

## Hydro One Reports Second Quarter Results

*Service enhancements, operational improvements and efficiency gains continue to gain traction while revenues reflect unseasonably mild weather and the pending decision on the transmission rate filing*

Toronto, August 8, 2017 - Hydro One Limited, the parent company of Ontario's largest electricity transmission and distribution utility, today announced its financial and operating results for the second quarter ended June 30, 2017.

- Earnings per share of \$0.20, compared to \$0.26 last year, reflecting milder weather, delay in receipt of transmission rate decision and interest rate driven reduction in allowed ROE.
- Quarterly dividend increased 5% on May 4, 2017 to \$0.22 per share.
- Announced \$6.7 billion acquisition of regulated U.S. utility Avista Corporation.
- Province executed secondary share offering bringing its ownership of Hydro One below 50%.
- Capital investments of \$406 million made during the quarter to improve the reliability and performance of Ontario's electric grid.
- Customer enrollment in enhanced paperless billing and usage alert features accelerates while billing accuracy continues to trend at all-time high levels, having reached 99.4%.
- Satisfaction levels enhanced as security deposits are returned to customers with positive payment histories. Winter relief program is extended by an additional month, while receivable levels continue to trend positively.
- Fair Hydro Plan fully implemented on time; rural residential customers will see average savings of 31% on their electricity bills.

"We continued to deliver on enhancing customer satisfaction and value while implementing operational improvements and efficiency gains across the organization, despite unseasonably mild weather during the second quarter," said Mayo Schmidt, President and Chief Executive Officer, Hydro One. "We recently announced the acquisition of Avista Corporation, a high quality, strategic transaction that will enable us to further enhance customer and shareholder value as we go forward together. In addition, Hydro One's full and timely implementation of Ontario's Fair Hydro Plan in early July will deliver significant savings and greater certainty for our customers."

### Selected Consolidated Financial and Operating Highlights

| (amounts throughout in millions of Canadian dollars, except as otherwise noted) | Three months ended June 30, |        | Six months ended June 30, |        |
|---------------------------------------------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                                                                 | 2017                        | 2016   | 2017                      | 2016   |
| Revenues                                                                        | 1,371                       | 1,546  | 3,029                     | 3,232  |
| Revenues, net of purchased power                                                | 722                         | 743    | 1,491                     | 1,533  |
| Net income attributable to common shareholders                                  | 117                         | 152    | 284                       | 360    |
| Basic earnings per common share (EPS)                                           | \$0.20                      | \$0.26 | \$0.48                    | \$0.61 |
| Diluted EPS                                                                     | \$0.20                      | \$0.25 | \$0.48                    | \$0.60 |
| Net cash from operating activities                                              | 280                         | 304    | 751                       | 672    |
| Capital investments                                                             | 406                         | 417    | 756                       | 796    |
| Assets placed in-service                                                        | 337                         | 362    | 565                       | 523    |
| Transmission: Average monthly Ontario 60-minute peak demand (MW)                | 18,752                      | 19,799 | 19,273                    | 20,177 |
| Distribution: Electricity distributed to Hydro One customers (GWh)              | 5,842                       | 6,118  | 12,820                    | 13,163 |

## Key Financial Highlights

For the three months ended June 30, 2017, the Company reported net income attributable to common shareholders of \$117 million and earnings per share of \$0.20, a 23.0% reduction from last year.

Revenues, net of purchased power, for the second quarter were lower than last year by 2.8% primarily reflecting a lower average Ontario peak demand due to milder weather. Transmission and distribution revenues were also impacted by a change in the 2017 allowed return on equity from 9.19% to 8.78%.

Additionally, the comparability of second quarter earnings was affected by higher storm restoration costs as a result of multiple storms in the second quarter of 2017, 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 second quarter in 2017, including long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016.

On a year-to-date basis, net income was \$284 million and earnings per share were \$0.48, a 21.1% reduction from last year. In addition to factors noted above, year-to-date net income was also impacted by milder weather in the first quarter of 2017, resulting in lower energy consumption and distribution revenues, 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, higher consulting costs primarily related to the acquisition of Avista Corporation, and lower emergency power and storm restoration costs as last year was affected by an ice storm in March 2016.

The pending decision on our 2017-2018 transmission rate filing has also impacted revenues, however Hydro One anticipates a decision in the near term. Hydro One anticipates the revised rates will be effective from January 1, 2017 and as a result would book the increased revenue up to the date of the decision at that time.

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 \$406 million during the second quarter, and placed \$337 million of new assets in-service.

## Selected Operating Highlights

As part of Hydro One's ongoing commitment to its customers, the Company extended its winter relief program by an additional month. This program, which has transitioned certain customers in difficult financial positions to payment plans they can afford, has both increased customer satisfaction and created savings for the Company by reducing call center and collections costs. In addition, under Hydro One's new security deposit policy effective in April 2017, it has returned 5,600 security deposits totaling \$12 million back to consumer and small business customers across Ontario with consistent credit payment histories and has effectively minimized the collection and return of unnecessary security deposits while enhancing customer perceptions of Hydro One. These initiatives are creating incremental improvements in customer satisfaction, and have had positive impacts on accounts receivable levels.

Hydro One also fully implemented Ontario's Fair Hydro Plan on schedule, meeting the aggressive deadlines set by the Province. As a result of this successful and timely implementation, starting July 1, 2017, Hydro One was able to start bringing savings to its distribution customers, with an average savings of 31% for rural residential customers.

The Company's enhanced paperless eBilling service has continued to attract increasing numbers of residential and small business customers, with approximately 60,000 customers enrolled in the enhanced electronic billing service to-date. It is anticipated that over 150,000 customers will enroll by year end, thereby further improving customer satisfaction and resulting in postage and other savings for the Company. At the same time, customer billing accuracy has been maintained at record levels, remaining above 99% throughout the second quarter.

Hydro One expanded its "Get Local" effort, opening three new regional offices for customers to speak in person with Hydro One customer care specialists. The three offices are located across the province, and

the same services are now also provided in the traveling Electricity Discovery Centre. Hydro One has also continued its outreach into First Nation Communities, with Company representatives recently visiting 11 different communities and assisting approximately 1,000 customers. This program has resulted in a reduction in accounts receivable levels.

Hydro One's effort to enhance the design of its customer bill took a significant step forward with an agreement reached between Hydro One and Ontario's Ministry of Energy, allowing the Company the flexibility to materially enhance the design, readability, and clarity of its monthly customer bill, resulting in a more customer-friendly bill. The new customer bill design is expected to be launched across Hydro One's service territory by the end of 2017.

During the second quarter, Hydro One and the members of the Canadian Union of Skilled Workers (CUSW) successfully ratified a productive new five-year labor contract which became effective on May 1, 2017. The success of these negotiations demonstrates Hydro One's commitment to maintaining strong and productive relationships with its labour force.

### **Mergers and Acquisitions Update**

Subsequent to the end of the quarter on July 19, 2017, Hydro one announced the \$6.7 billion enterprise value acquisition of Avista Corporation, a market-leading integrated electric and gas regulated utility in the Pacific Northwestern U.S. with remarkably similar cultures and values. Hydro One and Avista combined will create a growing regulated utility leader with \$31.2 billion in enterprise value and one of the top 20 largest utilities in North America focused on regulated transmission as well as electricity and natural gas local distribution. The transaction, which is expected to be accretive to Hydro One's earnings by at least the mid-single digits in the first full year after completion, expands Hydro One into complementary and diversified regulated assets, inclusive of natural gas local distribution, as well as into five growing markets across the Pacific Northwest where it will safely and reliably serve more than two million consumer, small business and industrial customers on a combined basis. The transaction enables Hydro One's expansion into new jurisdictions outside of Ontario, including Washington, Oregon, Montana, Idaho and Alaska, allowing higher returns on equity and experiencing customer growth. The combination of the two highly similar and complementary companies with more than 230 years of collective operational experience also provides numerous opportunities for efficiencies through enhanced scale, innovation sharing, rationalization of IT systems and increased purchasing power, resulting in cost savings and service improvements for the benefit of customers and shareholders.

### **Common Share Dividends**

On May 4, 2017, the Company announced that it had increased its quarterly common share dividend by 5% to \$0.22 per share reflecting the expectation of continued long-term earnings growth. This is the first increase since the Company instituted a post-IPO common share dividend in 2016. Following the conclusion of the second quarter, on August 8, 2017, the Company declared the second quarterly cash dividend to common shareholders at the increased rate of \$0.22 per share to be paid on September 29, 2017 to shareholders of record on September 12, 2017.

## Supplemental Segment Information

| (millions of dollars)                                   | Three months ended June 30, |              | Six months ended June 30, |              |
|---------------------------------------------------------|-----------------------------|--------------|---------------------------|--------------|
|                                                         | 2017                        | 2016         | 2017                      | 2016         |
| <b>Revenues</b>                                         |                             |              |                           |              |
| Transmission                                            | 361                         | 381          | 728                       | 767          |
| Distribution                                            | 998                         | 1,152        | 2,277                     | 2,438        |
| Other                                                   | 12                          | 13           | 24                        | 27           |
| <b>Total revenues</b>                                   | <b>1,371</b>                | <b>1,546</b> | <b>3,029</b>              | <b>3,232</b> |
| <b>Revenues, net of purchased power</b>                 |                             |              |                           |              |
| Transmission                                            | 361                         | 381          | 728                       | 767          |
| Distribution                                            | 349                         | 349          | 739                       | 739          |
| Other                                                   | 12                          | 13           | 24                        | 27           |
| <b>Total revenues, net of purchased power</b>           | <b>722</b>                  | <b>743</b>   | <b>1,491</b>              | <b>1,533</b> |
| <b>Income (loss) before financing charges and taxes</b> |                             |              |                           |              |
| Transmission                                            | 159                         | 195          | 323                       | 390          |
| Distribution                                            | 102                         | 108          | 255                       | 264          |
| Other                                                   | (12)                        | (15)         | (26)                      | (22)         |
| <b>Total income before financing charges and taxes</b>  | <b>249</b>                  | <b>288</b>   | <b>552</b>                | <b>632</b>   |
| <b>Capital investments</b>                              |                             |              |                           |              |
| Transmission                                            | 252                         | 238          | 461                       | 473          |
| Distribution                                            | 151                         | 178          | 289                       | 321          |
| Other                                                   | 3                           | 1            | 6                         | 2            |
| <b>Total capital investments</b>                        | <b>406</b>                  | <b>417</b>   | <b>756</b>                | <b>796</b>   |
| <b>Assets placed in-service</b>                         |                             |              |                           |              |
| Transmission                                            | 165                         | 174          | 247                       | 225          |
| Distribution                                            | 164                         | 186          | 310                       | 293          |
| Other                                                   | 8                           | 2            | 8                         | 5            |
| <b>Total assets placed in-service</b>                   | <b>337</b>                  | <b>362</b>   | <b>565</b>                | <b>523</b>   |

This press release should be read in conjunction with the Company's second 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](http://www.HydroOne.com/Investors) and [www.sedar.com](http://www.sedar.com).

