

Hydro One Reports Third Quarter Results

Improved customer service, innovative operational productivity programs and strategic acquisition demonstrate the company's momentum and transformation into a commercially-focused organization

TORONTO, November 10, 2017 - Hydro One Limited (Hydro One or the Company), the parent company of Ontario's largest electricity transmission and distribution utility, today announced its financial and operating results for the third quarter ended September 30, 2017.

- Third quarter results reflect the Ontario Energy Board's (OEB) Hydro One Networks Inc. transmission rates decision, leading to catch-up revenues for three quarters of \$55 million and contributing to third quarter earnings per share of \$0.37 and adjusted earnings per share of \$0.40, compared to \$0.39 last year.
- Hydro One and Avista Corporation filed joint applications with state utility and federal commissions for regulatory approval of the merger as planned.
- Subsequent to the July announcement of the proposed Avista Corporation acquisition, Hydro One issued approximately \$1.5 billion of convertible debentures, which were oversubscribed.
- Achieved productivity savings through operational improvements, such as a revised vegetation management approach, fleet optimization and competitive procurement.
- Hydro One demonstrated operational excellence as part of the unprecedented Hurricane Irma restoration effort in Florida.
- Customer service initiatives related to affordability resulted in stabilized accounts receivable levels.
- Continued recognition as a leading utility, being awarded the Progressive Aboriginal Relations Bronze Certification for demonstrating a commitment to Aboriginal communities and the Ontario Energy Association's 2017 Leader of the Year award.

"This quarter was marked by our Avista transaction and the mild summer weather. Our joint regulatory filings with Avista were a major milestone in accomplishing this high-quality transaction that will provide long-term benefits for customers and shareholders," said Mayo Schmidt, President and Chief Executive Officer, Hydro One. "Our operational excellence program continues to deliver savings, keeping us on plan, and our exceptional performance during recent storms in Ontario and Florida speaks to our North American reputation for safety, excellent workmanship and friendly service."

Selected Consolidated Financial and Operating Highlights

<i>(amounts throughout in millions of Canadian dollars, except as otherwise noted)</i>	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues	1,522	1,706	4,551	4,938
Purchased power	675	870	2,213	2,569
Revenues, net of purchased power ¹	847	836	2,338	2,369
Net income attributable to common shareholders	219	233	503	593
Costs related to acquisition of Avista Corporation	18	—	21	—
Adjusted net income attributable to common shareholders ¹	237	233	524	593
Basic earnings per common share (EPS)	\$0.37	\$0.39	\$0.85	\$1.00
Diluted EPS	\$0.37	\$0.39	\$0.84	\$0.99
Adjusted basic EPS ¹	\$0.40	\$0.39	\$0.88	\$1.00
Adjusted diluted EPS ¹	\$0.40	\$0.39	\$0.88	\$0.99
Net cash from operating activities	442	510	1,193	1,182
Capital investments	380	424	1,136	1,220
Assets placed in-service	294	383	859	906
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,857	22,991	19,801	21,115
Distribution: Electricity distributed to Hydro One customers (GWh)	6,226	6,621	19,046	19,784

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

Key Financial Highlights

For the three months ended September 30, 2017, the Company reported net income attributable to common shareholders of \$219 million (2016 - \$233 million), and earnings per share of \$0.37 (2016 - \$0.39), a 6.0% reduction from last year. Adjusted earnings per share, which exclude the impact of \$18 million costs related to the Avista Corporation acquisition, were \$0.40 for the quarter.

Revenues, net of purchased power, for the third quarter were higher than last year by 1.3% primarily reflecting higher transmission revenues driven by the OEB's decision on Hydro One Networks Inc.'s 2017-2018 transmission rates filing, partially offset by lower average Ontario peak demand and lower energy consumption due to milder weather, as well as a reduction in the 2017 allowed return on equity from 9.19% to 8.78%.

The comparability of third quarter earnings was negatively impacted by higher consulting costs primarily related to the acquisition of Avista Corporation, higher depreciation expense due to an increase in rate base and increased financing charges primarily due to a higher weighted average long-term debt portfolio as well as the issuance of convertible debentures in August 2017, partially offset by reduced vegetation management costs.

On a year-to-date basis, the Company reported net income of \$503 million (2016 - \$593 million), and earnings per share of \$0.85 (2016 - \$1.00), a 15.2% reduction from last year. Adjusted earnings per share are \$0.88 year-to-date. In addition to factors noted above, year-to-date net income was also impacted by a significantly lower bad debt expense in the first quarter of 2016 due to revised estimates of uncollectible accounts as a result of stabilization of the customer information system (excluding this adjustment in 2016, the bad debt expense was relatively flat year-over-year).

Hydro One continues to invest to improve the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new generation sources, and improve service to customers. The Company made capital investments of \$380 million during the third quarter, and placed \$294 million of new assets in-service.

Selected Operating Highlights

Subsequent to the July 2017 announcement of the proposed Avista Corporation acquisition, Hydro One issued approximately \$1.5 billion of convertible debentures, which were oversubscribed. Enthusiasm for the bought deal offering is reflective of the market's confidence in the Company's growth strategy.

The Company achieved significant productivity savings in the third quarter through a new vegetation management approach, fleet optimization and a more competitive procurement process, along with other initiatives. In September, Hydro One introduced a shortened and targeted vegetation management program that is expected to result in long-term productivity savings as well as improved reliability and community relations.

At the same time, the use of telematics data to evaluate the productivity of the Company's fleet resulted in current and future capital savings. Savings were also achieved through a reduction in prices paid for procured materials and services by consolidating spending to exercise purchasing power and introducing a revised, more streamlined bidding process.

Over a period of 14 days in September, Hydro One mobilized 175 employees to help restore power to more than 10,000 Florida residents after Hurricane Irma pummeled the state and surrounding region. While in Florida, Hydro One's employees were assigned challenging work in tough conditions and their actions contributed to establishing a strong reputation for operational excellence as well as commitment to safety.

The introduction of several relief and affordability measures proved to be effective in helping customers manage electricity usage and keep accounts current. Building on the success of the Company's extended Winter Relief program, the elimination and return of security deposits as well as additional outreach to customers at risk, accounts receivable levels have fallen to a four-year low. Overdue accounts have declined by 25% year-over-year to \$86 million at the end of September. The number of customers disconnected for non-payment has declined by nearly 60% year-over-year.

As part of its new commitment to improving customer service, Hydro One has been increasing its presence in local communities with the goal of helping customers in a way that is convenient to them. Through drop-in sessions, the mobile Electricity Discovery Centre and opening customer service offices in London, Markham and Sudbury, customer service staff have assisted over 2,500 customers in nearly 30 communities.

On October 24, 2017, Hydro One supported the launch of the Affordability Fund, a relief program paid for by the Province of Ontario and administered by Hydro One. This unique program will allow Hydro One, along with other local distribution companies, to provide customers who do not qualify for low-income conservation programs with the ability to access energy efficient home improvements, such as block heater timers, appliances and insulation.

Hydro One continues to be recognized as a leading utility by industry associations and national organizations. In late September 2017, the Canadian Council for Aboriginal Business awarded Hydro One bronze standing in its Progressive Aboriginal Relations (PAR) program. The honour recognizes the Company's commitment to fostering and strengthening its relationships with Indigenous Canadians and promoting prosperity in the communities they call home.

In September 2017, Hydro One received the Leader of the Year Award from the Ontario Energy Association. This prestigious award recognizes outstanding industry leadership and significant accomplishments. The association cited Hydro One's major cultural and corporate transformation, execution of the successful IPO, growth into the U.S. Pacific Northwest with the acquisition of Avista Corporation, and focus on exceptional customer service.

Mergers and Acquisitions Update

On September 14, 2017, Hydro One and Avista Corporation filed applications requesting regulatory approval of the proposed merger of the two companies that was announced on July 19, 2017. The applications have been filed with state utility commissions in Washington, Idaho, Oregon, Montana, and Alaska, as well as with the U.S. Federal Energy Regulatory Commission, requesting approval of the transaction on or before August 14, 2018. Together with Avista Corporation, Hydro One is currently in the process of responding to

data requests from staff from the commissions and various other parties. Filing of these applications is an important milestone in the proposed transaction to bring together Hydro One and Avista Corporation. The merger will over time provide the companies with increased opportunities for innovation, research and development, and efficiencies by extending the use of technology, best practices, and business processes over a broader customer base and a broader set of infrastructure between the two companies. On October 2, 2017, Avista Corporation filed the preliminary proxy with the U.S. Securities and Exchange Commission for shareholder approval of the merger. Required filings with a number of other agencies will be made in the coming months, including the U.S. Federal Communications Commission, and the Committee on Foreign Investment in the United States.

Common Share Dividends

Following the conclusion of the third quarter, on November 9, 2017, the Company declared a quarterly cash dividend to common shareholders of \$0.22 per share to be paid on December 29, 2017 to shareholders of record on December 12, 2017.

Supplemental Segment Information

<i>(millions of dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues				
Transmission	471	444	1,199	1,211
Distribution	1,040	1,249	3,317	3,687
Other	11	13	35	40
Total revenues	1,522	1,706	4,551	4,938
Revenues, net of purchased power				
Transmission	471	444	1,199	1,211
Distribution	365	379	1,104	1,118
Other	11	13	35	40
Total revenues, net of purchased power	847	836	2,338	2,369
Income (loss) before financing charges and taxes				
Transmission	271	252	594	642
Distribution	114	126	369	390
Other	(24)	3	(50)	(19)
Total income before financing charges and taxes	361	381	913	1,013
Capital investments				
Transmission	240	241	701	714
Distribution	138	181	427	502
Other	2	2	8	4
Total capital investments	380	424	1,136	1,220
Assets placed in-service				
Transmission	120	224	367	449
Distribution	172	158	482	451
Other	2	1	10	6
Total assets placed in-service	294	383	859	906

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

Quarterly Investment Community Teleconference

The Company's third quarter 2017 results teleconference with the investment community will be held on November 10, 2017 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 dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's third quarter 2017 results call, conference ID 90923670 (international callers may dial 1-440-996-5689). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One Limited

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

For More Information

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

Forward-Looking Statements and Information

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

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HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the condensed interim unaudited consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and nine months ended September 30, 2017, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2016. The Consolidated Financial Statements are presented in Canadian dollars and have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators. This MD&A provides information for the three and nine months ended September 30, 2017, based on information available to management as of November 9, 2017.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

(millions of dollars, except as otherwise noted)	Three months ended September 30			Nine months ended September 30		
	2017	2016	Change	2017	2016	Change
Revenues	1,522	1,706	(10.8%)	4,551	4,938	(7.8%)
Purchased power	675	870	(22.4%)	2,213	2,569	(13.9%)
Revenues, net of purchased power ¹	847	836	1.3%	2,338	2,369	(1.3%)
Operation, maintenance and administration costs	277	264	4.9%	822	782	5.1%
Depreciation and amortization	209	191	9.4%	603	574	5.1%
Financing charges	114	98	16.3%	320	292	9.6%
Income tax expense	23	44	(47.7%)	73	110	(33.6%)
Net income attributable to common shareholders of Hydro One	219	233	(6.0%)	503	593	(15.2%)
Basic earnings per common share (EPS)	\$0.37	\$0.39	(5.1%)	\$0.85	\$1.00	(15.0%)
Diluted EPS	\$0.37	\$0.39	(5.1%)	\$0.84	\$0.99	(15.2%)
Basic adjusted non-GAAP EPS (Adjusted EPS) ¹	\$0.40	\$0.39	2.6%	\$0.88	\$1.00	(12.0%)
Diluted Adjusted EPS ¹	\$0.40	\$0.39	2.6%	\$0.88	\$0.99	(11.1%)
Net cash from operating activities	442	510	(13.3%)	1,193	1,182	0.9%
Funds from operations (FFO) ¹	385	430	(10.5%)	1,177	1,149	2.4%
Capital investments	380	424	(10.4%)	1,136	1,220	(6.9%)
Assets placed in-service	294	383	(23.2%)	859	906	(5.2%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,857	22,991	(9.3%)	19,801	21,115	(6.2%)
Distribution: Electricity distributed to Hydro One customers (GWh)	6,226	6,621	(6.0%)	19,046	19,784	(3.7%)

	2017	2016
Debt to capitalization ratio ²	53.0%	52.6%

¹ See section "Non-GAAP Measures" for description and reconciliation of basic and diluted Adjusted EPS, FFO and Revenues, net of purchased power.

