	(21)	(13)
Other long-term assets *(Note 13)*	(1)	—	(2)	(1)
Accounts payable	12	(10)	(24)	(52)
Accrued liabilities *(Note 14)*	144	121	115	88
Due to related parties	(111)	(93)	(175)	(139)
Accrued interest *(Note 14)*	(5)	(20)	19	(12)
Long-term accounts payable and other long-term liabilities *(Note 15)*	4	3	1	7
Post-retirement and post-employment benefit liability	25	19	43	34
	92	96	(58)	(94)

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, 2023 and 2022. The reconciling items include net change in accruals and capitalized depreciation.

	Three months ended June 30, 2023			Six months ended June 30, 2023		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(618)	(31)	(649)	(1,091)	(57)	(1,148)
Reconciling items	40	(4)	36	29	(2)	27
Cash outflow for capital expenditures	(578)	(35)	(613)	(1,062)	(59)	(1,121)

	Three months ended June 30, 2022			Six months ended June 30, 2022		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(579)	(33)	(612)	(1,001)	(60)	(1,061)
Reconciling items	43	6	49	27	7	34
Cash outflow for capital expenditures	(536)	(27)	(563)	(974)	(53)	(1,027)

Supplementary Information

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2023	2022	2023	2022
Net interest paid	153	147	272	264
Income taxes paid	12	8	33	22

25. CONTINGENCIES

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

26. COMMITMENTS

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

As at June 30, 2023 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	95	55	36	5	5	13
Long-term software/meter agreement	4	11	4	1	1	3

Outsourcing and other agreements

In February 2021, Hydro One entered into a three-year agreement for information technology services with Capgemini Canda Inc., which expires on February 29, 2024 and includes an option to extend for two additional one-year terms at Hydro One's discretion. In June 2023, Hydro One provided Capgemini Canada Inc. with notice to extend the agreement, effective March 1, 2024 and to expire March 1, 2026.

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

As at June 30, 2023 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities	—	—	—	—	2,550	—
Letters of credit[1]	171	1	—	—	—	—
Guarantees[2]	517	—	—	—	—	—

[1] Letters of credit consist of $163 million letters of credit related to retirement compensation arrangements, a $4 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

[2] Guarantees consist of $475 million of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, as well as guarantees provided by Hydro One to the Minister of Natural Resources (Canada) and ONroute of $7 million and $30 million, respectively, relating to OCN LP (OCN Guarantee) and $5 million relating to Aux Energy Inc., the Company's indirect subsidiary. OPG has provided a $3 million guarantee to Hydro One related to the OCN Guarantee.

27. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting 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, investments including a joint venture that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network brand, and the operations of the Company's telecommunications business. The Other Segment includes a portion of the DTA which arose from the revaluation of the tax bases of Hydro One's assets to fair market value when the Company transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of Hydro One's initial public offering in 2015. This DTA is not required to be shared with ratepayers, the Company considers it not to be part of the regulated transmission and distribution segment assets, and it is included in the other segment.

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 tax expense from continuing operations (excluding certain allocated corporate governance costs).

Three months ended June 30, 2023 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	559	1,285	13	1,857
Purchased power	—	798	—	798
Operation, maintenance and administration	124	188	24	336
Depreciation, amortization and asset removal costs	126	118	3	247
Income (loss) before financing charges and income tax expense	309	181	(14)	476
Capital investments	373	269	7	649

Three months ended June 30, 2022 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	516	1,314	10	1,840
Purchased power	—	852	—	852
Operation, maintenance and administration	97	173	16	286
Depreciation, amortization and asset removal costs	130	126	2	258
Income (loss) before financing charges and income tax expense	289	163	(8)	444
Capital investments	311	294	7	612

Six months ended **June 30, 2023** *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,114	2,794	23	3,931
Purchased power	—	1,808	—	1,808
Operation, maintenance and administration	247	373	44	664
Depreciation, amortization and asset removal costs	254	240	5	499
Income (loss) before financing charges and income tax expense	613	373	(26)	960
Capital investments	671	465	12	1,148

Six months ended June 30, 2022 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,035	2,831	21	3,887
Purchased power	—	1,866	—	1,866
Operation, maintenance and administration	196	344	34	574
Depreciation, amortization and asset removal costs	255	236	4	495
Income (loss) before financing charges and income tax expense	584	385	(17)	952
Capital investments	588	461	12	1,061

Total Assets by Segment:

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Transmission	19,353	18,778
Distribution	12,239	11,893
Other	282	786
Total assets	31,874	31,457

Total Goodwill by Segment:

As at *(millions of dollars)*	June 30, 2023	December 31, 2022
Transmission	157	157
Distribution	216	216
Total goodwill	373	373

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

28. SUBSEQUENT EVENTS

Dividends

On August 8, 2023, common share dividends of $178 million ($0.2964 per common share) were declared.