### Quarterly Investment Community Teleconference

The Company's second quarter 2017 results teleconference with the investment community will be held on August 8, 2017 at 8:30 a.m. Eastern Time, a webcast of which will be available at [www.HydroOne.com/Investors](http://www.HydroOne.com/Investors). Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's second quarter 2017 results call, conference ID 23370954 (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](http://www.HydroOne.com/Investors) and are posted generally at least two days before the conference.

## About Hydro One Limited

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

## For More Information

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

## Forward-Looking Statements and Information

This press release may contain "forward-looking information" within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: growth, customer service and satisfaction, performance, reliability, efficiencies, operational improvements, ongoing and planned investments, the Company's transmission rates filing and its anticipated timing and impacts, dividends, the Company's eBilling service and anticipated impacts, new customer bill design, collective agreements, the Fair Hydro Plan, 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](http://www.sedar.com). Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

## For further information, please contact:

### Investors:

Omar Javed

Director, Investor Relations

[investor.relations@hydroone.com](mailto:investor.relations@hydroone.com)

416-345-5943

### Media:

Natalie Poole-Moffatt

Vice President, Corporate Affairs

[media.relations@hydroone.com](mailto:media.relations@hydroone.com)

416-345-6868

**HYDRO ONE LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the three and six months ended June 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 (the Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and six months ended June 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 six months ended June 30, 2017, based on information available to management up to August 8, 2017.

**CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS**

| (millions of dollars, except as otherwise noted)                   | Three months ended June 30 |            |                | Six months ended June 30 |                   |                |
|--------------------------------------------------------------------|----------------------------|------------|----------------|--------------------------|-------------------|----------------|
|                                                                    | 2017                       | 2016       | Change         | 2017                     | 2016              | Change         |
| Revenues                                                           | 1,371                      | 1,546      | (11.3%)        | 3,029                    | 3,232             | (6.3%)         |
| Purchased power                                                    | 649                        | 803        | (19.2%)        | 1,538                    | 1,699             | (9.5%)         |
| Revenues, net of purchased power <sup>1</sup>                      | 722                        | 743        | (2.8%)         | 1,491                    | 1,533             | (2.7%)         |
| Operation, maintenance and administration costs                    | 274                        | 262        | 4.6%           | 545                      | 518               | 5.2%           |
| Depreciation and amortization                                      | 199                        | 193        | 3.1%           | 394                      | 383               | 2.9%           |
| Financing charges                                                  | 103                        | 98         | 5.1%           | 206                      | 194               | 6.2%           |
| Income tax expense                                                 | 23                         | 33         | (30.3%)        | 50                       | 66                | (24.2%)        |
| <b>Net income attributable to common shareholders of Hydro One</b> | <b>117</b>                 | <b>152</b> | <b>(23.0%)</b> | <b>284</b>               | <b>360</b>        | <b>(21.1%)</b> |
| Basic earnings per common share (EPS)                              | \$0.20                     | \$0.26     | (23.0%)        | \$0.48                   | \$0.61            | (21.1%)        |
| Diluted EPS                                                        | \$0.20                     | \$0.25     | (20.0%)        | \$0.48                   | \$0.60            | (20.0%)        |
| Net cash from operating activities                                 | 280                        | 304        | (7.9%)         | 751                      | 672               | 11.8%          |
| Funds from operations (FFO) <sup>1</sup>                           | 403                        | 337        | 19.6%          | 792                      | 719               | 10.2%          |
| Capital investments                                                | 406                        | 417        | (2.6%)         | 756                      | 796               | (5.0%)         |
| Assets placed in-service                                           | 337                        | 362        | (6.9%)         | 565                      | 523               | 8.0%           |
| Transmission: Average monthly Ontario 60-minute peak demand (MW)   | 18,752                     | 19,799     | (5.3%)         | 19,273                   | 20,177            | (4.5%)         |
| Distribution: Electricity distributed to Hydro One customers (GWh) | 5,842                      | 6,118      | (4.5%)         | 12,820                   | 13,163            | (2.6%)         |
|                                                                    |                            |            |                | June 30, 2017            | December 31, 2016 |                |
| Debt to capitalization ratio <sup>2</sup>                          |                            |            |                | 53.0%                    | 52.6%             |                |

<sup>1</sup> See section "Non-GAAP Measures" for description and reconciliation of FFO and Revenues, net of purchased power.

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

**OVERVIEW**

For the six months ended June 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 | 49%          | 49%          | 2%    |

At June 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%          | 37%          | 11%   |

## RESULTS OF OPERATIONS

### Net Income

Net income attributable to common shareholders for the quarter ended June 30, 2017 of \$117 million is a decrease of \$35 million or 23.0% from the prior year. Significant influences on net income included:

- milder weather in the second quarter of 2017 resulted in a decrease in transmission revenues, mainly due to lower average Ontario peak demand. Transmission and distribution revenues were also impacted by a reduction in the 2017 allowed regulated return on equity (ROE) from 9.19% to 8.78%;
- higher operation, maintenance and administration (OM&A) costs primarily resulting from higher storm restoration costs as a result of multiple storms in the second quarter of 2017;
- 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 second quarter of 2017 compared to the second quarter of 2016, including long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016.

Net income attributable to common shareholders for the six months ended June 30, 2017 of \$284 million is a decrease of \$76 million or 21.1% from the prior year. In addition to factors noted above, net income for the six months ended June 30, 2017 was also impacted by the following:

- decrease in distribution revenues, due to lower energy consumption mainly resulting from milder weather in the first quarter of 2017;
- 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);
- higher consulting costs primarily related to the acquisition of Avista Corporation; and
- higher storm restoration costs as a result of multiple storms in the second quarter of 2017, offset by lower emergency power and storm restoration costs in the first quarter of 2017 as last year's first quarter costs were elevated by an ice storm in March 2016.

A delay in approval of the 2017-2018 transmission rates filing has also impacted revenues, however Hydro One anticipates a decision in the near term. Hydro One anticipates the revised rates will be effective from January 1, 2017 and as a result would book the increased revenue up to the date of the decision at that time.

### EPS

EPS was \$0.20 and \$0.48 in the three and six months ended June 30, 2017, respectively, compared to EPS of \$0.26 and \$0.61 in the comparable periods last year. The decreases in EPS were driven by lower net income for the three and six months ended June 30, 2017, as discussed above.

### Revenues

| (millions of dollars, except as otherwise noted)                   | Three months ended June 30 |              |                | Six months ended June 30 |              |               |
|--------------------------------------------------------------------|----------------------------|--------------|----------------|--------------------------|--------------|---------------|
|                                                                    | 2017                       | 2016         | Change         | 2017                     | 2016         | Change        |
| Transmission                                                       | 361                        | 381          | (5.2%)         | 728                      | 767          | (5.1%)        |
| Distribution                                                       | 998                        | 1,152        | (13.4%)        | 2,277                    | 2,438        | (6.6%)        |
| Other                                                              | 12                         | 13           | (7.7%)         | 24                       | 27           | (11.1%)       |
| <b>Total revenues</b>                                              | <b>1,371</b>               | <b>1,546</b> | <b>(11.3%)</b> | <b>3,029</b>             | <b>3,232</b> | <b>(6.3%)</b> |
| Transmission                                                       | 361                        | 381          | (5.2%)         | 728                      | 767          | (5.1%)        |
| Distribution, net of purchased power                               | 349                        | 349          | —%             | 739                      | 739          | —%            |
| Other                                                              | 12                         | 13           | (7.7%)         | 24                       | 27           | (11.1%)       |
| <b>Total revenues, net of purchased power</b>                      | <b>722</b>                 | <b>743</b>   | <b>(2.8%)</b>  | <b>1,491</b>             | <b>1,533</b> | <b>(2.7%)</b> |
| Transmission: Average monthly Ontario 60-minute peak demand (MW)   | 18,752                     | 19,799       | (5.3%)         | 19,273                   | 20,177       | (4.5%)        |
| Distribution: Electricity distributed to Hydro One customers (GWh) | 5,842                      | 6,118        | (4.5%)         | 12,820                   | 13,163       | (2.6%)        |

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

Transmission Revenues

Transmission revenues decreased by 5.2% for the second quarter primarily due to the following:

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

The decrease in transmission revenues for the six months ended June 30, 2017 of 5.1% was mainly the result of similar factors as noted above.

A delay in approval of the 2017-2018 transmission rates filing has also impacted revenues, however Hydro One anticipates a decision in the near term. Hydro One anticipates the revised rates will be effective from January 1, 2017 and as a result would book the increased revenue up to the date of the decision at that time.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, for the second quarter and six months ended June 30, 2017 were consistent with prior year. During the second quarter and year-to-date, lower energy consumption resulting from a milder winter in 2017 was 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**

| (millions of dollars) | Three months ended June 30 |      |         | Six months ended June 30 |      |        |
|-----------------------|----------------------------|------|---------|--------------------------|------|--------|
|                       | 2017                       | 2016 | Change  | 2017                     | 2016 | Change |
| Transmission          | 99                         | 92   | 7.6%    | 201                      | 188  | 6.9%   |
| Distribution          | 153                        | 144  | 6.3%    | 298                      | 285  | 4.6%   |
| Other                 | 22                         | 26   | (15.4%) | 46                       | 45   | 2.2%   |
|                       | 274                        | 262  | 4.6%    | 545                      | 518  | 5.2%   |

Transmission OM&A Costs

The increase of 7.6% in transmission OM&A costs for the quarter ended June 30, 2017 was primarily due to higher volume of environmental management program work; and additional OM&A costs resulting from the acquisition of Hydro One Sault Ste. Marie in the fourth quarter of 2016.

The increase of 6.9% in transmission OM&A costs for the six months ended June 30, 2017 was primarily due to factors noted above.

Distribution OM&A Costs

The increase of 6.3% in distribution OM&A costs for the quarter ended June 30, 2017 was primarily due higher storm restoration costs as a result of multiple storms in the second quarter of 2017.

The increase of 4.6% in distribution OM&A costs for the six months ended June 30, 2017 was 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); and
- higher storm restoration costs as a result of multiple storms in the second quarter of 2017, offset by lower emergency power and storm restoration costs in the first quarter of 2017 as last year's first quarter costs were elevated by an ice storm in March 2016.

Other OM&A Costs

The decrease in other OM&A costs for the quarter ended June 30, 2017 was primarily due to lower costs incurred by Hydro One Telecom Inc. (Hydro One Telecom).

Other OM&A costs for the six months ended June 30, 2017 increased slightly compared to the prior year, as higher consulting costs primarily related to the acquisition of Avista Corporation in the first quarter of 2017 were offset by lower costs incurred by Hydro One Telecom.

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

**Financing Charges**

The increase of \$5 million or 5.1% in financing charges for the second quarter of 2017 was primarily due to an increase in interest expense on long-term debt driven by a higher weighted average long-term debt portfolio during the second quarter of 2017, including the long-term debt assumed as part of the Hydro One Sault Ste. Marie acquisition in the fourth quarter of 2016. This was partially offset by a decrease in the weighted average interest rate for long-term debt.

The increase of \$12 million or 6.2% in financing charges for the six months ended June 30, 2017 was the result of similar factors as noted above.

