

SECURITIES AND EXCHANGE COMMISSION

FORM F-10

Registration statement for securities of certain Canadian issuers under the Securities Act of 1933

Filing Date: **2018-06-08**
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FILER

Hydro One Holdings Ltd

CIK: [1742574](#) | IRS No.: **000000000** | State of Incorporation: **A6** | Fiscal Year End: **1231**
Type: **F-10** | Act: **33** | File No.: [333-225519](#) | Film No.: **18888653**

Mailing Address
483 BAY STREET, SOUTH
TOWER, 8TH FLOOR
TORONTO A6 M5G 2P5

Business Address
483 BAY STREET, SOUTH
TOWER, 8TH FLOOR
TORONTO A6 M5G 2P5
1-416-345-5000

Hydro One Ltd

CIK: [1712356](#) | IRS No.: **000000000** | State of Incorporation: **A6** | Fiscal Year End: **1231**
Type: **F-10** | Act: **33** | File No.: [333-225519-01](#) | Film No.: **18888652**

Mailing Address
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483 BAY STREET, 8TH
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416-345-1366

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM F-10
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

**HYDRO ONE HOLDINGS HYDRO ONE LIMITED
LIMITED**

(Exact name of each Co-Registrant as specified in its charter)

Ontario, Canada

(Province or Other Jurisdiction of Incorporation or Organization)

Ontario, Canada

4911

(Primary Standard Industrial Classification Code Number (if applicable))

4911

Not Applicable

(I.R.S. Employer Identification Number (if applicable))

Not Applicable

**483 Bay Street
South Tower, 8th Floor
Toronto Ontario M5G 2P5
Canada
(416) 345-5000**

(Address and telephone number of Co-Registrants' principal executive offices)

**C T Corporation System
111 Eighth Avenue
New York, New York 10011
(212) 894-8700**

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Copies to:

James Scarlett
Chief Legal Officer
483 Bay Street, South Tower, 8th Floor
Toronto Ontario M5G 2P5
Canada
(416) 345-5000

Rob Lando
Osler, Hoskin & Harcourt LLP
620 Eighth Avenue, 36th Floor
New York, New York 10018
(212) 867-5800

Approximate date of commencement of proposed sale of the securities to the public:
From time to time after the effective date of this Registration Statement

Province of Ontario, Canada
(Principal jurisdiction regulating this offering (if applicable))

It is proposed that this filing shall become effective (check appropriate box):

- A. Upon filing with the Commission pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada)
- B. At some future date (check the appropriate box below):
1. pursuant to Rule 467(b) on _____ at _____ (designate a time not sooner than 7 calendar days after filing).
 2. pursuant to Rule 467(b) on _____ at _____ (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification of clearance on _____.
 3. pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Co-Registrants or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.
 4. after the filing of the next amendment to this form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction's shelf short form prospectus offering procedures, check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price (1)	Amount of registration fee
Debt Securities of Hydro One Holdings Limited	US\$3,000,000,000	100%	US\$3,000,000,000	US\$373,500
Guarantee of Hydro One Limited of Hydro One Holdings Limited Debt Securities	(2)	(2)	(2)	None

- (1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) of the U.S. Securities Act of 1933, as amended (the "Securities Act").
 - (2) No separate consideration will be received for the guarantee of Hydro One Limited of the debt securities of Hydro One Holdings Limited, and so, pursuant to Rule 457(n) under the Securities Act, no separate fee is payable with respect to the guarantee.
-

The Co-Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registration Statement shall become effective as provided in Rule 467 under the Securities Act or on such date as the U.S. Securities and Exchange Commission (the "Commission"), acting pursuant to Section 8(a) of the Securities Act, may determine.

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A copy of this preliminary short form base shelf prospectus has been filed with the securities regulatory authority in the Province of Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form base shelf prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form base shelf prospectus is obtained from the securities regulatory authority.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus has been filed under legislation in the Province of Ontario that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the United States Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This short form prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with the securities regulatory authority in the Province of Ontario. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Hydro One Limited at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario M5G 2P5, (416) 345-6313 and are also available electronically at www.sedar.com.

PRELIMINARY SHORT FORM BASE SHELF PROSPECTUS

New Issue

June 8, 2018



HYDRO ONE HOLDINGS LIMITED

U.S.\$3,000,000,000

Debt Securities

Fully and Unconditionally Guaranteed by

HYDRO ONE LIMITED

Hydro One Holdings Limited (“**HOHL**” or the “**Issuer**”), an indirect wholly-owned subsidiary of Hydro One Limited, may from time to time issue, offer and sell debentures, notes or other evidence of indebtedness of any kind, nature or description (collectively, “**Debt Securities**”) under this short form base shelf prospectus (the “**Prospectus**”). The Debt Securities will be fully and unconditionally guaranteed as to payment of principal, premium (if any), interest and certain other amounts by Hydro One Limited. The Debt Securities offered hereby may be offered or sold separately or together, in separate series, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements to the Prospectus (each, a “**Prospectus Supplement**” and together, the “**Prospectus Supplements**”).

The aggregate initial offering price of Debt Securities (or the United States dollar equivalent thereof if the Debt Securities are denominated in any other currency or currency unit) that may be sold pursuant to this Prospectus during the 25-month period that this Prospectus, including any amendments hereto, remains effective is limited to U.S.\$3,000,000,000.

All information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of such Prospectus Supplement and only for the purposes of the distribution of the Debt Securities to which such Prospectus Supplement pertains.

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Unless otherwise specified in the applicable Prospectus Supplement, Debt Securities will not be listed on any securities exchange. **There is currently no market through which the Debt Securities may be sold, and purchasers may not be able to resell such Debt Securities purchased under this Prospectus and any applicable Prospectus Supplement. This may affect the pricing of such Debt Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Debt Securities and the extent of issuer regulation. See “Risk Factors” and “Plan of Distribution”.**

The Debt Securities offered hereby have not been qualified for sale under the securities laws of any province or territory of Canada (other than the Province of Ontario) and, unless otherwise provided in the Prospectus Supplement relating to a particular issue of Debt Securities, will not be offered or sold, directly or indirectly, in Canada or to any resident of Canada.

Unless otherwise indicated in the Prospectus Supplement relating to an offering of Debt Securities, the particular offering of Debt Securities will be subject to approval of certain legal matters on behalf of the Issuer and Hydro One Limited by Osler, Hoskin & Harcourt LLP.

Investing in the Debt Securities involves significant risks. Prospective investors should carefully read and consider the risk factors described or referenced under the heading “Cautionary Note Regarding Forward-Looking Information” and “Risk Factors” in this Prospectus, contained in any of the documents incorporated by reference herein, and in any applicable Prospectus Supplement, before purchasing Debt Securities.

HOHL and Hydro One Limited are permitted, under the multi-jurisdictional disclosure system adopted by the United States (“U.S.”), to prepare this Prospectus in accordance with Canadian disclosure requirements. Prospective investors should be aware that such requirements are different from those of the U.S.

Unless otherwise stated therein, all financial statements incorporated by reference in this Prospectus have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

A purchaser’s ability to enforce civil liabilities under U.S. federal securities laws may be affected adversely by the fact that both the Issuer and Hydro One Limited are organized under the laws of the Province of Ontario, substantially all of the officers and directors of the Issuer and Hydro One Limited and some of the experts named in this Prospectus are non-U.S. residents, and a substantial portion of the assets of the Issuer and Hydro One Limited and the assets of such experts named in this Prospectus are located outside of the U.S.

The Debt Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”) or any state securities commission, nor has the SEC or any state securities commission passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

The specific terms of the Debt Securities will be set forth in an accompanying Prospectus Supplement and may include the designation of the particular series, the aggregate principal amount of Debt Securities being offered, any limit on the aggregate principal amount of the Debt Securities of any series being offered, the issue and delivery date, the maturity date, the offering price, the interest rate or method of determining the interest rate, the interest payment date(s), any redemption provisions, any repayment provisions and any other material terms and conditions of the Debt Securities.

The Issuer reserves the right to include in a Prospectus Supplement specific variable terms pertaining to the Debt Securities that are not within the descriptions set forth in this Prospectus.

Prospective investors should be aware that the acquisition of the Debt Securities described herein may have tax consequences both in Canada and the U.S. This Prospectus does not, and any applicable Prospectus Supplement may not fully, describe these tax consequences. Prospective investors should read the tax discussion in any applicable Prospectus Supplement, but note that such discussion may be only a general summary that does not cover all tax matters that may be of importance to a prospective investor. Each prospective investor is urged to consult its own tax advisors about the tax consequences relating to the purchase, ownership and disposition of the Debt Securities in light of the investor’s own circumstances.

No underwriter, dealer or agent has been involved in the preparation of this Prospectus or has performed any review of the contents of this Prospectus.

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This Prospectus constitutes a public offering of Debt Securities in only those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell the Debt Securities. The Issuer may offer and sell the Debt Securities to, or through, underwriters or dealers purchasing as principals and may also sell the Debt Securities to one or more purchasers directly or through agents. See “Plan of Distribution”.

A Prospectus Supplement relating to a particular offering of Debt Securities will identify each underwriter, dealer or agent, as the case may be, engaged by the Issuer in connection with the offering and sale of the Debt Securities, and will set forth the terms of the offering of the Debt Securities, including the public offering price of such Debt Securities (or the manner of determination thereof if offered on a non-fixed price basis), the method of distribution of such Debt Securities, including, to the extent applicable, the proceeds to, and the portion of expenses borne by, the Issuer from such sale, any underwriting fees, discounts or commissions and any discounts or concessions allowed, re-allowed or paid by any underwriter to other dealers and other material terms of the plan of distribution. If offered on a non-fixed price basis, Debt Securities may be offered at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at prices to be negotiated with purchasers at the time of sale, which prices may vary between purchasers and during the period of distribution. If Debt Securities are offered on a non-fixed price basis, the underwriters’ , dealers’ or agents’ compensation, as applicable, will be increased or decreased by the amount by which the aggregate price paid for Debt Securities by the purchasers exceeds or is less than the gross proceeds paid by the underwriters, dealers or agents to the Issuer. See “Plan of Distribution”.

In connection with any offering of Debt Securities (unless otherwise specified in a Prospectus Supplement), the underwriters, dealers or agents may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Debt Securities offered at levels other than those which might otherwise prevail on the open market. These transactions may be commenced, interrupted or discontinued at any time. See “Plan of Distribution”.

The head and registered office of each of the Issuer and Hydro One Limited is located at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5.

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ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise noted or the context otherwise requires, references to “**Hydro One**” or the “**Company**” refer to Hydro One Limited and its subsidiaries taken together as a whole. References to “**Hydro One Inc.**” refer only to Hydro One Inc., references to “**Hydro One Limited**” refer only to Hydro One Limited and references to “**HOHL**” or the “**Issuer**” refer only to Hydro One Holdings Limited.

All references in this Prospectus to “**dollars**” and “**\$**” are to Canadian dollars, unless otherwise expressly stated. Unless otherwise expressly stated therein, the financial information of Hydro One Limited contained in the documents incorporated by reference herein are presented in Canadian dollars. Hydro One Limited prepares and presents its financial statements in accordance with U.S. GAAP. Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus or included in any Prospectus Supplement is prepared in accordance with U.S. GAAP.

This Prospectus provides a general description of Debt Securities that the Issuer may offer. Each time the Issuer sells Debt Securities under this Prospectus, the Issuer will provide you with a Prospectus Supplement that will contain specific information about the terms of that offering. The Prospectus Supplement may also add, update or change information contained in this Prospectus. Before investing in any Debt Securities, a prospective investor should read both this Prospectus and any applicable Prospectus Supplement, together with the additional information described below and in the applicable Prospectus Supplement under “Documents Incorporated by Reference”.

This Prospectus includes or the documents incorporated by reference herein include a summary of certain material agreements of Hydro One Limited. The summary descriptions are not complete and are qualified by reference to the terms of the material agreements, which have been filed with the Canadian securities regulatory authorities and are available on SEDAR under Hydro One Limited’s profile at www.sedar.com. Investors are encouraged to read the full text of such material agreements.

Each of the Issuer and Hydro One Limited is responsible for the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement. Neither the Issuer nor Hydro One Limited has authorized anyone to provide you with different or additional information. Investors should only rely on the information contained in this Prospectus or any Prospectus Supplement and in the documents incorporated by reference herein and therein and investors are not entitled to rely on parts of such information to the exclusion of others. The Issuer is not making an offer of Debt Securities in any jurisdiction where the offer is not permitted by law. You should not assume that the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement is accurate as of any date other than the date of the applicable document.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This Prospectus, including the documents incorporated by reference herein, contains “forward-looking information” within the meaning of applicable Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995 that is based on current expectations, estimates, forecasts and projections about Hydro One’s business and the industry in which Hydro One operates and includes beliefs and assumptions made by management. Such information includes, but is not limited to: statements about the Company’s business and statements concerning the content of future Prospectus Supplements. Additional forward-looking information is identified in the various documents incorporated by reference in this Prospectus, including in the section entitled “Forward-Looking Information” in Hydro One Limited’s most recent annual information form and the section entitled “Forward-Looking Statements and Information” in Hydro One Limited’s most recent annual management’s discussion and analysis of financial results. Words such as “aim”, “could”, “would”, “expect”, “anticipate”, “intend”, “attempt”, “may”, “plan”, “will”, “believe”, “seek”, “estimate”, “goal”, “target” and variations of such words and similar expression are intended to identify such forward-looking information. The forward-looking information contained or incorporated by reference in this Prospectus are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. In particular, this forward-looking information is based on a variety of factors and assumptions including, but not limited to: no unforeseen changes in the legislative and operating framework for Ontario’s electricity market; favourable decisions from the Ontario Energy Board and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining required approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company’s distribution and transmission businesses; no unfavourable

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changes in environmental regulation; continued use of U.S. GAAP; a stable regulatory environment; 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 information. While the Company does not know what impact any of these differences may have, the Company's business, results of operations, financial conditions and credit stability may be materially adversely affected if any such differences occur. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information are discussed in more detail under "Risk Factors" in this Prospectus or in any Prospectus Supplement and in the various documents incorporated by reference in this Prospectus, including in the sections entitled "Forward-Looking Information" and "Risk Factors" in Hydro One Limited's most recent annual information form and the sections entitled "Risk Management and Risk Factors" and "Forward-Looking Statements and Information" in Hydro One Limited's most recent annual management's discussion and analysis of financial results. You should carefully consider these and other factors and not place undue reliance on forward-looking information.

Neither the Issuer nor Hydro One Limited undertakes or assumes any obligation to update or revise any forward-looking information for any reason, except as required by applicable securities laws.

WHERE TO FIND ADDITIONAL INFORMATION

The Issuer and Hydro One Limited have filed with the SEC, under the United States Securities Act of 1933, as amended, a registration statement on Form F-10 relating to the Debt Securities qualified by this Prospectus (the "**Registration Statement**"). This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information contained in the Registration Statement, certain items of which are contained in the exhibits to the Registration Statement as permitted by the rules and regulations of the SEC. For further information with respect to Hydro One and the Debt Securities offered pursuant to this Prospectus and any Prospectus Supplement, reference is made to the Registration Statement and to the exhibits filed therewith. Statements included or incorporated by reference in this Prospectus about the contents of certain documents are not necessarily complete, and in each instance, reference is made to the copy of the document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference.

Under the multi-jurisdictional disclosure system adopted by the U.S., documents and other information that Hydro One Limited files with the SEC may be prepared in accordance with the disclosure requirements of Canada, which are different from those of the U.S. You may read and download any public document that Hydro One Limited has filed with the Ontario Securities Commission on SEDAR at www.sedar.com.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the Registration Statement: (i) the documents referred to under the heading "Documents Incorporated by Reference"; (ii) the consent of KPMG LLP; (iii) the consent of Deloitte & Touche LLP; (iv) the consent of Osler, Hoskin & Harcourt LLP; (v) the powers of attorney from the directors and officers of each of the Issuer and Hydro One Limited; (vi) the Indenture dated as of June 8, 2018 (the "**Indenture**") between HOHL, as issuer, Hydro One Limited, as guarantor, Computershare Trust Company, N.A., as U.S. trustee (the "**U.S. Trustee**"), and Computershare Trust Company of Canada, as Canadian co-trustee (the "**Canadian Co-Trustee**", and together with the U.S. Trustee, the "**Trustees**"); and (vii) the Statement of Eligibility on Form T-1 under the United States Trust Indenture Act of 1939 of Computershare Trust Company, N.A.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed by Hydro One Limited with the Ontario Securities Commission, are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- (a) the annual information form of Hydro One Limited dated March 29, 2018 for the year ended December 31, 2017;
- (b) the comparative audited consolidated financial statements of Hydro One Limited as at and for the years ended December 31, 2017 and December 31, 2016, together with the notes thereto and the independent auditors' reports thereon (the "**2017 Annual Financial Statements**");

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- (c) management' s discussion and analysis in respect of the 2017 Annual Financial Statements;
- (d) the unaudited condensed interim consolidated financial statements of Hydro One Limited as at and for the three month period ended March 31, 2018, together with the notes thereto (the “**Interim Financial Statements**”);
- (e) management' s discussion and analysis in respect of the Interim Financial Statements;
- (f) the management information circular of Hydro One Limited dated March 19, 2018 prepared in connection with the annual meeting of shareholders of Hydro One Limited held on May 15, 2018;
- (g) the unaudited pro forma condensed consolidated financial statements of Hydro One Limited dated June 8, 2018 that give effect to the proposed acquisition of Avista Corporation and which include the pro forma consolidated balance sheet of Hydro One Limited as at March 31, 2018, the consolidated pro forma statement of operations of Hydro One Limited for the three months ended March 31, 2018 and the consolidated pro forma statement of operations of Hydro One Limited for the year ended December 31, 2017, and as filed on SEDAR by Hydro One Limited on June 8, 2018;
- (h) the following sections of the annual report on Form 10-K of Avista Corporation for the fiscal year ended December 31, 2017 as filed by Avista Corporation with the SEC, and as filed on SEDAR by Hydro One Limited on June 8, 2018:
 - (i) the sections entitled “Acronyms and Terms” and “Forward-Looking Statements”
 - (ii) Item 1. Business;
 - (iii) Item 1A. Risk Factors;
 - (iv) Item 2. Properties;
 - (v) Item 3. Legal Proceedings;
 - (vi) Item 6. Selected Financial Data;
 - (vii) Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations;
 - (viii) Item 7A. Quantitative and Qualitative Disclosures About Market Risk; and
 - (ix) Item 8. Financial Statements and Supplementary Data; and
- (i) the following sections of the quarterly report on Form 10-Q of Avista Corporation for the quarterly period ended March 31, 2018 as filed by Avista Corporation with the SEC, and filed on SEDAR by Hydro One Limited on June 8, 2018:
 - (i) the section entitled “Forward-Looking Statements”
 - (ii) Part I - Item 1. Condensed Consolidated Financial Statements, other than the Report of Independent Registered Public Accounting Firm;
 - (iii) Part I - Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations;
 - (iv) Part I - Item 3. Quantitative and Qualitative Disclosures About Market Risk;
 - (v) Part I - Item 4. Controls and Procedures;
 - (vi) Part II - Item 1. Legal Proceedings;
 - (vii) Part II - Item 1A. Risk Factors; and
 - (viii) Part II - Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - Dividend Restrictions.

Any document of the type referred to above, any annual information form, annual or quarterly financial statements, annual or quarterly management' s discussion and analysis, management information circular, material change report (excluding confidential material change reports), business acquisition report or other disclosure document required to be incorporated by reference into a prospectus filed under National Instrument 44-101- *Short Form Prospectus Distributions* filed by Hydro One Limited or the Issuer with the Ontario Securities Commission after the date of this Prospectus and prior to 25 months from the date hereof shall be deemed to be incorporated by reference into this Prospectus. To the extent that any document or information incorporated by reference in this Prospectus is included in

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a report that is filed with or furnished to the SEC, such document or information shall be deemed to be incorporated by reference as an exhibit to the Registration Statement.

Upon a new annual information form and the related annual audited consolidated financial statements and accompanying management's discussion and analysis being filed by Hydro One Limited with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the previous annual information form, the previous annual audited consolidated financial statements and accompanying management's discussion and analysis and all interim financial statements and accompanying management's discussion and analysis, all material change reports filed by Hydro One Limited prior to the commencement of the then current fiscal year and any business acquisition report for acquisitions completed since the beginning of the financial year in respect of which Hydro One Limited's new annual information form is filed (unless such report is incorporated by reference into the new annual information form filed or less than nine months of the acquired business' or related businesses' operations are incorporated into Hydro One Limited's most recent audited annual financial statements), shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Debt Securities hereunder. Upon an interim financial statement and accompanying management's discussion and analysis being filed by Hydro One Limited with and, where required, accepted by, the Ontario Securities Commission during the currency of this Prospectus, all interim financial statements and accompanying management's discussion and analysis filed prior to the new interim financial statements shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Debt Securities hereunder. Upon a new management information circular relating to an annual meeting of shareholders of Hydro One Limited being filed by Hydro One Limited with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the management information circular for the preceding annual meeting of shareholders of Hydro One Limited shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Debt Securities hereunder.

Upon new unaudited pro forma financial statements of Hydro One Limited that give effect to the proposed acquisition of Avista Corporation being filed by Hydro One Limited with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the previous unaudited pro forma financial statements of Hydro One Limited that give effect to the proposed acquisition of Avista Corporation shall be deemed no longer to be incorporated by reference in this Prospectus for purpose of future offers and sales of Debt Securities hereunder. Upon a new Form 10-K of Avista Corporation being filed by Hydro One Limited with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, the previous Form 10-K of Avista Corporation and all previous Form 10-Q's of Avista Corporation shall be deemed no longer to be incorporated by reference in this Prospectus for purpose of future offers and sales of Debt Securities hereunder. Upon a business acquisition report in respect of the completion of the acquisition of Avista Corporation by Hydro One Limited being filed by Hydro One Limited with and, where required, accepted by, the Ontario Securities Commission during the term of this Prospectus, or upon the announcement by Hydro One Limited that the acquisition of Avista Corporation is not being completed, the previous unaudited pro forma financial statements of Hydro One Limited that give effect to the proposed acquisition of Avista Corporation, the previous Form 10-K of Avista Corporation and all previous Form 10-Q's of Avista Corporation shall be deemed no longer to be incorporated by reference in this Prospectus for purpose of future offers and sales of Debt Securities hereunder.

Certain marketing materials (as that term is defined in applicable securities legislation in Canada) may be provided to Canadian investors in connection with a distribution of Debt Securities under this Prospectus and any applicable Prospectus Supplement. Any "template version" of any such "marketing materials" (as those terms are defined in National Instrument 41-101 - *General Prospectus Requirements*) pertaining to a distribution of Debt Securities, and filed by Hydro One Limited or the Issuer after the date of the applicable Prospectus Supplement for the offering and before termination of the distribution of such Debt Securities, will be deemed to be incorporated by reference in such Prospectus Supplement for the purposes of the distribution of Debt Securities to which the Prospectus Supplement pertains.

A Prospectus Supplement containing the specific terms of any offering of Debt Securities will be delivered to purchasers of such Debt Securities together with this Prospectus and will be deemed to be incorporated by reference in this Prospectus as of the date of the Prospectus Supplement solely for the purposes of the offering of Debt Securities thereunder.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this Prospectus, to the extent that a statement

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contained herein, or in any other subsequently filed document that also is, or is deemed to be, incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Prospectus, except as so modified or superseded.

Copies of the documents incorporated by reference herein may be obtained on request without charge from the Corporate Secretary of Hydro One Limited at 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5, telephone (416) 345-6313, and are also available electronically at www.sedar.com.

CURRENCY

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. References to “dollars” or “\$” are to lawful currency of Canada. References to “U.S. dollars” or “U.S.\$” are to lawful currency of the United States of America.

The following table sets forth: (i) for the years ended December 31, 2016 and December 31, 2015, the average noon exchange rate and the high, low and period end noon exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada; and (ii) for the year ended December 31, 2017 and for the three months ended March 31, 2018 and March 31, 2017, the average daily exchange rate and the high, low and period end average daily exchange rates of one U.S. dollar in exchange for Canadian dollars as reported by the Bank of Canada.

	Year ended December 31,			Three months ended March 31,	
	2017	2016	2015	2018	2017
High	1.3743	1.4589	1.3990	1.3088	1.3513
Low	1.2128	1.2544	1.1728	1.2288	1.3016
Average	1.2986	1.3248	1.2787	1.2647	1.3238
Period End	1.2545	1.3427	1.3840	1.2894	1.3310

As of June 7, 2018, the daily average exchange rate as reported by the Bank of Canada was U.S.\$1.00 = \$1.2972.

HYDRO ONE HOLDINGS LIMITED

HOHL was incorporated on August 25, 2017 under the *Business Corporations Act* (Ontario) and is an indirect, wholly-owned subsidiary of Hydro One Limited. HOHL has no significant assets or liabilities, no subsidiaries (other than certain wholly-owned subsidiaries incorporated to facilitate the acquisition of Avista Corporation) and no ongoing business operations of its own, other than certain foreign exchange derivative contracts associated with funding the acquisition of Avista Corporation. HOHL is intended to be used to facilitate the funding transactions necessary to fund a portion of the purchase price for the indirect acquisition by Hydro One Limited of Avista Corporation (the “**Merger**”). See “Use of Proceeds”.

HYDRO ONE LIMITED

Hydro One Limited was incorporated on August 31, 2015 under the *Business Corporations Act* (Ontario). On October 31, 2015, Hydro One Limited acquired all of the issued and outstanding shares of Hydro One Inc. from the Province of Ontario (the “**Province**”) in exchange for the issuance of Common Shares and Series 1 preferred shares to the Province.

HYDRO ONE

Hydro One is the largest electricity transmission and distribution company in Ontario. Through its wholly-owned subsidiary, Hydro One Inc., Hydro One owns and operates substantially all of Ontario’s electricity transmission

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network and is the largest electricity distributor in Ontario by number of customers. Hydro One owns and operates approximately 30,000 circuit kilometres of high-voltage transmission lines and approximately 123,000 circuit kilometres of primary low-voltage distribution lines.

Hydro One has three business segments: (i) transmission; (ii) distribution; and (iii) other business.

Hydro One's transmission business consists of owning, operating and maintaining its transmission system, which accounts for approximately 98% of Ontario's transmission capacity based on revenue approved by the Ontario Energy Board. This includes Hydro One's approximately 66% interest in B2M Limited Partnership, a limited partnership between Hydro One and the Saugeen Ojibway Nation in respect of the Bruce-to-Milton transmission line. Hydro One's transmission business is a rate-regulated business that earns revenues mainly from charging transmission rates that must be approved by the Ontario Energy Board. Hydro One's transmission business accounted for approximately 53% of the Company's total assets as at December 31, 2017, and approximately 51% of its total revenues, net of purchased power, in 2017. All of Hydro One's transmission business is carried out by its wholly-owned subsidiary Hydro One Inc., through its wholly-owned subsidiary Hydro One Networks Inc. and through other wholly-owned subsidiaries of Hydro One Inc. that own and control Hydro One Sault Ste. Marie LP, as well as the portion of Hydro One's transmission business held through B2M Limited Partnership, which Hydro One controls.

Hydro One's distribution business consists of owning, operating and maintaining its distribution system, which Hydro One, through Hydro One Inc., owns primarily through its wholly-owned subsidiary, Hydro One Networks Inc., the largest local distribution company in Ontario. Hydro One's distribution system is also the largest in Ontario, and principally serves rural communities. Hydro One's distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that must be approved by the Ontario Energy Board. Hydro One's distribution business accounted for approximately 36% of its total assets as at December 31, 2017 and approximately 48% of its total revenues, net of purchased power, in 2017.