² Debt to capitalization ratio has been presented at September 30, 2017 and December 31, 2016, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to non-controlling interest.

OVERVIEW

For the nine months ended September 30, 2017, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

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

At September 30, 2017, Hydro One's business segments accounted for the Company's total assets as follows:

	Transmission	Distribution	Other
Percentage of Company's total assets	52%	35%	13%

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended September 30, 2017 of \$219 million is a decrease of \$14 million or 6.0% from the prior year. Significant influences on net income included:

- milder weather in 2017 resulted in a decrease in transmission revenues, mainly due to lower average Ontario peak demand, and a decrease in distribution revenues due to lower energy consumption. Transmission and distribution revenues were also impacted by a reduction in the 2017 allowed regulated return on equity (ROE) from 9.19% to 8.78%;
- higher transmission revenues driven by Ontario Energy Board's (OEB) decision on the 2017-2018 transmission rates filing, including higher disposition of certain OEB-approved variance accounts, higher export service credits, and higher rate revenues;
- higher operation, maintenance and administration (OM&A) costs primarily resulting from higher consulting costs primarily related to the acquisition of Avista Corporation; partially offset by reduced vegetation management costs;
- higher depreciation expense due to an increase in rate base; and
- increased financing charges primarily due to a higher weighted average long-term debt portfolio during the third quarter of 2017 compared to the third quarter of 2016, including long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016, as well as the issuance of Convertible Debentures in August 2017.

Net income attributable to common shareholders for the nine months ended September 30, 2017 of \$503 million is a decrease of \$90 million or 15.2% from the prior year. In addition to factors noted above, net income for the nine months ended September 30, 2017 was also impacted by lower bad debt expense in 2016 due to revised estimates of uncollectible accounts resulting from the stabilization of the customer information system (excluding this adjustment in 2016, the bad debt expense was relatively flat year-over-year).

EPS

EPS was \$0.37 and \$0.85 in the three and nine months ended September 30, 2017, respectively, compared to EPS of \$0.39 and \$1.00 in the comparable periods last year. The decreases in EPS were driven by lower net income for the three and nine months ended September 30, 2017, as discussed above.

Adjusted EPS, which adjusts for costs related to the Avista Corporation acquisition, was \$0.40 and \$0.88 in the three and nine months ended September 30, 2017, respectively, compared to \$0.39 and \$1.00 in the comparable periods last year. The changes in Adjusted EPS were driven by lower net income for the three and nine months ended September 30, 2017, as discussed above but exclude the impact of costs related to the Avista Corporation acquisition. See section "Non-GAAP Measures" for description of Adjusted EPS.

Revenues

(millions of dollars, except as otherwise noted)	Three months ended September 30			Nine months ended September 30		
	2017	2016	Change	2017	2016	Change
Transmission	471	444	6.1%	1,199	1,211	(1.0%)
Distribution	1,040	1,249	(16.7%)	3,317	3,687	(10.0%)
Other	11	13	(15.4%)	35	40	(12.5%)
Total revenues	1,522	1,706	(10.8%)	4,551	4,938	(7.8%)
Transmission	471	444	6.1%	1,199	1,211	(1.0%)
Distribution, net of purchased power	365	379	(3.7%)	1,104	1,118	(1.3%)
Other	11	13	(15.4%)	35	40	(12.5%)
Total revenues, net of purchased power	847	836	1.3%	2,338	2,369	(1.3%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	20,857	22,991	(9.3%)	19,801	21,115	(6.2%)
Distribution: Electricity distributed to Hydro One customers (GWh)	6,226	6,621	(6.0%)	19,046	19,784	(3.7%)

Transmission Revenues

Transmission revenues increased by 6.1% for the third quarter primarily due to the following:

- higher revenues driven by the OEB's decision on the 2017-2018 transmission rates filing, including higher disposition of certain OEB-approved variance accounts, higher export service credits, and higher rate revenues; and
- additional revenues resulting from the acquisition of Hydro One Sault Ste. Marie in the fourth quarter of 2016; partially offset by

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For the three and nine months ended September 30, 2017 and 2016

- lower average monthly Ontario 60-minute peak demand mainly due to milder weather in 2017; and
- decreased OEB-approved transmission rates primarily reflecting a reduction in 2017 allowed ROE for the transmission business from 9.19% to 8.78%.

The decrease in transmission revenues for the nine months ended September 30, 2017 of 1.0% was mainly the result of similar factors as noted above, with lower peak demand and transmission rates more than offsetting increased revenues driven by the OEB's decision on the 2017-2018 transmission rates filing and the acquisition of Hydro One Sault Ste. Marie.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, decreased by 3.7% and 1.3% for the third quarter and nine months ended September 30, 2017, respectively. During the third quarter and year-to-date, lower energy consumption resulting from milder weather in 2017 was partially offset by increased OEB-approved distribution rates for 2017, net of a reduction in 2017 allowed ROE for the distribution business from 9.19% to 8.78%.

OM&A Costs

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2017	2016	Change	2017	2016	Change
Transmission	95	96	(1.0%)	296	284	4.2%
Distribution	149	160	(6.9%)	447	445	0.4%
Other	33	8	312.5%	79	53	49.1%
	277	264	4.9%	822	782	5.1%

Transmission OM&A Costs

Transmission OM&A costs for the quarter ended September 30, 2017 were comparable to prior year, and were impacted by:

- lower support services costs;
- lower volume of vegetation management work; and
- higher volume of stations and overhead maintenance work due to increased demand.

The increase of 4.2% for the nine months ended September 30, 2017, was primarily due to:

- additional OM&A costs resulting from the acquisition of Hydro One Sault Ste. Marie in the fourth quarter of 2016; and
- higher volume of environmental management program work; partially offset by
- lower volume of vegetation management work.

Distribution OM&A Costs

The decrease of 6.9% in distribution OM&A costs for the quarter ended September 30, 2017 was primarily due to:

- lower volume of vegetation management work;
- lower consulting costs; and
- lower support services costs; partially offset by
- increased storm restoration costs as a result of Hurricane Irma restoration efforts in Florida. These restoration efforts had no impact on the Company's net income, as related revenues were recorded in distribution revenues during the quarter.

Distribution OM&A costs for the nine months ended September 30, 2017 were comparable to prior year, and were primarily impacted by:

- lower bad debt expense in 2016 due to revised estimates of uncollectible accounts as a result of stabilization of the customer information system (excluding this adjustment in 2016, bad debt expense would have been relatively flat year-over-year);
- increased storm restoration costs as a result of Hurricane Irma restoration efforts in Florida. These restoration efforts had no impact on the Company's net income, as related revenues were recorded in distribution revenues during the quarter; and
- lower volume of vegetation management work.

Other OM&A Costs

The increase in other OM&A costs for the quarter and nine months ended September 30, 2017 was driven by higher consulting costs primarily related to the acquisition of Avista Corporation.

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For the three and nine months ended September 30, 2017 and 2016

Financing Charges

The increase of \$16 million or 16.3% in financing charges for the third quarter of 2017 was primarily due to the following:

- an increase in interest expense on long-term debt driven by a higher weighted average long-term debt portfolio during the third quarter of 2017, including the long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016; partially offset by a decrease in the weighted average interest rate for long-term debt; and
- an increase in interest expense related to the Convertible Debentures issued in August 2017.

The increase of \$28 million or 9.6% in financing charges for the nine months ended September 30, 2017 was the result of similar factors as noted above, and was partially offset by a decrease in interest expense on short-term notes payable mainly due to a lower weighted average balance in 2017, as well as a decrease in the weighted average interest rate for short-term notes.

Income Tax Expense

The effective tax rate for the three and nine months ended September 30, 2017 was 9.3% and 12.3%, respectively, compared to 15.5% and 15.3% for the three and nine months ended September 30, 2016, respectively. The decreases in income tax expense of \$21 million and \$37 million for the three and nine months ended September 30, 2017, respectively, were primarily due to lower income before taxes in 2017.

Common Share Dividends

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

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 9, 2017	March 14, 2017	March 31, 2017	\$0.21	125
May 3, 2017	June 13, 2017	June 30, 2017	\$0.22	131
August 8, 2017	September 12, 2017	September 29, 2017	\$0.22	131
				387

Following the conclusion of the third quarter of 2017, 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)
November 9, 2017	December 12, 2017	December 29, 2017	\$0.22	131

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS)	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015
Revenues	1,522	1,371	1,658	1,614	1,706	1,546	1,686	1,522
Purchased power	675	649	889	858	870	803	896	786
Revenues, net of purchased power	847	722	769	756	836	743	790	736
Net income to common shareholders	219	117	167	128	233	152	208	143
Basic EPS	\$0.37	\$0.20	\$0.28	\$0.22	\$0.39	\$0.26	\$0.35	\$0.26
Diluted EPS	\$0.37	\$0.20	\$0.28	\$0.21	\$0.39	\$0.25	\$0.35	\$0.26
Basic Adjusted EPS ¹	\$0.40	\$0.20	\$0.28	\$0.22	\$0.39	\$0.26	\$0.35	\$0.24 ²
Diluted Adjusted EPS ¹	\$0.40	\$0.20	\$0.28	\$0.21	\$0.39	\$0.25	\$0.35	\$0.24 ²

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

² For the quarter ended December 31, 2015, the basic and diluted Adjusted EPS has been calculated by management on a supplementary basis which assumed that the total number of common shares outstanding was 595,000,000.

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.

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For the three and nine months ended September 30, 2017 and 2016

CAPITAL INVESTMENTS

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

Assets Placed In-service

The following table presents Hydro One's assets placed in-service during the three and nine months ended September 30, 2017 and 2016:

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2017	2016	Change	2017	2016	Change
Transmission	120	224	(46.4%)	367	449	(18.3%)
Distribution	172	158	8.9%	482	451	6.9%
Other	2	1	100.0%	10	6	66.7%
Total assets placed in-service	294	383	(23.2%)	859	906	(5.2%)

Transmission Assets Placed In-service

Transmission assets placed in-service decreased by \$104 million or 46.4% during the third quarter of 2017 primarily due to the following:

- substantial investments of two major local area supply projects, Guelph Area Transmission Refurbishment and Toronto Midtown Transmission Reinforcement, were placed in-service in the third quarter of 2016; and
- a larger number of cumulative sustainment investments placed in-service in the third quarter of 2016, including the breaker replacement project at Richview transmission station, the asset replacement project at Gerrard transmission station, and the transformer replacement at Brant transmission station.

Transmission assets placed in-service decreased by \$82 million or 18.3% during the nine months ended September 30, 2017 primarily due to factors noted above, partially offset by the following:

- a larger number of cumulative sustainment investments that were placed in-service in the first half of 2017, including the asset replacement project at Aylmer transmission station and the station reconfiguration project at Goderich transmission station; and
- the completion of the Field Workforce Optimization (Move-to-Mobile) project in June 2017.

Distribution Assets Placed In-service

Distribution assets placed in-service increased by \$14 million or 8.9% during the third quarter of 2017 primarily due to the following:

- the completion of the Outage Response Management System (ORMS) project in the third quarter of 2017;
- higher volume of subdivision connections due to increased demand; and
- higher volume of service equipment purchases; partially offset by
- timing of distribution station refurbishments and spare transformer purchases.