**Income Tax Expense**

The effective tax rate for the three and six months ended June 30, 2017 was 15.8% and 14.5%, respectively, compared to 17.4% and 15.1% for the three and six months ended June 30, 2016, respectively.

The decreases in income tax expense of \$10 million and \$16 million for the three and six months ended June 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<br>(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                                   |
|                  |                |                |                  | 256                                   |

Following the conclusion of the second 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<br>(millions of dollars) |
|----------------|--------------------|--------------------|------------------|---------------------------------------|
| August 8, 2017 | September 12, 2017 | September 29, 2017 | \$0.22           | 131                                   |

**QUARTERLY RESULTS OF OPERATIONS**

| Quarter ended<br>(millions of dollars, except EPS) | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sep 30, 2015 |
|----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues                                           | 1,371        | 1,658        | 1,614        | 1,706        | 1,546        | 1,686        | 1,522        | 1,645        |
| Purchased power                                    | 649          | 889          | 858          | 870          | 803          | 896          | 786          | 856          |
| Revenues, net of purchased power                   | 722          | 769          | 756          | 836          | 743          | 790          | 736          | 789          |
| Net income to common shareholders                  | 117          | 167          | 128          | 233          | 152          | 208          | 143          | 188          |
| Basic EPS                                          | \$0.20       | \$0.28       | \$0.22       | \$0.39       | \$0.26       | \$0.35       | \$0.26       | \$0.39       |
| Diluted EPS                                        | \$0.20       | \$0.28       | \$0.21       | \$0.39       | \$0.25       | \$0.35       | \$0.26       | \$0.39       |
| Basic Adjusted EPS <sup>1</sup>                    | n/a          | \$0.28       | \$0.22       | \$0.39       | \$0.26       | \$0.35       | \$0.24       | \$0.32       |
| Diluted Adjusted EPS <sup>1</sup>                  | n/a          | \$0.28       | \$0.21       | \$0.39       | \$0.25       | \$0.35       | \$0.24       | \$0.32       |

<sup>1</sup> See section "Non-GAAP Measures" for description of Adjusted EPS.

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

**CAPITAL INVESTMENTS**

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

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

**Assets Placed In-service**

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

| (millions of dollars)                 | Three months ended June 30 |            |               | Six months ended June 30 |            |             |
|---------------------------------------|----------------------------|------------|---------------|--------------------------|------------|-------------|
|                                       | 2017                       | 2016       | Change        | 2017                     | 2016       | Change      |
| Transmission                          | 165                        | 174        | (5.2%)        | 247                      | 225        | 9.8%        |
| Distribution                          | 164                        | 186        | (11.8%)       | 310                      | 293        | 5.8%        |
| Other                                 | 8                          | 2          | 300.0%        | 8                        | 5          | 60.0%       |
| <b>Total assets placed in-service</b> | <b>337</b>                 | <b>362</b> | <b>(6.9%)</b> | <b>565</b>               | <b>523</b> | <b>8.0%</b> |

Transmission Assets Placed In-service

Transmission assets placed in-service decreased by \$9 million or 5.2% during the second quarter of 2017 primarily due to the following:

- two major local area supply projects, Guelph Area Transmission Refurbishment and Toronto Midtown Transmission Reinforcement, were placed in-service in the second quarter of 2016; partially offset by
- a larger number of cumulative sustainment investments that were placed in-service in the second quarter 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.

Transmission assets placed in-service increased by \$22 million or 9.8% during the six months ended June 30, 2017 primarily due to the timing of a larger number of sustainment investments that were placed in-service in the first quarter of 2017, including the station refurbishment projects at Richview, Nepean, Hinchinbrooke, Bruce A, and Strathroy transmission stations, that more than offset the decrease in transmission assets placed-in service in the second quarter of 2017 as noted above.

Distribution Assets Placed In-service

Distribution assets placed in-service decreased by \$22 million or 11.8% during the second quarter of 2017 primarily due to the following:

- the Advanced Metering Infrastructure Wireless Telecom project was placed in-service in the second quarter of 2016;
- lower volume of fleet and work equipment purchases; partially offset by
- the completion of the Move-to-Mobile project in June 2017.

Distribution assets placed in-service increased by \$17 million or 5.8% during the six months ended June 30, 2017 primarily due to the completion of an operation center in Bolton in February 2017 and timing of distribution station refurbishment and spare transformer purchases in the first quarter of 2017 as work and vendor deliveries were deferred from 2016, that more than offset the decrease in distribution assets placed-in service in the second quarter of 2017 as noted above.

**Capital Investments**

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

| (millions of dollars)            | Three months ended June 30 |            |               | Six months ended June 30 |            |               |
|----------------------------------|----------------------------|------------|---------------|--------------------------|------------|---------------|
|                                  | 2017                       | 2016       | Change        | 2017                     | 2016       | Change        |
| <b>Transmission</b>              |                            |            |               |                          |            |               |
| Sustaining                       | 197                        | 181        | 8.8%          | 359                      | 362        | (0.8%)        |
| Development                      | 39                         | 39         | —%            | 76                       | 79         | (3.8%)        |
| Other                            | 16                         | 18         | (11.1%)       | 26                       | 32         | (18.8%)       |
|                                  | 252                        | 238        | 5.9%          | 461                      | 473        | (2.5%)        |
| <b>Distribution</b>              |                            |            |               |                          |            |               |
| Sustaining                       | 80                         | 105        | (23.8%)       | 152                      | 195        | (22.1%)       |
| Development                      | 62                         | 49         | 26.5%         | 109                      | 90         | 21.1%         |
| Other                            | 9                          | 24         | (62.5%)       | 28                       | 36         | (22.2%)       |
|                                  | 151                        | 178        | (15.2%)       | 289                      | 321        | (10.0%)       |
| <b>Other</b>                     | 3                          | 1          | 200.0%        | 6                        | 2          | 200.0%        |
| <b>Total capital investments</b> | <b>406</b>                 | <b>417</b> | <b>(2.6%)</b> | <b>756</b>               | <b>796</b> | <b>(5.0%)</b> |

Transmission Capital Investments

Transmission capital investments increased by \$14 million or 5.9% during the second quarter of 2017. Principal impacts on the levels of capital investments for the quarter included:

- work on the Leamington Transmission Station project to address the electricity needs in Windsor and Essex County;
- higher volume of overhead lines and component refurbishments and replacements; and
- higher volume of demand work associated with equipment failures; partially offset by
- timing of work related to the Clarington Transmission Station project; and
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects.

Transmission capital investments decreased by \$12 million or 2.5% during the six months ended June 30, 2017. Principal impacts on the levels of capital investments included:

- substantial completion of the construction work on Clarington Transmission Station;
- lower volume of sustainment project work;
- substantial completion of the Guelph Area Transmission Refurbishment project; and
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects; partially offset by
- continued work on major development projects, such as the Holland, Hawthorne, and Leamington transmission stations;
- higher volume of demand work associated with equipment failures and higher volumes of spare transformer equipment purchases to ensure readiness for unplanned replacements; and
- higher volume of overhead lines and component refurbishments and replacements.

Distribution Capital Investments

Distribution capital investments decreased by \$27 million or 15.2% during the second quarter of 2017. Principal impacts on the levels of capital investments for the quarter included:

- lower volume of wood pole replacements;
- lower volume of distribution lines sustainment work;
- lower volume of work within station refurbishment programs; and
- lower volume of fleet and work equipment purchases; partially offset by
- higher volume of storm restoration work as a result of multiple storms in the second quarter of 2017; and
- higher volume of work in new connections and upgrades due to increased demand.

Distribution capital investments decreased by \$32 million or 10.0% during the six months ended June 30, 2017 primarily due to factors noted above, and were also impacted by lower storm costs in the first quarter of 2017 as last year's first quarter costs were elevated by an ice storm in March 2016, and timing of work on the Advanced Distribution System project.

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

**Major Transmission Capital Investment Projects**

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

| Project Name                                              | Location                                | Type                              | Anticipated In-Service Date | Estimated Cost   | Capital Cost To-Date |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------------|-----------------------------|------------------|----------------------|
| <b>Development Projects:</b>                              |                                         |                                   |                             |                  |                      |
| Supply to Essex County Transmission Reinforcement         | Windsor-Essex area Southwestern Ontario | New transmission line and station | 2018                        | \$73 million     | \$35 million         |
| Clarington Transmission Station                           | Oshawa area Southwestern Ontario        | New transmission station          | 2018                        | \$267 million    | \$210 million        |
| East-West Tie Station Expansion                           | Northern Ontario                        | Station expansion                 | 2021                        | \$157 million    | \$5 million          |
| Northwest Bulk Transmission Line                          | Thunder Bay Northwestern Ontario        | New transmission line             | To be determined            | To be determined | —                    |
| <b>Sustainment Projects:</b>                              |                                         |                                   |                             |                  |                      |
| Bruce A Transmission Station                              | Tiverton Southwestern Ontario           | Station sustainment               | 2019                        | \$109 million    | \$95 million         |
| Richview Transmission Station Circuit Breaker Replacement | Toronto Southwestern Ontario            | Station sustainment               | 2019                        | \$103 million    | \$75 million         |
| Beck #2 Transmission Station Circuit Breaker Replacement  | Niagara area Southwestern Ontario       | Station sustainment               | 2021                        | \$93 million     | \$43 million         |
| Lennox Transmission Station Circuit Breaker Replacement   | Napanee Southeastern Ontario            | Station sustainment               | 2023                        | \$95 million     | \$33 million         |

**SUMMARY OF SOURCES AND USES OF CASH**

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

| (millions of dollars)                                   | Three months ended June 30 |              | Six months ended June 30 |             |
|---------------------------------------------------------|----------------------------|--------------|--------------------------|-------------|
|                                                         | 2017                       | 2016         | 2017                     | 2016        |
| Cash provided by operating activities                   | 280                        | 304          | 751                      | 672         |
| Cash provided by (used in) financing activities         | 125                        | (137)        | (23)                     | 10          |
| Cash used in investing activities                       | (395)                      | (414)        | (745)                    | (770)       |
| <b>Increase (decrease) in cash and cash equivalents</b> | <b>10</b>                  | <b>(247)</b> | <b>(17)</b>              | <b>(88)</b> |

**Cash provided by operating activities**

Cash from Operating Activities decreased by \$24 million during the second quarter of 2017 primarily due to lower net income and changes in accrual balances, partly offset by changes in regulatory variance accounts that impact revenue.

Cash from Operating Activities increased by \$79 million year-to-date primarily due to factors noted above, as well as decreased energy-related receivables as a result of lower revenues in 2017 primarily reflecting lower commodity and global adjustment prices initiated by the Province's Fair Hydro Plan and lower consumption reflecting mild weather.

**Cash provided by financing activities**

Sources of cash

- The Company did not issue long-term debt in the three or six months ended June 30, 2017, compared to proceeds from the issuance of \$1,350 million in the first quarter of 2016.
- The Company received proceeds of \$1,006 million and \$1,578 million from issuance of short-term notes in the three and six months ended June 30, 2017, respectively, compared to \$764 million and \$1,495 million received in the three and six months ended June 30, 2016, respectively.