Hydro One's other business segment consists principally of Hydro One's telecommunications business, as well as certain corporate activities. The telecommunications business provides telecommunications support for Hydro One's transmission and distribution businesses. The telecommunications business also offers communications and information technology solutions to organizations with broadband network requirements. Hydro One's other business segment is not rate regulated. The other business segment, which in addition to the telecommunications business also includes a deferred tax asset, accounted for approximately 11% of Hydro One's total assets as at December 31, 2017 and approximately 1% of Hydro One's total revenues, net of purchased power, in 2017.

The address of the head and registered office of Hydro One is 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario, M5G 2P5.

RECENT DEVELOPMENTS

On May 21, 2018, the Committee on Foreign Investment in the United States completed its review of the Merger and concluded that there are no unresolved national security concerns with respect to the Merger.

On May 22, 2018, Avista Corporation closed an offering of \$375,000,000 aggregate principal amount of first mortgage bonds, 4.35% Series due 2048.

On May 25, 2018, Hydro One Limited and Avista Corporation announced that they have filed an all-parties, all-issues settlement agreement in respect of the Merger with the Public Utility Commission of Oregon.

On June 4, 2018, Hydro One Limited and Avista Corporation announced that they have received approval of the Merger from the Regulatory Commission of Alaska ("RCA"), subject to the following conditions: (i) Alaska Electric Light & Power Company's ("AEL&P") capital structure is maintained at its previously ordered debt and equity levels; (ii) there is no rate recovery of transaction costs or premium associated with the Merger; (iii) assignment of costs related to services between Avista Corporation and AEL&P will be subject to review and approval by the RCA; (iv) AEL&P continues to be operated independently with the same experienced management team as existed prior to the Merger; and (v) the parties adhere to all commitments filed with the RCA on April 3, 2018. The Merger has now received all required approvals in Alaska.

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On June 5, 2018, HOHL received a binding bridge loan commitment from a financial institution in an aggregate principal amount of U.S.\$2.6 billion (collectively, the “**Bridge Loan Commitment**”) in order to fund the purchase price for the Merger.

On June 8, 2018, 2587264 Ontario Inc., a wholly-owned subsidiary of Hydro One Limited, entered into a bridge loan agreement with a financial institution in an aggregate principal amount of \$1 billion (the “**Bridge Loan Agreement**”, and together with the Bridge Loan Commitment, the “**Bridge Facilities**”) in order to fund the purchase price for the Merger.

RISK FACTORS

Prospective investors in a particular offering of Debt Securities should carefully consider the risks presented in this Prospectus, as well as the information and risk factors contained in the Prospectus Supplement relating to that offering and any and all other information incorporated by reference in this Prospectus. Discussions of certain risks affecting Hydro One are generally provided and described in documents filed by Hydro One Limited with the Ontario Securities Commission from time to time and which are incorporated by reference into this Prospectus, including Hydro One Limited’s annual information form and annual management’s discussion and analysis. In particular, see the sections entitled “Forward-Looking Information” and “Risk Factors” in Hydro One Limited’s most recent annual information form and the sections entitled “Risk Management and Risk Factors” and “Forward-Looking Statements and Information” in Hydro One Limited’s most recent annual management’s discussion and analysis of financial results. If any event arising from these or any other risks occurs, Hydro One’s business, prospects, financial condition, results of operations or cash flows could be materially adversely affected.

In addition, the following additional risk factors will be relevant to prospective investors of Debt Securities.

Reliance on Hydro One Limited as guarantor of the Debt Securities

The Issuer is not expected to have any assets, property or operations other than any Debt Securities it issues, loans or other investments it obtains from its affiliates, any associated hedging arrangements and any investments it makes with any such proceeds obtained from these activities. Therefore, the holders of Debt Securities are relying principally on the full and unconditional guarantee of the Debt Securities provided by Hydro One Limited and the financial position and creditworthiness of Hydro One Limited in respect of the payment of the amounts owing under and in respect of the Debt Securities. The financial position and creditworthiness of Hydro One Limited is subject to the risk factors incorporated by reference in this Prospectus.

The Debt Securities will be effectively subordinated to the debt and other liabilities of the Issuer’s and Hydro One Limited’s subsidiaries

Neither the Issuer’s nor Hydro One Limited’s subsidiaries will guarantee or otherwise be responsible for the payment of principal, premium, Additional Amounts (as defined below) or interest required to be made by the Issuer or Hydro One Limited on the Debt Securities. Accordingly, the Debt Securities will be effectively subordinated to all existing and future liabilities of the Issuer’s and Hydro One Limited’s subsidiaries. In the event of an insolvency, bankruptcy, liquidation, reorganization or similar proceeding in respect of any of the Issuer’s or Hydro One Limited’s subsidiaries, holders of Debt Securities will have no right to proceed against the assets of such subsidiaries. Creditors of such subsidiaries would generally be entitled to payment in full from such assets before any assets are made available for distribution to the Issuer or Hydro One Limited, as applicable, to pay its debts and other obligations.

The Indenture does not limit the amount of debt that the Issuer, Hydro One Limited or any of their subsidiaries may incur or restrict their ability to engage in other transactions that may adversely affect holders of the Debt Securities

The Indenture does not limit the amount of debt that the Issuer or Hydro One Limited may incur. In addition, the Indenture does not contain any financial covenants or other provisions that would afford the holders of Debt Securities any substantial protection if the Issuer or Hydro One Limited participates in a highly leveraged transaction. In addition, the Indenture does not limit the ability of the Issuer or Hydro One Limited to pay dividends, make distributions, repurchase outstanding shares or mortgage, pledge, encumber or charge any of their assets to secure any indebtedness or other financing. As a result of the foregoing, when evaluating the terms of the Debt Securities, a prospective investor should be aware that the terms of the Indenture and the Debt Securities do not restrict the ability of the Issuer or Hydro One Limited to engage in, or otherwise be a party to, various corporate transactions that could have an adverse impact on a purchaser’s investment in the Debt Securities.

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The Debt Securities are not secured by any assets of the Issuer or Hydro One Limited and any secured creditors will have a prior claim on the assets of the Issuer or Hydro One Limited, as applicable

The Debt Securities are not secured by any assets of the Issuer or Hydro One Limited. If either the Issuer or Hydro One Limited incurs any secured debt, its assets would be subject to prior claims of its secured creditors. In such circumstances, it is possible that there would be insufficient assets remaining from which claims of the holders of any Debt Securities could be satisfied.

The Issuer and Hydro One Limited may be unable to generate the cash flow to service their debt obligations

There is no guarantee that the Issuer and/or Hydro One Limited will generate sufficient cash flow to enable them to service their indebtedness, including the Debt Securities. The ability of the Issuer and Hydro One Limited to pay their expenses and satisfy their debt obligations will depend on their future performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors outside their control. Both the Issuer and Hydro One Limited are holding companies and therefore depend on dividends and other distributions from their subsidiaries. As a result, distributions or advances from those subsidiaries are the principal source of funds necessary to meet the debt service obligations of the Issuer and Hydro One Limited. The Issuer and Hydro One Limited believe that cash flow from operations and available cash will be adequate for the foreseeable future. However, if the Issuer and/or Hydro One Limited are unable to generate sufficient cash flow to service their debt, the Issuer and/or Hydro One Limited, as applicable, may be required to sell assets, reduce capital expenditures, refinance all or a portion of any outstanding debt, including the Debt Securities, or obtain additional financing. There is no guarantee that the Issuer and/or Hydro One Limited will be able to refinance their debt, sell assets or incur additional indebtedness on terms acceptable to them, or at all.

In addition, in connection with its proposed acquisition of Avista Corporation, Hydro One Limited has agreed to make certain commitments in proceedings before various state utility commissions in the United States. The commitments, if adopted, will have the effect of isolating the assets of Avista Corporation and its subsidiaries from creditors of Hydro One Limited and its other subsidiaries (including the Issuer) and protecting the financial integrity of Avista Corporation. Among other things, the commitments: require Avista Corporation to satisfy certain metrics relating to earnings, maintain a minimum percentage of common equity in its capital structure and maintain certain credit ratings, in each case as a condition to the payment of dividends; impose restrictions on intercompany loans; impose restrictions on the pledge of Avista's utility assets; and impose requirements regarding the independence of the board and management of Avista Corporation. Such commitments may limit the ability of Hydro One Limited and its subsidiaries to obtain funds from Avista Corporation. This may limit the ability of Hydro One Limited and the Issuer to meet their payment obligations on the Debt Securities, which would have an adverse effect on the holders of the Debt Securities.

Changes in credit ratings may adversely affect the value of the Debt Securities

In connection with any offering of Debt Securities, the Issuer expects to receive a credit rating for the Debt Securities being offered from one or more credit rating agencies. Such ratings are limited in scope and may not address all material risks related to the structure of, market for, or other factors related to the value of, the Debt Securities, but rather reflect only the view of each rating agency at the time the rating is issued. There can be no assurance that the credit ratings assigned to the Debt Securities of any series will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by one or more of the rating agencies if, in such rating agency's judgment, circumstances so warrant.

In addition, credit rating agencies evaluate the industry in which Hydro One operates as a whole and may change their credit rating for Hydro One Limited or the Issuer based on their overall view of such industry. Actual or anticipated changes or downgrades in Hydro One Limited's or the Issuer's credit ratings, including any announcement that Hydro One Limited's or the Issuer's ratings are under further review for a downgrade, could affect the market value of the Debt Securities and increase corporate borrowing costs for the Issuer.

The rights of holders of Debt Securities may change

Holders of Debt Securities will be bound by the terms and conditions of the Indenture. The terms and conditions of the Indenture may, however, be amended in certain circumstances, including with the approval of a majority of holders of outstanding Debt Securities of any series being affected.

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No existing trading market

The Debt Securities will constitute a new issue of securities for which there is no existing trading market. The Issuer does not intend to list the Debt Securities on any securities exchange or any automated quotation system. Accordingly, there can be no assurance that a trading market for the Debt Securities will ever develop or will be maintained. If a trading market does not develop or is not maintained, it may be difficult or impossible to resell the Debt Securities. Further, there can be no assurance as to the liquidity of any market that may develop for the Debt Securities, the ability of any purchaser to sell the Debt Securities or the price at which a purchaser will be able to sell the Debt Securities. Further, trading prices of the Debt Securities will depend on many factors, including prevailing interest rates, financial conditions and results of operations of Hydro One Limited, the then-current credit ratings assigned to the Debt Securities and the markets for similar securities.

Prevailing yields on similar securities

The prevailing yield on debt securities with comparable maturities will affect the market value of the Debt Securities. Assuming all other factors remain unchanged, the market value of the Debt Securities will decline as prevailing yields for similar securities rise and will increase as prevailing yields for similar securities decline. Fluctuations in prevailing yields may also impact borrowing costs of the Issuer which may adversely affect its creditworthiness. It is impossible to predict whether prevailing rates will rise or fall.

Risk of optional redemption

The Issuer may elect to redeem the Debt Securities prior to their maturity (to the extent the terms of the Debt Securities provide for optional redemption prior to maturity), in whole or in part, at any time or from time to time, especially when prevailing interest rates are lower than the rate borne by the Debt Securities. If prevailing interest rates are lower than the interest rate borne by the Debt Securities at the time of redemption, a purchaser may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate that is at least equal to the interest rate on the Debt Securities being redeemed. See “Description of Debt Securities – Optional Redemption”.

Potential difficulties in enforcing civil liabilities outside Canada

Each of the Issuer and Hydro One Limited is incorporated under the laws of Ontario, Canada and substantially all of the Issuer’s and Hydro One Limited’s assets are located in Canada. Substantially all of the directors and officers of each of the Issuer and Hydro One Limited, and some of the experts named in the Prospectus, are non-U.S. residents, and a substantial portion of the assets of each of the Issuer, Hydro One Limited and such experts named in the Prospectus are located outside of the U.S. Each of the Issuer and Hydro One Limited agree, in accordance with the terms of the Indenture, to accept service of process in any suit, action or proceeding with respect to the Indenture or any Debt Securities brought in any federal or state court located in New York City by an agent designated for such purpose, and to submit to the jurisdiction of such courts in connection with such suits, actions or proceedings. Nevertheless, it may be difficult for holders of Debt Securities to effect service of process within the U.S. upon directors, officers and experts who are not residents of the U.S. or to realize in Canada upon judgments of courts of the U.S. predicated upon civil liability under U.S. federal or state securities laws or other laws of the U.S.

Canadian bankruptcy and insolvency laws may impair the Trustees’ ability to enforce remedies under the Indenture or the Debt Securities

The right of the Trustees to enforce remedies under the Indenture and the Debt Securities could be delayed by the provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to the Issuer and/or Hydro One Limited. Canadian federal bankruptcy, insolvency and other restructuring legislation (including certain provisions of corporate statutes) contain provisions enabling an obligor to prepare and file a restructuring proposal for consideration by all or some of its creditors, to be voted on by the various classes of creditors affected thereby. A restructuring proposal may have the effect of compromising the obligations under the outstanding Debt Securities. A restructuring proposal, if accepted by the requisite majorities of each affected class of creditors, and if approved by the relevant Canadian court, would be binding on all creditors within each affected class of securities, including those creditors that did not vote to accept the proposal. Moreover, such legislation, in certain circumstances, permits the insolvent debtor to retain possession and

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administration of its property, subject to court oversight, even though it may not be in default under the applicable debt instrument, during the period that the stay against proceedings remains in place. Canadian federal bankruptcy, insolvency and other restructuring legislation also contemplate the granting of super priority security interests or charges on the assets of the debtor company to secure the repayment of any amounts to be borrowed to facilitate the insolvency proceeding, any amounts owing for the fees and costs of professionals involved in the insolvency proceeding, obligations of directors of the company with respect to their statutory liabilities and sometimes other amounts.

The powers of the court under the *Bankruptcy and Insolvency Act* (Canada), and particularly under the *Companies Creditors Arrangement Act* (Canada), have been interpreted and exercised broadly so as to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, neither the Issuer nor Hydro One Limited can predict whether payments under the outstanding Debt Securities would be made during any proceedings in bankruptcy, insolvency or other restructuring, whether or when the Trustees could exercise their rights under the Indenture or whether and to what extent holders of the Debt Securities would be compensated for any compromise of obligations or any delays in payment, if any, of principal, premium, Additional Amounts (as defined below) or interest.

CONSOLIDATED CAPITALIZATION

There have been no material changes in Hydro One Limited' s share and loan capital, on a consolidated basis, since the date of the Interim Financial Statements, other than as noted below.

Since March 31, 2018, Hydro One Inc. has issued approximately \$1,190,000,000 and repaid approximately \$1,050,000,000 in commercial paper.

USE OF PROCEEDS

The net proceeds of any offering of Debt Securities will be used for the purposes set forth in the applicable Prospectus Supplement, including financing, directly or indirectly, or refinancing previously incurred indebtedness incurred to pay the purchase price payable for the Merger pursuant to the terms of the Agreement and Plan of Merger dated as of July 19, 2017 among Hydro One Limited, Olympus Holding Corp., Olympus Corp., an indirect wholly-owned subsidiary of the Issuer, and Avista Corporation.

The cash purchase price of the Merger and the Merger-related costs will be financed at the closing of the Merger with a combination of some or all of the following sources: (i) net proceeds of the first instalment from the sale of \$1.54 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures of Hydro One Limited represented by instalment receipts; (ii) net proceeds of any offering of Debt Securities pursuant to a Prospectus Supplement; (iii) amounts drawn under the existing \$250 million operating credit facility of Hydro One Limited; (iv) amounts drawn under the Bridge Facilities; and (v) existing cash on hand and other sources available to Hydro One.

EARNINGS COVERAGE RATIO

Earnings coverage ratios will be provided as required in the applicable Prospectus Supplement with respect to any offering and sale of Debt Securities pursuant to this Prospectus.

PLAN OF DISTRIBUTION

The Debt Securities offered hereby may be sold by the Issuer (i) to, or through, underwriters, dealers or agents purchasing as principal or acting as agent; (ii) directly to one or more purchasers; or (iii) through a combination of any of these methods of sale. The Debt Securities may be sold at fixed prices or non-fixed prices, such as prices determined by reference to the prevailing price of the Debt Securities in a specified market, at market prices prevailing at the time of sale or at prices to be negotiated with purchasers, which prices may vary as between purchasers and during the period of distribution of the Debt Securities.

A Prospectus Supplement relating to a particular offering of Debt Securities will identify each underwriter, dealer or agent, as the case may be, engaged by the Issuer in connection with the offering and sale of the Debt Securities, and

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will set forth the terms of the offering of the Debt Securities, including the public offering price of such Debt Securities (or the manner of determination thereof if offered on a non-fixed price basis), the method of distribution of such Debt Securities, including, to the extent applicable, the proceeds to, and the portion of expenses borne by, the Issuer from such sale, any underwriting fees, discounts or commissions and any discounts or concessions allowed, re-allowed or paid by any underwriter to other dealers and other material terms of the plan of distribution. Only underwriters, dealers or agents so named in the applicable Prospectus Supplement are deemed to be underwriters, dealers or agents, as the case may be, in connection with the Debt Securities offered thereby. Unless otherwise indicated in a Prospectus Supplement, any agent is acting on a best efforts basis for the period of its appointment.

The Debt Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The prices at which the Debt Securities may be offered may vary between purchasers and during the period of distribution. If, in connection with the offering of Debt Securities at a fixed price or prices, the underwriters have made a bona fide effort to sell all of the Debt Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Debt Securities is less than the gross proceeds paid by the underwriters to the Issuer.

If underwriters or dealers purchase Debt Securities as principal, the Debt Securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters or dealers to purchase such Debt Securities will be subject to certain conditions precedent, and the underwriters or dealers will be obligated to purchase all of the Debt Securities offered pursuant to any Prospectus Supplement if any of such Debt Securities are purchased. Any public offering price and any discounts or concessions allowed, re-allowed or paid to dealers may be changed from time to time.

Underwriters, dealers and agents who participate in the distribution of the Debt Securities may be entitled under agreements which may be entered into with the Issuer and Hydro One Limited to indemnification by the Issuer and Hydro One Limited against certain liabilities, including liabilities under securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Those underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, Hydro One in the ordinary course of business.

The Debt Securities offered hereby have not been qualified for sale under the securities laws of any province or territory of Canada (other than the Province of Ontario) and, unless otherwise provided in the Prospectus Supplement relating to a particular issue of Debt Securities, will not be offered or sold, directly or indirectly, in Canada or to any resident of Canada.

Each issue by the Issuer of Debt Securities will be a new issue of securities with no established trading market. Unless otherwise specified in a Prospectus Supplement relating to an offering of Debt Securities, such Debt Securities will not be listed on any securities or stock exchange. Any underwriters, dealers or agents to or through whom such Debt Securities are sold may make a market in such Debt Securities, but they will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given that a trading market in any such Debt Securities will develop or as to the liquidity of any trading market for such Debt Securities.

Unless otherwise specified in a Prospectus Supplement relating to an offering of Debt Securities, in connection with any offering of Debt Securities, the underwriters, dealers or agents may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of the Debt Securities offered at levels other than those which might otherwise prevail on the open market. These transactions may be commenced, interrupted or discontinued at any time.

DESCRIPTION OF DEBT SECURITIES

The following description sets forth certain general terms and provisions of the Debt Securities. The particular terms and provisions of Debt Securities offered pursuant to any Prospectus Supplement, and the extent to which the general

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terms and provisions described below may apply to them, will be described in the Prospectus Supplement filed in respect of such Debt Securities. No convertible, exchangeable or exercisable securities will be offered pursuant to this Prospectus or any Prospectus Supplement.

Unless otherwise specified in a Prospectus Supplement, the Debt Securities will be issued under the Indenture, as the same may be amended, restated, supplemented or replaced from time to time. A copy of the Indenture has been filed with the SEC as an exhibit to the Registration Statement of which this Prospectus is a part. The Indenture is also available on SEDAR under Hydro One Limited' s profile at www.sedar.com.

The following description of the material terms and provisions of the Debt Securities and the Indenture is only a summary and is qualified in its entirety by reference to the provisions of the Indenture.

Terms of the Debt Securities

The Debt Securities may be issued in one or more separate series and each such series will rank *pari passu* with each other series without discrimination, preference or priority, regardless of the actual date of issue, and with all other unsecured and unsubordinated indebtedness of the Issuer or Hydro One Limited, as guarantor. The Prospectus Supplement for a particular series of Debt Securities will disclose the specific terms of such Debt Securities for such series. Those terms may include some or all of the following:

the title of such series;

any limit on the aggregate principal amount of the Debt Securities of such series;

the person to whom any interest shall be payable if other than the person in whose name the Debt Securities of such series are registered on the regular record date for such interest payment;

the date or dates on which principal is payable or the method for determining such date or dates, and any right to change the date on which principal is payable;

the interest rate or rates, if any, or the method for determining the interest rate or rates;

the date or dates from which interest will accrue, or the method for determining such date or dates, and the dates on which interest will be payable and the manner of determination of record dates for such payments;

the right to extend the interest payment periods and, if so, the terms of any such extension;

the place or places where payments will be made;

any right of the Issuer to redeem the Debt Securities, and, if so, the terms of such redemption option;

any obligation to redeem the Debt Securities through a sinking fund or to purchase the Debt Securities through a purchase fund or at the option of the holders of such Debt Securities;

the denominations in which any Debt Securities will be issued, if other than denominations of U.S.\$2,000 and any integral multiple of U.S.\$1,000 in excess thereof;

the identity of each registrar, authenticating agent and/or paying agent if not the U.S. Trustee;

any index or formula used for determining principal, premium, Additional Amounts (as defined below) or interest;

the currency or currency units for which the Debt Securities may be purchased and the currency or currency units in which the principal and any premium, Additional Amounts (as defined below) and interest is payable (in each case, if other than U.S. dollars);

if the principal of, or any premium, Additional Amounts (as defined below) or interest on, any Debt Securities of such series is to be payable, at the election of the Issuer or the holder thereof, in one or more currencies or currency units other than U.S. dollars, the currency or currency units in which the principal of, or any premium, Additional Amounts (as defined below) or interest on, such Debt Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

the portion of the principal payable upon acceleration of maturity, if other than the entire principal;

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the circumstances in which the Issuer and/or Hydro One Limited will be required to pay Additional Amounts (as defined below) in respect of any tax, assessment or government charge in respect of the Debt Securities;

if the principal payable on the maturity date will not be determinable on one or more dates prior to the maturity date, the amount which will be deemed to be such principal amount or the manner of determining it;

whether the Debt Securities will be issuable as global securities and, if so, the depositary for such Debt Securities;

any transfer and exchange provisions of the Debt Securities of such series;

the events of default with respect to such Debt Securities;

any addition, modification or deletion in the covenants which apply to such Debt Securities; and

any other terms and conditions of the Debt Securities which are not inconsistent with applicable trust indenture legislation.

Amount Unlimited

The aggregate principal amount of Debt Securities which may be authenticated and delivered under the Indenture is unlimited.

Specified Denominations

Except as otherwise specified in a Prospectus Supplement, the Debt Securities will be issuable in denominations of U.S.\$2,000 and any integral multiple of U.S.\$1,000 in excess thereof.

Global Securities

The Issuer may issue some or all of the Debt Securities as book-entry securities. The Issuer will register each global security with or on behalf of a securities depositary. Each global security will be deposited with the securities depositary or its nominee or a custodian for the securities depositary.

As long as the securities depositary or its nominee is the registered holder of a global security representing Debt Securities, that person will be considered the sole owner and holder of the global security and the Debt Securities it represents for all purposes. Except in limited circumstances, owners of beneficial interests in a global security: (i) may not have the global security or any Debt Securities registered in their names; (ii) may not receive or be entitled to receive physical delivery of certificated Debt Securities in exchange for the global security; and (iii) will not be considered the owners or holders of the global security or any Debt Securities for any purposes under the applicable Debt Securities, Indenture and related supplemental indenture. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

The Issuer or Hydro One Limited, as applicable, will make all payments of principal of, and any premium, Additional Amounts (as defined below) and interest on a global security to the securities depositary or its nominee as the holder of the global security.

Ownership of beneficial interests in a global security will be limited to institutions having accounts with the securities depositary or its nominee (“**participants**”), and to persons that hold beneficial interests through participants. When a global security representing Debt Securities is issued, the securities depositary will credit on its book-entry, registration and transfer system the principal amounts of Debt Securities the global security represents to the accounts of its participants. Ownership of beneficial interests in a global security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by: (i) the securities depositary, with respect to participants’ interests; and (ii) any participant, with respect to interests the participant holds on behalf of other persons.

Payments participants make to owners of beneficial interests held through those participants will be the responsibility of those participants. The securities depositary may from time to time adopt various policies and procedures governing payments, transfers, exchanges and other matters relating to beneficial interests in a global security. None of the Issuer,

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Hydro One Limited, the Trustees or any agent of the Issuer, Hydro One Limited or the Trustees will have any responsibility or liability for any aspect of the securities depositary's or any participant's records relating to beneficial interests in a global security representing Debt Securities, for payments made on account of those beneficial interests or for maintaining, supervising or reviewing any records relating to those beneficial interests.

Events of Default

Except as otherwise specified in a Prospectus Supplement, with respect to any series of Debt Securities, any of the following events will constitute an Event of Default:

the Issuer defaults in the payment of any interest (including Additional Amounts) on any Debt Securities of that series that becomes due and payable and the default continues for 30 days;

the Issuer defaults in the payment of the principal of or any premium or Additional Amounts, if any, on any Debt Securities of that series when due at its maturity and the default continues for three business days;

the Issuer or Hydro One Limited, as applicable, defaults in the performance of or breaches any covenant in the Indenture and such default or breach continues for a period of 90 days after written notice of such default or breach has been given to the Issuer and Hydro One Limited by either Trustee (with a copy to the other Trustee) or to the Issuer, Hydro One Limited and the Trustees from the holders of at least 25% in principal amount of the outstanding Debt Securities of that series;

certain events of bankruptcy, insolvency or reorganization of the Issuer or Hydro One Limited;

the guarantee provided by Hydro One Limited ceases to be in full force and effect, other than in accordance with the terms of such guarantee, or Hydro One Limited denies or disaffirms its obligations under such guarantee; or

any other Event of Default provided in a Prospectus Supplement with respect to Debt Securities of that series.

If an Event of Default occurs and is continuing with respect to a series of Debt Securities, the U.S. Trustee or the holders of at least 25% in principal amount of the outstanding Debt Securities of that series may declare the principal of or any premium, Additional Amounts (as defined below) or interest on the Debt Securities of such series to be due and payable immediately. However, any time after an acceleration with respect to the Debt Securities of any series has occurred, but before a judgment or decree based on such acceleration has been obtained, the Event of Default giving rise to such acceleration shall, without further action, be deemed to have been waived, rescinded and annulled if: (i) the Issuer or Hydro One Limited has paid or deposited with the U.S. Trustee a sum sufficient to pay: (a) all overdue interest on all Debt Securities of that series; (b) the principal of, and any premium, Additional Amounts (as defined below) and interest on, the Debt Securities of such series which have become due otherwise than by such acceleration; (c) interest on all overdue interest; and (d) all sums paid or advanced by the Trustees under the Indenture; and (ii) all other Events of Default with respect to Debt Securities of such series which have become due solely by such acceleration have been cured or waived.

Certain Covenants

Additional Amounts

Except as otherwise specified in a Prospectus Supplement, all payments that the Issuer makes under or with respect to the Debt Securities of any series or Hydro One Limited makes under or with respect to the guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charges, including penalties, interest and other similar liabilities related thereto, of whatever nature (collectively, "**Taxes**") imposed or levied by or on behalf of Canada or any other jurisdiction in which the Issuer or Hydro One Limited is incorporated, organized or otherwise resident or engaged in or carrying on business for tax purposes or from or through which the Issuer or Hydro One Limited makes any payment on the Debt Securities of such series, or by any political subdivision or taxing authority or agency thereof or therein (each, a "**Relevant Taxing Jurisdiction**"), unless withholding or deduction is then required by law. If the Issuer, Hydro One Limited or any other applicable withholding agent is required to withhold or deduct any amount for or on account of Taxes of a Relevant Taxing Jurisdiction from any payment made under or with respect to the Debt Securities of any series or the

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guarantee in respect thereof, the Issuer or Hydro One Limited, as the case may be, will pay to each holder of such Debt Securities as additional interest such additional amounts (“**Additional Amounts**”) as may be necessary to ensure that the net amount received by each holder or beneficial owner of the Debt Securities of such series after such withholding or deduction, including any withholding or deduction attributable to the Additional Amounts, will be not less than the amount the holder or beneficial owner would have received if such Taxes had not been required to be withheld or deducted.