Distribution assets placed in-service increased by \$31 million or 6.9% during the nine months ended September 30, 2017 primarily due to the following:

- the completion of the Move-to-Mobile project in June 2017;
- the completion of an operation center in Bolton in February 2017;
- the completion of the Outage Response Management System (ORMS) project in the third quarter of 2017;
- higher volume of subdivision connections due to increased demand; and
- higher volume of service equipment purchases; partially offset by
- the Advanced Metering Infrastructure Wireless Telecom project was placed in-service during the first half of 2016; and
- lower volume of fleet and work equipment purchases.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

Capital Investments

The following table presents Hydro One's capital investments during the three and nine months ended September 30, 2017 and 2016:

<i>(millions of dollars)</i>	Three months ended September 30			Nine months ended September 30		
	2017	2016	Change	2017	2016	Change
Transmission						
Sustaining	189	180	5.0%	548	542	1.1%
Development	32	44	(27.3%)	108	123	(12.2%)
Other	19	17	11.8%	45	49	(8.2%)
	240	241	(0.4%)	701	714	(1.8%)
Distribution						
Sustaining	63	96	(34.4%)	215	291	(26.1%)
Development	53	62	(14.5%)	162	152	6.6%
Other	22	23	(4.3%)	50	59	(15.3%)
	138	181	(23.8%)	427	502	(14.9%)
Other	2	2	0.0%	8	4	100.0%
Total capital investments	380	424	(10.4%)	1,136	1,220	(6.9%)

Transmission Capital Investments

Transmission capital investments decreased by \$1 million or 0.4% during the third quarter of 2017. Principal impacts on the levels of capital investments for the quarter included:

- timing of work related to the Clarington Transmission Station project; and
- lower volume of transmission station refurbishments and component replacements work; partially offset by
- higher volume of overhead lines and component refurbishments and replacements.

Transmission capital investments decreased by \$13 million or 1.8% during the nine months ended September 30, 2017. Principal impacts on the levels of capital investments included:

- construction work on Clarington Transmission Station project is substantially complete;
- lower volume of transmission station refurbishments and component replacements work; and
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects; partially offset by
- timing and substantial completion of major development projects including the Holland, Hawthorne, and Leamington transmission stations; and
- higher volume of overhead lines and component refurbishments and replacements.

Distribution Capital Investments

Distribution capital investments decreased by \$43 million or 23.8% during the third quarter of 2017. Principal impacts on the levels of capital investments for the quarter included:

- lower volume of work within station refurbishment programs;
- lower volume of distribution lines sustainment work;
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects;
- lower volume of work on storm damage and emergency power restorations; and
- lower volume of wood pole replacements.

Distribution capital investments decreased by \$75 million or 14.9% during the nine months ended September 30, 2017 primarily due to factors noted above, and were also impacted by

- lower volume of work within station refurbishment programs;
- lower volume of wood pole replacements;
- lower volume of distribution lines sustainment work;
- lower volume of fleet and work equipment purchases; and
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects; partially offset by
- higher volume of work on new connections and upgrades due to increased demand.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at September 30, 2017:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date
Development Projects:					
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	\$73 million	\$46 million
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	\$267 million	\$216 million
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2021	\$157 million	\$6 million
Northwest Bulk Transmission Line	Thunder Bay Northwestern Ontario	New transmission line	To be determined	To be determined	—
Sustainment Projects:					
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2019	\$109 million	\$100 million
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	\$103 million	\$79 million
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	\$93 million	\$46 million
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	\$95 million	\$38 million

Future Capital Investments

Following is a summary of estimated capital investments by Hydro One over the years 2017 to 2021. The Company's estimates are based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework. These estimates differ from the prior year disclosures for 2017 and 2018 transmission capital investments, representing annual decreases of \$126 million for 2017 and \$122 million for 2018. These decreases reflect the OEB's focus on planning practices and the pacing of Sustainment capital investments, specifically, tower coating, stations, and insulator investments, as indicated in the OEB's 2017-2018 transmission rates decision issued in September 2017. The projections and the timing of 2019-2021 expenditures are subject to approval by the OEB.

The following table summarizes Hydro One's annual projected capital investments for 2017 to 2021, by business segment:

<i>(millions of dollars)</i>	2017	2018	2019	2020	2021
Transmission	960	1,010	1,217	1,278	1,486
Distribution	648	647	771	735	749
Other	12	9	8	6	8
Total capital investments	1,620	1,666	1,996	2,019	2,243

The following table summarizes Hydro One's annual projected capital investments for 2017 to 2021, by category:

<i>(millions of dollars)</i>	2017	2018	2019	2020	2021
Sustainment	1,089	1,103	1,219	1,327	1,546
Development	334	340	484	487	490
Other ¹	197	223	293	205	207
Total capital investments	1,620	1,666	1,996	2,019	2,243

¹ "Other" capital expenditures consist of special projects, such as those relating to information technology.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

SUMMARY OF SOURCES AND USES OF CASH

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

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cash provided by operating activities	442	510	1,193	1,182
Cash provided by financing activities	529	38	506	48
Cash used in investing activities	(382)	(414)	(1,127)	(1,184)
Increase in cash and cash equivalents	589	134	572	46

Cash provided by operating activities

Cash from Operating Activities decreased by \$68 million during the third quarter of 2017 primarily due to lower net income and changes in accrual balances, partially offset by decreased energy-related receivables as a result of lower revenues in 2017 primarily reflecting lower commodity and global adjustment prices initiated by the Province of Ontario's (Province) Fair Hydro Plan and lower consumption reflecting mild weather.

Cash from Operating Activities increased by \$11 million year-to-date primarily due to factors noted above, as well as changes in regulatory variance and deferral accounts that impact revenue.

Cash provided by financing activities

Sources of cash

- The Company did not issue long-term debt in the three or nine months ended September 30, 2017, compared to proceeds from the issuance of \$1,350 million in the first quarter of 2016.
- The Company received proceeds of \$1,232 million and \$2,810 million from the issuance of short-term notes in the three and nine months ended September 30, 2017, respectively, compared to \$940 million and \$2,435 million received in the three and nine months ended September 30, 2016, respectively.
- During the three and nine months ended September 30, 2017, the Company issued \$513 million of convertible debentures, gross of \$27 million financing costs, compared to no convertible debenture issuances in the three and nine months ended September 30, 2016.

Uses of cash

- Dividends paid in the three and nine months ended September 30, 2017 were \$135 million and \$400 million, respectively, compared to dividends of \$129 million and \$466 million paid in the three and nine months ended September 30, 2016, respectively.
- The Company repaid \$1,053 million and \$2,385 million of short-term notes in the three and nine months ended September 30, 2017, respectively, compared to \$770 million and \$2,808 million repaid in the three and nine months ended September 30, 2016, respectively.
- The Company repaid \$1 million of long-term debt in the three and nine months ended September 30, 2017, compared to long-term debt of \$450 million repaid in the first quarter of 2016.

Cash used in investing activities

Uses of cash

- Capital expenditures were \$32 million and \$71 million lower in the third quarter and year-to-date 2017, respectively, primarily due to lower volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through funds from operations, Hydro One Inc.'s commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One Inc. is authorized to issue up to \$1.5 billion in short-term notes with a term to maturity of up to 365 days. At September 30, 2017, Hydro One Inc. had \$894 million in commercial paper borrowings outstanding, compared to \$469 million outstanding at December 31, 2016. In addition, the Company and Hydro One Inc. have revolving bank credit facilities totalling \$2,550 million maturing in 2021 and 2022. The Company may use the credit facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the credit facilities and anticipated levels of funds from operations are expected to be sufficient to fund the Company's normal operating requirements.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

At September 30, 2017, the Company's long-term debt in the principal amount of \$10,670 million included \$10,523 million of long-term debt, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program, and long-term debt in the principal amount of \$147 million held by Hydro One Sault Ste. Marie. At September 30, 2017, the maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 was \$3.5 billion, with \$1.2 billion remaining available for issuance until January 2018. The long-term debt consists of notes and debentures that mature between 2017 and 2064, and at September 30, 2017, had an average term to maturity of approximately 15.1 years and a weighted average coupon rate of 4.3%.

In March 2016, Hydro One filed a universal short form base shelf prospectus (Universal Base Shelf Prospectus) which allows the Company to offer, from time to time in one or more public offerings, up to \$8.0 billion of debt, equity or other securities, or any combination thereof, during the 25-month period ending on April 30, 2018. During the second quarter of 2017, Hydro One announced the closing of a secondary offering of a portion of its common shares previously owned by the Province. See "Other Developments - Secondary Common Share Offering" for details of this transaction. Upon closing of the transaction, \$3,240 million remained available under the Universal Base Shelf Prospectus.

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company completed the sale of \$1,540 million aggregate principal amount of 4.00% convertible unsecured subordinated debentures (Convertible Debentures) represented by instalment receipts, which included the exercise in full of the over-allotment option granted to the underwriters to purchase an additional \$140 million aggregate principal amount of the Convertible Debentures. The Convertible Debentures instalment receipts trade on the Toronto Stock Exchange under the ticker symbol "H.IR". The Convertible Debentures were sold as part of Hydro One's acquisition financing strategy to acquire Avista Corporation (see section Other Developments - Avista Corporation Purchase agreement), which includes the issuance of \$1,540 million of Hydro One common shares and US\$2.6 billion of Hydro One debt. The Convertible Debentures were sold to satisfy the equity component of the acquisition financing strategy.

To mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed by the issuance of Convertible Debentures, in October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars. The contract is contingent on the Company closing the proposed Avista Corporation acquisition. The forward rate includes a deal-contingent fee that could range from \$26 million to \$43 million, based on the date the contract is settled. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed anytime up to March 31, 2019. The balance of the Avista Corporation acquisition will be financed by issuing long-term debt denominated in US dollars which will act as an economic hedge.

At September 30, 2017, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

Credit Ratings

On July 19, 2017, Standard & Poor's Rating Services (S&P) revised its outlook on the Company to negative from stable, while affirming the existing corporate credit rating.

On July 19, 2017, S&P and Moody's Investors Service revised their outlooks on Hydro One Inc. to negative from stable, while affirming the existing debt ratings.

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

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

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

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:

September 30, 2017 (millions of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations (due by year)					
Long-term debt – principal repayments	10,670	602	2,134	1,106	6,828
Long-term debt – interest payments	7,831	442	811	725	5,853
Convertible debentures - principal repayments ¹	513	—	—	—	513
Convertible debentures - interest payments	106	70	36	—	—
Short-term notes payable	894	894	—	—	—
Pension contributions ²	172	75	97	—	—
Environmental and asset retirement obligations	223	26	54	69	74
Outsourcing agreements	247	118	118	9	2
Operating lease commitments	45	12	20	10	3
Long-term software/meter agreement	61	17	34	7	3
Total contractual obligations	20,762	2,256	3,304	1,926	13,276
Other commercial commitments (by year of expiry)					
Credit facilities ³	2,550	—	—	2,550	—
Letters of credit ⁴	165	165	—	—	—
Guarantees ⁵	325	325	—	—	—
Total other commercial commitments	3,040	490	—	2,550	—

¹ The Company expects that the Convertible Debentures will be converted to common shares upon closing of the Avista Corporation acquisition.

² Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2017, 2018 and 2019 minimum pension contributions are based on an actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings.

³ In June 2017, the maturity date of Hydro One Inc.'s \$2.3 billion credit facilities was extended from June 2021 to June 2022.

⁴ Letters of credit consist of a \$150 million letter of credit related to retirement compensation arrangements, an \$8 million letter of credit provided to the IESO for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

⁵ Guarantees consist of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries.