Uses of cash

- Dividends paid in the three and six months ended June 30, 2017 were \$135 million and \$265 million, respectively, compared to dividends of \$129 million and \$337 million paid in the three and six months ended June 30, 2016.
- The Company repaid \$742 million and \$1,332 million of short-term notes in the three and six months ended June 30, 2017, respectively, compared to \$771 million and \$2,038 million repaid in the three and six months ended June 30, 2016, respectively.

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

- The Company repaid \$1 million of long-term debt in the three and six months ended June 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 \$17 million and \$39 million lower in the second 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 June 30, 2017, Hydro One Inc. had \$715 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.

At June 30, 2017, the Company's long-term debt in the principal amount of \$10,670 million included \$10,523 million of long-term debt 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 June 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 June 30, 2017, had an average term to maturity of approximately 15.4 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 of Ontario (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.

At June 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 six months ended June 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:

| June 30, 2017<br>(millions of dollars)                  | Total         | Less than<br>1 year | 1-3 years    | 3-5 years    | More than<br>5 years |
|---------------------------------------------------------|---------------|---------------------|--------------|--------------|----------------------|
| <b>Contractual obligations</b> (due by year)            |               |                     |              |              |                      |
| Long-term debt – principal repayments                   | 10,670        | 602                 | 2,134        | 1,106        | 6,828                |
| Long-term debt – interest payments                      | 7,916         | 437                 | 815          | 739          | 5,925                |
| Short-term notes payable                                | 715           | 715                 | —            | —            | —                    |
| Pension contributions <sup>1</sup>                      | 192           | 77                  | 115          | —            | —                    |
| Environmental and asset retirement obligations          | 230           | 27                  | 52           | 69           | 82                   |
| Outsourcing agreements                                  | 286           | 134                 | 140          | 6            | 6                    |
| Operating lease commitments                             | 47            | 12                  | 18           | 13           | 4                    |
| Long-term software/meter agreement                      | 64            | 16                  | 34           | 11           | 3                    |
| <b>Total contractual obligations</b>                    | <b>20,120</b> | <b>2,020</b>        | <b>3,308</b> | <b>1,944</b> | <b>12,848</b>        |
| <b>Other commercial commitments</b> (by year of expiry) |               |                     |              |              |                      |
| Credit facilities <sup>2</sup>                          | 2,550         | —                   | —            | 2,550        | —                    |
| Letters of credit <sup>3</sup>                          | 162           | 162                 | —            | —            | —                    |
| Guarantees <sup>4</sup>                                 | 325           | 325                 | —            | —            | —                    |
| <b>Total other commercial commitments</b>               | <b>3,037</b>  | <b>487</b>          | <b>—</b>     | <b>2,550</b> | <b>—</b>             |

<sup>1</sup> Contributions to the Hydro One Pension Fund are generally made one month in arrears. 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.

<sup>2</sup> In June 2017, the maturity date of Hydro One Inc.'s \$2.3 billion credit facilities was extended from June 2021 to June 2022.

<sup>3</sup> Letters of credit consist of a \$150 million letter of credit related to retirement compensation arrangements, a \$5 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.

<sup>4</sup> 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                |
|-------------------------------------------------------------------|-----------|--------------------------------|-----------------------|
| <b>Electricity Rates</b>                                          |           |                                |                       |
| Hydro One Networks                                                | 2017-2018 | Transmission – Cost-of-service | OEB decision pending  |
| Hydro One Networks                                                | 2015-2017 | Distribution – Custom          | OEB decision received |
| Hydro One Networks                                                | 2018-2022 | Distribution – Custom          | OEB decision pending  |
| B2M LP                                                            | 2015-2019 | Transmission – Cost-of-service | OEB decision received |
| Hydro One Sault Ste. Marie                                        | 2017      | Transmission – Cost-of-service | OEB decision pending  |
| <b>Mergers Acquisitions Amalgamations and Divestitures (MAAD)</b> |           |                                |                       |
| Orillia Power Distribution Corporation                            | n/a       | Acquisition                    | OEB decision pending  |

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

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

| Application                | Year | ROE<br>Allowed (A)<br>or Forecast (F) | Rate Base        | Rate Application Status          | Rate Order Status         |
|----------------------------|------|---------------------------------------|------------------|----------------------------------|---------------------------|
| <b>Transmission</b>        |      |                                       |                  |                                  |                           |
| Hydro One Networks         | 2017 | 8.78% (A)                             | \$10,554 million | Filed in May 2016                | To be filed in 2017 Q3    |
|                            | 2018 | 8.78% (F)                             | \$11,226 million | Filed in May 2016                | To be filed in 2017 Q4    |
| B2M LP                     | 2017 | 8.78% (A)                             | \$509 million    | Approved in December 2015        | 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    | Filed in December 2016           | Filed in December 2016    |
| <b>Distribution</b>        |      |                                       |                  |                                  |                           |
| 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 <sup>1</sup> | To be filed in 2018 Q2    |
|                            | 2019 | 8.78% (F)                             | \$8,050 million  | Filed in March 2017 <sup>1</sup> | To be filed in 2018 Q4    |
|                            | 2020 | 8.78% (F)                             | \$8,478 million  | Filed in March 2017 <sup>1</sup> | To be filed in 2019 Q4    |
|                            | 2021 | 8.78% (F)                             | \$9,037 million  | Filed in March 2017 <sup>1</sup> | To be filed in 2020 Q4    |
|                            | 2022 | 8.78% (F)                             | \$9,437 million  | Filed in March 2017 <sup>1</sup> | To be filed in 2021 Q4    |

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

#### Hydro One Networks

On March 31, 2017, Hydro One Networks filed a custom application with the OEB for 2018-2022 distribution rates under the OEB's incentive-based regulatory framework (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 the first half of 2018, and that new rates will be effective January 1, 2018.

#### 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.

#### 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. Hydro One intends to file a Notice of Motion no later than August 16, 2017, requesting the OEB to review and to cancel or vary the Procedural Order.

#### **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. The Company's recommendation to provide a credit on the delivery charge for on-reserve First Nations customers was implemented. 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 LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the three and six months ended June 30, 2017 and 2016**

Effective July 1, 2017, a reduction of 25% was introduced on electricity bills for typical Ontario residents. This reduction includes the 8% rebate from the *Ontario Rebate for Electricity Consumers Act, 2016*, and a reduction of the RRRP charge from \$0.0021/kWh to \$0.0003/kWh for Ontario ratepayers. The OESP charge was removed from customer bills as of May 1, 2017.

Hydro One customers will see 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 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 (OPEB) Costs**

On May 18, 2017, the OEB issued a Regulatory Treatment of Pension and OPEB Costs Report (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 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. Comments on implementation matters were submitted to the OEB in June 2017.

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 announced the closing of 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. The updated actuarial valuation resulted in a \$4 million decrease in OM&A costs, which will be refunded to ratepayers through the pension cost variance deferral account in future rate applications. Subsequent to approval of the 2017-2018 transmission cost-of-service application, the decrease in OM&A costs would correspond with a decrease in revenues.

**Collective Agreement**

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.

**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

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

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.

**Avista Corporation Purchase Agreement**

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation for approximately \$6.7 billion (Merger). Avista Corporation is an energy company primarily involved in 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 by 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.

**Convertible Debenture Offering**

On July 19, 2017, in connection with the acquisition of Avista Corporation, Hydro One and its wholly-owned subsidiary, 2587264 Ontario Inc., entered into an agreement under which a syndicate of underwriters agreed to buy, on a bought deal basis, \$1.4 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures (Debentures) of Hydro One Limited (Debenture Offering). On August 1, 2017, Hydro One filed a final short form prospectus with securities regulatory authorities in Canada for the Debenture Offering. On August 2, 2017, the underwriters gave notice of the exercise in full of the over-allotment option to acquire \$140 million aggregate principal amount of additional convertible debentures. The closing date for the Debentures and the over-allotment is expected to be August 9, 2017.

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.

**NON-GAAP MEASURES**

**FFO**

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

|                                                    | Three months ended June 30 |            | Six months ended June 30 |            |
|----------------------------------------------------|----------------------------|------------|--------------------------|------------|
| (millions of dollars)                              | 2017                       | 2016       | 2017                     | 2016       |
| Net cash from operating activities                 | 280                        | 304        | 751                      | 672        |
| Changes in non-cash balances related to operations | 130                        | 38         | 53                       | 61         |
| Preferred share dividends                          | (4)                        | (4)        | (9)                      | (10)       |
| Distributions to noncontrolling interest           | (3)                        | (1)        | (3)                      | (4)        |
| <b>FFO</b>                                         | <b>403</b>                 | <b>337</b> | <b>792</b>               | <b>719</b> |

**Adjusted EPS**

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

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

**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.

| (millions of dollars)                   | Three months ended June 30 |            | Six months ended June 30 |              |
|-----------------------------------------|----------------------------|------------|--------------------------|--------------|
|                                         | 2017                       | 2016       | 2017                     | 2016         |
| Revenues                                | 1,371                      | 1,546      | 3,029                    | 3,232        |
| Less: Purchased power                   | 649                        | 803        | 1,538                    | 1,699        |
| <b>Revenues, net of purchased power</b> | <b>722</b>                 | <b>743</b> | <b>1,491</b>             | <b>1,533</b> |

| (millions of dollars)                                | Three months ended June 30 |            | Six months ended June 30 |            |
|------------------------------------------------------|----------------------------|------------|--------------------------|------------|
|                                                      | 2017                       | 2016       | 2017                     | 2016       |
| Distribution revenues                                | 998                        | 1,152      | 2,277                    | 2,438      |
| Less: Purchased power                                | 649                        | 803        | 1,538                    | 1,699      |
| <b>Distribution revenues, net of purchased power</b> | <b>349</b>                 | <b>349</b> | <b>739</b>               | <b>739</b> |

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.

**RELATED PARTY TRANSACTIONS**

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

| (millions of dollars)     |                                                                                           | Three months ended June 30 |      | Six months ended June 30 |       |
|---------------------------|-------------------------------------------------------------------------------------------|----------------------------|------|--------------------------|-------|
|                           |                                                                                           | 2017                       | 2016 | 2017                     | 2016  |
| <b>Related Party</b>      | <b>Transaction</b>                                                                        |                            |      |                          |       |
| <b>Province</b>           | Dividends paid                                                                            | 70                         | 92   | 162                      | 268   |
| <b>IESO</b>               | Power purchased                                                                           | 242                        | 335  | 893                      | 1,045 |
|                           | Revenues for transmission services                                                        | 365                        | 375  | 734                      | 751   |
|                           | Amounts related to electricity rebates                                                    | 63                         | —    | 140                      | —     |
|                           | Distribution revenues related to rural rate protection                                    | 63                         | 32   | 124                      | 63    |
|                           | Distribution revenues related to the supply of electricity to remote northern communities | 8                          | 8    | 16                       | 16    |
|                           | Funding received related to Conservation and Demand Management programs                   | 10                         | 17   | 26                       | 24    |
| <b>OPG</b>                | Power purchased                                                                           | 1                          | 1    | 5                        | 3     |
|                           | Revenues related to provision of construction and equipment maintenance services          | 1                          | 1    | 1                        | 2     |
|                           | Costs expensed related to the purchase of services                                        | 1                          | —    | 1                        | 1     |
| <b>OEFC</b>               | Power purchased from power contracts administered by the OEFC                             | —                          | 1    | 1                        | 1     |
| <b>OEB</b>                | OEB fees                                                                                  | 2                          | 3    | 4                        | 7     |
| <b>Hydro One Brampton</b> | Cost recovery from management, administrative and smart meter network services            | —                          | 1    | —                        | 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.