However, no Additional Amounts will be payable in respect or on account of:

any Taxes that would not have been imposed or levied but for a present or former connection, including citizenship, nationality, residence, domicile, incorporation, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within such Relevant Taxing Jurisdiction, between such holder or beneficial owner, or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, such holder or beneficial owner, if such holder or beneficial owner is an estate, trust, partnership, limited liability company or corporation, and the Relevant Taxing Jurisdiction, other than any connection arising solely from the acquisition, ownership or disposition of the Debt Securities of any series, the receipt of payments under or with respect to the Debt Securities of any series, or the exercise or enforcement of rights under or with respect to the Debt Securities of any series or the provisions of the Indenture;

any Taxes that are imposed or withheld by reason of the failure of the holder or beneficial owner of Debt Securities of any series, following the Issuer’s or Hydro One Limited’s reasonable written request addressed to the holder, and made at a time that would enable the holder or beneficial owner acting reasonably to comply with that request, and in all events at least 30 calendar days before the relevant date on which payment under or with respect to the Debt Securities of such series is due and payable, to comply with any certification or identification requirements, whether required or imposed by statute, regulation or administrative practice of a Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction, including a certification that the Holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction, but, in each case, only to the extent that the holder or beneficial owner, as the case may be, is legally eligible to provide such certification;

any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

any Tax which is payable otherwise than by deduction or withholding from payments made under or with respect to the Debt Securities of any series;

any Canadian withholding Taxes paid or payable by reason of (i) the holder, beneficial owner or other recipient of the amount not dealing at arm’s length with the Issuer or Hydro One Limited for the purposes of the *Income Tax Act* (Canada) (the “**ITA**”), or (ii) the holder or beneficial owner being, or not dealing at arm’s length with, a “specified shareholder” of the Issuer or Hydro One Limited for the purposes of subsection 18(5) of ITA;

any Tax imposed on or with respect to any payment by the Issuer or Hydro One Limited to the holder if such holder is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had the beneficiary, partner or other beneficial owner directly held the Debt Securities of any series;

any Tax that is imposed or levied by reason of the presentation, where presentation is required in order to receive payment, of the Debt Securities of a series for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the beneficial owner or holder thereof would have been entitled to Additional Amounts had the Debt Securities been presented for payment on any date during such 30 day period;

any Tax that is imposed or levied on or with respect to a Debt Security of a series presented for payment on behalf of a holder or beneficial owner who would have been able to avoid such withholding or deduction by presenting the relevant Debt Security of such series to another paying agent in a member state of the European Union;

any Taxes to the extent such Taxes are directly attributable to the failure of the holder or beneficial owner to qualify for an exemption from U.S. federal withholding tax with respect to payments of interest pursuant to

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an applicable income tax treaty to which the United States is a party or pursuant to the “portfolio interest” exemption as defined in Section 871(h) or 881(c), as applicable, of the Internal Revenue Code, in each case, as such treaty or section was in effect on the issuance date (determined without regard to the requirement that such holder or beneficial owner provide the applicable Internal Revenue Services Form W-8); or

any Taxes imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as of the issuance date (and any amended or successor version that is substantially comparable), any regulations or other official guidance thereunder or agreements (including any intergovernmental agreements or any laws, rules or practices implementing such intergovernmental agreements) entered into in connection therewith.

In addition, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

Where Tax is payable pursuant to Section 803 of the Regulations under the ITA by a holder or beneficial owner of the Debt Securities in respect of any amount payable under the Debt Securities to the holder, other than by reason of a transfer of the Debt Securities to a person resident in Canada with whom the transferor does not deal at arm’s length for the purposes of the ITA, but no Additional Amount is paid in respect of such Tax, the Issuer or Hydro One Limited, as the case may be, will pay to such holder an amount equal to such Tax within 45 days after receiving from the holder a notice containing reasonable particulars of the Tax so payable; provided, that such holder or beneficial owner would have been entitled to receive Additional Amounts on account of such Tax but for the fact that it is payable otherwise than by deduction or withholding from payments made under or with respect to the Debt Securities.

The Issuer or Hydro One Limited, as the case may be, if the Issuer or Hydro One Limited, as the case may be, is an applicable withholding agent, or is otherwise required to withhold amounts under applicable law, will (i) make such withholding or deduction required by applicable law and (ii) remit the full amount deducted or withheld to the relevant taxing authority in accordance with applicable law.

At least 30 calendar days prior to each date on which any payment under or with respect to the Debt Securities of any series is due and payable, if the Issuer or Hydro One Limited, as the case may be, will be obligated to pay Additional Amounts with respect to such payment, unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Debt Securities of such series is due and payable, in which case it will be promptly thereafter, the Issuer or Hydro One Limited, as the case may be, will deliver to the U.S. Trustee an officer’s certificate stating that such Additional Amounts will be payable and the amounts so payable and will set forth such other information, other than the identities of holders and beneficial owners of Debt Securities, necessary to enable the U.S. Trustee or a paying agent to pay such Additional Amounts to holders and beneficial owners of Debt Securities on the relevant payment date. The U.S. Trustee will make such payments in the same manner as any other payments on the Debt Securities of such series. The Issuer or Hydro One Limited, as the case may be, will provide the U.S. Trustee with documentation reasonably satisfactory to the U.S. Trustee evidencing payment of such Additional Amounts.

The Issuer or Hydro One Limited, as the case may be, will take reasonable efforts to furnish to the U.S. Trustee or a holder within a reasonable time certified copies of tax receipts or other evidence of the payment by the Issuer or Hydro One Limited, as the case may be, of any Taxes imposed or levied by a Relevant Taxing Jurisdiction.

The Issuer or Hydro One Limited, as the case may be, will pay any present or future stamp, issue, registration, court documentation, excise or property taxes or other similar taxes, charges and duties, including interest, additions to tax and penalties with respect thereto, imposed by any Relevant Taxing Jurisdiction in respect of the receipt of any payment under or with respect to the Debt Securities of any series, the execution, issue, delivery or registration of the Debt Securities of such series or the Indenture or any other document or instrument referred to thereunder and any such taxes, charges, duties or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Debt Securities of such series or the Indenture or any such other document or instrument following the occurrence of any Event of Default with respect to the Debt Securities of such series. The Issuer or Hydro One Limited, as the case may be, will not, however, pay such amounts that are imposed on or result from a sale or other transfer or disposition by a holder or beneficial owner of Debt Securities.

The preceding provisions will survive any termination, defeasance or discharge of the Indenture and shall apply *mutatis mutandis* to any jurisdiction in which any successor person to the Issuer is organized, incorporated or otherwise

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resident or engaged in or carrying on business for tax purposes and any political subdivision or taxing authority or agency thereof or therein.

Statement by Officers as to Default

The Issuer and Hydro One Limited will deliver to the Trustees, within 120 days after the end of each calendar year or on or before such other day in each calendar year as the Issuer, Hydro One Limited and the Trustees may from time to time agree upon, an officer's certificate stating whether or not to the best knowledge of the signers thereof, the Issuer or Hydro One Limited, as the case may be, is in default in the performance or observance of any of the terms, provisions and conditions of the Indenture and, if the Issuer or Hydro One Limited shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Provision of Financial Information

The Issuer will supply to holders of Debt Securities and the U.S. Trustee, copies of the annual reports and quarterly reports of Hydro One Limited and of any information, documents or reports that are required to be filed by Hydro One Limited with the SEC pursuant to Section 13 or 15(d) of the *Securities Exchange Act of 1934* (the "**Exchange Act**") within 15 days after the same is filed with the SEC or pursuant to applicable trust indenture legislation at the times and in the manner provided pursuant to such trust indenture legislation.

Notwithstanding that Hydro One Limited may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or otherwise report on an annual and quarterly basis pursuant to rules and regulations promulgated by the SEC, the Issuer will supply to holders of Debt Securities and the U.S. Trustee: (i) all annual and quarterly financial statements that Hydro One Limited would have filed with the SEC on Form 40-F and Form 6-K pursuant to Section 13 or Section 15(d) of the Exchange Act as if Hydro One Limited was required to file with the SEC such financial statements, provided that such financial statements shall be substantially in the form prescribed or permitted (including pursuant to any exemption granted by applicable regulatory authorities) by Canadian regulatory authorities for Canadian public reporting companies; and (ii) all current reports that would be required to be filed by Hydro One Limited with the SEC on Form 6-K if Hydro One Limited were required to file such reports.

Consolidation, Amalgamation, Arrangement, Merger, Conveyance or Transfer

Each of the Issuer and Hydro One Limited are permitted under the Indenture to consolidate, merge or amalgamate with or into, or enter into an arrangement with, any other person, or convey or transfer all or substantially all of its properties and assets to any other person; provided that (i) no Event of Default has occurred and is continuing; (ii) any successor entity assumes the obligations of the Issuer or Hydro One Limited, as applicable, under the Indenture and the Debt Securities issued thereunder; and (iii) the Issuer or Hydro One Limited, as applicable, delivers to the Trustees an officer's certificate and an opinion of counsel that affirms compliance with all conditions in the Indenture in respect of such transaction. When the above conditions are satisfied, the successor entity will succeed to and be substituted for the Issuer or Hydro One Limited, as applicable, under the Indenture, and the Issuer or Hydro One Limited, as applicable, will be relieved of its obligations under the Indenture and the Debt Securities issued thereunder.

Optional Redemption

To the extent specified in a Prospectus Supplement, the Issuer may redeem any Debt Securities by delivering: (i) to the U.S. Trustee a notice at least 45 days before the date fixed for such redemption; and (ii) to the holders of Debt Securities a notice at least 30 days but not more than 60 days before the date fixed for such redemption. The notice may state that the redemption will be conditional upon the U.S. Trustee or the applicable paying agent receiving sufficient funds to pay the principal of and premium, Additional Amounts and interest on such Debt Securities on or prior to the date fixed for such redemption and that if the funds are not received, the redemption notice will not apply, and the Issuer will not be required to redeem such Debt Securities.

Optional Tax Redemption

Except as otherwise specified in a Prospectus Supplement, the Debt Securities will be subject to redemption at any time, in whole but not in part, upon not less than 30 days' nor more than 60 days' written notice to the holders of Debt Securities, at a redemption price equal to the principal amount thereof together with any premium, Additional Amounts

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and interest then due and which become due on the date fixed for redemption as a result of the redemption or otherwise, if the Issuer determines that the Issuer is, or on the next date on which any amount would be payable in respect of the Debt Securities of such series, would be obligated to pay Additional Amounts in respect of the Debt Securities of such series pursuant to the terms and conditions thereof, which the Issuer cannot avoid by the use of reasonable measures available to it, as a result of: (i) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction affecting taxation which becomes effective on or after the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture; or (ii) any change in, or amendment to, the official application, administration, or interpretation of the laws, regulations or rulings of any Relevant Taxing Jurisdiction, on or after the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which the Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture (each of (i) and (ii), a “**Change in Tax Law**”), provided that the Issuer will also deliver to the U.S. Trustee an opinion of counsel stating that the Issuer would be obligated to pay Additional Amounts as a result of a Change in Tax Law. Notwithstanding the foregoing, the Issuer may not redeem the Debt Securities of any series if the Change in Tax Law obliging the Issuer to pay Additional Amounts was (x) officially announced by the Relevant Taxing Jurisdiction’s tax authority or a court or (y) validly enacted into law by the Relevant Taxing Jurisdiction, in each case, prior to the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture.

Modification of the Indenture

The Issuer and Hydro One Limited may modify the Indenture with the consent of the holders of a majority in principal amount of the outstanding Debt Securities of each series of Debt Securities that are affected by the modification, voting as one class. However, the consent of each holder of outstanding Debt Securities affected by such modification is required to:

- change the maturity date of the principal or any instalment of principal and interest on such Debt Securities;
- reduce the principal amount, the interest rate or any premium payable upon the redemption of such Debt Securities;
- change any obligation of the Issuer or Hydro One Limited to pay Additional Amounts;
- reduce the amount of principal due and payable upon acceleration of maturity;
- change the currency of payment of principal, premium, Additional Amounts or interest on such Debt Securities;
- impair the right to institute suit to enforce any such payment on or after the maturity date or redemption date;
- reduce the percentage in principal amount of Debt Securities of any series required to modify the Indenture, waive compliance with certain restrictive provisions of the Indenture or waive certain defaults; or
- with certain exceptions, modify the provisions of the Indenture governing modifications of the Indenture or governing statements by the officers as to defaults or waiver of covenants of past defaults.

Each of the Issuer, Hydro One Limited and the Trustees may modify the Indenture without the consent of any holders of Debt Securities to:

- evidence the succession of another person to the Issuer or Hydro One Limited and the assumption by any such successor of the covenants of the Issuer or Hydro One Limited in the Indenture, the Debt Securities and the guarantee;
- add to the covenants of the Issuer and/or Hydro One Limited for the benefit of the holders of all or any series of Debt Securities or to surrender any right or power under the Indenture conferred upon the Issuer or Hydro One Limited;
- add any additional Events of Default for the benefit of the holders of all or any series of Debt Securities;

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add or change any of the provisions of the Indenture to such extent as shall be necessary to permit or facilitate the issuance of Debt Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to facilitate the issuance of Debt Securities in uncertificated form;

add to, change or eliminate any of the provisions of the Indenture in respect of one or more series of Debt Securities; provided that any such addition, change or elimination: (i) shall neither (a) apply to any Debt Securities of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (b) modify the rights of the holder of any such Debt Securities with respect to such provision; or (ii) shall become effective only when there is no such Debt Securities outstanding;

secure the Debt Securities of any series;

establish the form or terms of Debt Securities of any series;

effect or maintain, or otherwise comply with the requirements of the SEC in connection with the qualification of the Indenture under the *United States Trust Indenture Act of 1939*;

evidence and provide for the acceptance of appointment under the Indenture by a successor trustee with respect to the Debt Securities of one or more series and add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts by multiple trustees or the removal of one or more of the Trustees;

cure any ambiguity, correct or supplement any provision in the Indenture which may be defective or inconsistent with any other provision in the Indenture, or make any other provisions with respect to matters or questions arising under the Indenture; provided that such action does not adversely affect the interests of holders of Debt Securities of any series in any material respect; or

make any other change that does not adversely affect the interests of holders of Debt Securities of any series in any material respect.

Defeasance and Discharge and Covenant Defeasance

Except as otherwise specified in a Prospectus Supplement, the Issuer will be discharged from (i) its obligations, with certain limited exceptions, with respect to any Debt Securities or any series of Debt Securities (except as to certain surviving rights and obligations specified in the Indenture) (a “**Defeasance**”) and (ii) its obligations under certain restrictive covenants established with respect to any Debt Securities or any series of Debt Securities, in each case, when: (A) the Issuer has irrevocably deposited with the U.S. Trustee money or government obligations sufficient to pay and discharge such Debt Securities to the applicable maturity or redemption date, including principal, premium, Additional Amounts and interest thereon; (B) no Event of Default shall have occurred and be continuing at the time of such deposit or with regard to any such event; (C) if the Debt Securities are to be redeemed prior to the applicable stated maturity, notice of such redemption has been duly given pursuant to the Indenture; and (D) the Issuer has delivered to the U.S. Trustee an officer’s certificate and opinion of counsel stating that all conditions precedent relating to the satisfaction and discharge of the Indenture have been complied with. Following the occurrence of a Defeasance, payment of such Debt Securities may not be accelerated because of an Event of Default under the Indenture.

Governing Law

The Indenture, the guarantee (as described below) and the Debt Securities will be governed by, and construed in accordance with, the laws of the State of New York.

Guarantee

Hydro One Limited will fully, irrevocably, unconditionally and absolutely guarantee the due and punctual payment of the principal of and any premium, Additional Amounts and interest on the Debt Securities of each series and any other obligations of the Issuer under the Debt Securities of each series when and as they become due and payable, whether at stated maturity, upon redemption, by acceleration or otherwise if the Issuer is unable to satisfy these obligations.

The guarantee is intended to be a general, unsecured, senior obligation of Hydro One Limited and to rank *pari passu* in right of payment with all unsecured indebtedness of Hydro One Limited that is not, by its terms, expressly subordinated in right of payment to the guarantee of Hydro One Limited.

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Upon a default in payment of principal of or premium, Additional Amounts or interest on the Debt Securities of any series or any other amounts payable by the Issuer under the Indenture and such Debt Securities, either Trustee or the holder of the Debt Securities may institute legal proceedings directly against Hydro One Limited to enforce the guarantee without first proceeding against the Issuer.

CONSOLIDATING SUMMARY FINANCIAL INFORMATION

The tables below contain consolidating summary financial information as at and for the years ended December 31, 2017 and December 31, 2016 and as at and for the three months ended March 31, 2018 and March 31, 2017 for: (i) Hydro One Limited; (ii) the Issuer; and (iii) the subsidiaries of Hydro One Limited, other than the Issuer, on a combined basis, together with consolidating adjustments and total consolidated amounts for Hydro One Limited. This summary financial information should be read in conjunction with (i) the 2017 Annual Financial Statements; and (ii) the Interim Financial Statements, each of which are incorporated by reference into this Prospectus.

Fiscal year ended December 31 (millions, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Revenue	\$ 16	\$ 2	\$ 0	\$ 0	\$ 6,053	\$ 6,657	\$ (79)	\$ (107)	\$ 5,990
Net Income Attributable to Common Shareholders	\$(43)	\$(18)	\$(3)	\$ 0	\$ 745	\$ 790	\$(41)	\$(51)	\$ 658	\$ 721

As at December 31 (millions, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Current Assets	\$117	\$70	\$ 0	\$ 0	\$1,444	\$1,324	\$(542)	\$(246)	\$1,019
Non-Current Assets	\$6,423	\$5,412	\$ 0	\$ 0	\$41,745	\$40,986	\$(23,486)	\$(22,195)	\$24,682	\$24,203
Current Liabilities	\$83	\$1	\$ 3	\$ 0	\$3,933	\$2,994	\$(1,279)	\$(832)	\$2,740	\$2,163
Non-Current Liabilities	\$1,514	\$0	\$ 0	\$ 0	\$21,403	\$23,057	\$(10,209)	\$(9,958)	\$12,708	\$13,099

Three month period ended March 31 (millions, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Revenue	\$ 6	\$ 3	\$ 0	\$ 0	\$ 1,599	\$ 1,675	\$(29)	\$(20)	\$ 1,576
Net Income Attributable to Common Shareholders	\$(15)	\$(3)	\$ 23	\$ 0	\$ 233	\$ 181	\$(19)	\$(11)	\$ 222	\$ 167

As at March 31 (millions, unaudited)	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Current Assets	\$108	\$101	\$24	\$ 0	\$1,469	\$1,287	\$(599)	\$(323)	\$1,002
Non-Current Assets	\$6,299	\$5,264	\$ 0	\$ 0	\$41,706	\$40,921	\$(23,218)	\$(21,845)	\$24,787	\$24,340
Current Liabilities	\$89	\$6	\$ 0	\$ 0	\$4,393	\$3,051	\$(1,564)	\$(909)	\$2,918	\$2,148
Non-Current Liabilities	\$1,515	\$0	\$4	\$ 0	\$20,986	\$23,041	\$(9,982)	\$(9,923)	\$12,523	\$13,118

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CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement may describe certain Canadian federal income tax considerations generally applicable to purchasers who are acquiring, holding and disposing of the Debt Securities offered thereunder. The applicable Prospectus Supplement may also describe certain U.S. federal income tax considerations applicable to purchasers who are acquiring, holding and disposing of the Debt Securities offered thereunder.

CONSENT TO JURISDICTION AND SERVICE

Each of the Issuer and Hydro One Limited filed with the SEC, concurrently with the Registration Statement, an appointment of agent for service of process on Form F-X. Under the Form F-X, each of the Issuer and Hydro One Limited have appointed CT Corporation System, 111 Eighth Avenue, New York, New York 10011, as its agent for service of process in the U.S. in connection with any investigation or administrative proceeding conducted by the SEC, and any civil suit or action brought against or involving the Issuer and/or Hydro One Limited, as applicable, arising out of or related to or concerning an offering of Debt Securities under the Registration Statement.

EXEMPTIONS

On March 27, 2018, Hydro One Limited obtained a decision from the Ontario Securities Commission, as principal regulator, on behalf of itself and the securities regulatory authorities in each of the other provinces and territories of Canada, exempting Hydro One Limited from the requirements in section 3.2 of National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* which requires financial statements to be prepared in accordance with and disclosed in compliance with International Financial Reporting Standards. The decision granting the exemption permits Hydro One Limited to prepare and present its financial statements required to be filed with the securities regulatory authorities in each of the provinces and territories of Canada (including financial statements included in any prospectus of Hydro One Limited) in accordance with U.S. GAAP until the earliest to occur of the following:

- (j) January 1, 2024;
- (k) if Hydro One Limited ceases to have activities subject to rate regulation, the first day of Hydro One Limited' s financial year commencing after it ceases to have such activities subject to rate regulation; and
- (l) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards specific to entities with activities subject to rate regulation.

The exemption was requested: (i) due to continuing uncertainty of accounting treatment and lack of a specific mandatory standard for entities with activities subject to rate regulation under International Financial Reporting Standards; (ii) because U.S. GAAP provides a more suitable set of accounting principles for entities with activities subject to rate regulation and is more consistent with those prescribed by the Ontario Energy Board; and (iii) to ensure consistency with and comparability to the financial statements of Hydro One Inc. which reports in U.S. GAAP, as well as Hydro One Limited' s industry peers that currently report in U.S. GAAP.

LEGAL MATTERS

Unless otherwise indicated in the Prospectus Supplement relating to an offering of Debt Securities, the offering of Debt Securities will be subject to approval of certain legal matters on behalf of the Issuer and Hydro One Limited by Osler, Hoskin & Harcourt LLP. As of the date of this Prospectus, the partners and associates of Osler, Hoskin & Harcourt LLP, as a group, beneficially owned, directly or indirectly, less than 1% of outstanding securities of any class issued by Hydro One Limited. In addition, certain legal matters in connection with any offering of Debt Securities will be passed upon for any underwriters, dealers or agents, as applicable, by counsel to be designated at the time of the offering.

AUDITORS

KPMG LLP, Chartered Professional Accountants, located at 333 Bay Street, Suite 4600, Bay Adelaide Centre, Toronto, Ontario, M5H 2S5, is the auditor of Hydro One Limited and has confirmed that it is independent of Hydro One Limited within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

The financial statements of Avista Corporation as of December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017 which are incorporated by reference into this Prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report as incorporated by reference into this Prospectus. Deloitte & Touche LLP is independent of Avista Corporation within the meaning of the United States Securities Act of 1933, as amended, and the applicable rules and regulations thereunder adopted by the SEC and the Public Company Accounting Oversight Board (United States).

TRANSFER AGENT, REGISTRAR, PAYING AGENT AND INDENTURE TRUSTEE

Computershare Trust Company of Canada has been appointed as Canadian trustee in respect of the Debt Securities and Computershare Trust Company, N.A. has been appointed as U.S. trustee, U.S. registrar, U.S. paying agent and U.S. transfer agent in respect of the Debt Securities.

PART II

INFORMATION NOT REQUIRED TO BE DELIVERED TO OFFEREEES OR PURCHASERS

Indemnification of Directors and Officers

The Co-Registrants are corporations formed under the *Business Corporations Act* (Ontario) (the “OBCA”). OBCA corporations may indemnify a current or former director or officer of the corporation or another individual who acts or acted at the corporation’s request as a director or officer, or an individual acting in a similar capacity, of another entity (an “Eligible Party”). Such indemnity may include all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the Eligible Party is involved as a result of acting or having acted as a director or officer of the corporation, or acting or having acted at the corporation’s request as a director or officer, or individual acting in a similar capacity, of such other entity. An OBCA corporation may not indemnify an Eligible Party unless the Eligible Party has:

- (a) acted honestly and in good faith with a view to the best interests of the corporation or, as the case may be, to the best interests of the other entity for which the individual acted as a director or officer or in a similar capacity at the corporation’s request; and
- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the Eligible Party had reasonable grounds for believing that the individual’s conduct was lawful.

Eligible Parties will be entitled to indemnification from an OBCA corporation if (i) they have not been judged by a court or other competent authority to have committed any fault or omitted to do anything they ought to have done and (ii) they fulfill conditions (a) and (b) set out above this paragraph. An OBCA corporation may advance money to an Eligible Party for the costs, charges and expenses of a proceeding referred to above; however, such Eligible Party must repay the money if they do not fulfill condition (a) set out above this paragraph. OBCA corporations may purchase and maintain insurance for the benefit of those individuals entitled to indemnification under the OBCA. In the case of a derivative action, indemnification and any cost, charge or expense advancement may only be made with court approval.

The by-laws of the Co-Registrants provide that, subject to the limitations contained in the OBCA, each Co-Registrant shall indemnify any director or officer, or former director or officer, of such Co-Registrant, or any individual who, at the request of such Co-Registrant, acts or has acted as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including, without limitation, any amount paid to settle an action or satisfy a judgment, reasonably incurred by such individual in respect of any civil, criminal, administrative, investigative or other proceeding in which such individual is involved as a result of acting or having acted as a director or officer of such Co-Registrant, or acting or having acted at such Co-Registrant’s request as a director or officer, or individual acting in a similar capacity, of such other entity. Such director, officer or individual must have acted honestly and in good faith, with a view to the best interests of the applicable Co-Registrant (or, if applicable, in the best interests of the other entity for which the individual acted as a director, officer or in a similar capacity at such Co-Registrant’s request), and in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that such individual’s conduct was lawful.

The Co-Registrants maintain directors’ and officers’ liability insurance which insures the directors and officers of the Co-Registrants and their respective subsidiaries against certain losses resulting from any wrongful act committed in their official capacities for which they become obligated to pay, subject to policy restrictions and to the extent permitted by applicable law.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling the Co-Registrants pursuant to the foregoing provisions, the Co-Registrants have been informed that in the opinion of the U.S. Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is therefore unenforceable.

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EXHIBITS

The following exhibits have been filed as part of this Registration Statement.

