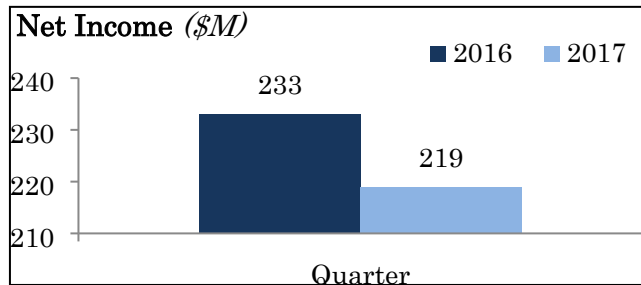


Hydro One Q3 2017 Results Summary

- On November 10, 2017, Hydro One Ltd. (TSX:H) announced its financial and operating results for the third quarter ended September 30, 2017

Financial Highlights

Three months ended September 30, 2017					
Key Metrics		2017	2016	\$Δ	%Δ
Revenues	M	1,522	1,706	-184	-10.8%
OM&A	M	277	264	13	4.9%
EBIT	M	361	381	-20	-5.2%
Tax	M	23	44	-21	-47.7%
Net Income (Common)	M	219	233	-14	-6.0%
EPS	\$	0.37	0.39	-0.02	-5.1%
Capital Investment	M	380	424	-44	-10.4%
Tx Monthly 60 Min Peak Demand	MW	20,857	22,991	-2,134	-9.3%
Dx Units Distributed	GWh	6,226	6,621	-395.0	-6.0%



Net Income

- ↓ Net income attributable to common shareholders for Q3 was \$219M, a decrease of \$14M or 6.0% from the prior year. Significant influences included:
 - ↓ Milder weather led to decrease in transmission (Tx) revenues mainly from lower average Ontario peak demand and decrease in distribution (Dx) revenues due to lower energy consumption
 - ↑ Higher Tx revenues from OEB's rate decision
 - ↓ Higher OM&A costs primarily from consulting costs related to Avista transaction, partially offset by reduced vegetation management costs
 - ↓ Higher depreciation expense due to an increase in rate base
 - ↓ Increased financing charges primarily from increased acquisition-related debt

Key Financial & Operating Highlights

- Q3 EPS was \$0.37 and adjusted EPS was \$0.40 (excl. \$18M Avista transaction costs), compared to \$0.39 in Q3 2016 and analyst consensus of \$0.36 (range \$0.29-\$0.43)
- Q3 dividend to common shareholders of \$0.22 per share to be paid on December 29
- Filed joint applications with Avista for regulatory approval of the merger
- Subsequent to the Avista merger announcement in July, issued approx. \$1.5B of convertible debentures
- Productivity savings through operational improvements, such as a revised vegetation management approach, fleet optimization and competitive procurement
- Contributed to restoration effort in Florida from Hurricane Irma
- Customer service initiatives related to affordability resulted in stabilized accounts receivable levels
- Recognition as a leading utility, including the Progressive Aboriginal Relations Bronze Certification and Ontario Energy Association's 2017 Leader of the Year award

Summary of Analyst Call

• Core Priorities

- Continued focus on productivity initiatives such as vegetation management by condensing cycle timeframes and target clearing high growth areas likely to cause long outages
- Efficiency initiatives such as leveraging \$1B in purchasing power to lower procurement costs, using telematics data to potentially reduce size of fleet by up to 10%
- Reducing costs and improving customer experience by initiatives such as paperless billing and working with PWU/Society to cost-effectively insource call centre

• Financial Performance

- Catch-up revenues for 3 quarters of \$55M reflecting OEB's decision on the Tx rate application
- \$18M in one-time costs related to Avista transaction, including success fees to advisors / banks, expected to be much less moving forward as the process moves towards approval and beyond
- OEB expected to confirm formulaic allowed ROE for 2018 in the next couple of weeks, currently estimated at approximately 9% which is higher than allowed ROE of 8.78% in 2017

• OEB Transmission Rate Filing Decision/Appeal

- On November 9, the OEB issued a Decision and Order that modified the portion of the tax savings from deferred tax asset should be shared with ratepayers. Hydro One will file a revised Draft Rate order to reflect the decision on November 16
- If upheld upon appeal, could potentially result in a one-time decrease in net income of \$885M across both Tx and Dx (assuming same sharing methodology) resulting in a decrease in annual funds from operations (FFO) by \$50-60M
- Management is of the view that the appeal of the OEB decision will be successful, and while timing is uncertain, expects the appeal process to be complete in late Q1/early Q2 of 2018

• LTEP and Government Electricity Policy

- Closely reviewing Ontario's LTEP for opportunities for innovation
- Good working relationship with government on Fair Hydro and other initiatives, although reaffirmed government's role as shareholder and not manager
- CEO engages with all parties on electricity policy, does not expect any outcome of provincial election next year to affect commercial operations of Hydro One

Analyst Coverage

- | | | |
|--------------------------------|--|---------------------------------|
| • RBC [Outperform, \$28] | • Industrial Alliance [Buy, \$28] | • CIBC [Outperform, \$27.5] |
| • BMO [Market Perform, \$24.5] | • Wells Fargo [Market Perform, \$25.5] | • Credit Suisse [Neutral, \$24] |
| • TD [Hold, \$24] | • Scotia [Sector Perform, \$24.5] | • Laurentian [Buy, \$28] |
| • RJ [Outperform, \$26] | • Canaccord [Buy, \$27] | |