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.

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 six months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the operation of the Company's internal control over financial reporting.

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

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                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2017-09                                                                              | 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<br>2015-14<br>2016-08<br>2016-10<br>2016-12<br>2016-20<br>2017-05<br>2017-10 | May 2014 – May 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 by the third quarter of 2017. The Company is on track for implementation of this standard by the effective date. |
| 2016-02                                                                              | February 2016       | Lessees are required to recognize the rights and obligations resulting from operating leases as assets (right to use the underlying asset for the term of the lease) and liabilities (obligation to make future lease payments) on the balance sheet.                                                                                                                                                                                                                                       | January 1, 2019 | An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.                                                                                                                        |

**FORWARD-LOOKING STATEMENTS AND INFORMATION**

The Company's oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company's business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company's transmission and distribution rate applications, including resulting rates and expected timing of decisions; the Company's liquidity and capital resources and operational requirements; the standby credit facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB; collective agreements; future pension contributions, valuations and expected impacts; impacts of OEB treatment of pension and OPEB 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 Debentures and the over-allotment option; 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 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;
- 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](http://www.sedar.com) and the Company's website at [www.HydroOne.com/Investors](http://www.HydroOne.com/Investors).

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

|                                                                                                                                                                             | Three months ended June 30 |               | Six months ended June 30 |               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------|--------------------------|---------------|
|                                                                                                                                                                             | 2017                       | 2016          | 2017                     | 2016          |
| <i>(millions of Canadian dollars, except per share amounts)</i>                                                                                                             |                            |               |                          |               |
| <b>Revenues</b>                                                                                                                                                             |                            |               |                          |               |
| Distribution (includes related party revenues of \$71 (2016 – \$41) and \$140 (2016 – \$81) for the three and six months ended June 30, respectively) <i>(Note 19)</i>      | 998                        | 1,152         | 2,277                    | 2,438         |
| Transmission (includes related party revenues of \$366 (2016 – \$375) and \$735 (2016 – \$752) for the three and six months ended June 30, respectively) <i>(Note 19)</i>   | 361                        | 381           | 728                      | 767           |
| Other                                                                                                                                                                       | 12                         | 13            | 24                       | 27            |
|                                                                                                                                                                             | <b>1,371</b>               | <b>1,546</b>  | <b>3,029</b>             | <b>3,232</b>  |
| <b>Costs</b>                                                                                                                                                                |                            |               |                          |               |
| Purchased power (includes related party costs of \$243 (2016 – \$337) and \$899 (2016 – \$1,049) for the three and six months ended June 30, respectively) <i>(Note 19)</i> | 649                        | 803           | 1,538                    | 1,699         |
| Operation, maintenance and administration <i>(Note 19)</i>                                                                                                                  | 274                        | 262           | 545                      | 518           |
| Depreciation and amortization <i>(Note 4)</i>                                                                                                                               | 199                        | 193           | 394                      | 383           |
|                                                                                                                                                                             | <b>1,122</b>               | <b>1,258</b>  | <b>2,477</b>             | <b>2,600</b>  |
| <b>Income before financing charges and income taxes</b>                                                                                                                     | <b>249</b>                 | <b>288</b>    | <b>552</b>               | <b>632</b>    |
| Financing charges                                                                                                                                                           | 103                        | 98            | 206                      | 194           |
| <b>Income before income taxes</b>                                                                                                                                           | <b>146</b>                 | <b>190</b>    | <b>346</b>               | <b>438</b>    |
| Income taxes <i>(Note 5)</i>                                                                                                                                                | 23                         | 33            | 50                       | 66            |
| <b>Net income</b>                                                                                                                                                           | <b>123</b>                 | <b>157</b>    | <b>296</b>               | <b>372</b>    |
| Other comprehensive income                                                                                                                                                  | —                          | —             | 1                        | —             |
| <b>Comprehensive income</b>                                                                                                                                                 | <b>123</b>                 | <b>157</b>    | <b>297</b>               | <b>372</b>    |
| <b>Net income attributable to:</b>                                                                                                                                          |                            |               |                          |               |
| Noncontrolling interest                                                                                                                                                     | 2                          | 1             | 3                        | 2             |
| Preferred shareholders                                                                                                                                                      | 4                          | 4             | 9                        | 10            |
| Common shareholders                                                                                                                                                         | 117                        | 152           | 284                      | 360           |
|                                                                                                                                                                             | <b>123</b>                 | <b>157</b>    | <b>296</b>               | <b>372</b>    |
| <b>Comprehensive income attributable to:</b>                                                                                                                                |                            |               |                          |               |
| Noncontrolling interest                                                                                                                                                     | 2                          | 1             | 3                        | 2             |
| Preferred shareholders                                                                                                                                                      | 4                          | 4             | 9                        | 10            |
| Common shareholders                                                                                                                                                         | 117                        | 152           | 285                      | 360           |
|                                                                                                                                                                             | <b>123</b>                 | <b>157</b>    | <b>297</b>               | <b>372</b>    |
| <b>Earnings per common share</b> <i>(Note 17)</i>                                                                                                                           |                            |               |                          |               |
| Basic                                                                                                                                                                       | \$0.20                     | \$0.26        | \$0.48                   | \$0.61        |
| Diluted                                                                                                                                                                     | \$0.20                     | \$0.25        | \$0.48                   | \$0.60        |
| <b>Dividends per common share declared</b> <i>(Note 16)</i>                                                                                                                 | <b>\$0.22</b>              | <b>\$0.21</b> | <b>\$0.43</b>            | <b>\$0.55</b> |

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

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

|                                                                                            | June 30,<br>2017 | December 31,<br>2016 |
|--------------------------------------------------------------------------------------------|------------------|----------------------|
| <i>(millions of Canadian dollars)</i>                                                      |                  |                      |
| <b>Assets</b>                                                                              |                  |                      |
| Current assets:                                                                            |                  |                      |
| Cash and cash equivalents                                                                  | 33               | 50                   |
| Accounts receivable <i>(Note 6)</i>                                                        | 640              | 838                  |
| Due from related parties                                                                   | 256              | 158                  |
| Other current assets <i>(Note 7)</i>                                                       | 101              | 102                  |
|                                                                                            | <b>1,030</b>     | <b>1,148</b>         |
| Property, plant and equipment <i>(Note 8)</i>                                              | 19,550           | 19,140               |
| Other long-term assets:                                                                    |                  |                      |
| Regulatory assets                                                                          | 3,103            | 3,145                |
| Deferred income tax assets                                                                 | 1,142            | 1,235                |
| Intangible assets (net of accumulated amortization – \$359; 2016 – \$330)                  | 349              | 349                  |
| Goodwill                                                                                   | 327              | 327                  |
| Other assets                                                                               | 5                | 7                    |
|                                                                                            | <b>4,926</b>     | <b>5,063</b>         |
| <b>Total assets</b>                                                                        | <b>25,506</b>    | <b>25,351</b>        |
| <b>Liabilities</b>                                                                         |                  |                      |
| Current liabilities:                                                                       |                  |                      |
| Short-term notes payable <i>(Note 11)</i>                                                  | 715              | 469                  |
| Long-term debt payable within one year <i>(Notes 11, 12)</i>                               | 602              | 602                  |
| Accounts payable and other current liabilities <i>(Note 9)</i>                             | 902              | 945                  |
| Due to related parties                                                                     | 4                | 147                  |
|                                                                                            | <b>2,223</b>     | <b>2,163</b>         |
| Long-term liabilities:                                                                     |                  |                      |
| Long-term debt (includes \$546 measured at fair value; 2016 – \$548) <i>(Notes 11, 12)</i> | 10,072           | 10,078               |
| Regulatory liabilities                                                                     | 223              | 209                  |
| Deferred income tax liabilities                                                            | 63               | 60                   |
| Other long-term liabilities <i>(Note 10)</i>                                               | 2,795            | 2,752                |
|                                                                                            | <b>13,153</b>    | <b>13,099</b>        |
| <b>Total liabilities</b>                                                                   | <b>15,376</b>    | <b>15,262</b>        |
| <i>Contingencies and Commitments (Notes 21, 22)</i>                                        |                  |                      |
| <i>Subsequent Events (Note 24)</i>                                                         |                  |                      |
| Noncontrolling interest subject to redemption                                              | 22               | 22                   |
| <b>Equity</b>                                                                              |                  |                      |
| Common shares <i>(Note 15)</i>                                                             | 5,631            | 5,623                |
| Preferred shares <i>(Note 15)</i>                                                          | 418              | 418                  |
| Additional paid-in capital                                                                 | 38               | 34                   |
| Retained earnings                                                                          | 3,978            | 3,950                |
| Accumulated other comprehensive loss                                                       | (7)              | (8)                  |
| Hydro One shareholders' equity                                                             | <b>10,058</b>    | <b>10,017</b>        |
| Noncontrolling interest                                                                    | 50               | 50                   |
| <b>Total equity</b>                                                                        | <b>10,108</b>    | <b>10,067</b>        |
|                                                                                            | <b>25,506</b>    | <b>25,351</b>        |

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

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

For the six months ended June 30, 2017 and 2016

| Six months ended June 30, 2017<br>(millions of Canadian dollars) | Common<br>Shares | Preferred<br>Shares | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Hydro One<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interest | Total<br>Equity |
|------------------------------------------------------------------|------------------|---------------------|----------------------------------|----------------------|-----------------------------------------------|--------------------------------------|---------------------------------|-----------------|
| January 1, 2017                                                  | 5,623            | 418                 | 34                               | 3,950                | (8)                                           | 10,017                               | 50                              | 10,067          |
| Net income                                                       | —                | —                   | —                                | 293                  | —                                             | 293                                  | 2                               | 295             |
| Other comprehensive income                                       | —                | —                   | —                                | —                    | 1                                             | 1                                    | —                               | 1               |
| Distributions to noncontrolling interest                         | —                | —                   | —                                | —                    | —                                             | —                                    | (2)                             | (2)             |
| Dividends on preferred shares                                    | —                | —                   | —                                | (9)                  | —                                             | (9)                                  | —                               | (9)             |
| Dividends on common shares                                       | —                | —                   | —                                | (256)                | —                                             | (256)                                | —                               | (256)           |
| Common shares issued                                             | 8                | —                   | (8)                              | —                    | —                                             | —                                    | —                               | —               |
| Stock-based compensation                                         | —                | —                   | 12                               | —                    | —                                             | 12                                   | —                               | 12              |
| <b>June 30, 2017</b>                                             | <b>5,631</b>     | <b>418</b>          | <b>38</b>                        | <b>3,978</b>         | <b>(7)</b>                                    | <b>10,058</b>                        | <b>50</b>                       | <b>10,108</b>   |

| Six months ended June 30, 2016<br>(millions of Canadian dollars) | Common<br>Shares | Preferred<br>Shares | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Hydro One<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interest | Total<br>Equity |
|------------------------------------------------------------------|------------------|---------------------|----------------------------------|----------------------|-----------------------------------------------|--------------------------------------|---------------------------------|-----------------|
| January 1, 2016                                                  | 5,623            | 418                 | 10                               | 3,806                | (8)                                           | 9,849                                | 52                              | 9,901           |
| Net income                                                       | —                | —                   | —                                | 370                  | —                                             | 370                                  | 1                               | 371             |
| Other comprehensive income                                       | —                | —                   | —                                | —                    | —                                             | —                                    | —                               | —               |
| Distributions to noncontrolling interest                         | —                | —                   | —                                | —                    | —                                             | —                                    | (3)                             | (3)             |
| Dividends on preferred shares                                    | —                | —                   | —                                | (10)                 | —                                             | (10)                                 | —                               | (10)            |
| Dividends on common shares                                       | —                | —                   | —                                | (327)                | —                                             | (327)                                | —                               | (327)           |
| Stock-based compensation                                         | —                | —                   | 11                               | —                    | —                                             | 11                                   | —                               | 11              |
| <b>June 30, 2016</b>                                             | <b>5,623</b>     | <b>418</b>          | <b>21</b>                        | <b>3,839</b>         | <b>(8)</b>                                    | <b>9,893</b>                         | <b>50</b>                       | <b>9,943</b>    |