<u>Exhibit Number</u>	<u>Description</u>
4.1*	Annual information form of Hydro One Limited dated March 29, 2018 for the year ended December 31, 2017.
4.2*	Comparative audited consolidated financial statements of Hydro One Limited as at and for the years ended December 31, 2017 and December 31, 2016, together with the notes thereto and the independent auditor's report thereon.
4.3*	Management's discussion and analysis of results of operations and financial condition of Hydro One Limited for the year ended December 31, 2017.
4.4*	Unaudited condensed interim consolidated financial statements of Hydro One Limited as at and for the three-month period ended March 31, 2018, together with the notes thereto.
4.5*	Management's discussion and analysis of results of operations and financial condition of Hydro One Limited for the three-month period ended March 31, 2018.
4.6*	Management information circular of Hydro One Limited dated March 19, 2018 prepared in connection with the annual meeting of shareholders held on May 15, 2018.
4.7*	Unaudited pro forma condensed consolidated financial statements of Hydro One Limited dated June 8, 2018 that give effect to the proposed acquisition of Avista Corporation and which include the pro forma consolidated balance sheet of Hydro One Limited as at March 31, 2018, the consolidated pro forma statement of operations of Hydro One Limited for the three months ended March 31, 2018 and the consolidated pro forma statement of operations of Hydro One Limited for the year ended December 31, 2017.
4.8	Annual report on Form 10-K of Avista Corporation for the fiscal year ended December 31, 2017 as filed by Avista Corporation with the United States Securities and Exchange Commission on February 21, 2018 (incorporated by reference to Exhibit 99.1 to Hydro One Limited's Report on Form 6-K dated June 8, 2018 only with respect to the following sections: (i) the sections entitled "Acronyms and Terms" and "Forward-Looking Statements"; (ii) Item 1. Business; (iii) Item 1A. Risk Factors; (iv) Item 2. Properties; (v) Item 3. Legal Proceedings; (vi) Item 6. Selected Financial Data; (vii) Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; (viii) Item 7A. Quantitative and Qualitative Disclosures About Market Risk; and (ix) Item 8. Financial Statements and Supplementary Data.
4.9	Quarterly report on Form 10-Q of Avista Corporation for the quarterly period ended March 31, 2018 as filed by Avista Corporation with the United States Securities and Exchange Commission on May 2, 2018 (incorporated by reference to Exhibit 99.2 to Hydro One Limited's Report on Form 6-K dated June 8, 2018 only with respect to the following sections: (i) the section entitled "Forward-Looking Statements"; (ii) Part I - Item 1. Condensed Consolidated Financial Statements, other than the Report of Independent Registered Public Accounting Firm; (iii) Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; (iv) Part I - Item 3. Quantitative and Qualitative Disclosures About Market Risk; (v) Part I - Item 4. Controls and Procedures; (vi) Part II - Item 1. Legal Proceedings; (vii) Part II - Item 1A. Risk Factors; and (viii) Part II - Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - Dividend Restrictions.
5.1*	Consent of KPMG LLP.
5.2*	Consent of Deloitte & Touche LLP.
6.1*	Power of Attorney (included on the signature page of this Registration Statement).
7.1*	Indenture dated as of June 8, 2018 among Hydro One Holdings Limited, as issuer, Hydro One Limited, as guarantor, Computershare Trust Company, N.A., as U.S. trustee, and Computershare Trust Company of Canada, as Canadian co-trustee.
7.2*	Statement of Eligibility of Trustee on Form T-1 with respect to Exhibit 7.1 above.

* filed herewith

+ to be filed by amendment

PART III

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

Item 1. Undertaking.

The Co-Registrants undertake to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities registered pursuant to this Form F-10 or to transactions in said securities.

Item 2. Consent to Service of Process.

Concurrently with the filing of this Registration Statement on Form F-10, the Co-Registrants filed with the Commission a written irrevocable consent and power of attorney on Form F-X.

Concurrently with the filing of this registration statement, Computershare Trust Company of Canada, as Canadian co-trustee in respect of the registered securities, filed with the Commission a written irrevocable consent and power of attorney on Form F-X.

Any change to the name or address of the agent for service of process of the Co-Registrants shall be communicated promptly to the Commission by amendment to the applicable Form F-X, referencing the file number of this Registration Statement on Form F-10.

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SIGNATURES

Pursuant to the requirements of the Securities Act, each of the Co-Registrants certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-10 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Toronto, Province of Ontario, Canada, on the 8th day of June, 2018.

HYDRO ONE HOLDINGS LIMITED

By: /s/ Mayo Schmidt

Name: Mayo Schmidt

Title: President and Chief Executive Officer

HYDRO ONE LIMITED

By: /s/ Mayo Schmidt

Name: Mayo Schmidt

Title: President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Mayo Schmidt, Paul Dobson, James Scarlett and Maureen Wareham, and each of them, his or her true and lawful attorneys-in-fact and agents, each of whom may act alone, with full powers of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments including post-effective amendments to this Registration Statement, any prospectus or amended prospectus therein and any registration statement filed pursuant to Rule 429 under the Securities Act, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the U.S. Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all his or her said attorneys-in-fact and agents or any of them or his or her substitute or substitutes may lawfully do or cause to be done by virtue hereof. This power of attorney may be executed in multiple counterparts, each of which shall be deemed an original, but which taken together shall constitute one instrument.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities indicated, on the 8th day of June, 2018.

<u>Signature</u>	<u>Title with Co-Registrant</u>
<u> /s/ Mayo Schmidt </u> Mayo Schmidt	President and Chief Executive Officer (Principal Executive Officer) and Director of Hydro One Holdings Limited and Hydro One Limited
<u> /s/ Paul Dobson </u> Paul Dobson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) of Hydro One Limited and Hydro One Holdings Limited and Director of Hydro One Holdings Limited
<u> /s/ James Scarlett </u> James Scarlett	Executive Vice President and Chief Legal Officer of Hydro One Limited and Secretary and Director of Hydro One Holdings Limited
<u> /s/ David F. Denison </u> David F. Denison	Chair and Director of Hydro One Limited
<u> /s/ Ian Bourne </u> Ian Bourne	Director of Hydro One Limited

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<u>Signature</u>	<u>Title with Co-Registrant</u>
<hr/> <i>/s/ Charles Brindamour</i> Charles Brindamour	Director of Hydro One Limited
<hr/> <i>/s/ Marcello (Marc) Caira</i> Marcello (Marc) Caira	Director of Hydro One Limited
<hr/> <i>/s/ Christie Clark</i> Christie Clark	Director of Hydro One Limited
<hr/> <i>/s/ George Cooke</i> George Cooke	Director of Hydro One Limited
<hr/> <i>/s/ Margaret (Marianne) Harris</i> Margaret (Marianne) Harris	Director of Hydro One Limited
<hr/> <i>/s/ James Hinds</i> James Hinds	Director of Hydro One Limited
<hr/> <i>/s/ Roberta Jamieson</i> Roberta Jamieson	Director of Hydro One Limited
<hr/> <i>/s/ Frances Lankin</i> Frances Lankin	Director of Hydro One Limited
<hr/> <i>/s/ Philip S. Orsino</i> Philip S. Orsino	Director of Hydro One Limited
<hr/> <i>/s/ Jane Peverett</i> Jane Peverett	Director of Hydro One Limited
<hr/> <i>/s/ Gale Rubenstein</i> Gale Rubenstein	Director of Hydro One Limited

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AUTHORIZED REPRESENTATIVE

Pursuant to the requirements of Section 6(a) of the Securities Act, the authorized representative has duly caused this Registration Statement to be signed by the undersigned, solely in the capacity of the duly authorized representative of the Co-Registrants in the United States, on June 8, 2018.

**CT Corporation System
(Authorized Representative)**

By: /s/ Kendra Jesus

Name: Kendra Jesus

Title: Vice President

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**ANNUAL INFORMATION FORM
FOR HYDRO ONE LIMITED
FOR THE YEAR ENDED DECEMBER 31, 2017**

March 29, 2018

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GLOSSARY

When used in this annual information form, the following terms have the meanings set forth below unless expressly indicated otherwise:

“\$” or “**dollar**” means Canadian Dollars.

“**2016 Underwriting Agreement**” has the meaning given to it under “Material Contracts”.

“**2017 Long-Term Energy Plan**” has the meaning given to it under “Electricity Industry in Ontario - Recent Legislative Amendments Affecting the Electricity Industry Generally - 2017 Long-Term Energy Plan”.

“**Agreement and Plan of Merger**” has the meaning given to it under “Material Contracts”.

“**Annual MD&A**” means management’s discussion and analysis for Hydro One Limited for the year ended December 31, 2017, as filed on SEDAR under Hydro One Limited’s profile at www.sedar.com.

“**Auditor General Act**” means the *Auditor General Act*, RSC 1985, c A-17.

“**Board**” means the Board of Directors of Hydro One Limited.

“**Bridge Facilities**” has the meaning given to it under “General Development of the Business - Chronological Development of the Business - 2017 - Acquisition of Avista Corporation”.

“**Burden Reduction Act**” means the *Burden Reduction Act*, 2017, SO 2017, c 2 - Bill 27.

“**Canada Business Corporations Act**” means the *Canada Business Corporations Act*, RSC 1985, c C-44.

“**CDM**” means conservation and demand management.

“**Climate Change Mitigation and Low-carbon Economy Act**” means the *Climate Change Mitigation and Low-carbon Economy Act*, 2016, SO 2016, c 7.

“**common shares**” means the common shares in the capital of Hydro One Limited.

“**Companies’ Creditors Arrangement Act**” means *Companies’ Creditors Arrangement Act*, RSC 1985, c C-36.

“**Convertible Debenture Offering**” has the meaning given to it under “*General Development of the Business - Chronological Development of the Business - 2017 - Convertible Debenture Offering*”.

“**Custom IR Method**” has the meaning given to it under “Business of Hydro One - Transmission Business - Regulation - Transmission Rate Setting”.

“**Debentures**” has the meaning given to it under “Description of Capital Structure - Convertible Debentures and Instalment Receipts”.

“**DMS**” has the meaning given to it under “Business of Hydro One - Distribution Business - Regulation - Capital Expenditures”.

“**Electricity Act**” means the *Electricity Act*, 1998, SO 1998, c 15, Schedule A.

“**Energy Statute Law Amendment Act**” means the *Energy Statute Law Amendment Act, 2016*, SO 2016, c 10.

“**Environmental Assessment Act**” means the *Environmental Assessment Act*, RSO 1990, c E-18.

“**Fair Hydro Act**” means the *Ontario Fair Hydro Plan Act, 2017*, SO 2017, c 16, Schedule 1.

“**Final Instalment**” has the meaning given to it under “Description of Capital Structure – Convertible Debentures and Instalment Receipts”.

“**Final Instalment Date**” has the meaning given to it under “Description of Capital Structure – Convertible Debentures and Instalment Receipts”.

“**Financial Administration Act**” means the *Financial Administration Act*, RSC 1985, c F-11.

“**First Nations Delivery Credit**” means the credit pursuant to the *First Nations Delivery Credit (On-Reserve Consumers Under Section 79.4 of the Act)*, O Reg 197/17, enacted pursuant to the Ontario Energy Board Act.

“**Governance Agreement**” means the governance agreement dated November 5, 2015 between Hydro One Limited and the Province.

“**Great Lakes Power**” means Great Lakes Power Transmission LP.

“**Green Energy Act**” means the *Green Energy Act, 2009*, SO 2009, c 12, Schedule A.

“**GWh**” means gigawatt-hours.

“**Haldimand Hydro**” means Haldimand County Utilities Inc.

“**Hydro One**” or the “**Company**” have the meanings given to such terms set out under “Presentation of Information”.

“**Hydro One Inc.**” has the meaning given to it under “Presentation of Information”.

“**Hydro One Limited**” has the meaning given to it under “Presentation of Information”.

“**Hydro One Sault Ste. Marie LP**” has the meaning given to it under “General Development of the Business – Chronological Development of the Business – 2016 – Acquisition of Great Lakes Power”.

“**IESO**” means the Independent Electricity System Operator.

“**Income Tax Act**” means the *Income Tax Act*, RSC 1985, c 1 (5th Supp).

“**Indian Act**” means the *Indian Act*, RSC 1985, c I-5.

“**Instalment Receipt Agreement**” has the meaning given to it under “Material Contracts”.

“**July 2017 Underwriting Agreement**” has the meaning given to it under “Material Contracts”.

“**kV**” means kilovolt.

“**kW**” means kilowatt.

“**Make-Whole Payment**” has the meaning given to it under “Description of Capital Structure - Convertible Debentures and Instalment Receipts”.

“**management**” has the meaning given to it under “Presentation of Information”.

“**Market Rules**” means the rules made under section 32 of the Electricity Act that are administered by the IESO.

“**May 2017 Underwriting Agreement**” has the meaning given to it under “Material Contracts”.

“**Merger**” has the meaning given to it under “General Development of the Business - Chronological Development of the Business - 2017 - Acquisition of Avista Corporation”.

“**Minister of Energy**” means the minister of the Ministry of Energy for the Province.

“**National Energy Board Act**” means the *National Energy Board Act*, RSC 1985, c N-7.

“**NERC**” has the meaning given to it under “The Electricity Industry in Ontario - Regulation of Transmission and Distribution - IESO”.

“**Net Metering Regulation**” means the *Net Metering*, O Reg 541/05, enacted pursuant to the Ontario Energy Board Act.

“**Norfolk Power**” means Norfolk Power Inc.

“**NPCC**” has the meaning given to it under “The Electricity Industry in Ontario - Regulation of Transmission and Distribution - IESO”.

“**Nuclear Fuel Waste Act**” means the *Nuclear Fuel Waste Act*, SC 2002, c 23.

“**OBCA**” means the *Business Corporations Act (Ontario)*, RSO 1990, c B-16.

“**OEB**” means the Ontario Energy Board.

“**Ontario**” or the “**province**” has the meaning given to it under “Presentation of Information”.

“**Ontario Energy Board Act**” means the *Ontario Energy Board Act, 1998*, SO 1998, c 15, Schedule B.

“**Ontario Fair Hydro Plan**” has the meaning given to it under “Electricity Industry in Ontario - Recent Legislative Amendments Affecting the Electricity Industry Generally and Related Issues - Ontario Fair Hydro Plan”.

“**Ontario Rebate for Electricity Consumers Act**” means the *Ontario Rebate for Electricity Consumers Act, 2016*, SO 2016, c 19.

“**OPEBs**” means other post-employment benefits.

“**Operating Credit Facility**” has the meaning given to it under “Description of Capital Structure - Convertible Debentures and Instalment Receipts”.

“**Orillia Power**” means Orillia Power Distribution Corporation.

“**PCB**” means polychlorinated biphenyls.

“**Protecting Vulnerable Energy Consumers Act**” means the *Protecting Vulnerable Energy Consumers Act, 2017, SO 2017, c 1 - Bill 95*.

“**Province**” has the meaning given to it under “Presentation of Information”.

“**Registration Rights Agreement**” means the registration rights agreement dated November 5, 2015 between Hydro One Limited and the Province.

“**Removal Notice**” has the meaning given to it under “Agreements with Principal Shareholder - Governance Agreement - Governance Matters - Election and Replacement of Directors - Province’ s Right to Replace the Board”.

“**Reserve**” means a “reserve” as that term is defined in the Indian Act.

“**Revenue Cap Index**” has the meaning given to it under “Business of Hydro One - Transmission Business - Regulation - Transmission Rate Setting”.

“**RRF**” has the meaning given to it under “Business of Hydro One - Distribution Business - Regulation - Distribution Rates”.

“**Share Ownership Restrictions**” has the meaning given to it under “The Electricity Industry in Ontario - Legislative Provisions Specific to Hydro One - 10% Ownership Restriction”.

“**shares**” has the meaning given to it under “Agreements with Principal Shareholder - Registration Rights Agreement - Demand Registration”.

“**Special Board Resolution**” has the meaning given to it under “Agreements with Principal Shareholder - Governance Agreement - Governance Matters - Board Approvals Requiring a Special Resolution of the Directors”.

“**Specified Provincial Entity**” has the meaning given to it under “Agreements with Principal Shareholder - Governance Agreement - Governance Matters - Nomination of Directors - Independence”.

“**Taxation Act**” means the *Taxation Act, 2007, SO 2007, c 11, Schedule A*.

“**trust assets**” has the meaning given to it under “Interest of Management and Others in Material Transactions - Relationships with the Province and Other Parties - Transfer Orders”.

“**TS**” means transmission station.

“**TSX**” means the Toronto Stock Exchange.

“**TWh**” means terawatt-hours.

“**U.S. GAAP**” means United States Generally Accepted Accounting Principles.

“**Voting Securities**” means a security of Hydro One Limited carrying a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

“**Woodstock Hydro**” means Woodstock Hydro Holdings Inc.

PRESENTATION OF INFORMATION

Unless otherwise specified, all information in this annual information form is presented as at December 31, 2017.

Capitalized terms used in this annual information form are defined under “Glossary”. Words importing the singular number include the plural, and vice versa, and words importing any gender include all genders. The Annual MD&A and the audited consolidated financial statements of Hydro One Limited as at and for the year ended December 31, 2017, are specifically incorporated by reference into and form an integral part of this annual information form. Copies of these documents have been filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

Unless otherwise noted or the context otherwise requires, references to “**Hydro One**” or the “**Company**” refer to Hydro One Limited and its subsidiaries taken together as a whole. References to “**Hydro One Inc.**” refer only to Hydro One Inc. and references to “**Hydro One Limited**” refer only to Hydro One Limited.

In addition, “**Province**” refers to the Province of Ontario as a provincial government entity, and “**Ontario**” or the “**province**” in lower case type refers to the Province of Ontario as a geographical area. References to “**management**” in this annual information form mean the persons who are identified as executive officers of Hydro One Limited and its subsidiaries, as applicable, in this annual information form. Any statements made by or on behalf of management are made in such persons’ respective capacities as executive officers of Hydro One Limited and its subsidiaries, as applicable, and not in their personal capacities. See “Directors and Officers” for more information.

This annual information form refers to certain terms commonly used in the electricity industry, such as “**rate-regulated**”, “**rate base**” and “**return on equity**”. Rate base is an amount that a utility is required to calculate for regulatory purposes, and refers to the net book value of the utility’ s assets for regulatory purposes. Return on equity is a percentage that is set or approved by a utility’ s regulator and represents the rate of return that a regulator allows the utility to earn on the equity component of the utility’ s rate base. See also “Rate-Regulated Utilities”.

In this annual information form, all dollar amounts are expressed in Canadian dollars unless otherwise indicated. All references to “\$” or “dollars” refers to Canadian dollars. Hydro One Limited and Hydro One Inc. prepare and present their financial statements in accordance with U.S. GAAP.

FORWARD-LOOKING INFORMATION

Certain information in this annual information form contains “forward-looking information” within the meaning of applicable Canadian securities laws. Forward-looking information in this annual information form is based on current expectations, estimates, forecasts and projections about Hydro One’s business and the industry in which Hydro One operates and includes beliefs of and assumptions made by management. Such statements include, but are not limited to, statements related to: Hydro One’s strategy and goals; the Company’s transmission and distribution rate applications, and resulting rates and impacts; expected impacts of changes to the electricity industry; the Company’s maturing debt and standby credit facilities; expectations regarding the Company’s financing activities; credit ratings; ongoing and planned projects and/or initiatives, including expected results and timing; expected future capital expenditures, the nature and timing of these expenditures, including the Company’s plans for sustaining and development capital expenditures for its distribution and transmission systems; expectations regarding allowed return on equity; expectations regarding the ability of the Company to recover expenditures in future rates; the OEB; the motion and the appeal in respect of the OEB’s September 28, 2017 decision, including the expected impact on Hydro One if the OEB’s decision is upheld; future pension contributions, the pension plan and valuations; impacts of OEB treatment of pension and OPEB costs; expectations regarding the ability to negotiate collective agreements consistent with rate orders and to maintain stable outsourcing arrangements; expectations related to work force demographics; expectations regarding taxes; occupational rights; expectations regarding load growth; the regional planning process; expectations related to Hydro One’s CDM requirements and targets; the Company’s customer focus and related initiatives; statements related to the Company’s relationships with Indigenous communities; statements related to environmental matters, and the Company’s expected future environmental and remediation expenditures; expectations related to the effect of interest rates; the Company’s reputation; cyber and data security; the Company’s relationship with the Province; future sales of shares of Hydro One; acquisitions and consolidation opportunities, including the Company’s acquisition of Orillia Power and Avista Corporation; participation in Hydro One’s Winter Relief Program; expectations regarding the Governance Agreement and other agreements with the Province; expectations regarding Hydro One’s earnings per common share following completion of the Merger; the Debentures; the Province’s waiver of its pre-emptive right under the Governance Agreement to participate in the Convertible Debenture Offering; the Company’s financing strategy and foreign currency hedging relating to the acquisition of Avista Corporation; litigation relating to the Merger; expectations regarding the manner in which Hydro One will operate; expectations regarding Hydro One’s dividend policy and the Company’s intention to declare and pay dividends, including the target payout ratio of 70% to 80% of net income; implementation of the 2017 Long-Term Energy Plan; the Fair Hydro Plan, including expected outcomes and impacts; potential conflicts of interest; and legal proceedings in which Hydro One is currently involved.

Words such as “aim”, “could”, “would”, “expect”, “anticipate”, “intend”, “attempt”, “may”, “plan”, “will”, “believe”, “seek”, “estimate”, “goal”, “target”, and variations of such words and similar expressions are intended to identify such forward-looking information. 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 information. Hydro One does not intend, and it disclaims any obligation to update any forward-looking information, except as required by law.

The forward-looking information in this annual information form is based on a variety of factors and assumptions including, but not limited to: 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, including the required regulatory approvals relating to the Merger and other conditions precedent to closing the Merger; no unexpected delays in obtaining the required approvals; no unforeseen changes in rate orders or rate setting methodologies for Hydro One's distribution and transmission businesses; no unfavourable changes in environmental regulation; continued use of U.S. GAAP; a stable regulatory environment; the ability to obtain a bridge credit facility to finance a portion of the cash purchase price of the Merger and Merger-related costs; the ability to obtain permanent financing in respect of the Merger; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to Hydro One, including information obtained from third-party sources. Actual results may differ materially from those predicted by such forward-looking information. While Hydro One does not know what impact any of these differences may have, Hydro One's business, results of operations, financial condition and credit stability may be materially adversely affected if any such differences occur. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information 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 risks relating to the Merger, including (i) the risk that Hydro One may fail to complete the Merger, (ii) uncertainty regarding the length of time required to complete the Merger, (iii) the risk that the purchase price for Avista Corporation could increase, and (iv) the risk that the anticipated benefits of the Merger may not materialize or may not occur within the time periods contemplated by Hydro One;

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;

the risks associated with information system security and with maintaining a complex information technology system infrastructure, including risks of cyber-attacks or unauthorized access to corporate and information technology systems;

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;

the risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;

the risks related to the financing of the Merger, including (i) the potential unavailability of a bridge credit facility to finance a portion of the cash purchase price of the Merger and Merger-related costs, and (ii) alternative sources of funding that would be used to replace the Bridge Credit Facility may not be available when needed;

risks related to Hydro One substantially increasing the amount of its indebtedness following the Merger;

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 cost;

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 U.S. 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 under the heading "Risk Management and Risk Factors" in the Annual MD&A. You should review such section in detail, including the matters referenced therein.

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

ELECTRICITY INDUSTRY OVERVIEW

General Overview

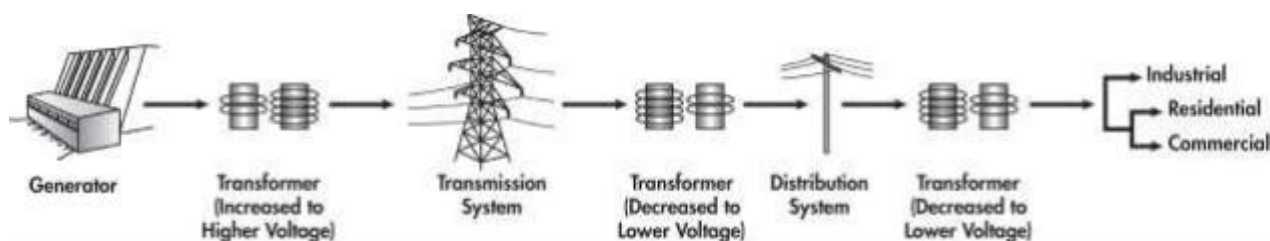
The electricity industry is made up of businesses that generate, transmit, distribute and sell electricity. While traditionally a mature and stable industry, innovation and technological change are expected to have a significant impact on the industry in the foreseeable future. Hydro One's business is focused on the transmission and distribution of electricity.

Transmission refers to the delivery of electricity over high voltage lines, typically over long distances, from generating stations to local areas and large industrial customers.

Distribution refers to the delivery of electricity over low voltage power lines to end users such as homes, businesses and institutions.

Overview of an Electricity System

The basic configuration of a typical electricity system showing electricity generation, transmission and distribution is illustrated in the following diagram:



Transmission and distribution networks are sometimes referred to as the “electricity grid” or simply “the grid”. For simplicity, the diagram above does not show customers directly connected to the transmission system or distributed generation sources or other distributors that may be connected to the distribution system.

THE ELECTRICITY INDUSTRY IN ONTARIO

Regulation of Transmission and Distribution

General

The Electricity Act and the Ontario Energy Board Act establish the general legislative framework for Ontario's electricity market. The activities of transmitters and distributors in Ontario are overseen by three main regulatory authorities: (i) the OEB, (ii) the IESO, and (iii) the National Energy Board. The Minister of Energy is responsible for developing long-term energy plans and has the power to issue directives to the IESO and the OEB regarding implementation of such plans.

The OEB is an independent regulatory agency. The Ontario Energy Board Act provides the OEB with the authority to regulate Ontario's electricity market, including the activities of transmitters and distributors.

The OEB has the following legislated objectives in relation to the electricity industry:

to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service,

to promote the education of consumers,

to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry,

to promote electricity conservation and demand management in a manner consistent with the policies of the Province, including having regard to the consumer's economic circumstances,

to facilitate the implementation of a smart grid in Ontario, and

to promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Province, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

The OEB is responsible for, among other things, approving transmission and distribution rates in Ontario. It also approves the construction, expansion, or reinforcement of transmission lines greater than two kilometres in length, as well as mergers, acquisitions, amalgamations and divestitures involving distributors, transmitters and other entities which it licenses. The activities of transmitters and distributors are subject to the conditions of their licenses and a number of industry codes issued by the OEB. These codes and other requirements prescribe minimum standards of conduct and service for licensed participants in the electricity market.

On December 14, 2017, the Province announced that it is establishing a panel to modernize the OEB. The panel has been given a mandate including reviewing how the OEB can continue to protect consumers amidst a rapidly changing sector, support innovation and new technologies, and how the OEB should be structured and resourced to deliver on its changing role. The panel is expected to report back to the Province by the end of 2018.

On December 18, 2017, the OEB posted its Strategic Blueprint: Keeping Pace with the Evolving Energy Sector. This document sets out the OEB's commitment to modernize its approach to regulation over the next five years.

IESO

The IESO delivers key services across the electricity sector including managing the power system in real-time, planning for Ontario's future energy needs, enabling conservation and designing a more efficient electricity marketplace to support sector evolution. It is governed by a board whose chair and directors are appointed by the Province. The IESO also coordinates province-wide conservation efforts.

Transmitters and other wholesale market participants must comply with the Market Rules issued by the IESO. The Market Rules require transmitters to comply with mandatory North American reliability standards for transmission issued by the North American Electric Reliability Corporation ("NERC") and the Northeast Power Coordinating Council, Inc. ("NPCC"). The IESO enforces these reliability standards and coordinates with system operators and reliability agencies in other jurisdictions to ensure energy adequacy and security across the interconnected bulk electricity system in North America.

National Energy Board

The National Energy Board is an independent federal regulatory agency. Most of the National Energy Board's responsibilities are set out in the National Energy Board Act and it has jurisdiction over the construction and operation of international power lines, as well as interprovincial lines that are designated as being under federal jurisdiction (of which there are currently none). As Hydro One owns and operates 11 active international power lines connecting Ontario's transmission system with transmission systems in Michigan, Minnesota and New York, Hydro One is required to hold several certificates and permits issued by the National Energy Board and is subject to its mandatory electricity reliability standards and reporting requirements.

Transmission

Transmission companies own and operate transmission systems that deliver electricity over high voltage lines. Hydro One's transmission system accounts for approximately 98% of Ontario's electricity transmission capacity based on the revenues approved by the OEB. The Company's transmission system is interconnected to systems in Manitoba, Michigan, Minnesota, New York and Quebec and is part of the North American electricity grid's Eastern Interconnection. The Eastern Interconnection is a contiguous electricity transmission system that extends from Manitoba to Florida and from east of the Rocky Mountains to the North American east coast. Being part of the Eastern Interconnection provides benefits to Ontario, such as greater security and stability for Ontario's transmission system, emergency support when there are generation constraints or shortages in Ontario, and the ability to exchange electricity with other jurisdictions.