REGULATION

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

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

Application	Year(s)	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission – Cost-of-service	OEB decision received ¹
Hydro One Networks	2015-2017	Distribution – Custom	OEB decision received
Hydro One Networks	2018-2022	Distribution – Custom	OEB decision pending
B2M LP	2015-2019	Transmission – Cost-of-service	OEB decision received
Hydro One Sault Ste. Marie	2017	Transmission – Revenue Cap	OEB decision received
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power Distribution Corporation	n/a	Acquisition	OEB decision pending

¹ In October 2017, the Company filed a Motion to Review and Vary the OEB's decision and filed an appeal with the Divisional Court of Ontario.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

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

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2017	8.78% (A)	\$10,523 million	Approved in September 2017	Filed in October 2017
	2018	8.78% (F)	\$11,148 million	Approved in September 2017	To be filed in 2017 Q4
B2M LP	2017	8.78% (A)	\$509 million	Approved in December 2015	Approved in June 2017
	2018	8.78% (F)	\$502 million	Approved in December 2015	To be filed in 2017 Q4
	2019	8.78% (F)	\$496 million	Approved in December 2015	To be filed in 2018 Q4
Hydro One Sault Ste. Marie	2017	9.19% (F)	\$218 million	Approved in September 2017	n/a
Distribution					
Hydro One Networks	2017	8.78% (A)	\$7,190 million	Approved in March 2015	Approved in December 2016
	2018	8.78% (F)	\$7,672 million	Filed in March 2017 ¹	To be filed in 2018 Q3
	2019	8.78% (F)	\$8,050 million	Filed in March 2017 ¹	To be filed in 2018 Q4
	2020	8.78% (F)	\$8,478 million	Filed in March 2017 ¹	To be filed in 2019 Q4
	2021	8.78% (F)	\$9,037 million	Filed in March 2017 ¹	To be filed in 2020 Q4
	2022	8.78% (F)	\$9,437 million	Filed in March 2017 ¹	To be filed in 2021 Q4

¹ On June 7, 2017, Hydro One Networks filed an update to the application reflecting recent financial results and other adjustments.

Electricity Rates Applications

Hydro One Networks - Transmission

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks Inc.'s (Hydro One Networks) 2017 and 2018 transmission rates revenue requirements (Decision), with 2017 rates effective January 1, 2017. Key changes to the application as filed included reductions in planned capital expenditures of \$126 million and \$122 million for 2017 and 2018, respectively, in OM&A expenses related to compensation by \$15 million for each year, and in estimated tax savings from the IPO by \$24 million and \$26 million for 2017 and 2018, respectively. On October 10, 2017, Hydro One Networks filed a Draft Rate Order reflecting the changes outlined in the OEB's decision.

In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax to the Ontario Electricity Financial Corporation (OEFC) Regime to the Federal Tax Regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. The OEB proposed a basis for sharing a portion of the tax savings resulting from the deferred tax asset with ratepayers by reducing the amount of cash taxes approved for recovery in Hydro One Networks' 2017-2018 transmission rates. On November 9, 2017, the OEB issued a Decision and Order that modified the portion of the tax savings that should be shared with ratepayers. This proposed methodology would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same methodology for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an impairment of Hydro One Networks' distribution deferred income tax regulatory asset of up to approximately \$370 million.

In October 2017, the Company filed a Motion to Review and Vary the Decision (Motion) and filed an appeal with the Divisional Court of Ontario (Appeal). The Motion seeks allocation of the full amount of future tax savings from the Deferred Tax Asset of \$2,595 million to shareholders; a recovery of \$5 million in 2018 for allowance for funds used during construction relating to the Niagara Reinforcement Project; and the recovery of approximately \$1 million related to costs for the Ombudsman's Office. With respect to the Deferred Tax Assets, in both the Motion and Appeal, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The outcome of the Motion to Review and Vary as well as the Appeal are uncertain. If the decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million, resulting in an annual decrease to FFO in the range of \$50 million to \$60 million.

Hydro One Networks - Distribution

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

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

B2M LP

On June 8, 2017, the OEB approved B2M LP's Rate Order reflecting 2017 transmission revenue requirement of \$34 million, effective January 1, 2017, and as such, Hydro One is not required to file a Draft Rate Order for 2017.

Hydro One Sault Ste. Marie

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Sault Ste. Marie's 2017 transmission rates application, denying the requested revenue requirement for 2017. Hydro One Sault Ste. Marie's 2016 approved revenue requirement of \$41 million will remain in effect for 2017.

Hydro One Remote Communities Inc.

On August 28, 2017, Hydro One Remote Communities Inc. filed an application with the OEB seeking approval of its 2018 revenue requirement of \$57 million and electricity rates effective May 1, 2018. Hydro One Remote Communities Inc. is fully financed by debt and is operated as a break-even entity with no ROE.

MAAD Applications

Orillia Power MAAD Application

In August 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power). The acquisition is subject to regulatory approval by the OEB. On July 27, 2017, the OEB issued a Procedural Order No.6 (Procedural Order) in the matter of Hydro One's MAAD application to acquire Orillia Power. The Procedural Order stated that the OEB has decided to delay a decision on the Orillia Power MAAD application until Hydro One defends its cost allocation proposal in the 2018-2022 Distribution Application hearing to determine if the Orillia Power acquisition is likely to cause harm to any of its current customers. Because of the timetable of the 2018-2022 Distribution Application hearing, and the time it will take to receive a decision in that hearing, the effect of the Procedural Order will be to delay the Orillia Power MAAD application decision by as much as 18 months or more. On August 14, 2017, Hydro One filed a Motion to Review and Vary the Procedural Order requesting the OEB to allow the Orillia Power MAAD application to proceed immediately in the ordinary course. On October 24, 2017, the OEB issued a Procedural Order in response to Hydro One's Motion to Review and Vary, with key dates for filing additional materials on the Motion, hearing date, and filing of reply submissions.

Other Applications

East-West Tie

In 2013, NextBridge Infrastructure, a partnership between NextEra Energy Canada, Enbridge Inc., and Borealis Infrastructure was designated by the OEB to complete the development work for the East-West Tie Line Project, a 230 kV, 400 km transmission line connecting Hydro One's Wawa and Lakehead transmission stations. This project is necessary to ensure the reliability of electricity supply in Northwestern Ontario, and was included as a priority project in the Province's 2010 Long-Term Energy Plan. On July 31, 2017, Hydro One filed a Leave to Construct application with the OEB to perform station upgrades to its Wawa and Lakehead transmission stations (East-West Tie Station Expansion), necessary to support the East-West Tie Line Project.

On September 22, 2017, Hydro One filed with the OEB a Letter of Intent indicating that it plans to file a Leave to Construct application to construct the East-West Tie Line Project.

Other Regulatory Developments

Fair Hydro Plan and First Nations Rate Assistance Program

In March 2017, Ontario's Minister of Energy announced the Fair Hydro Plan, which included changes to the Global Adjustment, the Rural or Remote Electricity Rate Protection (RRRP) program, the introduction of the First Nations Rate Assistance program, and improving the allocation of delivery charges across the rural and urban geographies of the province. Hydro One worked collaboratively with the OEB on the First Nations Rate Assistance program, and was a key stakeholder in providing solutions that address both the Global Adjustment and RRRP elements. The Fair Hydro Plan and First Nations Rate Assistance Program came into effect on July 1, 2017 and resulted in a reduction of approximately 25% on electricity bills for typical Ontario residential customers. The Province also launched a new Affordability Fund aimed at assisting electricity customers who cannot qualify for low-income conservation programs. Additional enhancements were also made to the existing Ontario Electricity Support Program (OESP).

Hydro One customers saw the full benefits of the Fair Hydro Plan for all electricity consumed after July 1, 2017. A typical rural residential customer using 750 kWh per month will see savings on their monthly bills of 31% on average, or approximately \$600 annually. These changes did not have an impact on the net income of the Company.

Hydro One continues to work with First Nations customers living on reserves to help ensure the required applications are submitted to receive the benefits associated with the First Nations Rate Assistance Program, and to receive the credit on the delivery charge.

OEB Pension and Other Post-Employment Benefits Costs

On September 14, 2017, the OEB issued its final report, Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs (Report), that establishes the use of the accrual accounting method as the default method on which to set rates for pension and OPEB amounts in cost-based applications, unless that method does not result in just and reasonable rates. The Report also provides for the establishment of a variance account, effective January 1, 2018, to track the difference between the forecasted accrual amount in rates and actual cash payments made, with asymmetric carrying charges in favour of ratepayers applied to the differential.

Hydro One currently reports and recovers its pension expense on a cash basis, and maintains the accrual method with respect to OPEBs. Transitioning from the cash basis to an accrual method for pension may have material negative rate impacts for customers, including a higher cost recovered through rates, more volatility relating to the ability to predict the effect on rates, and the pension offset (cumulative difference between the cash and accrual basis which is \$900 million as at December 31, 2016) having to be recovered in rates on an accelerated basis. As the Report establishes that a basis other than the accrual accounting method may be acceptable if resulting in just and reasonable rates, Hydro One believes that the cash basis treatment of pension costs would continue to be supportable.

OTHER DEVELOPMENTS

Common Share Offering

On May 17, 2017, Hydro One completed a secondary offering (Offering) by the Province, on a bought deal basis, of 120 million common shares of Hydro One. Following completion of the Offering, the Province directly holds approximately 49.9% of Hydro One's total issued and outstanding common shares. This non-dilutive Offering increased the public ownership of Hydro One to approximately 50.1% or 298.6 million common shares. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

Pension Plan

In May 2017, Hydro One filed an actuarial valuation of its Pension Plan as at December 31, 2016. Based on this valuation and projected levels of pensionable earnings, the estimated total employer annual pension contributions for 2017, 2018 and 2019 are approximately \$88 million, \$71 million and \$71 million, respectively. The estimated 2017 annual employer contributions have decreased by approximately \$17 million from \$105 million based on improvements in the funded status of the plan and future actuarial assumptions, and also reflect the impact of changes implemented by management to improve the balance between employee and Company contributions to the Pension Plan.

Collective Agreements

On April 7, 2017, Hydro One reached an agreement with the Canadian Union of Skilled Workers (CUSW) for a renewal of the collective agreement. The agreement is for a five-year term, covering May 1, 2017 to April 30, 2022. The agreement was ratified by the CUSW and the Hydro One Board of Directors in May 2017.

Hydro One has agreements with Inergi LP (Inergi) for the provision of back office and IT outsourcing services, including settlements, source to pay services, pay operations services, information technology and finance and accounting services, expiring on December 31, 2019, and for the provision of customer service operations outsourcing services expiring on February 28, 2018. Hydro One is currently in the process of insourcing the customer service operations services and will not be renewing the existing agreement for these services with Inergi. Agreements have been reached with The Society of Energy Professionals and the Power Workers' Union to facilitate the insourcing of these services effective March 1, 2018.

Exemptive Relief

On June 6, 2017, the Canadian securities regulatory authorities granted (i) the Minister of Energy, (ii) Ontario Power Generation Inc. (on behalf of itself and the segregated funds established as required by the *Nuclear Fuel Waste Act* (Canada)) and (iii) agencies of the Crown, provincial Crown corporations and other provincial entities (collectively, the Non-Aggregated Holders) exemptive relief, subject to certain conditions, to enable each Non-Aggregated Holder to treat securities of Hydro One that it owns or controls separately from securities of Hydro One owned or controlled by the other Non-Aggregated Holders for purposes of certain take-over bid, early warning reporting, insider reporting and control person distribution rules and certain distribution restrictions under Canadian securities laws. Hydro One was also granted relief permitting it to rely solely on insider reports and early warning reports filed by Non-Aggregated Holders when reporting beneficial ownership or control or direction over securities in an information circular or annual information form in respect of securities beneficially owned or controlled by any Non-Aggregated Holder subject to certain conditions.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

Avista Corporation Purchase Agreement

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately \$6.7 billion, an all-cash transaction. Avista Corporation is an energy company primarily involved in regulated transmission, distribution and generation of energy, headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger, which is expected to occur in the second half of 2018, is subject to Avista Corporation common shareholder and certain regulatory and government approvals, and the satisfaction of customary closing conditions.