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

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

|                                                                     | Three months ended June 30 |              | Six months ended June 30 |              |
|---------------------------------------------------------------------|----------------------------|--------------|--------------------------|--------------|
| (millions of Canadian dollars)                                      | 2017                       | 2016         | 2017                     | 2016         |
| <b>Operating activities</b>                                         |                            |              |                          |              |
| Net income                                                          | 123                        | 157          | 296                      | 372          |
| Environmental expenditures                                          | (8)                        | (7)          | (12)                     | (10)         |
| Adjustments for non-cash items:                                     |                            |              |                          |              |
| Depreciation and amortization (excluding asset removal costs)       | 176                        | 170          | 350                      | 336          |
| Regulatory assets and liabilities                                   | 93                         | (12)         | 124                      | (22)         |
| Deferred income taxes                                               | 18                         | 36           | 38                       | 57           |
| Other                                                               | 8                          | (2)          | 8                        | —            |
| Changes in non-cash balances related to operations <i>(Note 20)</i> | (130)                      | (38)         | (53)                     | (61)         |
| <b>Net cash from operating activities</b>                           | <b>280</b>                 | <b>304</b>   | <b>751</b>               | <b>672</b>   |
| <b>Financing activities</b>                                         |                            |              |                          |              |
| Long-term debt issued                                               | —                          | —            | —                        | 1,350        |
| Long-term debt repaid                                               | (1)                        | —            | (1)                      | (450)        |
| Short-term notes issued                                             | 1,006                      | 764          | 1,578                    | 1,495        |
| Short-term notes repaid                                             | (742)                      | (771)        | (1,332)                  | (2,038)      |
| Dividends paid                                                      | (135)                      | (129)        | (265)                    | (337)        |
| Distributions paid to noncontrolling interest                       | (3)                        | (1)          | (3)                      | (4)          |
| Other                                                               | —                          | —            | —                        | (6)          |
| <b>Net cash from (used in) financing activities</b>                 | <b>125</b>                 | <b>(137)</b> | <b>(23)</b>              | <b>10</b>    |
| <b>Investing activities</b>                                         |                            |              |                          |              |
| Capital expenditures <i>(Note 20)</i>                               |                            |              |                          |              |
| Property, plant and equipment                                       | (378)                      | (399)        | (713)                    | (757)        |
| Intangible assets                                                   | (19)                       | (15)         | (33)                     | (28)         |
| Capital contributions received                                      | 2                          | —            | 9                        | 15           |
| Other                                                               | —                          | —            | (8)                      | —            |
| <b>Net cash used in investing activities</b>                        | <b>(395)</b>               | <b>(414)</b> | <b>(745)</b>             | <b>(770)</b> |
| <b>Net change in cash and cash equivalents</b>                      | <b>10</b>                  | <b>(247)</b> | <b>(17)</b>              | <b>(88)</b>  |
| Cash and cash equivalents, beginning of period                      | 23                         | 253          | 50                       | 94           |
| <b>Cash and cash equivalents, end of period</b>                     | <b>33</b>                  | <b>6</b>     | <b>33</b>                | <b>6</b>     |

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

## 1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). At June 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) 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                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2017-09                                                                              | 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<br>2015-14<br>2016-08<br>2016-10<br>2016-12<br>2016-20<br>2017-05<br>2017-10 | May 2014 –<br>May 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 by the third 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 six months ended June 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. DEPRECIATION AND AMORTIZATION

| (millions of dollars)                         | Three months ended June 30 |      | Six months ended June 30 |      |
|-----------------------------------------------|----------------------------|------|--------------------------|------|
|                                               | 2017                       | 2016 | 2017                     | 2016 |
| Depreciation of property, plant and equipment | 154                        | 149  | 309                      | 299  |
| Asset removal costs                           | 23                         | 23   | 44                       | 47   |
| Amortization of intangible assets             | 14                         | 14   | 29                       | 27   |
| Amortization of regulatory assets             | 8                          | 7    | 12                       | 10   |
|                                               | 199                        | 193  | 394                      | 383  |

### 5. INCOME TAXES

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

| (millions of dollars)                                                       | Six months ended June 30 |       |
|-----------------------------------------------------------------------------|--------------------------|-------|
|                                                                             | 2017                     | 2016  |
| Income taxes at statutory rate                                              | 92                       | 116   |
| Increase (decrease) resulting from:                                         |                          |       |
| Net temporary differences recoverable in future rates charged to customers: |                          |       |
| Capital cost allowance in excess of depreciation and amortization           | (21)                     | (23)  |
| Pension contributions in excess of pension expense                          | (5)                      | (8)   |
| Overheads capitalized for accounting but deducted for tax purposes          | (7)                      | (7)   |
| Interest capitalized for accounting but deducted for tax purposes           | (6)                      | (9)   |
| Environmental expenditures                                                  | (4)                      | (4)   |
| Other                                                                       | (1)                      | —     |
| Net temporary differences                                                   | (44)                     | (51)  |
| Net permanent differences                                                   | 2                        | 1     |
| Total income taxes                                                          | 50                       | 66    |
| Effective income tax rate                                                   | 14.5%                    | 15.1% |

### 6. ACCOUNTS RECEIVABLE

| (millions of dollars)           | June 30, 2017 | December 31, 2016 |
|---------------------------------|---------------|-------------------|
| Accounts receivable – billed    | 362           | 431               |
| Accounts receivable – unbilled  | 312           | 442               |
| Accounts receivable, gross      | 674           | 873               |
| Allowance for doubtful accounts | (34)          | (35)              |
| Accounts receivable, net        | 640           | 838               |

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

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

| <i>(millions of dollars)</i>                 | Six months ended<br>June 30,<br>2017 | Year ended<br>December 31,<br>2016 |
|----------------------------------------------|--------------------------------------|------------------------------------|
| Allowance for doubtful accounts – beginning  | (35)                                 | (61)                               |
| Write-offs                                   | 12                                   | 37                                 |
| Additions to allowance for doubtful accounts | (11)                                 | (11)                               |
| Allowance for doubtful accounts – ending     | (34)                                 | (35)                               |

**7. OTHER CURRENT ASSETS**

| <i>(millions of dollars)</i>      | June 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------|------------------|----------------------|
| Regulatory assets                 | 31               | 37                   |
| Materials and supplies            | 19               | 19                   |
| Prepaid expenses and other assets | 51               | 46                   |
|                                   | 101              | 102                  |

**8. PROPERTY, PLANT AND EQUIPMENT**

| <i>(millions of dollars)</i>           | June 30,<br>2017 | December 31,<br>2016 |
|----------------------------------------|------------------|----------------------|
| Property, plant and equipment          | 28,181           | 27,687               |
| Less: accumulated depreciation         | (10,237)         | (9,935)              |
|                                        | 17,944           | 17,752               |
| Construction in progress               | 1,443            | 1,234                |
| Future use land, components and spares | 163              | 154                  |
|                                        | 19,550           | 19,140               |

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

| <i>(millions of dollars)</i> | June 30,<br>2017 | December 31,<br>2016 |
|------------------------------|------------------|----------------------|
| Accounts payable             | 176              | 181                  |
| Accrued liabilities          | 621              | 659                  |
| Accrued interest             | 103              | 105                  |
| Regulatory liabilities       | 2                | —                    |
|                              | 902              | 945                  |

**10. OTHER LONG-TERM LIABILITIES**

| <i>(millions of dollars)</i>                          | June 30,<br>2017 | December 31,<br>2016 |
|-------------------------------------------------------|------------------|----------------------|
| Post-retirement and post-employment benefit liability | 1,681            | 1,641                |
| Pension benefit liability                             | 897              | 900                  |
| Environmental liabilities <i>(Note 14)</i>            | 179              | 177                  |
| Asset retirement obligations                          | 9                | 9                    |
| Long-term accounts payable and other liabilities      | 29               | 25                   |
|                                                       | 2,795            | 2,752                |

**11. DEBT AND CREDIT AGREEMENTS****Short-Term Notes and Credit Facilities**

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

At June 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**

At June 30, 2017, long-term debt of \$10,523 million was outstanding under Hydro One Inc.'s Medium-Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 is \$3.5 billion. At June 30, 2017, \$1.2 billion remained available for issuance until January 2018. In addition, at June 30, 2017, the Company had long-term debt of \$180 million related to Hydro One Sault Ste. Marie.

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

| <i>(millions of dollars)</i>                     | June 30,<br>2017 | December 31,<br>2016 |
|--------------------------------------------------|------------------|----------------------|
| Notes and debentures                             | 10,703           | 10,707               |
| Add: Net unamortized debt premiums               | 14               | 15                   |
| Add: Unrealized mark-to-market gain <sup>1</sup> | (4)              | (2)                  |
| Less: Deferred debt issuance costs               | (39)             | (40)                 |
| <b>Total long-term debt</b>                      | <b>10,674</b>    | <b>10,680</b>        |
| Less: Long-term debt payable within one year     | (602)            | (602)                |
|                                                  | <b>10,072</b>    | <b>10,078</b>        |

<sup>1</sup> The unrealized mark-to-market net gain relates to \$50 million of the Series 33 notes due 2020 and the \$500 million Series 37 notes due 2019. The unrealized mark-to-market net gain is offset by a \$4 million (December 31, 2016 – \$2 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

During the six months ended June 30, 2017, Hydro One did not issue (2016 – issued \$1,350 million), and repaid \$1 million (2016 – \$450 million) of long-term debt.