Distribution

Distributors own and operate distribution systems that deliver electricity over power lines at voltages of 50kV or less to end users. In Ontario, as per the OEB's 2016 Yearbook of Electricity Distributors, as at December 31, 2016, 68 local distribution companies provided electricity to approximately five million customers. The distribution industry in Ontario is fragmented, with the 15 largest local distribution companies accounting for approximately 80% of the province's customers.

Through its wholly-owned subsidiary Hydro One Inc., Hydro One owns the largest local distribution company in Ontario, which serves over 1.3 million predominantly rural customers, or approximately 26% of the total number of customers in Ontario.

A local distribution company is responsible for distributing electricity to customers in its OEB-licensed service territory, and in some cases to other distributors. A service territory may cover large portions or all of a particular municipality, or an otherwise-defined geographic area. Distribution customers include homes, commercial and industrial businesses and institutions such as governments, schools and hospitals.

Recent Developments at Hydro One

On March 16, 2018, the OEB issued a letter which expects Hydro One Networks Inc. to file (i) a 4-year transmission rate application in 2019-2022; and (ii) a joint distribution-transmission rate application for 2023-2027.

Recent Legislative Amendments Affecting the Electricity Industry Generally and Related Issues

Tax Incentives

Tax incentives were included in the 2015 Ontario Budget to promote consolidation in the electricity distribution sector. The 2015 Ontario Budget announced a reduction in the tax rate for transfers of electricity assets from 33% to 22% and to NIL for distributors with fewer than 30,000 customers. In addition, the budget also introduced a capital gains exemption where capital gains arise as a result from exiting the payments in lieu of corporate taxes regime. These changes apply for the period beginning January 1, 2016, and ending December 31, 2018.

Energy Statute Law Amendment Act

The Energy Statute Law Amendment Act came into force in 2016. This act amended various sections of the Ontario Energy Board Act, the Electricity Act and the Green Energy Act. In particular, the Energy Statute Law Amendment Act amended the Electricity Act to require the Minister of Energy to produce long-term energy plans that may require the OEB and the IESO to issue implementation plans to achieve the objectives of those plans and to guide the OEB by such plans' objectives in exercising its powers and performing its duties.

Ontario 2017 Long-Term Energy Plan

In 2017, the Province released its 2017 Long-Term Energy Plan, which sets out a number of initiatives for Ontario's energy system over the coming years, including: ensuring affordable and accessible energy, ensuring a flexible energy system, innovating to meet the future, improving value and performance for consumers, strengthening our commitment to energy conservation and efficiency, responding to the challenge of climate change, supporting First Nation and Métis capacity and leadership, and supporting regional solutions and infrastructure. Additional details about certain key aspects of the 2017 Long-Term Energy Plan are set out below.

The Minister of Energy issued directives to the IESO and the OEB to develop implementation plans to meet objectives outlined in the 2017 Long-Term Energy Plan, such implementation plans to be submitted to the Minister of Energy by January 31, 2018. The IESO and OEB submitted their implementation plans to the Minister on January 31, 2018 and on February 15, 2018, the Minister of Energy approved the implementation plans. Certain aspects of the 2017 Long-Term Energy Plan are detailed below, in “Ontario Fair Hydro Plan” and “Expanded Net Metering”.

Ontario Fair Hydro Plan

In March 2017, the Province announced the Ontario Fair Hydro Plan, which proposed measures to reduce electricity bills by an average of 25% for residential customers as well as initiatives to reduce costs for businesses. This plan includes the eight percent electricity bill rebate that was introduced in January 2017 (through the Ontario Rebate for Electricity Consumers Act) and builds on previously announced government initiatives to deliver rate relief on electricity bills.

The Fair Hydro Act, which act came into force on June 1, 2017, puts in place the framework for giving effect to the Fair Hydro Plan initiatives.

The Ontario Fair Hydro Plan includes:

Refinancing a portion of the global adjustment over a longer period of time. The global adjustment is payable by Ontario electricity customers, and was established by the Province to pay costs associated with contracted and rate-regulated generation, as well as conservation and demand management programs in Ontario.

Provision for or broadening of electricity accessibility and assistance programs, including,

- Establishing an Affordability Fund to provide energy conservation and efficiency measures to certain Ontario electricity customers who are not eligible for low-income conservation programs and who need support to improve the energy efficiency of their homes.
- Enhancing distribution rate protection for eligible rural customers of Hydro One and certain other distributors whose customers have higher distribution charges compared to other areas.
- Establishing a First Nations Delivery Credit to eliminate electricity delivery charges for all on-reserve First Nations residential customers of local distribution companies.
- Expanding the existing Ontario Electricity Support Program, which is an OEB program that lowers electricity bills for lower-income households by providing a monthly bill credit to eligible customers.

Allowing smaller manufacturers and greenhouses with average monthly peak demand greater than 500 kW to participate in the Industrial Conservation Initiative, effective July 1, 2017. The Industrial Conservation Initiative lowers electricity costs for eligible consumers who reduce

consumption during the five highest peak periods of the year, providing an incentive to lower their consumption during peak hours and reduce their bills by an average of one-third.

The Ontario Rebate for Electricity Consumers program, which commenced on January 1, 2017, as per the Ontario Rebate for Electricity Consumers Act. This program provides financial assistance to residential, farm, small business and other eligible consumers in respect of electricity costs, equal to a rebate of eight percent of the base invoice amount for each billing period. This rebate appears as a line item on eligible consumers' electricity bills.

Expanded Net Metering

As part of the commitment in the 2017 Long-Term Energy Plan to give customers new ways to participate in renewable electricity generation, amendments were made to the Net Metering Regulation. Net metering is a billing arrangement with a local distribution company that allows customers to offset the electricity they buy from their local distribution company with electricity generated by their own renewable energy systems, and receive credits on their electricity bill for the electricity they send to the grid, reducing their total bill charges.

Effective July 1, 2017, the amendments expanded the net metering rules to include renewable generators of any size as eligible for net metering, provided that electricity is generated primarily for the generator's own use, and provided that the generator is not party to any agreement other than a net metering agreement for the sale of electricity into the distribution system. The amendments also allow generators to use energy storage systems in combination with conveying their excess generated electricity into the distribution system.

Climate Change Mitigation and Low-carbon Economy Act

Pursuant to the Climate Change Mitigation and Low-carbon Economy Act, the Province introduced a cap and trade program in Ontario beginning January 1, 2017. The program capped the amount of greenhouse gas emissions for Ontario homes and businesses and lowers that limit over time. Hydro One Networks Inc., an indirect wholly-owned subsidiary of Hydro One Limited, was deemed a mandatory participant in the cap and trade program based on its annual carbon dioxide equivalent emissions. As required, Hydro One Networks Inc. registered under the program in November 2016, and continues to comply with its reporting requirements.

Burden Reduction Act

The Burden Reduction Act amended various statutes, including the Ontario Energy Board Act and the Electricity Act. The Burden Reduction Act, among other things, amended the Ontario Energy Board Act in a number of ways related to deferral and variance account review and oversight and review of transactions between transmitters and distributors and electricity generators.

Protecting Vulnerable Energy Consumers Act

The Protecting Vulnerable Energy Consumers Act impacts a distributor's ability to disconnect customers by broadening the power of the OEB to prescribe, as a condition of a distributor's licence, periods during which disconnections of low-volume consumers may not take place. In February 2017, the OEB issued a decision and order amending the licenses of all Ontario electricity distributors prohibiting the disconnection of residential customers by reason of non-payment for the balance of the 2017 winter period. In November 2017, the OEB issued a decision and order banning licensed electricity distributors from disconnecting homes for non-payment during the winter. See "General Development of the Business - Customer Focus - Winter Moratorium and Winter Relief Program" for more information.

OEB Consultation on Pension and Other Post-Employment Benefits

In May 2015, the OEB initiated a consultation on the regulatory treatment of pension and OPEBs in the electricity industry. The aim of the consultation was to develop standard principles to guide the OEB's review of pension and OPEBs costs, to establish specific information requirements for applications, and to establish appropriate regulatory mechanisms for cost recovery which can be applied consistently among rate-regulated entities.

The OEB completed its consultation on pension and OPEBs costs with a cumulative report in September 2017. The OEB concluded that the default method will be the accrual accounting method to set rates for pension and OPEBs amounts. The OEB will permit another method if that method results in just and reasonable rates and the OEB will adopt certain practices in its treatment of pension and OPEBs costs.

The OEB concluded that utilities must establish a variance account to track the differences between forecasted accrual amount in rates and actual cash payments made with carrying charges at rates determined by OEB to be applied to the differences in favour of ratepayers. There is no set-aside charge for OPEBs.

Legislative Provisions Specific to Hydro One

In addition to legislation in Ontario that impacts all transmitters and distributors, there is legislation that is specific to Hydro One. Specifically, the Electricity Act requires Hydro One's head office and principal grid control centre to be maintained in Ontario, restricts the disposition of substantially all of its OEB-regulated transmission or distribution business, prohibits any change to its jurisdiction of incorporation, requires the Company to have an ombudsman, contains a 10% ownership restriction with respect to Voting Securities and restricts the Province from selling Voting Securities if it would own less than 40% of the Voting Securities of any class or series as a result of the sale.

Ombudsman

The Electricity Act requires the Company to have an ombudsman to act as a liaison with customers and to establish procedures for the ombudsman to inquire into and report to the Board on matters raised with the ombudsman by or on behalf of customers. See "General Development of the Business - Chronological Development of the Business - 2015 - Ombudsman" for more information.

10% Ownership Restriction

The Electricity Act imposes share ownership restrictions on the Voting Securities. These restrictions provide that no person or company (or combination of persons or companies acting jointly or in concert) may beneficially own or exercise control or direction over more than 10% of any class or series of Voting Securities, including common shares of the Company (the “**Share Ownership Restrictions**”). The Share Ownership Restrictions do not apply to Voting Securities held by the Province, nor to an underwriter who holds Voting Securities solely for the purpose of distributing those securities to purchasers who comply with the Share Ownership Restrictions. The articles of Hydro One Limited provide for comprehensive enforcement mechanisms that are applicable in the event of a contravention of the Share Ownership Restrictions.

Maintenance of 40% Ownership

As of December 31, 2017, the Province owned approximately 47.4% of Hydro One Limited’s common shares. The Province has indicated that it does not intend to sell additional common shares of Hydro One. See the Annual MD&A under the heading “Risk Management and Risk Factors” for more information.

The Electricity Act restricts the Province from selling Voting Securities (including common shares of Hydro One Limited) if it would own less than 40% of the outstanding number of Voting Securities of that class or series after the sale. If as a result of the issuance of additional Voting Securities by Hydro One Limited, the Province owns less than 40% of the outstanding number of Voting Securities of any class or series, the Province must, subject to the approval of the Lieutenant Governor in Council and the necessary appropriations from the Legislature, take steps to acquire as many Voting Securities of that class or series as are necessary to increase the Province’s ownership to not less than 40% of the outstanding number of Voting Securities of that class or series. The manner in which, and the time by which, the Province must acquire these additional Voting Securities will be determined by the Lieutenant Governor in Council.

The Province has been granted pre-emptive rights by Hydro One Limited to assist it in meeting its ownership requirements under the Electricity Act as described under “Agreements with Principal Shareholder - Governance Agreement - Other Matters - Pre-emptive Rights”.

Elimination of Certain Legislation With Respect to Hydro One

In 2015 and 2016, Hydro One Inc. and its subsidiaries ceased to be subject to a number of Ontario statutes that apply to entities owned by the Province. Hydro One Limited is similarly not subject to those statutes. Notwithstanding the elimination of certain legislation with respect to Hydro One, the Company is required under the Financial Administration Act and the Auditor General Act to provide financial information to the Province for the Province’s public reporting purposes.

Rate Applications in Ontario

Framework

The term “rate-regulated” is used to refer to an electricity business whose rates for transmission, distribution or other services are subject to approval by a regulator. The rate base of a rate-regulated utility refers to the net book value of the utility’s assets for regulatory purposes, plus an allowance for working capital. Rate base differs from a utility’s total assets for accounting purposes, primarily because it includes the regulated assets of a utility. The OEB is the regulator that approves electricity transmission and distribution rates in Ontario. Transmission rates have historically been determined based on a cost-of-service model, while distribution rates are generally determined using a performance-based model. These models are reviewed and modified by the OEB from time to time.

In 2016, the OEB updated the filing requirements for electricity transmission applications and introduced new revenue requirement setting options. The requirements changed the framework for setting a transmitter’s revenue requirement from a cost-of-service approach to a performance-based approach similar to that outlined in the RRF for electricity distributors. To facilitate the transition to the new framework, existing transmitters may still apply for revenue requirement approval based on a one or two year cost-of-service application for their first application following the issuance of the new filing requirements.

In a cost-of-service model, a utility charges rates for its services that allow it to recover the costs of providing its services and earn an allowed return on equity. A utility’s return on equity or “ROE” is the rate of return that a regulator allows the utility to earn on the equity portion of the utility’s rate base. The costs of providing its services must be prudently incurred. Cost savings are typically passed on to customers in the form of lower rates reflected in future rate decisions. In a cost-of-service model, the utility has the potential to retain cost savings that are achieved in the intervening years between rate decisions.

$\text{Cost of Service (\$)} + \text{Return on Equity (\$)} = \text{Revenue Requirement (\$)}$
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In a performance-based model, a utility also charges rates for its services that allow it to recover the costs of providing its services and earn an allowed return on equity. However, the rates charged by the utility in a performance-based model assume that the utility becomes increasingly efficient over time, resulting in lower costs to provide the same service. If a utility achieves cost savings in excess of those established by the regulator, the utility may retain some or all of the benefits of those cost savings, which may permit the utility to earn more than its allowed return on equity.

CORPORATE STRUCTURE

Incorporation and Office

Hydro One Limited was incorporated on August 31, 2015, under the OBCA. Its registered office and head office is located at 483 Bay Street, 8th Floor, South Tower, Toronto, Ontario M5G 2P5.

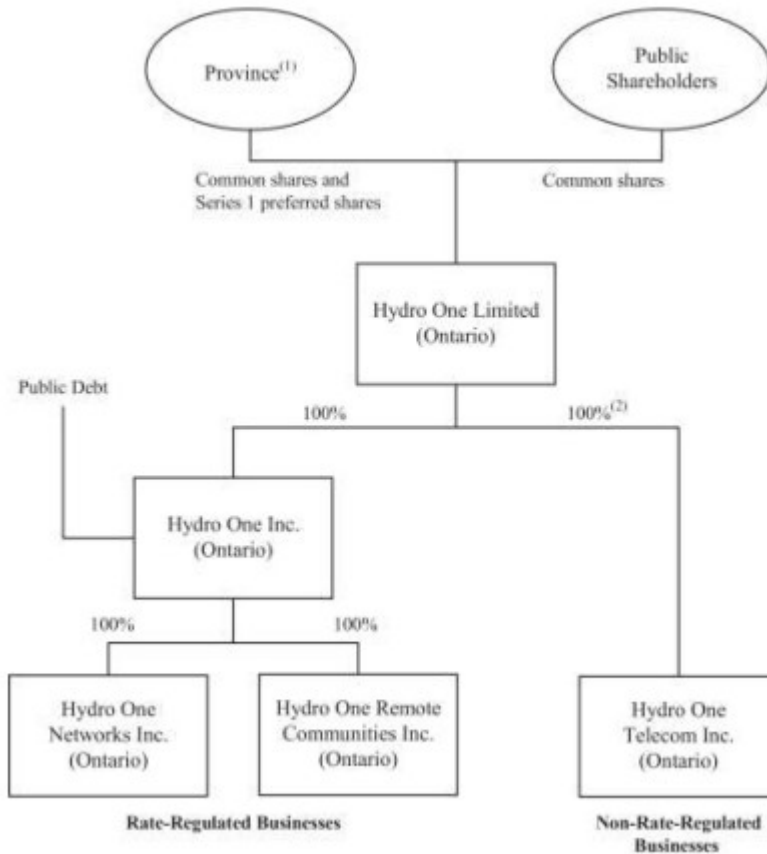
On October 30, 2015, the articles of Hydro One Limited were amended to authorize the creation of an unlimited number of Series 1 preferred shares and an unlimited number of Series 2 preferred shares, with the Series 1 preferred shares to be issued to the Province.

On October 31, 2015, all of the issued and outstanding shares of Hydro One Inc. were acquired by Hydro One Limited from the Province in exchange for the issuance to the Province of common shares and Series 1 preferred shares of Hydro One Limited.

On November 4, 2015, the articles of Hydro One Limited were amended to authorize the consolidation of its outstanding common shares such that 595,000,000 common shares of Hydro One Limited were issued and outstanding.

Corporate Structure and Subsidiaries

The following is a simplified chart showing the organizational structure of Hydro One and the name and jurisdiction of incorporation of certain of its subsidiaries. This chart does not include all legal entities within Hydro One's organizational structure. Hydro One Limited owns, directly or indirectly, 100% of the voting securities of all of the subsidiaries listed below.



- Notes:**
- (1) As of December 31, 2017, the Province directly owned approximately 47.4% of Hydro One Limited's outstanding common shares and 100% of the outstanding Series 1 preferred shares.
 - (2) Indirectly held through a wholly-owned subsidiary of Hydro One Limited that acts as a holding company for Hydro One's non-rate-regulated businesses.

Certain of Hydro One's subsidiaries are described below:

Hydro One Inc. - acts as a holding company for Hydro One's rate-regulated businesses. Its publicly-issued debt continues to be outstanding.

Hydro One Networks Inc. - the principal operating subsidiary that carries on Hydro One's rate-regulated transmission and distribution businesses.

Hydro One Remote Communities Inc. - generates and supplies electricity to remote communities in northern Ontario.

Hydro One Telecom Inc. - carries on Hydro One's non-rate-regulated telecommunications business.

Chronological Development of the Business

The following key events occurred from 2015 to early 2018 in respect of Hydro One.

2015

Incorporation and Initial Public Offering

On August 31, 2015, Hydro One Limited was incorporated by the Province as its sole shareholder.

On November 5, 2015, Hydro One Limited completed its initial public offering on the TSX by way of a secondary offering of 81,100,000 common shares by the Province at a price of \$20.50 per share for aggregate gross proceeds to the Province of \$1,662,550,000. On November 12, 2015, the underwriters in the initial public offering exercised their option to purchase an additional 8,150,000 common shares from the Province at a price of \$20.50 per share for additional aggregate gross proceeds to the Province of \$167,075,000. Hydro One Limited did not receive any proceeds from the initial public offering.

Acquisition of Hydro One Inc.

Prior to the closing of the initial public offering, all of the issued and outstanding common shares of Hydro One Inc. were acquired by Hydro One Limited. Under applicable Canadian securities laws, the acquisition of all of the issued and outstanding shares of Hydro One Inc. was considered a “significant acquisition”. Hydro One Limited filed a business acquisition report in respect of the acquisition on January 14, 2016. See “Business of Hydro One - Reorganizations” for more information.

Hydro One Brampton Networks Inc.

On August 31, 2015, all of the issued and outstanding shares of Hydro One Brampton Networks Inc. were transferred to the Province. Hydro One was not a participant in nor did it receive any proceeds from the transfer of Hydro One Brampton Networks Inc. to the Province.

Following the transfer to the Province, Hydro One provided certain management, administrative and smart meter network services to Hydro One Brampton Networks Inc. pursuant to service level agreements. These agreements terminated as of February 28, 2017.

Ombudsman

In 2015, the Electricity Act was amended to require that the Company have an ombudsman to act as a liaison with customers and to establish procedures for the ombudsman to inquire into and report to the Board on matters raised with the ombudsman by or on behalf of customers. These procedures are set out in a written mandate and terms of reference. See “Business of Hydro One - Ombudsman” for more information.

2016

2016 Secondary Common Share Offering

On April 14, 2016, the Province completed a secondary offering of 72,434,800 common shares of Hydro One Limited at a price of \$23.65 per share for aggregate gross proceeds to the Province of \$1,713,083,020. On April 29, 2016, the underwriters in the secondary offering exercised their option to purchase an additional 10,865,200 common shares from the Province at a price of \$23.65 per share for additional aggregate gross proceeds to the Province of \$256,961,980. Following the completion of this offering, the Province held approximately 70.1% of Hydro One's total issued and outstanding common shares. Hydro One Limited did not receive any proceeds from the sale of the common shares by the Province.

Agreement to Acquire Orillia Power

In August 2016, the Company reached an agreement to acquire Orillia Power, an electricity distribution company located in Simcoe County, Ontario, for approximately \$41 million, including the assumption of approximately \$15 million in outstanding indebtedness and regulatory liabilities, subject to closing adjustments. The acquisition is subject to regulatory approval by the OEB. For more information, see "Business of Hydro One - Distribution Business - Acquisitions - Agreement to Acquire Orillia Power".

Integration of Haldimand Hydro and Woodstock Hydro

In September 2016, the Company successfully completed the integration of Haldimand Hydro and Woodstock Hydro, two Ontario-based local distribution companies acquired by the Company in 2015, including the integration of employees, customer and billing information, business processes, and operations.

Acquisition of Great Lakes Power

On October 31, 2016, following receipt of regulatory approval of the transaction by the OEB, Hydro One completed the acquisition of Great Lakes Power, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario. The total purchase price for Great Lakes Power was approximately \$376 million, including the assumption of approximately \$150 million in outstanding indebtedness. On January 16, 2017, Great Lakes Power's name was changed to Hydro One Sault Ste. Marie LP.

2017

2017 Secondary Common Share Offering

On May 17, 2017, the Province completed a secondary offering of 120,000,000 common shares of Hydro One Limited at a price of \$23.25 per share for aggregate gross proceeds to the Province of approximately \$2.79 billion. Following completion of this offering, the Province held approximately 49.9% of Hydro

One's total issued and outstanding common shares. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

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) 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 takeover bid, early warning reporting, insider reporting and control person distribution rules and certain distribution restrictions under Canadian securities laws. Hydro One was also granted relief permitting it to rely solely on insider reports and early warning reports filed by Non-Aggregated Holders when reporting beneficial ownership or control or direction over securities in an information circular or annual information form in respect of securities beneficially owned or controlled by any Non-Aggregated Holder subject to certain conditions.

Acquisition of Avista Corporation

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation (the "**Merger**") for approximately U.S. \$5.3 billion in an all-cash transaction, comprised of an equity purchase price of U.S. \$3.4 billion and the assumption of U.S. \$1.9 billion of debt. Avista Corporation is an investor-owned utility providing electric generation, transmission and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger, which is expected to occur in the second half of 2018, is subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions.

On September 14, 2017, Hydro One and Avista Corporation filed applications with state utility commissions in Washington, Idaho, Oregon, Montana, and Alaska, as well as with the Federal Energy Regulatory Commission, requesting regulatory approval of the Merger on or before August 14, 2018. On November 21, 2017, the Merger was approved by the shareholders of Avista Corporation. On January 16, 2018, the Federal Energy Regulatory Commission approved the Merger application. Required filings with a number of other agencies will be made in the coming months, including with the Committee of Foreign Investment in the United States, the Federal Communications Commission, and the Department of Justice and the Federal Trade Commission pursuant to the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*. On March 27, 2018, a settlement agreement was filed with the Washington Utilities and Transportation Commission, which remains subject to approval by the Washington Utilities and Transportation Commission.

The cash purchase price of the Merger and the Merger-related costs will be financed at the closing of the Merger with a combination of some or all of the following sources: (i) net proceeds of the first instalment from the Convertible Debenture Offering (described below); (ii) net proceeds of any subsequent bond or other debt offerings; (iii) amounts drawn under the Operating Credit Facility; (iv) amounts drawn under one or more bridge credit facilities which Hydro One plans to obtain from a syndicate of banks prior to

closing of the Merger (the “**Bridge Facilities**”); and (v) existing cash on hand and other sources available to Hydro One.

Convertible Debenture Offering

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company and its wholly-owned subsidiary, 2587264 Ontario Inc., completed the sale of \$1.54 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures of Hydro One Limited represented by instalment receipts (the “**Convertible Debenture Offering**”)

The Province waived its pre-emptive right to participate in the Convertible Debenture Offering under the Governance Agreement. In consideration of granting the waiver, Hydro One Limited 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.

First Nations and Hydro One Limited Shares

In December 2017, the Province sold approximately 14 million common shares of Hydro One Limited to OFN Power Holdings LP, a limited partnership wholly-owned by Ontario First Nations Sovereign Wealth LP, which is in turn owned by 129 First Nations in Ontario. This represented approximately 2.4% of the outstanding common shares of Hydro One Limited owned by the Province. Following this transaction, the Province owns approximately 47.4% common shares of the Company. Hydro One Limited was not a party to this transaction. Hydro One Limited did not receive any proceeds from the sale of the shares by the Province.

Strategy

In 2017, the Company’s Board of Directors approved Hydro One’s strategy which details the Company’s goal to become North America’s leading utility, centered around three key pillars: (i) optimization and innovation, (ii) diversification and (iii) growth.

2018

New Chief Financial Officer

On January 28, 2018, Hydro One announced the appointment of Paul Dobson as its new Chief Financial Officer effective March 1, 2018. Mr. Dobson was most recently the Chief Financial Officer at Direct Energy Ltd. in Houston, Texas. Mr. Dobson replaces Mr. Vels, who resigned on May 19, 2017.

New Chief Corporate Development Officer

On February 21, 2018, Hydro One announced the appointment of Patrick Meneley as Executive Vice President and Chief Corporate Development Officer effective March 1, 2018. Mr. Meneley was most recently the Executive Vice President, Wholesale Banking at TD Bank Group and Vice Chair and Head of Global Corporate and Investment Banking for TD Securities.

General Development of the Business

In addition to the chronological development of the business, the following general developments in the business have occurred and continue to be relevant.

Acquisitions Generally

The Company intends to continue to evaluate local distribution company consolidation opportunities in Ontario and intends to pursue those acquisitions which deliver value to the Company and its shareholders. Over time, the Company may also consider larger-scale, vertically integrated acquisition opportunities or other strategic initiatives outside of Ontario to diversify its asset base and leverage its strong operational expertise. These acquisition opportunities may include other providers of electric transmission, distribution and other similar services in Canada and in the United States.

Customer Focus

Hydro One remains in transition from a Crown corporation to an industry leading investor owned utility. Our continued focus on customer service remains a critical aspect of our success as a Company. Greater corporate accountability for performance outcomes, and company-wide improvements in productivity and efficiency, align with our customer's expectations of how Hydro One should operate.

Customer Service

Hydro One is committed to delivering significant value to customers by becoming easier to do business with, being available when customers need assistance, and always staying connected. This includes specific, measurable commitments to customers that encompass all areas of service. Hydro One's billing system is stable and outperforming its previous system in terms of timeliness, accuracy and reliability. In 2017, the Company launched a new mobile-friendly corporate website, improved its self-service portal, and introduced a newly designed customer bill. Additionally, the Company is committed to increasing the availability of customer service at the local level, and increasing face to face customer engagement throughout the province. In March 2018, Hydro One transitioned the customer contact centre from a third party provider back to Hydro One in order to improve customer service. For more information on these services, please refer to "Business of Hydro One - Outsourced Services".

Review of Operations

Hydro One has been focused on the identification of opportunities for improved corporate performance and the development of strategies to drive more efficient, cost-effective operations. Hydro One conducts

regular reviews of key corporate activities and programs, covering areas such as construction services and project management practices, asset deployment and controls, information technology and cybersecurity, vegetation management practices, fleet services and utilization, supply chain management and business continuity planning. Operational improvements in capital planning and execution have already been observed, and improvements have been made to work execution process. The OEB's rate decisions also contain directions to Hydro One to become more cost efficient and improve value to customers.