On September 14, 2017, Hydro One and Avista Corporation filed applications with state utility commissions in Washington, Idaho, Oregon, Montana, and Alaska, as well as with the Federal Energy Regulatory Commission, requesting regulatory approval of the Merger on or before August 14, 2018. In addition, on the same date, Avista Corporation filed the preliminary proxy with the Securities and Exchange Commission related to shareholder approval of the Merger. Required filings with a number of other agencies will be made in the coming months.

Convertible Debenture Offering

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company and its wholly-owned subsidiary, 2587264 Ontario Inc., completed the sale of \$1,540 million aggregate principal amount of 4.00% convertible unsecured subordinated debentures represented by installment receipts (Debenture Offering). See section "Liquidity and Financing Strategy".

The Province waived its pre-emptive right to participate in the Debenture Offering under the governance agreement entered into between Hydro One and the Province dated November 5, 2015 (Governance Agreement). In consideration of granting the waiver, Hydro One agreed that until July 19, 2018: (i) the Company shall not issue common shares pursuant to the Company's equity compensation plans and any dividend reinvestment plan in an aggregate number that exceeds 1% of the common shares outstanding as of July 19, 2017; and (ii) the Company shall not issue voting securities (or securities convertible into voting securities) pursuant to any acquisition transaction without complying with the pre-emptive right provisions of the Governance Agreement.

Litigation Relating to the Merger

To date, four putative class action lawsuits have been filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and name as defendants Avista Corporation and its directors; Sharpenter also names Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits allege that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. The class actions are consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuits are not material to Hydro One.

NON-GAAP MEASURES

FFO

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

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net cash from operating activities	442	510	1,193	1,182
Changes in non-cash balances related to operations	(52)	(73)	1	(12)
Preferred share dividends	(4)	(4)	(13)	(14)
Distributions to noncontrolling interest	(1)	(3)	(4)	(7)
FFO	385	430	1,177	1,149

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

Adjusted Net Income and Adjusted EPS

The following basic and diluted Adjusted EPS has been calculated by management on a supplementary basis which excludes costs related to the Avista Corporation acquisition from net income. Adjusted EPS is used internally by management to assess the Company's performance and is considered useful because it eliminates the impact of acquisition-related costs and provides users with a comparative basis to evaluate the operations of the Company.

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net income attributable to common shareholders <i>(millions of dollars)</i>	219	233	503	593
Costs related to acquisition of Avista Corporation <i>(millions of dollars)</i>	18	—	21	—
Adjusted net income attributable to common shareholders <i>(millions of dollars)</i>	237	233	524	593
Weighted average number of shares				
Basic	595,386,308	595,000,000	595,254,201	595,000,000
Effect of dilutive stock-based compensation plans	2,132,142	2,108,392	1,971,557	1,627,531
Diluted	597,518,450	597,108,392	597,225,758	596,627,531
Adjusted EPS				
Basic	\$0.40	\$0.39	\$0.88	\$1.00
Diluted	\$0.40	\$0.39	\$0.88	\$0.99

Revenues, net of purchased power

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

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenues	1,522	1,706	4,551	4,938
Less: Purchased power	675	870	2,213	2,569
Revenues, net of purchased power	847	836	2,338	2,369

<i>(millions of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Distribution revenues	1,040	1,249	3,317	3,687
Less: Purchased power	675	870	2,213	2,569
Distribution revenues, net of purchased power	365	379	1,104	1,118

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

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 49.9% ownership at September 30, 2017. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), OEFC, and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Hydro One Brampton was a related party until February 28, 2017, when it was acquired from the Province by Alectra Inc., and subsequent to the acquisition by Alectra Inc., is no longer a related party to Hydro One. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2017 and 2016:

(millions of dollars)		Three months ended		Nine months ended	
		September 30		September 30	
Related Party	Transaction	2017	2016	2017	2016
Province	Dividends paid	69	91	231	359
IESO	Power purchased	276	460	1,169	1,505
	Revenues for transmission services	390	434	1,124	1,185
	Amounts related to electricity rebates	181	—	321	—
	Distribution revenues related to rural rate protection	61	31	185	94
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	24	24
	Funding received related to Conservation and Demand Management programs	18	15	44	39
OPG	Power purchased	2	1	7	4
	Revenues related to provision of construction and equipment maintenance services	1	1	2	3
	Costs expensed related to the purchase of services	—	—	1	1
OEFC	Power purchased from power contracts administered by the OEFC	—	—	1	1
OEB	OEB fees	2	2	6	9
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	—	—	—	2

RISK FACTORS

Risk Factors Relating to the Merger

Hydro One may fail to complete the Merger

The closing of the Merger is subject to the normal commercial risks that the Merger will not close on the terms negotiated (including with respect to the consideration to be paid in respect of the common stock of Avista Corporation) or at all. The completion of the Merger is subject to receipt of Avista Corporation shareholder approval and satisfaction of other approval conditions, including certain regulatory and governmental approvals, including the expiration or termination of any applicable waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, clearance of the Merger by the Committee on Foreign Investment in the United States, the approval by each of the Idaho Public Utilities Commission, the Public Service Commission of the State of Montana, the Public Utility Commission of Oregon, the Regulatory Commission of Alaska, the Washington Utilities and Transportation Commission, the United States Federal Energy Regulatory Commission and the United States Federal Communications Commission and the satisfaction or waiver of certain closing conditions contained in the Merger Agreement. The failure to obtain the required approvals or satisfy or waive the conditions contained in the Merger Agreement may result in the termination of the Merger Agreement. There is no assurance that such closing conditions will be satisfied or waived. Accordingly, there can be no assurance that Hydro One will complete the Merger in the timeframe or on the basis described herein, if at all. The termination of the Merger Agreement may have a negative effect on the price of the Instalment Receipts, the Debentures and the Hydro One common shares and will result in the redemption of the Debentures. If the closing of the Merger does not take place as contemplated, the Company could suffer adverse consequences, including the loss of investor confidence, and may incur significant costs or losses, including an obligation to pay or cause to be paid to Avista Corporation a termination fee of US \$103 million.

The purchase price could increase

Avista Corporation is a public company and its directors owe fiduciary duties to Avista Corporation shareholders, which may require them to consider competing offers to purchase the common stock of Avista Corporation as alternatives to the Merger. The Merger Agreement preserves the ability of the directors of Avista Corporation to accept an alternative or competing offer in certain circumstances if such offer constitutes a superior proposal. If a superior proposal to acquire Avista Corporation is made, and if the superior proposal results in Avista Corporation's board of directors making a recommendation change to Avista Corporation's shareholders which is adverse to Hydro One, Avista Corporation is required to negotiate in good faith with Hydro One regarding any revisions to the Merger Agreement, which could result in an increase to the purchase price of the Merger or changes to other terms and conditions of the Merger.

Length of time required to complete the Merger is unknown

As described above under "Hydro One Limited may fail to complete the Merger", the closing of the Merger is subject to the receipt of required Avista Corporation shareholder approval and certain regulatory approvals and the satisfaction of other closing conditions contained in the Merger Agreement. There is no certainty, nor can Hydro One provide any assurance, as to when these conditions will be satisfied, if at all. A substantial delay in obtaining regulatory approvals or the imposition of unfavourable terms and/or conditions in such approvals could have a material adverse effect on the Company's ability to complete the Merger and on Hydro One's or Avista Corporation's business, financial condition or results of operations. In addition, in the event that such regulatory agencies imposed unfavorable terms and/or conditions on Hydro One or Avista Corporation (including the requirement to sell or divest of certain assets or limitations on the future conduct of the combined entities), the Company could still be required to complete the transaction on the terms set forth in the Merger Agreement.

Hydro One intends to complete the Merger as soon as practicable after obtaining the required Avista Corporation shareholder approval and regulatory approvals and satisfying the other required closing conditions.

Foreign exchange risk

The cash consideration for the Merger is required to be paid in US dollars, while funds raised in the Debenture Offering, which will constitute a significant portion of the funds ultimately used to finance the Merger, are denominated in Canadian dollars. As a result, increases in the value of the US dollar versus the Canadian dollar prior to payment of the final instalment will increase the purchase price translated in Canadian dollars and thereby reduce the proportion of the purchase price for the Merger ultimately obtained by Hydro One under the Debenture Offering, which could cause a failure to realize the anticipated benefits of the Merger. This risk has been partially mitigated through entering into a foreign exchange forward agreement to convert \$1.4 billion Canadian to US dollars which is contingent upon the closing of the Merger.

In addition, the operations of Avista Corporation are conducted in US dollars. Following the Merger, the consolidated net earnings and cash flows of Hydro One will be impacted to a much greater extent by movements in the US dollar relative to the Canadian dollar. In particular, decreases in the value of the US dollar versus the Canadian dollar following the Merger could negatively impact the Company's net earnings as reported in Canadian dollars, which could cause a failure to realize the anticipated benefits of the Merger.

Additional demands will be placed on Hydro One as a result of the Merger

As a result of the pursuit and completion of the Merger, additional demands will be placed on the Company's managerial, operational and financial personnel and systems. No assurance can be given that the Company's systems, procedures and controls will be adequate to support the expansion of the Company's operations resulting from the Merger. The Company's future operating results will be affected by the ability of its officers and key employees to manage changing business conditions and to maintain its operational and financial controls and reporting systems.

Sources of funding that would be used to fund the Merger may not be available

Hydro One intends to finance the cash purchase price of the Merger and the Merger-related expenses at the closing of the Merger with a combination of some or all of the following: (i) net proceeds of the first instalment (to the extent available) and final instalment under the Debenture Offering; (ii) net proceeds of any subsequent bond or other debt offerings; (iii) amounts drawn under Hydro One's \$250 million credit facility; and (iv) existing cash on hand and other sources available to the Company.

There is no guarantee that adequate sources of funding will be available to Hydro One or its affiliates at the desired time or at all, or on cost-efficient terms. The inability to obtain adequate sources of funding to fund the Merger may result in Hydro One being unable to complete the Merger or may negatively impact Hydro One, including its ability to finance the Merger. In addition, any movement in interest rates that could affect the underlying cost of any financing may affect the expected accretion of the Merger.

Hydro One expects to incur significant Merger-related expenses

Hydro One expects to incur a number of costs associated with completing the Merger. The substantial majority of these costs will be non-recurring expenses resulting from the Merger and will consist of transaction costs related to the Merger, including costs relating to the financing of the Merger and obtaining regulatory approval. Additional unanticipated costs may be incurred.

Risk Factors Relating to the Post-Merger Business and Operations of Hydro One and Avista Corporation

Hydro One will substantially increase its amount of indebtedness following the Merger

After giving effect to the Merger, Hydro One will have a significant amount of debt, including approximately US \$1.9 billion of debt of Avista Corporation assumed by Hydro One as a result of the Merger. As of March 31, 2017, on a *pro forma* basis after giving effect to the Merger, but assuming conversion of all Debentures to Hydro One common shares (assuming no exercise of the Over-Allotment Option), Hydro One would have had approximately \$17,098 million of total indebtedness outstanding. Hydro One will substantially increase its amount of indebtedness following the Merger and such increased indebtedness may adversely affect Hydro One's cash flow and ability to operate its business.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

The Offering could result in a downgrade of Hydro One's credit ratings

The change in the capital structure of Hydro One as a result of the Merger and the Debenture Offering could cause credit rating agencies which rate the outstanding debt obligations of Hydro One and Hydro One Inc. to re-evaluate and potentially downgrade their current credit ratings, which could increase the Company's borrowing costs.