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

| Years to Maturity | Long-term Debt<br>Principal Repayments<br><i>(millions of dollars)</i> | Weighted Average<br>Interest Rate<br><i>(%)</i> |
|-------------------|------------------------------------------------------------------------|-------------------------------------------------|
| 1 year            | 602                                                                    | 5.2                                             |
| 2 years           | 981                                                                    | 2.4                                             |
| 3 years           | 1,153                                                                  | 2.3                                             |
| 4 years           | 503                                                                    | 1.9                                             |
| 5 years           | 603                                                                    | 3.2                                             |
|                   | <b>3,842</b>                                                           | <b>2.9</b>                                      |
| 6 – 10 years      | 633                                                                    | 3.5                                             |
| Over 10 years     | 6,195                                                                  | 5.2                                             |
|                   | <b>10,670</b>                                                          | <b>4.3</b>                                      |

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

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

| Year              | Interest Payments<br>(millions of dollars) |
|-------------------|--------------------------------------------|
| Remainder of 2017 | 227                                        |
| 2018              | 425                                        |
| 2019              | 402                                        |
| 2020              | 384                                        |
| 2021              | 370                                        |
|                   | 1,808                                      |
| 2022-2026         | 1,703                                      |
| 2027+             | 4,405                                      |
|                   | 7,916                                      |

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

### Non-Derivative Financial Assets and Liabilities

At June 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 June 30, 2017 and December 31, 2016 are as follows:

| (millions of dollars)                     | June 30, 2017  |            | December 31, 2016 |            |
|-------------------------------------------|----------------|------------|-------------------|------------|
|                                           | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| Long-term debt, including current portion |                |            |                   |            |
| \$50 million of MTN Series 33 notes       | 50             | 50         | 50                | 50         |
| \$500 million MTN Series 37 notes         | 496            | 496        | 498               | 498        |
| Other notes and debentures                | 10,128         | 11,779     | 10,132            | 11,462     |
|                                           | 10,674         | 12,325     | 10,680            | 12,010     |

### Fair Value Measurements of Derivative Instruments

At June 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 June 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 June 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 June 30, 2017 and December 31, 2016 is as follows:

| June 30, 2017<br>(millions of dollars)    | Carrying Value | Fair Value | Level 1 | Level 2 | Level 3 |
|-------------------------------------------|----------------|------------|---------|---------|---------|
| <b>Assets:</b>                            |                |            |         |         |         |
| Cash and cash equivalents                 | 33             | 33         | 33      | —       | —       |
|                                           | 33             | 33         | 33      | —       | —       |
| <b>Liabilities:</b>                       |                |            |         |         |         |
| Short-term notes payable                  | 715            | 715        | 715     | —       | —       |
| Long-term debt, including current portion | 10,674         | 12,325     | —       | 12,325  | —       |
| Derivative instruments                    |                |            |         |         |         |
| Fair value hedges – interest-rate swaps   | 4              | 4          | 4       | —       | —       |
|                                           | 11,393         | 13,044     | 719     | 12,325  | —       |

# HYDRO ONE LIMITED

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

For the three and six months ended June 30, 2017 and 2016

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

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

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

There were no transfers between any of the fair value levels during the six months ended June 30, 2017 or year ended December 31, 2016.

### Risk Management

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

#### Market Risk

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

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

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

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three and six months ended June 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 June 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 June 30, 2017 and December 31, 2016, there was no material accounts receivable balance due from any single customer.

At June 30, 2017, the Company's provision for bad debts was \$34 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 June 30, 2017, approximately 7% (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 June 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 June 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.

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

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

Estimated annual defined benefit pension plan contributions for 2017, 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 six months ended June 30, 2017 were \$47 million (2016 – \$75 million).

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

| Three months ended June 30<br>(millions of dollars)          | Pension Benefits |       | Post-Retirement and<br>Post-Employment Benefits |      |
|--------------------------------------------------------------|------------------|-------|-------------------------------------------------|------|
|                                                              | 2017             | 2016  | 2017                                            | 2016 |
| Current service cost                                         | 37               | 36    | 12                                              | 10   |
| Interest cost                                                | 76               | 77    | 17                                              | 17   |
| Expected return on plan assets, net of expenses <sup>1</sup> | (111)            | (108) | —                                               | —    |
| Actuarial loss amortization                                  | 20               | 24    | 2                                               | 2    |
| Net periodic benefit costs                                   | 22               | 29    | 31                                              | 29   |
| Charged to results of operations <sup>2</sup>                | 8                | 3     | 13                                              | 11   |

| Six months ended June 30<br>(millions of dollars)            | Pension Benefits |       | Post-Retirement and<br>Post-Employment Benefits |      |
|--------------------------------------------------------------|------------------|-------|-------------------------------------------------|------|
|                                                              | 2017             | 2016  | 2017                                            | 2016 |
| Current service cost                                         | 73               | 72    | 24                                              | 21   |
| Interest cost                                                | 152              | 154   | 34                                              | 34   |
| Expected return on plan assets, net of expenses <sup>1</sup> | (221)            | (217) | —                                               | —    |
| Actuarial loss amortization                                  | 40               | 48    | 4                                               | 4    |
| Net periodic benefit costs                                   | 44               | 57    | 62                                              | 59   |
| Charged to results of operations <sup>2</sup>                | 21               | 25    | 27                                              | 24   |

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

<sup>2</sup> The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and six months ended June 30, 2017, pension costs of \$16 million (2016 – \$7 million) and \$46 million (2016 – \$57 million), respectively, were attributed to labour, of which \$8 million (2016 – \$3 million) and \$21 million (2016 – \$25 million), respectively, were charged to operations, and \$8 million (2016 – \$4 million) and \$25 million (2016 – \$32 million) respectively, were capitalized as part of the cost of property, plant and equipment and intangible assets.

**14. ENVIRONMENTAL LIABILITIES**

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

| <i>(millions of dollars)</i>          | Six months ended<br>June 30,<br>2017 | Year ended<br>December 31,<br>2016 |
|---------------------------------------|--------------------------------------|------------------------------------|
| Environmental liabilities – beginning | 204                                  | 207                                |
| Interest accretion                    | 4                                    | 8                                  |
| Expenditures                          | (12)                                 | (20)                               |
| Revaluation adjustment                | 11                                   | 9                                  |
| Environmental liabilities – ending    | 207                                  | 204                                |
| Less: current portion                 | (28)                                 | (27)                               |
|                                       | 179                                  | 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>                               | June 30,<br>2017 | December 31,<br>2016 |
|------------------------------------------------------------|------------------|----------------------|
| Undiscounted environmental liabilities                     | 221              | 224                  |
| Less: discounting accumulated liabilities to present value | 14               | 20                   |
| Discounted environmental liabilities                       | 207              | 204                  |

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

| <i>(millions of dollars)</i> |     |
|------------------------------|-----|
| 2017 <sup>1</sup>            | 15  |
| 2018                         | 25  |
| 2019                         | 25  |
| 2020                         | 30  |
| 2021                         | 37  |
| Thereafter                   | 89  |
|                              | 221 |

<sup>1</sup> The amounts disclosed represent amounts for the period from July 1, 2017 to December 31, 2017.

**15. SHARE CAPITAL****Common Shares**

The Company is authorized to issue an unlimited number of common shares. At June 30, 2017, the Company had 595,385,325 (December 31, 2016 – 595,000,000) common shares issued and outstanding.

The following table presents the changes to common shares during the six months ended June 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 – June 30, 2017           | 595,385,325 |

(a) 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.

(b) On May 31, 2017, Hydro One issued from treasury 13,714 common shares to eligible employees in accordance with provisions of the Long-term Incentive Plan (LTIP).

**Secondary Common Share Offering**

On May 17, 2017, Hydro One announced the closing of 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 June 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 June 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.

**16. DIVIDENDS**

During the three months ended June 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.

During the six months ended June 30, 2017, preferred share dividends in the amount of \$9 million (2016 – \$10 million) and common share dividends in the amount of \$256 million (2016 – \$327 million) were declared.

**17. 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, which are calculated using the treasury stock method.

|                                                                             | Three months ended June 30 |             | Six months ended June 30 |             |
|-----------------------------------------------------------------------------|----------------------------|-------------|--------------------------|-------------|
|                                                                             | 2017                       | 2016        | 2017                     | 2016        |
| Net income attributable to common shareholders <i>(millions of dollars)</i> | 117                        | 152         | 284                      | 360         |
| Weighted average number of shares                                           |                            |             |                          |             |
| Basic                                                                       | 595,372,048                | 595,000,000 | 595,187,052              | 595,000,000 |
| Effect of dilutive stock-based compensation plans                           | 2,028,575                  | 1,574,109   | 1,917,218                | 1,363,976   |
| Diluted                                                                     | 597,400,623                | 596,574,109 | 597,104,270              | 596,363,976 |
| EPS                                                                         |                            |             |                          |             |
| Basic                                                                       | \$0.20                     | \$0.26      | \$0.48                   | \$0.61      |
| Diluted                                                                     | \$0.20                     | \$0.25      | \$0.48                   | \$0.60      |

**18. STOCK-BASED COMPENSATION****Share Grant Plans**

The following table presents a summary of share grant activity under the Company's Share Grant Plans during the three and six months ended June 30, 2017 and 2016:

|                                      | Three months ended June 30 |           | Six months ended June 30 |           |
|--------------------------------------|----------------------------|-----------|--------------------------|-----------|
| <i>(millions of dollars)</i>         | 2017                       | 2016      | 2017                     | 2016      |
| Share grants outstanding – beginning | 5,334,415                  | 5,412,354 | 5,334,415                | 5,412,354 |
| Vested <sup>1</sup>                  | (371,611)                  | —         | (371,611)                | —         |
| Share grants outstanding – ending    | 4,962,804                  | 5,412,354 | 4,962,804                | 5,412,354 |

<sup>1</sup> 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 six months ended June 30, 2017 and 2016, the Company granted awards under its Directors' DSU Plan, as follows:

| (number of DSUs)             | Three months ended June 30 |        | Six months ended June 30 |        |
|------------------------------|----------------------------|--------|--------------------------|--------|
|                              | 2017                       | 2016   | 2017                     | 2016   |
| DSUs outstanding – beginning | 119,763                    | 40,465 | 99,083                   | 20,525 |
| DSUs granted                 | 21,790                     | 18,740 | 42,470                   | 38,680 |
| DSUs outstanding – ending    | 141,553                    | 59,205 | 141,553                  | 59,205 |

At June 30, 2017, a liability of \$3 million (December 31, 2016 – \$2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$23.23 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

**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 six months ended June 30, 2017 and 2016, the Company granted awards under its Management' DSU Plan, as follows:

| (number of DSUs)             | Three months ended June 30 |      | Six months ended June 30 |      |
|------------------------------|----------------------------|------|--------------------------|------|
|                              | 2017                       | 2016 | 2017                     | 2016 |
| DSUs outstanding – beginning | 66,952                     | —    | —                        | —    |
| DSUs granted                 | 631                        | —    | 67,583                   | —    |
| DSUs outstanding – ending    | 67,583                     | —    | 67,583                   | —    |

At June 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 \$23.23 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

**Long-term Incentive Plan**

During the three and six months ended June 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 June 30 (number of units) | PSUs     |         | RSUs     |         |
|----------------------------------------------|----------|---------|----------|---------|
|                                              | 2017     | 2016    | 2017     | 2016    |
| Units outstanding – beginning                | 483,615  | 124,120 | 457,215  | 149,120 |
| Units granted                                | —        | —       | —        | —       |
| Units vested                                 | —        | —       | (13,470) | —       |
| Units forfeited                              | (40,520) | —       | (34,100) | —       |
| Units outstanding – ending                   | 443,095  | 124,120 | 409,645  | 149,120 |

| Six months ended June 30 (number of units) | PSUs     |         | RSUs     |         |
|--------------------------------------------|----------|---------|----------|---------|
|                                            | 2017     | 2016    | 2017     | 2016    |
| Units outstanding – beginning              | 230,600  | —       | 254,150  | —       |
| Units granted                              | 267,450  | 124,120 | 218,950  | 149,120 |
| Units vested                               | —        | —       | (13,470) | —       |
| Units forfeited                            | (54,955) | —       | (49,985) | —       |
| Units outstanding – ending                 | 443,095  | 124,120 | 409,645  | 149,120 |

The grant date total fair value of the awards granted during the three and six months ended June 30, 2017 was \$nil and \$12 million (2016 – \$nil and \$7 million), respectively. The compensation expense recognized by the Company relating to LTIP awards during the three and six months ended June 30, 2017 was \$2 million and \$3 million (2016 – not significant), respectively.