Winter Moratorium and Winter Relief Program

Hydro One has an existing voluntary policy (the winter disconnection moratorium) that from December 1 to March 31 it will not disconnect residential customers whose accounts are in arrears.

Hydro One announced its Winter Relief Program, as an extension of its existing winter disconnection moratorium. This initiative is intended to help residential customers facing extreme hardship and who have had their electricity service disconnected by reaching out to these customers directly to help re-connect their electricity service for the remainder of the winter. As part of the program, Hydro One waives reconnection fees and works with customers to determine payment options to bring their accounts up-to-date and to evaluate various support programs in which certain customers may be eligible to participate. In November 2017, the OEB issued a decision and order banning licensed electricity distributors from disconnecting homes for non-payment during the winter.

BUSINESS OF HYDRO ONE

Business Segments

Through its wholly-owned subsidiary Hydro One Inc., Hydro One is Ontario's largest electricity transmission and distribution utility with approximately \$25.7 billion in assets and 2017 revenues of approximately \$6.0 billion. Hydro One owns and operates substantially all of Ontario's electricity transmission network and is the largest electricity distributor in Ontario by number of customers. The Company's regulated transmission and distribution operations are owned by Hydro One Inc. Hydro One delivers electricity safely and reliably to over 1.3 million customers across the province of Ontario, and to large industrial customers and municipal utilities. Hydro One Inc. owns and operates approximately 30,000 circuit kilometres of high-voltage transmission lines and approximately 123,000 circuit kilometres of primary low-voltage distribution lines.

Hydro One has three business segments: (i) transmission; (ii) distribution; and (iii) other business. Each of the three segments is described below.

Hydro One's transmission and distribution businesses are both operated primarily through Hydro One Networks Inc. This allows both businesses to utilize common operating platforms, technology, work processes, equipment and field staff and thereby take advantage of operating efficiencies and synergies. For regulatory purposes, Hydro One Networks Inc. files separate rate applications with the OEB for each of its licensed transmission and distribution businesses.

Transmission Business

Overview

Hydro One's transmission business consists of owning, operating and maintaining Hydro One's transmission system, which accounts for approximately 98% of Ontario's transmission capacity based on revenue approved by the OEB. All of the Company's transmission business is carried out by its wholly-owned subsidiary Hydro One Inc., through its wholly-owned subsidiary Hydro One Networks Inc. and through other wholly-owned subsidiaries of Hydro One Inc. that own and control Great Lakes Power (now Hydro One Sault Ste. Marie LP), as well as through the Company's 66% interest in B2M Limited Partnership. Hydro One's transmission business represented approximately 53% of its total assets as at December 31, 2017, and accounted for approximately 51% of its total revenue in 2017, net of purchased power and 51% of its total revenue in 2016, net of purchased power.

The Company's transmission business is a rate-regulated business that earns revenues mainly from charging transmission rates that are subject to approval by the OEB. In February 2016, the OEB updated the filing requirements for electricity transmission applications and introduced new revenue requirement setting options. During 2017 and 2018, the Company's transmission rates are determined based on a cost-of-service model as permitted by the OEB during the transition to a performance-based model. Transmission rates are collected by the IESO and are remitted by the IESO to Hydro One on a monthly basis, which means that Hydro One's transmission business has no direct exposure to end-customer counterparty risk.

Transmission rates are based on monthly peak electricity demand across Hydro One's transmission network. This gives rise to seasonal variations in Hydro One's transmission revenues, which are generally higher in the summer and winter due to increased demand, and lower during other periods of reduced demand. Hydro One's transmission revenues also include revenues associated with exporting energy to markets outside of Ontario. Ancillary revenue includes revenues from providing maintenance services to generators and from third party land use.

Business

The Company's transmission system serves substantially all of Ontario and transported approximately 132 TWh of energy throughout the province in 2017. Hydro One's transmission customers consist of 43 local distribution companies (including Hydro One's own distribution business) and 88 large industrial customers connected directly to the transmission network, including automotive, manufacturing, chemical and natural resources businesses. Electricity delivered over the Company's transmission network is supplied by 129 generators in Ontario and electricity imported into the province through interties. Interties are transmission interconnections between neighbouring electric systems that allow power to be imported and exported.

The high voltage power lines in Hydro One's transmission network are categorized as either lines which form part of the "bulk electricity system" or "area supply lines". Power lines which form part of the bulk electricity system typically connect major generation facilities with transmission stations and often cover long distances, while area supply lines serve a local region. Ontario's transmission system is connected to

the transmission systems of Manitoba, Michigan, Minnesota, New York and Quebec through the use of interties, allowing for the import and export of electricity to and from Ontario.

Hydro One's transmission assets were approximately \$14 billion as at December 31, 2017 and include transmission stations, transmission lines, a control centre and telecommunications facilities. Hydro One has approximately 308 in-service transmission stations and approximately 30,000 circuit kilometres of high voltage lines whose major components include cables, conductors and wood or steel support structures. All of these lines are overhead power lines except for approximately 270 circuit kilometres of underground cables located in certain urban areas.

B2M Limited Partnership is Hydro One's partnership with the Saugeen Ojibway Nation with respect to the Bruce-to-Milton transmission line. B2M Limited Partnership owns the transmission line assets relating to two circuits between Bruce TS and Milton TS, while Hydro One owns the transmission stations where the lines terminate. Hydro One maintains and operates the Bruce-to-Milton line. Hydro One has a 66% economic interest in the partnership.

Hydro One's transmission network is managed from a central location. This centre monitors and controls the Company's entire transmission network, and has the capability to remotely monitor and operate transmission equipment, respond to alarms and contingencies and restore and reroute interrupted power. There is also a backup facility which would be staffed in the event of an evacuation of the centre.

Hydro One uses telecommunications systems for the protection and operation of its transmission and distribution networks. These systems are subject to very stringent reliability and security requirements, which help the Company meet its reliability obligations and facilitate the restoration of power following service interruptions.

In 2016, Hydro One completed the acquisition of Great Lakes Power, an Ontario regulated transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario. The total purchase price for Great Lakes Power was approximately \$376 million, including the assumption of approximately \$150 million in outstanding indebtedness. On January 16, 2017, Great Lakes Power's name was changed to Hydro One Sault Ste. Marie LP. See "General Development of the Business - Chronological Development of the Business - 2016 - Acquisition of Great Lakes Power".

Regulation

Transmission Rate Setting

As discussed under "Rate-Regulated Utilities", transmission rate setting in Ontario has changed. The OEB has created two new revenue plan options: the Custom Incentive Rate Setting Plan (the "**Custom IR Method**") and the Incentive Index Rate Setting Plan (the "**Revenue Cap Index**").

Under the Custom IR Method, the revenue requirement is adjusted through the rate term using a custom index proposed by the transmitter to reflect forecasts, and internal and external benchmarking evidence.

Under the Revenue Cap Index the first year's revenue requirement reflects the transmitter's cost of service, and annually thereafter, this amount is subject to a formulaic increase reflecting productivity and stretch commitments proposed by the transmitter. Revenue Cap Index applicants can request incremental capital funding.

The OEB sets transmission rates based on a two-step process. First, all transmitters apply to the OEB for the approval of their revenue requirements. Second, the OEB aggregates the total revenue requirements of all transmitters in Ontario and applies a formula to arrive at a single set of rates that are charged to ratepayers for the three types of transmission services applicable in Ontario, namely: network services, line connection services and transformation connection services. The three separate rates charged for these services are the same for all transmitters and are referred to as "uniform transmission rates". Uniform transmission rates for all transmitters are set by the OEB on an annual basis, using the revenue requirements set out in the most recent rate decision issued for each transmitter.

The updated filing requirements for transmitters mandate that steps be made towards the integration of core RRF concepts into revenue requirement applications. Transmitters applying for revenue requirements under the Custom IR Method or Revenue Cap Index must include (i) evidence of the continuous improvement and efficiency gains anticipated to be achieved over the rate term; (ii) a mechanism to protect ratepayers in the event of earnings significantly in excess of the regulatory net income supported by the return on equity established in the approved revenue requirement; and (iii) proposed performance metrics applicable to their individual circumstances. A key component of rate-setting under the RRF is benchmarking evidence to support cost forecasts and system planning proposals.

A transmitter must apply for the approval of its revenue requirement for an initial base year covered by the rate decision. The revenue requirement for subsequent years is determined based on a formula that accounts for inflation and certain productivity factors set by the regulator. The revenue requirement in these subsequent years is set on the assumption that the transmitter will achieve efficiency or productivity improvements to offset the productivity factor imposed by the regulator.

Recent Transmission Rate Applications

Hydro One Networks Inc., B2M Limited Partnership and Hydro One Sault Ste. Marie LP (formerly Great Lakes Power) file separate applications to the OEB for the approval of their revenue requirements for transmission services.

Hydro One Networks Inc.

In January 2015, the OEB approved Hydro One Networks Inc.'s 2015 transmission rate order for transmission services, which provided for a revenue requirement of \$1,477 million for 2015 and \$1,516 million for 2016 (excluding B2M Limited Partnership). These revenue requirements reflect an approved rate base of \$9,651 million, return on equity of 9.30% and deemed capital structure of 60% debt and 40% equity.

In January 2016, the OEB issued its decision and order on the 2016 transmission revenue requirement for Hydro One Networks Inc. approving a revenue requirement of approximately \$1,480 million based on an approved rate base of \$10,040 million and a return on equity of 9.19%.

In May 2016, Hydro One Networks Inc. filed a transmission rate application with the OEB for its 2017-2018 revenue requirements on a cost-of-service basis, electing to take advantage of the transition period available to transmitters before the OEB requires transmitters to choose between the two incentive-based revenue plan options. In its application, Hydro One Networks Inc. requested the OEB's approval of rates revenue requirements of \$1,505 million for 2017 and \$1,586 million for 2018.

In preparing its application for 2017-2018, Hydro One Networks Inc. carried out customer engagement and incorporated the feedback into its application. As part of the transmission rate application, Hydro One Networks Inc. also filed its proposed five-year transmission system capital plan.

In September 2017, the OEB issued its decision on Hydro One Networks Inc.'s application for transmission rate revenue requirements. Key changes arising out of the OEB's decision included: (i) reductions in planned capital expenditures of \$126 million and \$122 million respectively for 2017 and 2018, (ii) reductions in operations, maintenance and administration expenses of \$15 million each year related to compensation expenses, and (iii) reductions in estimated tax savings from the initial public offering of Hydro One Limited of \$24 million and \$26 million for 2017 and 2018, respectively. On October 10, 2017, Hydro One Networks Inc. filed a draft rate order reflecting the changes outlined in the OEB's decision.

In its decision, the OEB concluded that the net deferred tax asset resulting from the transition from the payments in lieu of tax regime under the Electricity Act to the federal and provincial tax regimes in connection with the Company's initial public offering should not accrue entirely to the Company's shareholders, but rather a portion should be shared with Hydro One Networks Inc.'s ratepayers. The OEB proposed a basis for sharing a portion of the tax savings resulting from the deferred tax asset with Hydro One Networks Inc.'s ratepayers by reducing the amount of taxes approved for recovery in Hydro One Networks Inc.'s 2017-2018 transmission rates. On November 9, 2017, the OEB issued a decision and order that established the portion of the tax savings that should be shared with Hydro One Networks Inc.'s ratepayers, based on its initial decision.

Hydro One Networks Inc. has filed with the OEB a motion to review and vary the OEB's decision, and has filed an appeal with the Divisional Court of Ontario. The motion, among other things, seeks allocation to the Company's shareholders of the full amount of the future tax savings arising from the deferred tax asset. In both the motion and the appeal, Hydro One Networks Inc.'s position is that the OEB made errors of fact and law in its determination of the allocation of the tax savings between the Company's shareholders and Hydro One Networks Inc.'s ratepayers. On December 19, 2017, the OEB granted a hearing of the merits of the motion which took place on February 12, 2018.

If the OEB's decisions are upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million (as further described below), resulting in an annual decrease to funds from operation in the range of \$50 million to \$60 million.

The OEB's allocation methodology would result in an impairment of Hydro One Networks Inc.'s transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same basis for sharing the deferred tax asset in Hydro One Networks Inc.'s 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an impairment of Hydro One Networks Inc.'s distribution deferred income tax regulatory asset of up to approximately \$370 million.

In October 2017, Anwaatin Inc., as an intervenor, filed a motion to review and vary the September 28, 2017 OEB decision alleging that the OEB breached its duty of procedural fairness, failed to respond to certain evidence, and failed to provide reasons on the capital budget as it related to reliability issues impacting Anwaatin Inc.'s constituents. This motion was heard by the OEB on February 13, 2018.

On November 23, 2017, the OEB approved the 2017 rates revenue requirement of \$1,438 million. On December 20, 2017, the OEB approved the 2018 rates revenue requirement of \$1,511 million, which included a \$25 million increase from the approved amount, as a result of the OEB-updated cost of capital parameters. Uniform transmission rates, reflecting these approved amounts, were approved by the OEB on February 1, 2018 to be effective as of January 1, 2018.

B2M Limited Partnership

In December 2015, the OEB approved B2M LP's revenue requirement for years 2015 to 2019, subject to annual updates in each of 2016, 2017 and 2018 to adjust its revenue requirement for the following year consistent with the OEB's updated cost of capital parameters.

In December 2016, B2M Limited Partnership filed a draft rate order with a revised 2017 revenue requirement of \$34 million. On June 8, 2017, the OEB approved B2M Limited Partnership's rate order reflecting 2017 transmission revenue requirement of \$34 million.

On December 20, 2017, B2M Limited Partnership submitted an interim rates application to the OEB requesting approval for an updated revenue requirement for electricity transmission to be effective January 1, 2018. On February 1, 2018, the OEB issued its decision and rate order for 2018 uniform transmission rates declaring the 2018 uniform transmission rates as interim, as the B2M LP application for an update to its 2018 transmission revenue requirement is still under consideration by the OEB. See also the Annual MD&A under the subheading "Regulation - Electricity Rates Applications - B2M LP".

Hydro One Sault Ste. Marie LP

In December 2016, Hydro One Sault Ste. Marie LP filed an application with the OEB for 2017 transmission rates, requesting an increase to the approved 2016 revenue requirement of 1.9%. On September 28, 2017, the OEB issued its decision and order in Hydro One Sault Ste. Marie LP's 2017 transmission rates application, denying the requested revenue requirement for 2017. Hydro One Sault Ste. Marie LP's 2016 approved revenue requirement of \$41 million remained in effect for 2017.

Reliability Standards for Transmission

The Company's transmission business is required to comply with various mandatory regulations for transmission reliability, including mandatory standards, directories and market rules established by NERC, NPCC, and the IESO, which are international, regional and Ontario reliability regulatory authorities, respectively, involved in regulating, promoting and otherwise improving the reliability of transmission networks in North America. Hydro One's compliance with these reliability regulations is enforced by both the IESO and the National Energy Board.

Among the various regulations, NERC has established a set of currently enforced standards and continues to issue new and revised standards to ensure that utilities and other users, owners and operators of the bulk electricity system in North America implement and sustain preventive, detective and corrective measures to mitigate cyber and physical security risks to critical infrastructure. Hydro One's physical, electronic and information security measures have been and are being upgraded to meet these revised requirements. Hydro One expects to continue to perform additional work and incur further costs to comply with these and other reliability requirements. Hydro One anticipates that these costs will be incurred annually over a number of years and will be recovered in rates. See the Annual MD&A under the subheadings "Risk Management and Risk Factors - Risks Relating to Hydro One's Business - Compliance with Laws and Regulations", " - Risk Associated with Information Technology Infrastructure and Data Security" and " - Risks Relating to Asset Condition and Capital Projects" for more information.

Regional Planning

The OEB oversees regional planning processes to ensure that transmission and distribution investments are coordinated at a regional level. The OEB has indicated it will rely on regional planning studies and reports to support rate applications submitted by transmitters and distributors and "leave to construct" applications submitted by transmitters. In Ontario, the regional planning process is led by the transmitter responsible for a particular geographic region. For this purpose, the province is divided into 21 regions. As the largest transmitter in Ontario, Hydro One plays a key role in the regional planning process and is responsible for leading the regional planning process in 20 of the 21 designated regions. The first cycle of the regional planning process was completed in 2017. The second cycle of the regional planning process is currently in progress. Once a transmission and distribution infrastructure plan is finalized, the transmitter responsible for each region will take steps to implement the recommended transmission investments and distributors in the region will implement the recommended distribution investments in their respective service territories.

In conducting regional planning, Hydro One works closely with the IESO and all distributors in the region to jointly identify needs and develop transmission and distribution investment options. Hydro One also coordinates with the IESO on its Integrated Regional Resource Planning process.

Capital Expenditures

The Company anticipates that it will spend approximately \$1,010 million to \$1,486 million per year, over the next five years, on capital expenditures relating to its transmission business. The Company's capital expenditure plans are included in Hydro One's applications to the OEB for transmission rates. See

“Capital Investments - Future Capital Investments” in the Annual MD&A for more information on future capital expenditures.

The Company incurs both sustaining capital expenditures and development capital expenditures. Sustaining capital expenditures are those investments required to replace or refurbish lines or station components to ensure that transmission assets continue to function as originally designed. Hydro One’s plans to maintain, refurbish or replace existing assets are based upon risk assessments, asset condition assessments and end-of-service life criteria specific to each type of asset. Priorities are assigned to each type of investment based upon the extent of the risks that it mitigates.

Investments to sustain Hydro One’s transmission assets are critical to maintain the safety, reliability and integrity of its existing transmission network. Hydro One’s sustainment capital plan is designed to maintain Hydro One’s transmission reliability performance, as determined by measures such as the average length (in minutes) of unplanned interruptions per delivery point. The Company expects that significant investments will be required in its existing infrastructure over the long term.

The Company’s development capital expenditure plan is designed to address Ontario’s changing generation profile, accommodate load growth in areas throughout Ontario and support the expected change in generation mix. Development capital expenditures include those investments required to develop and build new large-scale projects such as new transmission lines and stations and smaller projects such as transmission line or station reinforcements, extensions or additions.

The Company engages with various stakeholders, including its customers, as it develops its capital plans. It also engages affected communities and parties who may be impacted by individual projects. The Company also consults with Indigenous communities whose rights may be affected by its projects.

Competitive Conditions

Within our principal market of Ontario, the Company operates and maintains substantially all of the transmission system. Competition for transmission services in Ontario is currently limited. The adoption by the OEB of uniform transmission rates that apply to all transmitters also reduces the financial incentive for customers to seek alternative transmission providers, since each transmitter in Ontario charges the same uniform rate for transmission services. Hydro One competes with other transmitters for the opportunity to build new large-scale transmission facilities in Ontario. As an example, Hydro One Networks Inc. filed a section 92 application with the OEB in February 2018 to design, build and operate the new East-West Tie transmission line. Management believes that Hydro One is well-positioned to pursue the development of such facilities. However, the competitive process was amended by the proclamation of the Energy Statute Law Amendment Act to allow for the selection of a transmitter outside the existing competitive process. The 2017 Long-Term Energy Plan directs the IESO to develop a transmission procurement process that is clear, cost-effective, efficient and able to respond to changing policy, market and system needs. See “The Electricity Industry in Ontario - Recent Legislative Amendments Affecting the Electricity Industry Generally - Energy Statute Law Amendment Act” and “ - Ontario 2017 Long-Term Energy Plan” for more information.

Hydro One does not compete with other transmitters with respect to investments which are made to sustain or develop its existing transmission infrastructure. See Annual MD&A under the heading “Regulation – Other Applications”.

Distribution Business

Overview

Hydro One’s distribution business consists of owning, operating and maintaining Hydro One’s distribution system, which Hydro One, through Hydro One Inc., owns primarily through its wholly-owned subsidiary, Hydro One Networks Inc., the largest local distribution company in Ontario. The Company’s distribution system is also the largest in Ontario. The Company’s distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that are subject to approval by the OEB. The Company’s distribution rates are generally determined using a performance-based model, except for the distribution rates of Hydro One Remote Communities Inc., which are set on a cost-recovery basis and do not include a return on equity.

Hydro One’s distribution business represented approximately 36% of its total assets as at December 31, 2017, and accounted for approximately 48% of its total revenue in 2017, net of purchased power and 47% of its total revenue in 2016, net of purchased power. Hydro One’s distribution business also includes the business of its wholly-owned subsidiary, Hydro One Remote Communities Inc., which supplies electricity to customers in remote communities in northern Ontario. Distribution revenues include distribution rates approved by the OEB and amounts to reimburse Hydro One for the cost of purchasing electricity delivered to its distribution customers. Distribution revenues also include minor ancillary service revenues, such as fees related to the joint use of the Company’s distribution poles by participants in the telecommunications and cable television industries, as well as miscellaneous charges such as charges for late payments.

As at December 31, 2017, Hydro One’s distribution assets were approximately \$9 billion.

Business

Hydro One delivers electricity through its distribution network to over 1.3 million residential and business customers, most of whom are located in rural areas, as well as 51 local distribution companies (including Hydro One’s own distribution business).

Hydro One’s distribution system includes approximately 123,000 circuit kilometres of primary low-voltage distribution lines and approximately 1,000 distribution and regulating stations. Other distribution assets include poles, transformers, service centres and equipment.

Hydro One’s distribution system services a predominantly rural territory. As a result of the lower population density in the Company’s service territory, the Company’s costs to provide distribution services may be higher than those of distributors who service urban areas. Furthermore, unlike the distribution systems found in urban areas, most of Hydro One’s distribution system was not designed with redundancy, to be interconnected in loops with other distribution lines, with the result that interruptions

experienced at any point along a distribution line in Hydro One's network can cause all customers downstream of the interruption point to lose power. Accordingly, the reliability of Hydro One's distribution system is lower than that of local distribution companies which service urban territories that typically have redundancy built into their systems. The Company engages in vegetation management activities to maintain the reliability of Hydro One's distribution system on a preventive basis and to protect public health and safety. This consists of the trimming or removal of trees to lower the risk of contact with distribution lines, thereby reducing the risk of power outages, and preventing potential injury to the public or employees. The Company's monitoring systems assist with determining areas of priority and with system restoration. The Company relies on its local line crews for these restoration activities.

Hydro One's distribution business is involved in the connection of new sources of electricity generation, including renewable energy. Hydro One invests in upgrades and modifications to its distribution system to accommodate these new sources of generation and ensure the continued reliability of its distribution network. As at December 31, 2017, there were approximately 16,000 small, mid-size and large embedded generators connected to Hydro One's distribution network, including approximately 15,000 generators with capacities of up to 10 kW. As at December 31, 2017, Hydro One also had approximately 2,000 generators pending connection.

Hydro One has played a significant role in the installation of smart meters and the migration of distribution customers to time of use pricing in Ontario. Smart meters are regarded as an integral means of promoting a culture of conservation, and they allow customers to change their electricity consumption patterns and reduce their costs. Hydro One has completed all material activities associated with the implementation of smart meters, and has transitioned the vast majority of its customers to time of use pricing.

Acquisitions

Agreement to Acquire Orillia Power

In August 2016, the Company reached an agreement to acquire Orillia Power, an electricity distribution company located in Simcoe County, Ontario, for approximately \$41 million, including the assumption of approximately \$15 million in outstanding indebtedness and regulatory liabilities, subject to closing adjustments. The acquisition is subject to regulatory approval by the OEB. On July 27, 2017, the OEB issued Procedural Order No. 6 ("**Procedural Order**") which stated that the OEB has decided to delay a decision on the Orillia Power application until Hydro One defends its cost allocation proposal in the 2018-2022 distribution application hearing. On August 14, 2017, Hydro One filed a motion to review and vary the Procedural Order requesting the OEB to allow the Orillia Power application to proceed immediately in the ordinary course. On January 4, 2018, the OEB issued its decision and order, referring the matter back to the panel on the application. On February 5, 2018, the OEB issued another procedural order, directing the parties to file evidence or submissions on their expectations of the overall cost structures following the deferred rebasing period and the effect on Orillia Power customers. Hydro One Networks Inc. and the City of Orillia filed their submissions on February 15, 2018, and they now await the OEB's decision as to whether the OEB will approve the acquisition, deny it, or require additional evidence.

Regulation

Distribution Rates

Distribution rates in Ontario are determined using a performance-based model set out in the OEB's *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, which is sometimes referred to as the "RRF". Under the RRF, distributors in Ontario may choose one of three rate-setting methods, depending on their capital requirements: 4th Generation Incentive Rate-Setting (now known as Price Cap IR), Custom Incentive Rate-Setting, or Annual Incentive Rate-Setting Index.

The RRF contemplates that a distributor will apply for the approval of its revenue requirement for an initial base year covered by the rate decision. The revenue requirement for subsequent years is determined based on a formula that accounts for inflation and certain productivity factors set by the regulator. The revenue requirement in these subsequent years is set on the assumption that the distributor will achieve efficiency or productivity improvements to offset the productivity factor imposed by the regulator. The RRF allows the distributor to retain all or a portion of the cost savings achieved in excess of the estimate established by the regulator during the period covered by the rate decision. This allows the distributor an ability to earn more than its allowed return on equity. The RRF provides incentives for distributors to achieve certain performance outcomes, namely: customer focus, operational effectiveness, public policy responsiveness and financial performance. The OEB has indicated that customer focused outcomes and continuous performance improvements by distributors are central to the RRF framework objectives. The OEB has further indicated that distributors should develop plans that respond to customer service needs.

A distributor must submit proposed performance measures as part of its application for distribution rates under the RRF. Distributors may also propose their own performance measures for approval by the OEB. In its most recent distribution application, Hydro One submitted eight additional quantitative measures relating to areas that will be the subject of increased spending levels over the next few years, such as pole replacements, distribution station refurbishments and vegetation management. Distributors are required to report to the OEB on their performance against the performance measures approved as part of their most recent rate decision.

The OEB's review process of the anticipated cost of service for providing distribution services under the RRF follows a process similar to that of a transmission rate application. Once the revenue requirement for distribution services is determined, it is allocated across the distributor's customer rate classes using a methodology approved by the OEB resulting in the setting of individual rates for distribution services based on each customer rate class. Hydro One currently has 13 customer rate classes. Distribution rates in Ontario are not the same for all distributors and reflect the particular circumstances of each distributor, including its own costs of providing electricity service to its own particular customers. The OEB policy, *A New Distribution Rate Design for Residential Electricity Customers*, changes the current distribution rate design for residential customers (a combination of a fixed monthly rate and a variable charge) to a fixed monthly charge only. In December 2015, the OEB increased the transition period for certain customer classes of Hydro One Networks Inc. to eight years to mitigate bill impacts. Implementation will be completed over the next two to six years for Hydro One Networks Inc.'s residential customers.

The OEB has also initiated a working group to consider possible changes to the design of rates for commercial industrial customers. Changes to rate design will not impact the total revenue to be collected from these customer classes.

Recent Distribution Rate Applications

The Company's distribution rates, other than the distribution rates of Hydro One Remote Communities Inc., are determined by using a performance-based model.

Hydro One Networks Inc.

In March 2015, the OEB issued a decision regarding Hydro One Networks Inc.'s distribution rates for the three-year period from 2015 to 2017, providing for a revenue requirement of \$1,326 million for 2015, \$1,430 million for 2016 and \$1,486 million for 2017.

In December 2016, the OEB issued its decision and order approving Hydro One Networks Inc.'s distribution rates effective January 1, 2017. The overall impact of this decision was a reduction of the proposed 2017 revenue requirement to approximately \$1,415 million from \$1,486 million. The 2017 revenue requirement reflects an approved rate base of \$7,190 million, return on equity of 8.78% and a deemed capital structure of 60% debt and 40% equity. The overall impact of the 2017 rates is a reduction in distribution delivery charges for most residential customers.

In March 2017, Hydro One Networks Inc. filed an application with the OEB for its 2018-2022 distribution rates. The application reflects the level of capital investments required to minimize degradation in overall system asset condition, to meet regulatory requirements, and to maintain current reliability levels. On November 17, 2017, Hydro One Networks Inc. filed with the OEB a request for interim rates based on current OEB-approved rates, adjusted for an updated load forecast. On December 1, 2017, the OEB denied this request and set interim rates based on current OEB-approved rates with no adjustments.