Reputational and Public Opinion Risk

Reputation risk is the risk of a negative impact to Hydro One's business, operations or financial condition that could result from a deterioration of Hydro One's reputation. Hydro One's reputation could be negatively impacted by changes in public opinion (including as a result of the Merger), attitudes towards the Company's privatization, failure to deliver on its customer promises and other external forces. Adverse reputational events or political actions could have negative impacts on Hydro One's business and prospects including, but not limited to, delays or denials of requisite approvals and accommodations for Hydro One's planned projects, escalated costs, legal or regulatory action, and damage to stakeholder relationships.

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 described in the Company's 2016 annual MD&A.

Together, disclosure controls and procedures and internal control over financial reporting make up the systems that provide internal control over reporting and disclosure. These systems include policies and procedures designed to enable the reliability and timeliness of information disclosed by the Company. 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. Furthermore, the effectiveness of internal control is affected by change and subject to the risk that internal control effectiveness may change over time.

The role of Chief Financial Officer was vacated effective May 19, 2017. Responsibilities of the Chief Financial Officer have been temporarily assigned to other senior finance executives with full oversight provided by the Chief Executive Officer. This model is expected to remain in place until a new Chief Financial Officer is appointed. There have been no other significant changes in the design of the Company's internal control over financial reporting during the nine months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the operation of the Company's internal control over financial reporting.

Management will continue to monitor its systems of internal control over reporting and disclosure and may make modifications from time to time as considered necessary.

NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.	January 1, 2019	Under assessment
2017-09	May 2017	Changes to the terms or conditions of a share-based payment award will require an entity to apply modified accounting unless the modified award meets all conditions stipulated in this ASU.	January 1, 2018	Under assessment
2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Under assessment

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05 2017-10 2017-13	May 2014 – September 2017	ASU 2014-09 was issued in May 2014 and provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 and 2017 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One has completed the review of its regulated distribution and transmission revenue streams and has concluded that there will be no significant impact to these revenue streams upon adoption. The Company continues its assessment of all other revenue streams and expects to be completed during the fourth quarter of 2017. The Company is on track for implementation of this standard by the effective date.
2016-02	February 2016	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting decisions, rates and expected timing; the Company's liquidity and capital resources and operational requirements; the standby credit facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB; the Motion and the Appeal; collective agreements; Inergi outsourcing and customer service operations arrangements; future pension contributions, valuations and expected impacts; impacts of OEB treatment of pension and OPEBs costs; dividends; credit ratings; non-GAAP measures; internal control over financial reporting and disclosure; the Fair Hydro Plan and First Nations Rate Assistance Program, including expected outcomes and impacts; recent accounting-related guidance; the Universal Base Shelf Prospectus; the Convertible Debentures; the Province's waiver of its pre-emptive right under the Governance Agreement to participate in the Debenture Offering; the Company's acquisitions and mergers, including Orillia Power and Avista Corporation; the Company's financing strategy and foreign currency hedging relating to the acquisition of Avista Corporation; litigation relating to the Merger; the risk that the Company may fail to complete the Merger; the risk that the purchase price of Avista Corporation could increase; risk related to the length of time required to complete the Merger; foreign exchange risk; risks related to additional demands placed on Hydro One as a result of the Merger; risks related to availability of planned sources of funding to be used to fund the Merger; risks and expectations related to Hydro One incurring significant Merger-related expenses; risks and expectations related to Hydro One substantially increasing its amount of indebtedness following the Merger; and reputational and public opinion risk. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking statements, except as required by law.

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

- risks associated with the Province's share ownership of Hydro One and other relationships with the Province, including potential conflicts of interest that may arise between Hydro One, the Province and related parties;

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three and nine months ended September 30, 2017 and 2016

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

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

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

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three and nine months ended September 30, 2017 and 2016

	Three months ended September 30		Nine months ended September 30	
<i>(millions of Canadian dollars, except per share amounts)</i>	2017	2016	2017	2016
Revenues				
Distribution (includes related party revenues of \$69 (2016 – \$39) and \$209 (2016 – \$120) for the three and nine months ended September 30, respectively) <i>(Note 22)</i>	1,040	1,249	3,317	3,687
Transmission (includes related party revenues of \$390 (2016 – \$435) and \$1,125 (2016 – \$1,187) for the three and nine months ended September 30, respectively) <i>(Note 22)</i>	471	444	1,199	1,211
Other	11	13	35	40
	1,522	1,706	4,551	4,938
Costs				
Purchased power (includes related party costs of \$278 (2016 – \$461) and \$1,177 (2016 – \$1,510) for the three and nine months ended September 30, respectively) <i>(Note 22)</i>	675	870	2,213	2,569
Operation, maintenance and administration <i>(Note 22)</i>	277	264	822	782
Depreciation and amortization <i>(Note 5)</i>	209	191	603	574
	1,161	1,325	3,638	3,925
Income before financing charges and income taxes	361	381	913	1,013
Financing charges	114	98	320	292
Income before income taxes	247	283	593	721
Income taxes <i>(Note 6)</i>	23	44	73	110
Net income	224	239	520	611
Other comprehensive income	—	—	1	—
Comprehensive income	224	239	521	611
Net income attributable to:				
Noncontrolling interest	1	2	4	4
Preferred shareholders	4	4	13	14
Common shareholders	219	233	503	593
	224	239	520	611
Comprehensive income attributable to:				
Noncontrolling interest	1	2	4	4
Preferred shareholders	4	4	13	14
Common shareholders	219	233	504	593
	224	239	521	611
Earnings per common share <i>(Note 20)</i>				
Basic	\$0.37	\$0.39	\$0.85	\$1.00
Diluted	\$0.37	\$0.39	\$0.84	\$0.99
Dividends per common share declared <i>(Note 19)</i>	\$0.22	\$0.21	\$0.65	\$0.76

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At September 30, 2017 and December 31, 2016

<i>(millions of Canadian dollars)</i>	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	622	50
Accounts receivable <i>(Note 7)</i>	590	838
Due from related parties	294	158
Other current assets <i>(Note 8)</i>	119	102
	1,625	1,148
Property, plant and equipment <i>(Note 9)</i>	19,734	19,140
Other long-term assets:		
Regulatory assets	3,147	3,145
Deferred income tax assets	1,048	1,235
Intangible assets (net of accumulated amortization – \$357; 2016 – \$330)	359	349
Goodwill	327	327
Other assets	5	7
	4,886	5,063
Total assets	26,245	25,351
Liabilities		
Current liabilities:		
Short-term notes payable <i>(Note 13)</i>	894	469
Long-term debt payable within one year <i>(Notes 13, 15)</i>	602	602
Accounts payable and other current liabilities <i>(Note 11)</i>	959	945
Due to related parties	6	147
	2,461	2,163
Long-term liabilities:		
Long-term debt (includes \$541 measured at fair value; 2016 – \$548) <i>(Notes 13, 15)</i>	10,067	10,078
Convertible debentures <i>(Notes 14, 15)</i>	486	—
Regulatory liabilities	127	209
Deferred income tax liabilities	65	60
Other long-term liabilities <i>(Note 12)</i>	2,815	2,752
	13,560	13,099
Total liabilities	16,021	15,262
<i>Contingencies and Commitments (Notes 24, 25)</i>		
<i>Subsequent Events (Notes 10, 27)</i>		
Noncontrolling interest subject to redemption	22	22
Equity		
Common shares <i>(Note 18)</i>	5,631	5,623
Preferred shares <i>(Note 18)</i>	418	418
Additional paid-in capital	44	34
Retained earnings	4,066	3,950
Accumulated other comprehensive loss	(7)	(8)
Hydro One shareholders' equity	10,152	10,017
Noncontrolling interest	50	50
Total equity	10,202	10,067
	26,245	25,351

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

For the nine months ended September 30, 2017 and 2016

Nine months ended September 30, 2017 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2017	5,623	418	34	3,950	(8)	10,017	50	10,067
Net income	—	—	—	516	—	516	3	519
Other comprehensive income	—	—	—	—	1	1	—	1
Distributions to noncontrolling interest	—	—	—	—	—	—	(3)	(3)
Dividends on preferred shares	—	—	—	(13)	—	(13)	—	(13)
Dividends on common shares	—	—	—	(387)	—	(387)	—	(387)
Common shares issued	8	—	(8)	—	—	—	—	—
Stock-based compensation	—	—	18	—	—	18	—	18
September 30, 2017	5,631	418	44	4,066	(7)	10,152	50	10,202

Nine months ended September 30, 2016 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2016	5,623	418	10	3,806	(8)	9,849	52	9,901
Net income	—	—	—	607	—	607	3	610
Other comprehensive income	—	—	—	—	—	—	—	—
Distributions to noncontrolling interest	—	—	—	—	—	—	(5)	(5)
Dividends on preferred shares	—	—	—	(14)	—	(14)	—	(14)
Dividends on common shares	—	—	—	(452)	—	(452)	—	(452)
Stock-based compensation	—	—	18	—	—	18	—	18
September 30, 2016	5,623	418	28	3,947	(8)	10,008	50	10,058

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three and nine months ended September 30, 2017 and 2016

<i>(millions of Canadian dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Operating activities				
Net income	224	239	520	611
Environmental expenditures	(7)	(5)	(19)	(15)
Adjustments for non-cash items:				
Depreciation and amortization (excluding asset removal costs)	187	170	537	506
Regulatory assets and liabilities	(32)	(6)	92	(28)
Deferred income taxes	17	33	55	90
Other	1	6	9	6
Changes in non-cash balances related to operations <i>(Note 23)</i>	52	73	(1)	12
Net cash from operating activities	442	510	1,193	1,182
Financing activities				
Long-term debt issued	—	—	—	1,350
Long-term debt repaid	—	—	(1)	(450)
Short-term notes issued	1,232	940	2,810	2,435
Short-term notes repaid	(1,053)	(770)	(2,385)	(2,808)
Convertible debentures issued <i>(Note 14)</i>	513	—	513	—
Dividends paid	(135)	(129)	(400)	(466)
Distributions paid to noncontrolling interest	(1)	(3)	(4)	(7)
Other <i>(Note 14)</i>	(27)	—	(27)	(6)
Net cash from financing activities	529	38	506	48
Investing activities				
Capital expenditures <i>(Note 23)</i>				
Property, plant and equipment	(358)	(399)	(1,071)	(1,156)
Intangible assets	(24)	(15)	(57)	(43)
Acquisitions	—	(3)	—	(3)
Capital contributions received	—	—	9	15
Other	—	3	(8)	3
Net cash used in investing activities	(382)	(414)	(1,127)	(1,184)
Net change in cash and cash equivalents	589	134	572	46
Cash and cash equivalents, beginning of period	33	6	50	94
Cash and cash equivalents, end of period	622	140	622	140

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

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). At September 30, 2017, the Province of Ontario (Province) held approximately 49.9% (December 31, 2016 – 70.1%) of the common shares of Hydro One.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) 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, 2016. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2016 annual audited consolidated financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2017-12	August 2017	Amendments will better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.	January 1, 2019	Under assessment
2017-09	May 2017	Changes to the terms or conditions of a share-based payment award will require an entity to apply modified accounting unless the modified award meets all conditions stipulated in this ASU.	January 1, 2018	Under assessment
2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company’s employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Under assessment
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05 2017-10 2017-13	May 2014 – September 2017	ASU 2014-09 was issued in May 2014 and provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2015-14 deferred the effective date of ASU 2014-09 by one year. Additional ASUs were issued in 2016 and 2017 that simplify transition and provide clarity on certain aspects of the new standard.	January 1, 2018	Hydro One has completed the review of its regulated distribution and transmission revenue streams and has concluded that there will be no significant impact to these revenue streams upon adoption. The Company continues its assessment of all other revenue streams and expects to be completed during the fourth quarter of 2017. The Company is on track for implementation of this standard by the effective date.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2017 and 2016

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02	February 2016	Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

4. BUSINESS COMBINATION

Avista Corporation Purchase Agreement

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately \$6.7 billion, an all-cash transaction. Avista Corporation is an energy company primarily involved in regulated transmission, distribution and generation of energy, headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger, which is expected to occur in the second half of 2018, is subject to Avista Corporation common shareholder and certain regulatory and government approvals, and the satisfaction of customary closing conditions.