**19. RELATED PARTY TRANSACTIONS**

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

| (millions of dollars)     |                                                                                           | Three months ended June 30 |      | Six months ended June 30 |       |
|---------------------------|-------------------------------------------------------------------------------------------|----------------------------|------|--------------------------|-------|
| Related Party             | Transaction                                                                               | 2017                       | 2016 | 2017                     | 2016  |
| <b>Province</b>           | Dividends paid                                                                            | 70                         | 92   | 162                      | 268   |
| <b>IESO</b>               | Power purchased                                                                           | 242                        | 335  | 893                      | 1,045 |
|                           | Revenues for transmission services                                                        | 365                        | 375  | 734                      | 751   |
|                           | Amounts related to electricity rebates                                                    | 63                         | —    | 140                      | —     |
|                           | Distribution revenues related to rural rate protection                                    | 63                         | 32   | 124                      | 63    |
|                           | Distribution revenues related to the supply of electricity to remote northern communities | 8                          | 8    | 16                       | 16    |
|                           | Funding received related to Conservation and Demand Management programs                   | 10                         | 17   | 26                       | 24    |
| <b>OPG</b>                | Power purchased                                                                           | 1                          | 1    | 5                        | 3     |
|                           | Revenues related to provision of construction and equipment maintenance services          | 1                          | 1    | 1                        | 2     |
|                           | Costs expensed related to the purchase of services                                        | 1                          | —    | 1                        | 1     |
| <b>OEFC</b>               | Power purchased from power contracts administered by the OEFC                             | —                          | 1    | 1                        | 1     |
| <b>OEB</b>                | OEB fees                                                                                  | 2                          | 3    | 4                        | 7     |
| <b>Hydro One Brampton</b> | Cost recovery from management, administrative and smart meter network services            | —                          | 1    | —                        | 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.

**20. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

| (millions of dollars)                                 |  | Three months ended June 30 |       | Six months ended June 30 |       |
|-------------------------------------------------------|--|----------------------------|-------|--------------------------|-------|
|                                                       |  | 2017                       | 2016  | 2017                     | 2016  |
| Accounts receivable                                   |  | 100                        | 91    | 191                      | 11    |
| Due from related parties                              |  | (53)                       | (21)  | (98)                     | —     |
| Materials and supplies                                |  | —                          | —     | —                        | 1     |
| Prepaid expenses and other assets                     |  | (3)                        | (23)  | (3)                      | (29)  |
| Accounts payable                                      |  | 4                          | 14    | 1                        | 20    |
| Accrued liabilities                                   |  | (61)                       | 31    | (41)                     | 24    |
| Due to related parties                                |  | (107)                      | (131) | (143)                    | (133) |
| Accrued interest                                      |  | (27)                       | (19)  | (2)                      | 5     |
| Long-term accounts payable and other liabilities      |  | —                          | 4     | 2                        | 4     |
| Post-retirement and post-employment benefit liability |  | 17                         | 16    | 40                       | 36    |
|                                                       |  | (130)                      | (38)  | (53)                     | (61)  |

**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 June 30 |       | Six months ended June 30 |       |
|----------------------------------------------------------------------------------------------------------------------|--|----------------------------|-------|--------------------------|-------|
|                                                                                                                      |  | 2017                       | 2016  | 2017                     | 2016  |
| Capital investments in property, plant and equipment                                                                 |  | (391)                      | (401) | (728)                    | (768) |
| Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment |  | 13                         | 2     | 15                       | 11    |
| Capital expenditures – property, plant and equipment                                                                 |  | (378)                      | (399) | (713)                    | (757) |

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

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 June 30 |      | Six months ended June 30 |      |
|-----------------------------------------------------------------------------|----------------------------|------|--------------------------|------|
|                                                                             | 2017                       | 2016 | 2017                     | 2016 |
| Capital investments in intangible assets                                    | (15)                       | (16) | (28)                     | (28) |
| Net change in accruals included in capital investments in intangible assets | (4)                        | 1    | (5)                      | —    |
| Capital expenditures – intangible assets                                    | (19)                       | (15) | (33)                     | (28) |

**Supplementary Information**

| (millions of dollars) | Three months ended June 30 |      | Six months ended June 30 |      |
|-----------------------|----------------------------|------|--------------------------|------|
|                       | 2017                       | 2016 | 2017                     | 2016 |
| Net interest paid     | 131                        | 122  | 219                      | 202  |
| Income taxes paid     | 4                          | 6    | 8                        | 15   |

**21. CONTINGENCIES**

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

**22. COMMITMENTS**

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

| June 30, 2017 (millions of dollars) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|-------------------------------------|--------|--------|--------|--------|--------|------------|
| Outsourcing agreements              | 134    | 93     | 47     | 2      | 4      | 6          |
| Long-term software/meter agreement  | 16     | 17     | 17     | 9      | 2      | 3          |
| Operating lease commitments         | 12     | 10     | 8      | 9      | 4      | 4          |

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

| June 30, 2017 (millions of dollars) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|-------------------------------------|--------|--------|--------|--------|--------|------------|
| Credit facilities                   | —      | —      | —      | —      | 2,550  | —          |
| Letters of credit <sup>1</sup>      | 162    | —      | —      | —      | —      | —          |
| Guarantees <sup>2</sup>             | 325    | —      | —      | —      | —      | —          |

<sup>1</sup> Letters of credit consist of a \$150 million letter of credit related to retirement compensation arrangements, a \$5 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.

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

**23. SEGMENTED REPORTING**

Hydro One has three reportable segments:

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

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

# HYDRO ONE LIMITED

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

For the three and six months ended June 30, 2017 and 2016

| Three months ended June 30, 2017 (millions of dollars)         | Transmission | Distribution | Other       | Consolidated |
|----------------------------------------------------------------|--------------|--------------|-------------|--------------|
| Revenues                                                       | 361          | 998          | 12          | 1,371        |
| Purchased power                                                | —            | 649          | —           | 649          |
| Operation, maintenance and administration                      | 99           | 153          | 22          | 274          |
| Depreciation and amortization                                  | 103          | 94           | 2           | 199          |
| <b>Income (loss) before financing charges and income taxes</b> | <b>159</b>   | <b>102</b>   | <b>(12)</b> | <b>249</b>   |
| <b>Capital investments</b>                                     | <b>252</b>   | <b>151</b>   | <b>3</b>    | <b>406</b>   |

| Three months ended June 30, 2016 (millions of dollars)         | Transmission | Distribution | Other       | Consolidated |
|----------------------------------------------------------------|--------------|--------------|-------------|--------------|
| Revenues                                                       | 381          | 1,152        | 13          | 1,546        |
| Purchased power                                                | —            | 803          | —           | 803          |
| Operation, maintenance and administration                      | 92           | 144          | 26          | 262          |
| Depreciation and amortization                                  | 94           | 97           | 2           | 193          |
| <b>Income (loss) before financing charges and income taxes</b> | <b>195</b>   | <b>108</b>   | <b>(15)</b> | <b>288</b>   |
| <b>Capital investments</b>                                     | <b>238</b>   | <b>178</b>   | <b>1</b>    | <b>417</b>   |

| Six months ended June 30, 2017 (millions of dollars)           | Transmission | Distribution | Other       | Consolidated |
|----------------------------------------------------------------|--------------|--------------|-------------|--------------|
| Revenues                                                       | 728          | 2,277        | 24          | 3,029        |
| Purchased power                                                | —            | 1,538        | —           | 1,538        |
| Operation, maintenance and administration                      | 201          | 298          | 46          | 545          |
| Depreciation and amortization                                  | 204          | 186          | 4           | 394          |
| <b>Income (loss) before financing charges and income taxes</b> | <b>323</b>   | <b>255</b>   | <b>(26)</b> | <b>552</b>   |
| <b>Capital investments</b>                                     | <b>461</b>   | <b>289</b>   | <b>6</b>    | <b>756</b>   |

| Six months ended June 30, 2016 (millions of dollars)           | Transmission | Distribution | Other       | Consolidated |
|----------------------------------------------------------------|--------------|--------------|-------------|--------------|
| Revenues                                                       | 767          | 2,438        | 27          | 3,232        |
| Purchased power                                                | —            | 1,699        | —           | 1,699        |
| Operation, maintenance and administration                      | 188          | 285          | 45          | 518          |
| Depreciation and amortization                                  | 189          | 190          | 4           | 383          |
| <b>Income (loss) before financing charges and income taxes</b> | <b>390</b>   | <b>264</b>   | <b>(22)</b> | <b>632</b>   |
| <b>Capital investments</b>                                     | <b>473</b>   | <b>321</b>   | <b>2</b>    | <b>796</b>   |

### Total Assets by Segment:

| (millions of dollars) | June 30, 2017 | December 31, 2016 |
|-----------------------|---------------|-------------------|
| Transmission          | 13,344        | 13,071            |
| Distribution          | 9,318         | 9,379             |
| Other                 | 2,844         | 2,901             |
| <b>Total assets</b>   | <b>25,506</b> | <b>25,351</b>     |

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

## 24. SUBSEQUENT EVENTS

### Dividends

On August 8, 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.

### Avista Corporation Purchase Agreement

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation for approximately \$6.7 billion (Merger). Avista Corporation is an energy company primarily involved in 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 by 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.

**Convertible Debenture Offering**

On July 19, 2017, in connection with the acquisition of Avista Corporation, Hydro One and its wholly-owned subsidiary, 2587264 Ontario Inc., entered into an agreement under which a syndicate of underwriters agreed to buy, on a bought deal basis, \$1.4 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures (Debentures) of Hydro One Limited (Debenture Offering). On August 1, 2017, Hydro One filed a final short form prospectus with securities regulatory authorities in Canada for the Debenture Offering. On August 2, 2017, the underwriters gave notice of the exercise in full of the over-allotment option to acquire \$140 million aggregate principal amount of additional convertible debentures. The closing date for the Debentures and the over-allotment is expected to be August 9, 2017.