In an update to its 2018-2022 distribution application filed on December 21, 2017, Hydro One Networks Inc. described the impact on the proposed revenue requirement of various developments since initially filing its application. These included, without limitation, the updated cost of capital parameters and inflation factor for 2018 issued by the OEB, and reductions in the 2018 operating, maintenance and administrative forecast and 2018-2022 capital forecasts.

In March 2018, the OEB approved the continuation of the transition towards fully fixed distribution rates for residential customers, updates to the rates used to recover transmission charges and clearance of balances in certain deferral and variance accounts for the former Haldimand Hydro, Woodstock Hydro and Norfolk Hydro. Hydro One Networks Inc. will be filing a rate order which reflects the findings of the OEB's decision approving the 2018 rates.

In August 2017, Hydro One Remote Communities Inc. filed an application seeking approval of the 2018 revenue requirement and customer rates for the distribution and generation of electricity, in the Hydro One Remote Communities service area, to be implemented on May 1, 2018. Hydro One Remote Communities Inc.'s business is exempt from a number of sections of the Electricity Act which relate to the competitive market. For example, Hydro One Remote Communities Inc. continues to apply bundled rates to customers in remote communities. Hydro One Remote Communities Inc.'s business is operated on a break-even basis, without a return on equity included in rates. As a result, any net income or loss in the year related to the regulated operations of Hydro One Remote Communities Inc. is recorded in a regulatory variance account for inclusion in the calculation of future customer rates. For more information, see the Annual MD&A under the heading "Regulation - Hydro One Remotes Communities Inc."

Conservation and Demand Management

CDM requirements in Ontario require distributors to achieve specific energy savings targets by encouraging their customers to reduce their energy usage. Distributors seek to achieve these targets through a number of different initiatives, including by offering customers energy saving devices for use at home, cash rebates for the purchase of energy efficient light bulbs and other products. Incentive programs are also offered to small, medium, and large businesses, as well as industrial customers. Distributors are responsible for developing and submitting CDM plans and reporting on their progress towards achieving specific energy-savings targets. The IESO oversees compliance with CDM requirements in Ontario and also reimburses distributors for the costs of complying with CDM requirements. Hydro One expects that its costs of complying with CDM requirements will be fully reimbursed by the IESO. As a result, CDM-related costs that are reimbursed by the IESO are not included in Hydro One's rate applications to the OEB.

Distributors in Ontario are collectively required to achieve a total of 7 TWh of electricity savings by December 31, 2020, with each local distribution company being allocated individual energy-savings targets and budgets.

Hydro One Networks Inc.'s 2015-2020 CDM energy savings target is 1,255 GWh.

Hydro One entered into a joint CDM plan submission with another local distribution company in February 2017 which allows the companies to achieve a bonus of 1.5 cent/kWh if they achieve their combined allocated targets, as compared to 1 cent/kWh if each local distribution company achieved its full allocated target.

Capital Expenditures

Hydro One's asset sustainment activities are based on an assessment of asset condition. Distribution asset renewals are undertaken when assessments indicate there is a high risk of failure and where further maintenance activities are not appropriate. Capital expenditures for the Company's distribution business in the near term are anticipated to focus on new load connections, storm damage, wood pole replacement,

and system capability reinforcement. In addition, the Company expects to continue to construct new distribution lines and stations in the future in response to system growth forecasts, continued suburban community development, high load relief requirements and requirements to connect new sources of generation. The Company expects that it will spend approximately \$641 million to \$805 million per year over the next five years on capital expenditures relating to its distribution business.

Hydro One is continuing to modernize its distribution system through the deployment of smart devices (including remotely controllable switches and breakers as well as faulted circuit indicators) as power system assets are renewed. Hydro One is also implementing a new Distribution Management System (“DMS”) at its Ontario Grid Control Centre. The DMS will enable distribution components to be monitored and controlled, perform real-time analysis and determine, with greater precision, the location of equipment failures. Additional functionality is planned, in future, to allow field staff to view system conditions remotely in real-time. Smart metering data will also be used to deliver operational and asset management benefits such as better notification of outages and their scope, asset loading information and other data. For more information on future capital expenditures, see the Annual MD&A under the subheading “Capital Investments - Future Capital Investments”.

Competitive Conditions

Hydro One’s distribution service area is set out in its licence issued by the OEB. Only one distributor is permitted to provide distribution services in a service territory, and distributors have exclusive rights to provide service to new customers located within their service territory. As a result, there is very little direct competition for distribution services in Ontario, except near the borders of adjoining service territories, where a distributor may apply to the OEB to claim the right to serve new customers who are not currently connected to its distribution grid.

In 2017, the Company eliminated load transfer arrangements with local distribution companies as directed by the OEB. As a result, some of the Company’s customers have been transferred to the adjacent local distribution companies and other customers have been added to the Company’s customer base.

To create more efficiency in the distribution sector, the Province has endorsed the need for faster consolidation among local distribution companies in Ontario, resulting in competition for acquisition or merger opportunities. Potential acquirers may include strategic and financial buyers, in addition to other local distribution companies. Management believes that Hydro One is well-positioned to continue to pursue consolidation opportunities. However, as consolidation within Ontario has continued, competition for remaining consolidation opportunities has increased.

Other Business

Hydro One’s other business segment consists principally of its telecommunications business, which provides telecommunications support for the Company’s transmission and distribution businesses, as well as certain corporate activities including a deferred tax asset. The telecommunication business is carried out by its wholly-owned subsidiary Hydro One Telecom Inc. It also offers communications and information technology solutions to organizations with broadband network requirements utilizing Hydro

One Telecom Inc.'s fibre optic network to provide diverse, secure and highly reliable connectivity, in a competitive commercial market

Hydro One Telecom Inc. is not regulated by the OEB. However, Hydro One Telecom Inc. is registered with the Canadian Radio-television and Telecommunications Commission as a non-dominant, facilities-based carrier, providing broadband telecommunications services in Ontario with connections to Montreal, Quebec, Buffalo, New York and Detroit, Michigan.

The other business segment represented approximately 11% of Hydro One's total assets as at December 31, 2017, and accounted for approximately 1% of its total revenue in 2017, net of purchased power and approximately 2% of its total revenue in 2016, net of purchased power. The deferred tax asset arose on the transition from the provincial payments in lieu of tax regime to the federal tax regime in connection with the Company's initial public offering and reflects the revaluation of the tax basis of Hydro One's assets to fair market value.

Indigenous Communities

Hydro One believes that building and maintaining respectful, positive and mutually beneficial relationships with Indigenous communities across the province is important to achieving the Company's corporate objectives. Hydro One is committed to working with Indigenous communities in a spirit of cooperation, partnership and shared responsibility. Hydro One's equity partnership with the Saugeen Ojibway Nation in respect of the Bruce-to-Milton transmission line demonstrates the Company's commitment to these principles. In keeping with the Company's Indigenous Relations Policy, Hydro One's Indigenous Relations team provides guidance and advice to support the Company in developing and advancing positive relationships. Hydro One also has several programs related to Indigenous communities and their citizens. These include educational and training opportunities which provide opportunities for work terms, Indigenous procurement partnership agreements along with community investments, customer support and outreach. Together, Hydro One Networks Inc. and Hydro One Remote Communities Inc. serve approximately 100 First Nation communities.

The Company's Health, Safety, Environment and Indigenous Peoples Committee of the Board is responsible for assisting the Board in discharging the Board's oversight of responsibilities relating to effective occupational health and safety and environmental policies and practices at Hydro One, and its relationship with Indigenous communities.

Outsourced Services

Hydro One has outsourced certain non-core functions, including facilities management services with respect to its stations and other facilities, and certain back-office services such as information technology, payroll, supply chain and accounting services. The Company's back-office services are provided by a third party service provider under an agreement that expires on February 28, 2021 for information technology services, and on December 31, 2019 for back-office services. The agreement relating to the Company's information technology services was amended effective March 1, 2018, and extended for 14 months. The Company has an option to renew the agreement in relation to the non-information technology services for two additional terms of approximately one year each. The Company's call centre

services were previously provided by a third party service provided under an agreement that expired on February 28, 2018. Effective March 1, 2018, Hydro One insourced these call centre services. The Company's facilities management services are provided by a third party service provider under an agreement that expires on December 31, 2024 with an option for the Company to renew the agreement for an additional term of three years.

Employees

As at December 31, 2017, Hydro One had approximately 7,400 regular and non-regular employees province-wide comprised of a mix of skilled trades, engineering, professional, managerial and executive personnel. Hydro One's regular employees are supplemented primarily by accessing a large external labour force available through arrangements with the Company's trade unions for variable workers, sometimes referred to as "hiring halls", and also by access to contract personnel. The hiring halls offer Hydro One the ability to access highly trained and appropriately skilled workers on a project-by-project basis. This provides the Company with more flexibility to address seasonal needs and unanticipated changes to its budgeted work programs. The Company also offers apprenticeship and technical training programs to ensure that future staffing needs will continue to be met.

For more information on employees, see the Annual MD&A under the heading "Hydro One Work Force".

Health, Safety and Environmental Management

Hydro One has an integrated Health, Safety and Environment Management System that includes key elements for the successful minimization of risk and continued performance improvements. Health, safety and environmental hazards and risks are identified and assessed and controls are implemented to mitigate significant risks. The Company has policies in place regarding Health and Safety, Environment, Workplace Violence and Harassment and Public Safety.

Hydro One Networks Inc. is a designated "Sustainable Electricity Company" by the Canadian Electricity Association. The brand demonstrates Hydro One's commitment to responsible environmental, social and economic practices, and to the principles of sustainable development.

Given the nature of the work undertaken by Hydro One employees, health and safety remains one of the Company's top priorities. 'Safety comes first' is one of Hydro One's core values. The Company has developed and is continuing to develop a number of programs and initiatives for accident prevention and to minimize the risk of injury to the public associated with its facilities and operations.

Measures are in place to monitor, on a regular basis, health, safety and environment performance using proactive and reactive measures and/or qualitative and quantitative measures. Since 2004, the evolution of Hydro One's recordable rate, its key health and safety performance measure, has seen a reduction of approximately 84% in the number of recordable rate incidents. All measures are monitored by management and by the Health, Safety, Environment and Indigenous Peoples Committee. Management compensation has been tied, in part, to success in achieving annual health and safety performance targets. A program allowing for an effective early and safe return to work has allowed the Company to ensure that, when injuries occur, employees recover and return to the workplace as soon as possible.

In 2017, Hydro One continued with its “Journey to Zero” safety initiative that began in 2009. This initiative compares Hydro One to other companies to identify performance gaps. Safety perception assessments were completed in 2009, 2013, 2015 and 2017. The assessment identified opportunities for improvement and forms the development of new health and safety initiatives using cross-functional teams from across the province.

Environmental Regulation

Hydro One is subject to extensive federal, provincial and municipal regulation relating to the protection of the environment that governs, among other things, environmental assessments, discharges to water and land and the generation, storage, transportation, disposal and release of various hazardous substances. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimated changes are accounted for prospectively.

Permits and Approvals

The Company is required to obtain and maintain specified permits and approvals from federal, provincial and municipal authorities relating to the design, construction and operation of new and upgraded transmission and distribution facilities. Examples include environmental assessment approvals, permits for facilities to be located in parks or other regulated areas, water crossing permits, and approvals to discharge to air and water. Some projects may require environmental approvals from the federal government. Interconnections with neighbouring utilities in other provinces and states also require federal approval and will be subject to federal regulatory review.

In general, larger projects are subject to an individual environmental assessment process, pursuant to the Environmental Assessment Act. The majority of approvals fall under a class environmental assessment process which provides for more streamlined approvals. The scope, timing and cost of environmental assessments are dependent on the scale and type of project, the location (urban versus rural), the environmental sensitivity of affected lands and the significance of potential environmental effects.

Regulation of Releases

Federal, provincial and municipal environmental legislation regulates the release of specific substances into the environment through the prohibition of discharges that will or may have an adverse effect on the environment, which can include liquids, gasses and noise. Releases occur in the course of the Company’s normal operations. Accordingly, Hydro One has spill, leak prevention and leak mitigation programs involving the testing, replacement, repair and installation of containment systems including re-gasketing of transformers and sulphur-hexafluoride-filled equipment. In addition, the Company has an emergency response capability which the Company believes is sufficient to minimize the environmental impact of spills and to comply with its legal obligations.

Pursuant to the Climate Change Mitigation and Low-carbon Economy Act, the Province introduced a cap and trade program in Ontario beginning January 1, 2017. For more information, see “The Electricity

Hazardous Substances

Hydro One manages a number of hazardous substances, such as PCBs, herbicides, and wood preservatives. In addition, some facilities have substances present which are designated for special treatment under occupational health and safety legislation, such as asbestos, lead and mercury. The Company has environmental management programs in place to deal with PCBs, herbicides, asbestos, and other hazardous substances.

Land Assessment and Remediation

Hydro One has a pro-active land assessment and remediation program in place to identify and, where necessary, remediate historical contamination that has resulted from past operational practices and uses of certain long-lasting chemicals at the Company’s facilities. These programs involve the systematic identification of contamination at or from these facilities and, where necessary, the development of remediation plans for the Company’s properties and affected adjacent private properties. As at December 31, 2017, future expenditures related to Hydro One’s land assessment and remediation program were estimated at approximately \$64 million. These expenditures are expected to be spent over the period ending 2044. Additional acquisitions could add to land assessment and remediation expenditures. The expenditures on this program for 2017 were approximately \$8 million. These costs are expected to be recovered in the Company’s transmission and distribution rates.

Insurance

Hydro One maintains insurance coverage, including liability, all risk property, boiler and machinery and directors’ and officers’ insurance. The Company also maintains other insurance coverage that is required by law, covering risks such as automobile liability, pesticide liability and aircraft liability. The Company does not have insurance for damage to its transmission and distribution wires, poles or towers located outside transmission and distribution stations, including damage caused by severe weather, other natural disasters or catastrophic events or for environmental remediation costs. The OEB has generally permitted the recovery of costs associated with extreme weather events, such as the ice storm that occurred in 1998.

Ombudsman

The role of the ombudsman is to facilitate resolution of complaints by customers of the Company that remain unresolved after having been processed through the Company’s complaints handling process. The ombudsman is an impartial and independent investigator, who makes recommendations to facilitate the resolution of both individual and systemic issues with a view to achieving a resolution that is fair to both the customer and the Company. The main purposes of the ombudsman are to address procedural and substantive unfairness, handle unresolved complaints, conduct systemic reviews that will lead to improvements in programs and systems, support the Company in holding its employees accountable for carrying out the Company’s directives and their responsibilities, and support the Board in its mandate to govern in a just, fair, and equitable manner. The ombudsman also works with the OEB to maintain

integrated procedures for liaising with the Company and inquiring into matters raised by customers with the ombudsman. The ombudsman is an office of last resort within the Company.

Reorganizations

In 2015, prior to the closing of the initial public offering of Hydro One Limited, Hydro One completed a series of transactions resulting in, among other things, the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One Inc. and the issuance of new common shares and preferred shares of Hydro One Limited to the Province. The Province then sold a portion of its common shares of Hydro One Limited pursuant to the initial public offering. A series of pre-closing steps occurred, including:

On October 31, 2015, Hydro One Inc. repurchased its existing preferred shares held by the Province for cancellation at a price equal to the redemption price of the preferred shares (being equal to approximately \$323 million) satisfied by the issuance to the Province of common shares of Hydro One Inc. having an aggregate fair market value equal to the price to be paid for the preferred shares.

All of the issued and outstanding common shares of Hydro One Inc. were acquired by Hydro One Limited in return for the issuance to the Province of 12,197,500,000 common shares and 16,720,000 Series 1 preferred shares of Hydro One Limited.

Hydro One Inc. and certain of its subsidiaries were required to pay a \$2.6 billion “departure tax” to the Ontario Electricity Financial Corporation as a consequence of the initial public offering.

The outstanding common shares of Hydro One Limited were consolidated such that 595,000,000 common shares were issued and outstanding immediately prior to the closing of the initial public offering.

Under applicable Canadian securities laws, the acquisition of all of the issued and outstanding shares of Hydro One Inc. was considered a “significant acquisition”. Hydro One Limited filed a business acquisition report in respect of the acquisition on January 14, 2016. See also “General Development of the Business - Chronological Development of the Business - 2015 - Acquisition of Hydro One Inc.” for more information.

In July 2017, Hydro One reached an agreement to acquire Avista Corporation in a transaction which is expected to be a “significant acquisition” for purposes of applicable securities laws. The closing is expected to occur in the second half of 2018, subject to certain regulatory and government approvals, and the satisfaction of customary closing conditions. See “General Development of the Business - Chronological Development of the Business - 2017 - Acquisition of Avista Corporation”.

RISK FACTORS

A discussion of Hydro One Limited’s risk factors can be found under the heading “Risk Management and Risk Factors” in the Annual MD&A.

DIVIDENDS

The Company did not declare or pay cash dividends in 2015. The Company declared and paid cash dividends to common shareholders and holders of Series 1 preferred shares in 2016 and beyond as follows:

Common Shares				
Fiscal Year	Date Declared	Record Date	Payment Date	Amount per Common Share
2016	February 11 ⁽¹⁾	March 17	March 31	\$0.34
	May 5	June 14	June 30	\$0.21
	August 11	September 14	September 30	\$0.21
	November 10	December 14	December 30	\$0.21
	February 9	March 14	March 31	\$0.21
2017	February 9	March 14	March 31	\$0.21
	May 3	June 13	June 30	\$0.22
	August 8	September 12	September 29	\$0.22
	November 9	December 12	December 29	\$0.22
2018	February 12	March 13	March 29	\$0.22
Series 1 Preferred Shares				
2016	February 11	N/A	February 22	\$0.32602739
	May 5	N/A	May 20	\$0.265625
	August 11	N/A	August 22	\$0.265625
	November 10	N/A	November 21	\$0.265625
2017	February 9	N/A	February 21	\$0.265625
	May 3	N/A	May 23	\$0.265625
	August 8	N/A	August 21	\$0.265625
	November 9	N/A	November 20	\$0.265625
2018	February 12	N/A	February 20	\$0.265625

Note:

(1) This was the first common share dividend declared by the Company following the completion of its initial public offering in November 2015. The \$0.34 per share dividend included \$0.13 for the post-IPO period from November 5 to December 31, 2015, and \$0.21 for the quarter ended March 31, 2016.

Dividend Policy

The Board has established a dividend policy pursuant to which Hydro One Limited expects to pay an annualised dividend amount on its common shares, based on a target payout ratio of 70% to 80% of net income. The amount and timing of any dividends payable by Hydro One Limited will be at the discretion of the Board and will be established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant.

The preferred shares of Hydro One Limited are entitled to a preference over the common shares with respect to the payment of dividends. Other than the foregoing, there is currently no restriction that would prevent the Company from paying dividends at current levels.

For more information on dividends, see the notes to the audited consolidated financial statements of Hydro One Limited as at and for the years ended December 31, 2017 and 2016.

Dividend Reinvestment Plan

On February 11, 2016, the Board approved the creation of a Dividend Reinvestment Plan which is currently in place. The Dividend Reinvestment Plan enables eligible shareholders to have their regular quarterly cash dividends automatically reinvested in additional Hydro One common shares acquired on the open market.

DESCRIPTION OF CAPITAL STRUCTURE

General Description of Capital Structure

The following description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of Hydro One Limited' s articles, as they may be amended from time to time.

Hydro One Limited' s authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2017, there were 595,386,711 common shares, 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

Common Shares

Holders of common shares are entitled to receive notice of and to attend all meetings of shareholders, except meetings at which only the holders of another class or series of shares are entitled to vote separately as a class or series, and holders of common shares are entitled to one vote per share at all such meetings of shareholders. Hydro One Limited' s common shares are not redeemable or retractable. Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares, including the Series 1 preferred shares and Series 2 preferred shares, holders of common shares are entitled to receive dividends if, as, and when declared by the Board. Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares, including the Series 1 preferred shares and Series 2 preferred shares, holders of common shares are also entitled to receive the remaining assets of Hydro One Limited upon its liquidation, dissolution or winding-up or other distribution of Hydro One Limited' s assets for the purposes of winding-up its affairs. See "Dividends - Dividend Policy" for a description of Hydro One Limited' s dividend policy.

The Voting Securities of Hydro One Limited, which include the common shares, are subject to share ownership restrictions under the Electricity Act and certain other provisions contained in the articles of Hydro One Limited related to the enforcement of those share ownership restrictions. The share ownership

restrictions provide that no person or company (or combination of persons or companies acting jointly or in concert), other than the Province or an underwriter who holds Voting Securities solely for the purposes of distributing them to purchasers who comply with the share ownership restrictions, may beneficially own or exercise control or direction over more than 10% of any class or series of Voting Securities of Hydro One Limited.

Preferred Shares

Hydro One Limited may from time to time issue preferred shares in one or more series. Prior to issuing shares in a series, the Board is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of preferred shares.

Subject to the OBCA, holders of Hydro One Limited's preferred shares or a series thereof are not entitled to receive notice of, to attend or to vote at any meeting of the shareholders of Hydro One Limited except that votes may be granted to a series of preferred shares when dividends have not been paid on any one or more series as determined by the applicable series provisions. Each series of preferred shares ranks on parity with every other series of preferred shares with respect to dividends and the distribution of assets and return of capital in the event of the liquidation, dissolution or winding up of Hydro One Limited. The preferred shares are entitled to a preference over the common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and the distribution of assets and return of capital in the event of the liquidation, dissolution or winding up of Hydro One Limited.

Series 1 Preferred Shares and Series 2 Preferred Shares

For the period commencing from October 31, 2015, and ending on and including November 19, 2020, the holders of Series 1 preferred shares will be entitled to receive fixed cumulative preferential dividends of \$1.0625 per share per year, if and when declared by the Board, payable quarterly on the 20th day of November, February, May and August in each year. The dividend rate will reset on November 20, 2020 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.53%. The Series 1 preferred shares will not be redeemable by Hydro One Limited prior to November 20, 2020, but will be redeemable by Hydro One Limited on November 20, 2020 and on November 20 every fifth year thereafter at a redemption price equal to \$25.00 for each Series 1 preferred share redeemed, plus any accrued or unpaid dividends. The holders of Series 1 preferred shares will have the right, at their option, on November 20, 2020 and on November 20 every fifth year thereafter, to convert all or any of their Series 1 preferred shares into Series 2 preferred shares on a one-for-one basis, subject to certain restrictions on conversion.

The holders of Series 2 preferred shares will be entitled to receive quarterly floating rate cumulative dividends, if and when declared by the Board, at a rate equal to the sum of the then three-month Government of Canada treasury bill rate and 3.53% as reset quarterly. The Series 2 preferred shares will be redeemable by Hydro One Limited at a redemption price equal to \$25.00 for each Series 2 preferred share redeemed if redeemed on November 20, 2025, or on November 20 every fifth year thereafter or \$25.50 for each Series 2 preferred share redeemed if redeemed on any other date after November 20, 2020, in each case plus any accrued or unpaid dividends. The holders of Series 2 preferred shares will have the right, at their option, on November 20, 2025, and on November 20 every fifth year thereafter, to

convert all or any of their Series 2 preferred shares into Series 1 preferred shares on a one-for-one basis, subject to certain restrictions on conversion.

In the event of the liquidation, dissolution or winding-up of Hydro One Limited, or any other distribution of assets of Hydro One Limited for the purpose of winding-up its affairs, the holders of Series 1 preferred shares and Series 2 preferred shares will be entitled to receive \$25.00 for each Series 1 preferred share and each Series 2 preferred share held by them, plus any unpaid dividends, before any amounts are paid or any assets of Hydro One Limited are distributed to holders of common shares and any shares ranking junior to the Series 1 preferred shares and Series 2 preferred shares. After payment of those amounts, the holders of Series 1 preferred shares and Series 2 preferred shares will not be entitled to share in any further distribution of the property or assets of Hydro One Limited.

Except as required by the OBCA, neither the holders of Series 1 preferred shares nor the holders of Series 2 preferred shares shall be entitled to receive notice of, or to attend meetings of shareholders of Hydro One Limited and shall not be entitled to vote at any such meeting, unless Hydro One Limited fails for eight quarters, whether or not consecutive, to pay in full the dividends payable on the Series 1 preferred shares or Series 2 preferred shares, as applicable, whereupon the holders of Series 1 preferred shares and Series 2 preferred shares, as applicable, shall become entitled to receive notice of and attend all meetings of shareholders, except class meetings of any other class of shares, and shall have one vote for each Series 1 preferred share or Series 2 preferred share held at such meetings, as applicable.

Convertible Debentures and Instalment Receipts

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company and its wholly-owned subsidiary, 2587264 Ontario Inc., completed the sale of \$1.54 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures of Hydro One Limited (the “**Debentures**”) represented by instalment receipts.

The Debentures were sold on an instalment basis at a price of \$1,000 per Debenture, of which \$333 was paid on the closing of the Convertible Debenture Offering and the remaining \$667 (the “**Final Instalment**”) is payable on a date to be fixed by the Company following satisfaction of all conditions precedent to the closing of the Merger (the “**Final Instalment Date**”).

Prior to the Final Instalment Date, the Debentures are represented by instalment receipts. The instalment receipts began trading on the TSX on August 9, 2017 under the symbol “H.IR”. The Debentures will not be listed. The Debentures will mature on September 30, 2027 and bear interest at an annual rate of 4.00% per \$1,000 principal amount of Debentures until and including the Final Instalment Date, after which the interest rate will be 0.00%. Based on the first instalment of \$333 per \$1,000 principal amount of Debentures, the effective annual yield to and including the Final Instalment Date is 12.00%, and the effective annual yield thereafter is 0.00%.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the closing of the Convertible Debenture Offering, holders of Debentures who had paid the Final Instalment on or before the Final Instalment Date will be entitled to receive, on the business day following the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final

Instalment Date to and including the first anniversary of the closing of the Convertible Debenture Offering had the Debentures remaining outstanding and continued to accrue interest until and including such date (the “**Make-Whole Payment**”).

No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the Closing of the Convertible Debenture Offering. Under the terms of the Instalment Receipt Agreement, the Company has agreed that until such time as the Debentures have been redeemed or the Final Instalment Date has occurred, the Company will at all times hold short-term interest bearing U.S. dollar securities with investment grade counterparties, maintain readily available capacity under the existing \$250 million operating credit facility of Hydro One (the “**Operating Credit Facility**”) or the revolving credit facilities of its subsidiaries, or have cash on hand together with available capacity, in an amount at least equal to the net proceeds of the first instalment paid on the closing of the Convertible Debenture Offering.

At the option of the holders and provided that payment of the Final Instalment has been made, each Debenture will be convertible into common shares of Hydro One Limited at any time after the Final Instalment Date, but prior to the earlier of: (i) maturity; or (ii) redemption by the Company, at a conversion price of \$21.40 per common share, being a conversion rate of 46.7290 common shares per \$1,000 principal amount of Debentures, subject to adjustment in certain circumstances.

Prior to the Final Instalment Date, the Debentures may not be redeemed by the Company, except that the Debentures will be redeemed by the Company at a price equal to their principal amount plus accrued and unpaid interest following the earlier of: (i) notification to holders of the Debentures that the conditions necessary to approve the Merger will not be satisfied; (ii) termination of the Agreement and Plan of Merger; and (iii) May 1, 2019, if notice of the Final Instalment Date has not been given to holders of the Debentures on or before April 30, 2019. Upon any such redemption, the Company will pay for each Debenture: (i) \$333 plus accrued and unpaid interest to the holder of the instalment receipt; and (ii) \$667 to 2587264 Ontario Inc., on behalf of the holder of the instalment receipt, in satisfaction of the Final Instalment. In addition, after the Final Instalment Date, any Debentures that have not been converted may be redeemed by the Company at a price equal to their principal amount plus any unpaid interest which accrued prior to and including the Final Instalment Date.