On September 14, 2017, Hydro One and Avista Corporation filed applications with state utility commissions in Washington, Idaho, Oregon, Montana, and Alaska, as well as with the Federal Energy Regulatory Commission, requesting regulatory approval of the Merger on or before August 14, 2018. In addition, on the same date, Avista Corporation filed the preliminary proxy with the Securities and Exchange Commission related to shareholder approval of the Merger. Required filings with a number of other agencies will be made in the coming months.

5. DEPRECIATION AND AMORTIZATION

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Depreciation of property, plant and equipment	164	151	473	450
Asset removal costs	22	21	66	68
Amortization of intangible assets	16	14	45	41
Amortization of regulatory assets	7	5	19	15
	209	191	603	574

6. INCOME TAXES

Income taxes differ from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

(millions of dollars)	Nine months ended September 30	
	2017	2016
Income taxes at statutory rate	157	191
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(38)	(41)
Pension contributions in excess of pension expense	(11)	(13)
Overheads capitalized for accounting but deducted for tax purposes	(12)	(12)
Interest capitalized for accounting but deducted for tax purposes	(13)	(14)
Environmental expenditures	(6)	(5)
Prior years' adjustments	(4)	1
Other	(3)	1
Net temporary differences	(87)	(83)
Net permanent differences	3	2
Total income taxes	73	110
Effective income tax rate	12.3%	15.3%

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2017 and 2016

7. ACCOUNTS RECEIVABLE

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Accounts receivable – billed	291	431
Accounts receivable – unbilled	330	442
Accounts receivable, gross	621	873
Allowance for doubtful accounts	(31)	(35)
Accounts receivable, net	590	838

The following table shows the movements in the allowance for doubtful accounts for the nine months ended September 30, 2017 and the year ended December 31, 2016:

<i>(millions of dollars)</i>	Nine months ended September 30, 2017	Year ended December 31, 2016
Allowance for doubtful accounts – beginning	(35)	(61)
Write-offs	18	37
Additions to allowance for doubtful accounts	(14)	(11)
Allowance for doubtful accounts – ending	(31)	(35)

8. OTHER CURRENT ASSETS

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Regulatory assets	58	37
Materials and supplies	19	19
Prepaid expenses and other assets	42	46
	119	102

9. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Property, plant and equipment	28,312	27,687
Less: accumulated depreciation	(10,261)	(9,935)
	18,051	17,752
Construction in progress	1,518	1,234
Future use land, components and spares	165	154
	19,734	19,140

10. REGULATORY ASSETS AND LIABILITIES

Deferred Income Tax Regulatory Asset

On September 28, 2017, the Ontario Energy Board (OEB) issued its Decision and Order on Hydro One Networks Inc.'s (Hydro One Networks) 2017 and 2018 transmission rates revenue requirements (Decision).

In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax to the Ontario Electricity Financial Corporation (OEF) Regime to the Federal Tax Regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. The OEB proposed a basis for sharing a portion of the tax savings resulting from the deferred tax asset with ratepayers by reducing the amount of cash taxes approved for recovery in Hydro One Networks' 2017-2018 transmission rates. On November 9, 2017, the OEB issued a Decision and Order that modified the portion of the tax savings that should be shared with ratepayers. This proposed methodology would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same methodology for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an impairment of Hydro One Networks' distribution deferred income tax regulatory asset of up to approximately \$370 million. In October 2017, the Company filed a Motion to Review and Vary the OEB's decision and filed an appeal with the Divisional Court of Ontario (Appeal). In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The outcome of the Motion to Review and Vary as well as

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2017 and 2016

the Appeal are uncertain. If the decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million.

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Accounts payable	158	181
Accrued liabilities	603	659
Accrued interest	140	105
Regulatory liabilities	58	—
	959	945

12. OTHER LONG-TERM LIABILITIES

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Post-retirement and post-employment benefit liability	1,702	1,641
Pension benefit liability	899	900
Environmental liabilities <i>(Note 17)</i>	174	177
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	31	25
	2,815	2,752

13. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

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

At September 30, 2017, Hydro One's consolidated committed, unsecured and undrawn credit facilities totalling \$2,550 million included Hydro One's credit facilities of \$250 million and Hydro One Inc.'s credit facilities of \$2.3 billion. In June 2017, the maturity date of Hydro One Inc.'s \$2.3 billion credit facilities was extended from June 2021 to June 2022.

Long-Term Debt

The following table presents long-term debt outstanding at September 30, 2017 and December 31, 2016:

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Hydro One Inc. long-term debt (a)	10,523	10,523
HOSSM long-term debt (b)	179	184
	10,702	10,707
Add: Net unamortized debt premiums	14	15
Add: Unrealized mark-to-market gain ¹	(9)	(2)
Less: Deferred debt issuance costs	(38)	(40)
Total long-term debt	10,669	10,680
Less: Long-term debt payable within one year	(602)	(602)
	10,067	10,078

¹ The unrealized mark-to-market net gain relates to Hydro One Inc.'s \$50 million of the Series 33 notes due 2020 and the \$500 million Series 37 notes due 2019. The unrealized mark-to-market net gain is offset by a \$9 million (December 31, 2016 – \$2 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At September 30, 2017, long-term debt of \$10,523 million (December 31, 2016 - \$10,523 million) was outstanding under Hydro One Inc.'s MTN Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 is \$3.5 billion. At September 30, 2017, \$1.2 billion remained available for issuance until January 2018. During the nine months ended September 30, 2017, no long-term debt was issued or repaid under the MTN Program (2016 - \$1,350 million issued and \$450 million repaid).

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

At September 30, 2017, long-term debt related to HOSSM was \$179 million (December 31, 2016 - \$184 million), with a face value of \$147 million. During the nine months ended September 30, 2017, \$1 million of HOSSM long-term debt was repaid.

Principal and Interest Payments

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

Years to Maturity	Long-term Debt Principal Repayments <i>(millions of dollars)</i>	Weighted Average Interest Rate <i>(%)</i>
1 year	602	5.2
2 years	981	2.6
3 years	1,153	2.3
4 years	503	1.9
5 years	603	3.2
	3,842	2.9
6 – 10 years	633	3.5
Over 10 years	6,195	5.2
	10,670	4.3

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

Year	Interest Payments <i>(millions of dollars)</i>
Remainder of 2017	141
2018	426
2019	402
2020	384
2021	370
	1,723
2022-2026	1,703
2027+	4,405
	7,831

14. CONVERTIBLE DEBENTURES

(millions of dollars, except as otherwise noted)

Maturity date	September 30, 2027
Coupon rate	4.00%
Conversion price per common share	\$ 21.40
Carrying value at December 31, 2016	—
Receipt of Initial Instalment, net of deferred financing costs	486
Amortization of deferred financing costs	—
Carrying value at September 30, 2017	486
Face value at September 30, 2017	513

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

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

The Convertible Debentures will mature on September 30, 2027 and bear interest at an annual rate of 4.00% per \$1,000 principal amount of Convertible Debentures until and including the Final Instalment Date, after which the interest rate will be 0%. If the Final Instalment Date occurs on a day that is prior to the first anniversary of the closing of the Debenture Offering, holders of the Convertible Debentures who have paid the Final Instalment on or before the Final Instalment Date will be entitled to receive, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the closing of the Debenture Offering had the Convertible Debentures remained outstanding and continued to accrue interest until and including such date (Make-Whole Payment). No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the closing of the Debenture Offering.

Based on the Initial Instalment of \$333 per \$1,000 principal amount of Convertible Debentures and the expectation that the Final Instalment Date will occur on a day that is after the first anniversary of the closing of the Debenture Offering, the effective annual yield to and including the Final Instalment Date is 12%, and the effective annual yield thereafter is 0%. The interest expense recorded for the three and nine months ended September 30, 2017 is \$9 million.

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

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

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

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At September 30, 2017 and December 31, 2016, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at September 30, 2017 and December 31, 2016 are as follows:

(millions of dollars)	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
\$50 million of MTN Series 33 notes	49	49	50	50
\$500 million MTN Series 37 notes	492	492	498	498
Other notes and debentures	10,128	11,328	10,132	11,462
Long-term debt, including current portion	10,669	11,869	10,680	12,010

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three and nine months ended September 30, 2017 and 2016

Fair Value Measurements of Derivative Instruments

At September 30, 2017, Hydro One Inc. had interest-rate swaps in the amount of \$550 million (December 31, 2016 – \$550 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. Hydro One Inc.'s fair value hedge exposure was approximately 5% (December 31, 2016 – 5%) of its total long-term debt. At September 30, 2017, Hydro One Inc. had the following interest-rate swaps designated as fair value hedges:

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

At September 30, 2017 and December 31, 2016, the Company had no interest-rate swaps classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at September 30, 2017 and December 31, 2016 is as follows:

September 30, 2017 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	622	622	622	—	—
	622	622	622	—	—
Liabilities:					
Short-term notes payable	894	894	894	—	—
Long-term debt, including current portion	10,669	11,869	—	11,869	—
Convertible debentures	486	587	587	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	9	—	—
	12,058	13,359	1,490	11,869	—
December 31, 2016 (millions of dollars)					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	50	50	50	—	—
	50	50	50	—	—
Liabilities:					
Short-term notes payable	469	469	469	—	—
Long-term debt, including current portion	10,680	12,010	—	12,010	—
Derivative instruments					
Fair value hedges – interest-rate swaps	2	2	2	—	—
	11,151	12,481	471	12,010	—

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

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

The fair value of the convertible debentures is based on their closing price on September 29, 2017 (last business day in September 2017), as posted on the Toronto Stock Exchange.

There were no transfers between any of the fair value levels during the nine months ended September 30, 2017 or 2016.

Risk Management

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

Market Risk

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

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

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the three and nine months ended September 30, 2017 and 2016.

The Company is exposed to foreign exchange fluctuations related to the expected acquisition of Avista Corporation as the purchase price is denominated in US dollars. This risk has been partially mitigated through entering into a deal-contingent foreign exchange forward agreement to convert \$1.4 billion Canadian to US dollars subsequent to the end of the third quarter (see note 27). The balance of the Avista Corporation acquisition purchase price will be financed by issuing long-term debt denominated in US dollars which will act as an economic hedge.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three and nine months ended September 30, 2017 and 2016 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At September 30, 2017 and December 31, 2016, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At September 30, 2017 and December 31, 2016, there was no material accounts receivable balance due from any single customer.

At September 30, 2017, the Company's provision for bad debts was \$31 million (December 31, 2016 – \$35 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At September 30, 2017, approximately 6% (December 31, 2016 – 6%) of the Company's net accounts receivable were outstanding for more than 60 days.

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

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At September 30, 2017 and December 31, 2016, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At September 30, 2017, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

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

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

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

Estimated annual defined benefit pension plan contributions for 2017, 2018 and 2019 are approximately \$88 million, \$71 million, and \$71 million, respectively, based on an actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings. Employer contributions made during the nine months ended September 30, 2017 were \$67 million (2016 – \$83 million).

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The following tables provide the components of the net periodic benefit costs for the three and nine months ended September 30, 2017 and 2016:

Three months ended September 30 <i>(millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2017	2016	2017	2016
Current service cost	36	36	12	11
Interest cost	76	77	17	17
Expected return on plan assets, net of expenses ¹	(110)	(109)	—	—
Actuarial loss amortization	20	24	2	2
Net periodic benefit costs	22	28	31	30
Charged to results of operations ²	10	13	14	13

Nine months ended September 30 <i>(millions of dollars)</i>	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2017	2016	2017	2016
Current service cost	109	108	36	32
Interest cost	228	231	51	51
Expected return on plan assets, net of expenses ¹	(331)	(326)	—	—
Actuarial loss amortization	60	72	6	6
Net periodic benefit costs	66	85	93	89
Charged to results of operations ²	31	38	41	37

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

² The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and nine months ended September 30, 2017, pension costs of \$22 million (2016 – \$29 million) and \$68 million (2016 – \$86 million), respectively, were attributed to labour, of which \$10 million (2016 – \$13 million) and \$31 million (2016 – \$38 million), respectively, were charged to operations, and \$12 million (2016 – \$16 million) and \$37 million (2016 – \$48 million) respectively, were capitalized as part of the cost of property, plant and equipment and intangible assets.

17. ENVIRONMENTAL LIABILITIES

The following table shows the movements in environmental liabilities for the nine months ended September 30, 2017 and the year ended December 31, 2016:

<i>(millions of dollars)</i>	Nine months ended September 30, 2017	Year ended December 31, 2016
Environmental liabilities – beginning	204	207
Interest accretion	6	8
Expenditures	(19)	(20)
Revaluation adjustment	11	9
Environmental liabilities – ending	202	204
Less: current portion	(28)	(27)
	174	177

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

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Undiscounted environmental liabilities	214	224
Less: discounting environmental liabilities to present value	(12)	(20)
Discounted environmental liabilities	202	204

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Future expenditures have been discounted using rates ranging from approximately 2.0% to 6.3%, depending on the appropriate rate for the period when expenditures are expected to be incurred. At September 30, 2017, the estimated undiscounted future environmental expenditures were as follows:

<i>(millions of dollars)</i>	
2017 ¹	8
2018	25
2019	25
2020	30
2021	37
Thereafter	89
	214

¹ The amounts disclosed represent amounts for the period from October 1, 2017 to December 31, 2017.

18. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At September 30, 2017, the Company had 595,386,599 (December 31, 2016 – 595,000,000) common shares issued and outstanding.

The following table presents the changes to common shares during the nine months ended September 30, 2017. There was no movement in common shares during the year ended December 31, 2016.

<i>(number of shares)</i>	
Common shares – December 31, 2016	595,000,000
Common shares issued – share grants (a)	371,611
Common shares issued – LTIP (b)	13,714
Common shares issued – LTIP (c)	1,274
Common shares – September 30, 2017	595,386,599

- (a) On April 1, 2017, Hydro One issued from treasury 371,611 common shares in accordance with provisions of the Power Workers' Union Share Grant Plan.
- (b) On May 31, 2017, Hydro One issued from treasury 13,714 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP).
- (c) On July 21, 2017, Hydro One issued from treasury 1,274 common shares to in accordance with provisions of the LTIP.

Secondary Common Share Offering

On May 17, 2017, Hydro One completed a secondary offering (Offering) by the Province, on a bought deal basis, of 120 million common shares of Hydro One on the Toronto Stock Exchange. Following completion of the Offering, the Province directly holds approximately 49.9% of Hydro One's total issued and outstanding common shares. This non-dilutive Offering increased the public ownership of Hydro One to approximately 50.1% or 298.6 million common shares. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At September 30, 2017 and December 31, 2016, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares. At September 30, 2017 and December 31, 2016, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

19. DIVIDENDS

During the three months ended September 30, 2017, preferred share dividends in the amount of \$4 million (2016 – \$4 million) and common share dividends in the amount of \$131 million (2016 – \$125 million) were declared and paid.

During the nine months ended September 30, 2017, preferred share dividends in the amount of \$13 million (2016 – \$14 million) and common share dividends in the amount of \$387 million (2016 – \$452 million) were declared and paid.

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20. EARNINGS PER COMMON SHARE

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

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net income attributable to common shareholders <i>(millions of dollars)</i>	219	233	503	593
Weighted average number of shares				
Basic	595,386,308	595,000,000	595,254,201	595,000,000
Effect of dilutive stock-based compensation plans	2,132,142	2,108,392	1,971,557	1,627,531
Diluted	597,518,450	597,108,392	597,225,758	596,627,531
EPS				
Basic	\$0.37	\$0.39	\$0.85	\$1.00
Diluted	\$0.37	\$0.39	\$0.84	\$0.99

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS until conditions for closing the Avista Corporation acquisition are met.

21. STOCK-BASED COMPENSATION

Share Grant Plans

A summary of share grant activity under the Share Grant Plans during the three and nine months ended September 30, 2017 and 2016 is presented below:

<i>(number of share grants)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Share grants outstanding – beginning	4,962,804	5,412,354	5,334,415	5,412,354
Vested ¹	—	—	(371,611)	—
Share grants outstanding – ending	4,962,804	5,412,354	4,962,804	5,412,354

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

Directors' Deferred Share Units (DSU) Plan

During the three and nine months ended September 30, 2017 and 2016, the Company granted awards under its Directors' DSU Plan, as follows:

<i>(number of DSUs)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
DSUs outstanding – beginning	141,553	59,205	99,083	20,525
DSUs granted	22,504	18,922	64,974	57,602
DSUs outstanding – ending	164,057	78,127	164,057	78,127

At September 30, 2017, a liability of \$4 million (December 31, 2016 – \$2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$22.72 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

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Management DSU Plan

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

During the three and nine months ended September 30, 2017 and 2016, the Company granted awards under its Management DSU Plan, as follows:

<i>(number of DSUs)</i>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
DSUs outstanding – beginning	67,583	—	—	—
DSUs granted	657	—	68,240	—
DSUs outstanding – ending	68,240	—	68,240	—

At September 30, 2017, a liability of \$2 million (December 31, 2016 – \$nil) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$22.72 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Long-term Incentive Plan

During the three and nine months ended September 30, 2017 and 2016, the Company granted awards under its LTIP, consisting of Performance Stock Units (PSUs) and Restricted Stock Units (RSUs), all of which are equity settled, as follows:

Three months ended September 30 <i>(number of units)</i>	PSUs		RSUs	
	2017	2016	2017	2016
Units outstanding – beginning	443,095	124,120	409,645	149,120
Units granted	35,790	103,270	21,040	101,820
Units vested	(609)	—	(609)	—
Units forfeited	(9,036)	(1,730)	(7,676)	(1,730)
Units outstanding – ending	469,240	225,660	422,400	249,210

Nine months ended September 30 <i>(number of units)</i>	PSUs		RSUs	
	2017	2016	2017	2016
Units outstanding – beginning	230,600	—	254,150	—
Units granted	303,240	227,390	239,990	250,940
Units vested	(609)	—	(14,079)	—
Units forfeited	(63,991)	(1,730)	(57,661)	(1,730)
Units outstanding – ending	469,240	225,660	422,400	249,210

The grant date total fair value of the awards granted during the three and nine months ended September 30, 2017 was \$1 million and \$13 million (2016 – \$5 million and \$12 million), respectively. The compensation expense recognized by the Company relating to LTIP awards during the three and nine months ended September 30, 2017 was \$2 million and \$5 million (2016 – \$1 million and \$1 million), respectively.

22. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 49.9% ownership at September 30, 2017. The Independent Electricity System Operator (IESO), Ontario Power Generation Inc. (OPG), OEFC, and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. Hydro One Brampton was a related party until February 28, 2017, when it was acquired from the Province by Alectra Inc., and subsequent to the acquisition by Alectra Inc., is no longer a related party to Hydro One.

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(millions of dollars)

Related Party	Transaction	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Province	Dividends paid	69	91	231	359
IESO	Power purchased	276	460	1,169	1,505
	Revenues for transmission services	390	434	1,124	1,185
	Amounts related to electricity rebates	181	—	321	—
	Distribution revenues related to rural rate protection	61	31	185	94
	Distribution revenues related to the supply of electricity to remote northern communities	8	8	24	24
	Funding received related to Conservation and Demand Management programs	18	15	44	39
OPG	Power purchased	2	1	7	4
	Revenues related to provision of construction and equipment maintenance services	1	1	2	3
	Costs expensed related to the purchase of services	—	—	1	1
OEFC	Power purchased from power contracts administered by the OEFC	—	—	1	1
OEB	OEB fees	2	2	6	9
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	—	—	—	2

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

23. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(millions of dollars)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Accounts receivable	50	(13)	241	(2)
Due from related parties	(38)	15	(136)	15
Materials and supplies	—	2	—	3
Prepaid expenses and other assets	9	17	6	(12)
Accounts payable	(10)	(6)	(9)	14
Accrued liabilities	(16)	(6)	(57)	18
Due to related parties	2	30	(141)	(103)
Accrued interest	37	19	35	24
Long-term accounts payable and other liabilities	(3)	(2)	(1)	2
Post-retirement and post-employment benefit liability	21	17	61	53
	52	73	(1)	12

Capital Expenditures

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

(millions of dollars)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Capital investments in property, plant and equipment	(359)	(407)	(1,087)	(1,175)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	1	8	16	19
Cash outflow for capital expenditures – property, plant and equipment	(358)	(399)	(1,071)	(1,156)

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

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Capital investments in intangible assets	(21)	(17)	(49)	(45)
Net change in accruals included in capital investments in intangible assets	(3)	2	(8)	2
Cash outflow for capital expenditures – intangible assets	(24)	(15)	(57)	(43)

Supplementary Information

(millions of dollars)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net interest paid	89	89	308	291
Income taxes paid	3	10	11	25

24. CONTINGENCIES

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

Litigation Relating to the Merger

To date, four putative class action lawsuits have been filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and name as defendants Avista Corporation and its directors; Sharpenter also names Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits allege that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. The class actions are consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuits are not material to Hydro One.

25. COMMITMENTS

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

September 30, 2017 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	118	93	25	2	7	2
Long-term software/meter agreement	17	17	17	6	1	3
Operating lease commitments	12	9	11	5	5	3

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

September 30, 2017 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Credit facilities	—	—	—	—	2,550	—
Letters of credit ¹	165	—	—	—	—	—
Guarantees ²	325	—	—	—	—	—

¹ Letters of credit consist of a \$150 million letter of credit related to retirement compensation arrangements, an \$8 million letter of credit provided to the IESO for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

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

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26. SEGMENTED REPORTING

Hydro One has three reportable segments:

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

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

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

Three months ended September 30, 2016 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	444	1,249	13	1,706
Purchased power	—	870	—	870
Operation, maintenance and administration	96	160	8	264
Depreciation and amortization	96	93	2	191
Income before financing charges and income taxes	252	126	3	381
Capital investments	241	181	2	424

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

Nine months ended September 30, 2016 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,211	3,687	40	4,938
Purchased power	—	2,569	—	2,569
Operation, maintenance and administration	284	445	53	782
Depreciation and amortization	285	283	6	574
Income (loss) before financing charges and income taxes	642	390	(19)	1,013
Capital investments	714	502	4	1,220

Total Assets by Segment:

<i>(millions of dollars)</i>	September 30, 2017	December 31, 2016
Transmission	13,505	13,071
Distribution	9,321	9,379
Other	3,419	2,901
Total assets	26,245	25,351

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

27. SUBSEQUENT EVENTS

Dividends

On November 9, 2017, preferred share dividends in the amount of \$5 million and common share dividends in the amount of \$131 million (\$0.22 per common share) were declared.

Foreign Exchange Forward Contract

In October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars. The contract is contingent on the Company closing the proposed Avista Corporation acquisition. The forward rate includes a deal-contingent fee that could range from \$26 million to \$43 million, based on the date the contract is settled. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. This agreement is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures. The contract can be executed anytime up to March 31, 2019. This contract is an economic hedge and does not qualify for hedge accounting. It has been classified as an undesignated contract.

Repayment of Long-term Debt

On October 18, 2017, Hydro One Inc. repaid \$600 million of maturing long-term debt notes (MTN Series 13 notes) under its MTN Program.