At maturity, the Company will have the option to repay the principal amount of any Debentures not converted and remaining outstanding, in cash or in common shares. In the event that Hydro One elects to repay the principal amount in common shares, such common shares will be valued at 95% of the weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending five trading days preceding the maturity date.

CREDIT RATINGS

For a description of Hydro One Limited’ s credit ratings, see the Annual MD&A under the heading “Liquidity and Financing Strategy”.

MARKET FOR SECURITIES

Trading Price and Volume

The common shares are listed on the TSX under the symbol “H”. The following table sets forth the high and low reported trading prices and the trading volume of the common shares on the TSX for each month commencing January 2017:

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
January 2017	24.49	23.49	8,368,116
February 2017	24.17	23.22	8,477,586
March 2017	24.28	23.04	11,764,543
April 2017	24.66	23.84	6,292,356
May 2017	24.15	22.63	42,296,289
June 2017	23.98	22.73	19,011,705
July 2017	23.25	21.32	17,158,684
August 2017	23.35	22.00	13,950,543
September 2017	23.27	22.50	13,793,602
October 2017	22.88	22.01	9,528,158
November 2017	23.07	22.30	9,656,987
December 2017	22.88	22.23	8,295,011
January 2018	22.45	21.55	11,826,805
February 2018	22.20	20.10	19,043,774
March 1 to March 28, 2018	21.18	20.46	13,567,375

The Series 1 preferred shares and Series 2 preferred shares of Hydro One Limited are not listed or quoted on any marketplace.

The instalment receipts are listed on the TSX under the symbol “H.IR”. The following table sets forth the high and low reported trading prices and the trading volume of the instalment receipts on the TSX for each month beginning with the partial month from August 9, 2017, being the date the instalment receipts began trading on the TSX:

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
August 9 to August 31, 2017	39.69	34.47	275,635,901
September 2017	39.45	37.25	79,360,903
October 2017	38.75	35.25	54,838,130
November 2017	39.30	36.50	57,519,933
December 2017	38.30	36.66	21,565,000
January 2018	37.40	33.75	48,324,500
February 2018	35.50	27.80	42,732,170
March 1 to March 28, 2018	32.60	30.01	15,117,000

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company and its wholly-owned subsidiary, 2587264 Ontario Inc., completed the sale of \$1.54 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures of Hydro One Limited. The debentures were sold on an instalment basis at a price of \$1,000 per debenture, of which \$333 was paid on the

closing of the Convertible Debenture Offering and the remaining \$667 is payable on a date to be fixed by the Company following satisfaction of all conditions precedent to the closing of the Merger. See “Description of Capital Structure - Convertible Debentures and Instalment Receipts”.

DIRECTORS AND OFFICERS

Directors and Executive Officers

The following table sets forth information regarding the directors and executive officers of Hydro One as of December 31, 2017. Each of the directors was first appointed on August 31, 2015. Each director is elected annually to serve for one year or until his or her successor is elected or appointed.

On January 28, 2018, Hydro One announced the appointment of Paul Dobson as its new Chief Financial Officer effective March 1, 2018. Mr. Dobson, 51, was most recently the Chief Financial Officer at Direct Energy Ltd. in Houston, Texas.

On February 21, 2018, Hydro One announced the appointment of Patrick Meneley as Executive Vice President and Chief Corporate Development Officer effective March 1, 2018. Mr. Meneley, 54, was most recently the EVP, Wholesale Banking at TD Bank Group and Vice Chair and Head of Global Corporate and Investment Banking for TD Securities.

Name, Province or State and Country of Residence	Age	Position/Title	Independent Board Member	Principal Occupation	Committees(4)
Mayo Schmidt Ontario, Canada	60	President and Chief Executive Officer and Director	No	President and Chief Executive Officer	–
Gregory Kiraly Ontario, Canada	53	Chief Operating Officer		Chief Operating Officer	N/A
Judy McKellar Ontario, Canada	61	Executive Vice President, Chief Human Resources Officer		Executive Vice President, Chief Human Resources Officer	N/A
Ferio Pugliese Ontario, Canada	49	Executive Vice President, Customer Care and Corporate Affairs		Executive Vice President, Customer Care and Corporate Affairs	N/A
James Scarlett Ontario, Canada	64	Executive Vice President, Chief Legal Officer		Executive Vice President, Chief Legal Officer	N/A
Chris Lopez Ontario, Canada(2)	43	Acting in the capacity of Chief Financial Officer		Senior Vice President, Finance, Hydro One Networks Inc.	N/A

Name, Province or State and Country of Residence	Age	Position/Title	Independent Board Member	Principal Occupation	Committees(4)
David F. Denison Ontario, Canada	65	Director and Chair of the Board	Yes	Board Chair, Hydro One Limited and Hydro One Inc.	-
Ian Bourne(1) Alberta, Canada	70	Director	Yes	Chair, Ballard Power Systems Inc.	Human Resources Committee (Chair); Nominating, Corporate Governance, Public Policy & Regulatory Committee
Charles Brindamour Ontario, Canada	47	Director	Yes	Chief Executive Officer, Intact Financial Corporation	Audit Committee; Human Resources Committee
Marcello (Marc) Caira(1) Ontario, Canada	63	Director	Yes	Vice-Chairman, Restaurant Brands International Inc.	Human Resources Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee
Christie Clark Ontario, Canada	64	Director	Yes	Corporate Director	Human Resources Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee
George Cooke(1) Ontario, Canada	64	Director	Yes	Corporate Director, /Board Chair, OMERS Administration Corporation	Audit Committee; Health, Safety, Environment and Indigenous Peoples Committee
Margaret (Marianne) Harris Ontario, Canada	60	Director	Yes	Corporate Director	Human Resources Committee; Health, Safety, Environment and Indigenous Peoples Committee (Chair)
James Hinds Ontario, Canada	60	Director	Yes	Corporate Director	Audit Committee; Health, Safety, Environment and Indigenous Peoples Committee
Kathryn Jackson(1)(3) Pennsylvania, United States	60	Director	Yes	Corporate Director	Nominating, Corporate Governance, Public Policy & Regulatory Committee; Health, Safety, Environment and Indigenous Peoples Committee
Roberta Jamieson Ontario, Canada	65	Director	Yes	President and Chief Executive Officer, Indspire	Audit Committee; Health, Safety, Environment and Indigenous Peoples Committee

Name, Province or State and Country of Residence	Age	Position/Title	Independent Board Member	Principal Occupation	Committees(4)
Frances Lankin Ontario, Canada	63	Director	Yes	Corporate Director	Audit Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee
Philip S. Orsino Ontario, Canada	63	Director	Yes	Corporate Director	Audit Committee (Chair); Nominating, Corporate Governance, Public Policy & Regulatory Committee
Jane Peverett(1) British Columbia, Canada	59	Director	Yes	Corporate Director	Human Resources Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee (Chair)
Gale Rubenstein(1) Ontario, Canada	64	Director	Yes	Partner, Goodmans LLP	Human Resources Committee; Health, Safety, Environment and Indigenous Peoples Committee

Notes:

- (1) These directors have been designated as the Province's nominees to the board of directors of Hydro One for the purpose of the Governance Agreement.
- (2) Mr. Lopez was acting in the capacity Chief Financial Officer from May 19, 2017 to February 28, 2018.
- (3) On January 24, 2018, Ms. Kathryn Jackson informed the Chair of the Board of her decision to retire from board service following the completion of her current term. Consequently, Ms. Jackson will not stand for re-election to our board at the Company's 2018 annual meeting of shareholders.
- (4) The "Health, Safety, Environment and Indigenous Peoples Committee", formerly named "Health, Safety, Environment and First Nations & Métis Committee", name change was approved by the Board on July 13, 2017. The Board approved the name change of the "Nominating, Corporate Governance, Public Policy & Regulatory Committee" to "Governance Committee" on a going forward basis on February 13, 2018.

As of May 19, 2017, Mr. Michael Vels, previously the Chief Financial Officer, is no longer employed by Hydro One and as of December 13, 2017, Mr. Paul Barry, previously the Executive Vice President, Strategy and Corporate Development of Hydro One Networks Inc., is no longer employed by Hydro One.

The following includes a brief profile of each of the executive officers of Hydro One, which include a description of their present occupation and their principal occupations for the past five years. For profiles of each of the directors of Hydro One, see Hydro One Limited's Management Information Circular under the subheading "About the Nominated Directors - Director Profiles".

Mr. Mayo Schmidt is the President and Chief Executive Officer of Hydro One. Prior to joining Hydro One, Mr. Schmidt served as President and Chief Executive Officer at Viterro Inc., a global food ingredients company operating in 14 countries providing critical nutritional food ingredients to over 50 countries. Early in his career, Mr. Schmidt held a number of key management positions of increasing responsibility at General Mills, Inc. until he joined ConAgra as President of their Canadian operations and spearheaded ConAgra's expansion into Canada. In 2007, he led the consolidation of Canada's agriculture sector which included the acquisition of Agricore United, following which he led the acquisition of ABB, Australia's leading agriculture corporation growing Viterro Inc. from a \$200 million market capitalization to finally a sale in 2012 for over \$7.5 billion. Mr. Schmidt currently sits on the Board of Directors of

Nutrien Ltd. and is also Chairman of its Governance Committee. He is a member of Harvard University Private and Public, Scientific, Academic and Consumer Food Policy Group, and is on Washburn University's Foundation board of Trustees. Mr. Schmidt received his Honorary Doctorate of Commerce from Washburn in 2016 and his B.B.A. from Washburn in 1980.

Effective March 1, 2018, Paul Dobson was appointed to the role of Chief Financial Officer (“CFO”) of Hydro One. As CFO, Mr. Dobson is responsible for finance, treasury, controller, internal audit, technology and regulation. Prior to joining Hydro One in 2018, Mr. Dobson served as CFO for Direct Energy Ltd. (Direct Energy), Houston, Texas, where he was responsible for overall financial leadership of a \$15 billion revenue business with three million customers in Canada and the United States. Since 2003, Mr. Dobson has held senior leadership positions in finance, operations, information technology and customer service across the Centrica Group, the parent company of Direct Energy. Prior to Direct Energy, Mr. Dobson worked at CIBC for 10 years in finance, strategy and business development roles in both Canada and the United States. Mr. Dobson also brings considerable experience in mergers and acquisitions and integrating acquired companies across North America and in the United Kingdom. Mr. Dobson is a dual Canadian-U.S. citizen who holds an honours bachelor's degree from the University of Waterloo as well as an MBA from the University of Western Ontario and is a CPA, CMA.

Effective September 12, 2016, Gregory Kiraly was appointed to the role of Chief Operating Officer (“COO”) of Hydro One. As COO, Mr. Kiraly oversees the complete transmission and distribution value chain including Planning, Engineering, Construction, Operations, Maintenance, and Forestry; Shared Services functions including Facilities, Real Estate, Fleet, and Procurement; and the Telecom and Remote Communities subsidiaries. Prior to joining Hydro One in 2016, Mr. Kiraly served as senior vice president of Electric Transmission and Distribution at Pacific Gas and Electric Company (PG&E) in San Francisco, which delivers safe and reliable energy to more than 16 million customers in northern and central California. Since joining PG&E in 2008, Mr. Kiraly led efforts that achieved the lowest employee injury rates ever, seven straight years of record electric reliability, and over \$500million in productivity improvements and efficiency savings. Before PG&E, Mr. Kiraly held executive-level positions in energy delivery at Commonwealth Edison (Exelon) in Chicago and leadership positions in both gas and electric distribution at Public Service Electric and Gas Company in Newark, New Jersey. Mr. Kiraly holds a bachelor's degree in industrial engineering from New Jersey Institute of Technology and a master's of business administration in finance from Seton Hall University. He is also a graduate of Harvard University's Advanced Management Program.

Effective November 14, 2016, Chris Lopez was appointed as Senior Vice President of Finance of Hydro One Networks Inc, bringing almost 17 years of progressive experience in the utilities industry in Canada and Australia. Prior to joining Hydro One, Mr. Lopez was the Vice President, Corporate Planning and Mergers & Acquisitions at TransAlta Corporation from 2011 to 2015. Prior to that, Mr. Lopez was Director of Operations Finance at TransAlta in Calgary from 2007 to 2011, and he held senior financial roles up to and including Country Financial Controller for TransAlta in Australia, from 1999 to 2007. Mr. Lopez worked as a Senior Financial Accountant with Rio Tinto Iron Ore, in Australia from 1997 to 1999. Mr. Lopez received a Bachelor of Business degree from Edith Cowan University in 1996, and a Chartered Accountant designation in Australia in 1999. He received a graduate diploma in corporate governance and directorships from the Australian Institute of Company Directors in 2007. Mr. Lopez was accountable for leading the management of financial governance and reporting, treasury management,

taxation and planning and analysis before stepping up into the acting role of Chief Financial Officer for the second half of 2017 following the departure of Michael Vels.

Judy McKellar is the Executive Vice President, Chief Human Resources Officer of Hydro One Inc. She was appointed to this position on November 11, 2016. Ms. McKellar has held various roles of increasing responsibility at Hydro One Networks Inc., an indirect subsidiary of Hydro One Limited, in the Human Resources department over her 30+ year career and was appointed VP of Human Resources in 2010. In 2014, she assumed the additional responsibility of Senior Vice President of People and Culture/Health, Safety and Environment and serves as the accountable executive for the Human Resources Committee of the Board of Directors. Ms. McKellar earned a Bachelor of Arts degree from Victoria College, University of Toronto and was recently named as one of 2015's 100 Most Powerful Women in Canada by PricewaterhouseCoopers in the "Public Sector" category.

Effective March 1, 2018, Patrick Meneley was appointed to the role of Executive Vice President and Chief Corporate Development Officer of Hydro One Limited. In this capacity, Mr. Meneley is responsible for leading strategy, innovation and mergers and acquisitions. Prior to joining Hydro One in 2018, Mr. Meneley served as Executive Vice President, Wholesale Banking at TD Bank Group and Vice Chair and Head of Global Corporate and Investment Banking for TD Securities. Mr. Meneley spent 15 years leading and building one of the leading corporate and investment banking businesses in Canada, along with a profitable and growing franchise in the United States. Mr. Meneley holds an MBA (with distinction) from the University of Western Ontario and a Bachelor of Commerce (with honours) from the University of British Columbia.

Effective September 9, 2016, Ferio Pugliese was appointed to the role of Executive Vice President, Customer Care and Corporate Affairs of Hydro One Networks Inc. Prior to his appointment, Mr. Pugliese held progressively senior leadership roles in hospitality, pulp and paper and airline industries with responsibility for human resources, operations and customer service. Since 2007, Mr. Pugliese was a member of the Executive Leadership team at WestJet Airlines serving as WestJet's Executive Vice President People, Culture and Inflight Services and in 2013 led the launch and successful operation of the company's regional airline as President of WestJet Encore. WestJet Encore was recognized for having the continent's top on-time performance for regional airlines in 2015. Mr. Pugliese is highly recognized as a market leader in customer service and brings expertise in building and leading a winning culture focused on serving customers and communities. Mr. Pugliese was recognized by Caldwell Partners as one of Canada's Top 40 under 40 in 2007. He holds a Master of Arts degree in Adult Education from Central Michigan University, an Honours Bachelor of Arts degree in Social Science and an Honours Bachelor of Commerce degree from the University of Windsor.

Effective September 1, 2016, James Scarlett was appointed as Executive Vice President and Chief Legal Officer of Hydro One. Prior to joining Hydro One, Mr. Scarlett was a Senior Partner at Torys LLP. He joined Torys in March 2000 and held a number of leadership roles at the firm, including head of Torys' Capital Markets Group, Mining Group and International Business Development Strategy. Mr. Scarlett was also a member of the firm's Executive Committee from 2009-2015. Prior to joining Torys, Mr. Scarlett was a partner at another major Canadian law firm. While at that firm Mr. Scarlett held leadership roles as head of its Corporate Group, Securities Group and as a member of its Board. Mr. Scarlett was also seconded to the Ontario Securities Commission in 1987 and was appointed as the first Director of

Capital Markets in 1988, a position he held until his return to private law practice in 1990. Mr. Scarlett earned his law degree (J.D.) from the University of Toronto in 1981 and his Bachelor of Commerce Degree from the University of McGill in 1975. In 2015, Mr. Scarlett earned his ICD.D (Institute of Corporate Directors) designation.

Information Regarding Certain Directors and Executive Officers

As at December 31, 2017, the directors and executive officers of Hydro One Limited beneficially owned, controlled or directed, directly or indirectly, as a group, 119,439 common shares, which represented approximately 0.02% of the outstanding common shares.

Corporate Cease Trade Orders and Bankruptcies

Except as described below:

none of the directors or executive officers of Hydro One Limited is, or within the last 10 years has served as, a director or executive officer of any company that, during such service or within a year after the end of such service, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

none of the directors or executive officers of Hydro One Limited is, or within the last 10 years has served as, a director, chief executive officer or chief financial officer of any company that, during such service or as a result of an event that occurred during such service, was subject to an order (including a cease trade order, or similar order or an order that denied access to any exemption under securities legislation), for a period of more than 30 consecutive days; or

none of the directors or executive officers of Hydro One Limited nor any shareholder holding shares sufficient to materially affect control of Hydro One Limited, within the last 10 years has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director.

In May 2004, Saskatchewan Wheat Pool Inc., a predecessor to Viterra Inc., initiated a disposition of its hog operations, which had been carried on through certain of its subsidiaries, through a court supervised process under the Companies' Creditors Arrangement Act. On April 12, 2005, the Saskatchewan Financial Services Commission issued a cease trade order against four of these subsidiaries for failing to file the required annual continuous disclosure documents. The cease trade order was revoked on October 18, 2010 pursuant to Viterra Inc.'s application to effect a re-organization of the entities in question. Mr. Schmidt served as an officer and/or director of these entities at the time.

Mr. Orsino was a director of CFM Corporation from July 2007 until his resignation in March 2008. In April 2008, CFM filed for protection under the Companies' Creditors Arrangement Act.

Ms. Peverett was a director of Postmedia Network Canada Corp. between April 2013 and January 2016. On October 5, 2016, within one year of Ms. Peverett's resignation from the board of directors, Postmedia completed a recapitalization transaction ("**recapitalization transaction**") pursuant to a court approved plan of arrangement under the Canada Business Corporations Act. As part of the recapitalization transaction, approximately US \$268.6 million of debt was exchanged for shares that represented approximately 98% of the outstanding shares at that time. Additionally, Postmedia repaid, extended and amended the terms of its outstanding debt obligations pursuant to the recapitalization transaction.

Penalties or Sanctions

None of the directors or executive officers of Hydro One Limited, nor any shareholder holding shares sufficient to materially affect control of Hydro One Limited, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

To the best of the Company's knowledge, there are no existing material potential conflicts of interest among the Company and the directors or executive officers of the Company as a result of their outside business interests as at the date of this annual information form. Certain of the directors and executive officers serve as directors and executive officers of other public companies. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of the Company. Where conflicts arise, they are managed through a variety of measures, including declaration of the conflict, recusal from meetings and/or portions of meetings, and the creation of separate board materials for the affected directors.

Indebtedness of Directors and Executive Officers

No director, executive officer, employee, former director, former executive officer or former employee or associate of any director or executive officer of Hydro One Limited or any of its subsidiaries had any outstanding indebtedness to Hydro One Limited or any of its subsidiaries except routine indebtedness or had any indebtedness that was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Hydro One Limited or any of its subsidiaries.

AUDIT COMMITTEE

The Audit Committee must consist of at least three directors, all of whom are persons determined by Hydro One to be both "independent" (within the meaning of all Canadian securities laws and stock exchange requirements and the Governance Agreement) and "financially literate" (within the meaning of other applicable requirements or guidelines for audit committee service under securities laws or the rules of any applicable stock exchange, including National Instrument 52-110 - *Audit Committees*). At least one member of the Audit Committee will qualify as an "audit committee financial expert" as defined by the applicable rules of the United States Securities and Exchange Commission. The Audit Committee

comprises Philip S. Orsino (Chair), Charles Brindamour, George Cooke, James Hinds, Roberta Jamieson and Frances Lankin. Each of the audit committee members has an understanding of the accounting principles used to prepare Hydro One's financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

The Board has adopted a written charter for the Audit Committee, in the form set out under Schedule "A" hereto, which sets out the Audit Committee's responsibilities.

Relevant Education and Experience

Charles Brindamour

Mr. Charles Brindamour is the Chief Executive Officer of Intact Financial Corporation, the largest provider of property and casualty insurance in Canada and a leading provider of specialty insurance in North America. Mr. Brindamour began his career with Intact in 1992 as an actuary and held over the years a number of progressive management positions. Under Mr. Brindamour's leadership, the company became an independent and widely-held Canadian company in 2009 and two years later engineered the acquisition of AXA Canada; the largest acquisition in the history of Canada's property and casualty insurance industry. Mr. Brindamour is a board member of Intact Financial Corporation, the C.D. Howe Institute, the Geneva Association, the Business Council of Canada and Branksome Hall. He is also a member of the Advisory Committee of the University of Waterloo's Climate Change Adaptation Project and serves on the advisory board of Gibraltar Growth Corporation. Mr. Brindamour is a graduate of Laval University in Actuarial Sciences and an associate of the Casualty Actuarial Society.

George L. Cooke

Mr. George Cooke is a corporate director and the Chair of the board of directors of OMERS Administration Corporation and the Ontario Lottery and Gaming Corporation. He is also a Governor of Curling Canada. OMERS is one of Canada's largest pension funds and OMERS Administration Corporation is responsible for pension services and administration, investments, and plan valuation. Mr. Cooke is the former President and CEO of The Dominion of Canada General Insurance Company (The Dominion), formerly a property and casualty insurance company, a position he held from February 1992 to August 2012. In August 2012, Mr. Cooke retired from his role as President of The Dominion and continued to hold the position of Chief Executive Officer of the company until December 31, 2012. Mr. Cooke obtained a Bachelor of Arts degree (Hons.) in Political Studies and a Masters of Business Administration degree from Queen's University. He also holds an Honorary Doctor of Laws degree from Assumption University in Windsor. Mr. Cooke was a member of the Board of Directors of The Dominion (1992-2013), the Insurance Bureau of Canada (1992-2013), E-L Financial Corporation (1992-2012), Empire Life (1992-2002) and Atomic Energy of Canada Limited (1995-1999), and he was also Executive Vice-President with E-L Financial Corporation Limited (1992-2013).

Mr. James Hinds is a corporate director. He is also a director of Allbanc Split Corp., a mutual fund company. He is a retired investment banker, having previously served as Managing Director of TD Securities Inc., prior to which he held positions at CIBC Wood Gundy Inc. and Newcrest Capital Inc. Mr. Hinds was the past chair of the Independent Electricity System Operator (IESO), a Crown corporation responsible for operating the electricity market, and was also chair of the former Ontario Power Authority Board of Directors (2010-2014) until its merger with the IESO effective January 1, 2015. Mr. Hinds was a member of the Audit Committee of the Board of Directors of both the IESO and Ontario Power Authority. Mr. Hinds received a Bachelor of Arts degree from Victoria College at the University of Toronto, a Master of Business Administration from the Wharton School of Business and a law degree from the University of Toronto Law School.

Roberta L. Jamieson

Ms. Roberta Jamieson is a Mohawk woman from the Six Nations of the Grand River Territory in Ontario, where she still resides. She is also President and Chief Executive Officer of Indspire, Canada's premiere Indigenous-led charity supporting Indigenous Education, and Executive Producer of the Indspire Awards, a nationally broadcast television special honouring Indigenous achievement. Ms. Jamieson was the first First Nations woman to earn a law degree in Canada; the first non-parliamentarian appointed an ex-officio member of a House of Commons Committee; the first woman Ombudsman of Ontario (1989-1999); and in December 2011, she was the first woman elected Chief of the Six Nations of the Grand River Territory. An accomplished expert in alternative dispute resolution, Ms. Jamieson also served as Commission of the Indian Commission of Ontario. She was also a Director of the Ontario Power Generation Inc. Board of Directors (2012-2015) and served on its Risk Oversight Committee. Ms. Jamieson holds a Bachelor of Laws from the University of Western Ontario. She has earned numerous awards, including, most recently, YWCA's *President's Award* and Women's Executive Network's "*Canada's Most Powerful Women*" *Hall of Fame*, as well as 25 honorary degrees. In 2015, Ms. Jamieson was recognized by the Public Policy Forum for the outstanding contributions she has made to the quality of public policy and good governance. On March 7, 2018, Ms. Jamieson was appointed to the Gender Equality Advisory Council for Canada's G7 Presidency.

Hon. Frances L. Lankin, P.C., C.M.

Hon. Frances Lankin is a corporate director. She was the former President and CEO of the United Way Toronto (2001-2010), a Toronto-based charity. In 2009, Ms. Lankin was appointed to the Queen's Privy Council for Canada and served for five years as a member of the Security Intelligence Review Committee. In 2014, Ms. Lankin was appointed to the Premier's Advisory Council on Government Assets whose mandate was to review and identify opportunities to modernize government business enterprises, and in 2011 and 2012, she co-led a review of Ontario's social assistance system as part of the province's poverty reduction strategy. During her first term as an elected Member of Provincial Parliament, Ms. Lankin served in a variety of Cabinet roles including Chair of Management Board, Minister of Health and Long-Term Care, and Minister of Economic Development and Trade. Ms. Lankin is a Director of the Ontario Lottery and Gaming Corporation. She is the former Chair of the National NewsMedia Council, and a former Director of the Institute of Corporate Directors, where she sat on the Audit Committee.

Additionally, she sat on the Ontario Hospital Association's Audit Committee from 2012-2013. Ms. Lankin was appointed a Member of the Order of Canada in 2012. In April of 2016, Ms. Lankin was appointed to the Senate of Canada where she sits as an Independent Senator from Ontario.

Philip S. Orsino, O.C., FCPA, FCA

Mr. Philip S. Orsino is a corporate director. He was the President and Chief Executive Officer of Jeld-Wen Inc., a global integrated manufacturer of building products from 2011 until he retired in 2014. Formerly until October 2005, Mr. Orsino was the President and Chief Executive Officer of Masonite International Corporation for 22 years. Mr. Orsino is a director of The Bank of Montreal and Chair of its Audit and Conduct Review Committee and a director of The Minto Group, a private real estate developer, and chair of the Audit Committee. He was the recipient of the 2003 Canada's Outstanding CEO of the Year Award and received the University of Toronto's Distinguished Business Alumni Award for 2002. He is a Fellow of the Chartered Professional Accountants of Ontario and holds a degree from Victoria College at the University of Toronto. Mr. Orsino was appointed an Officer of the Order of Canada in 2004.

Pre-Approval Policies and Procedures

The Audit Committee Charter requires that all non-audit services to be provided to Hydro One Limited or any of its subsidiaries by the external auditors or any of its affiliates are subject to pre-approval by the Audit Committee.

Auditors' Fees

The aggregate fees billed by KPMG to Hydro One and its subsidiaries in 2017 and 2016 for professional services are presented below:

	Year ended December 31, 2017	Year ended December 31, 2016
Audit Fees⁽¹⁾	\$1,559,514	\$1,524,814
Audit-Related Fees⁽²⁾	\$1,171,700	\$488,854
Tax Fees⁽³⁾:		
Tax Compliance and SR&ED Claim	\$161,000	\$90,000
General Tax Advice	\$100,000	\$57,500
Tax advice on Avista acquisition	\$311,300	-
Other Fees⁽⁴⁾	-	\$413,643
Total	\$3,303,514	\$2,574,811

Notes:

(1) The nature of the services rendered was: audit of annual financial statements of the Company and its subsidiaries, and statutory and regulatory filings.

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- (2) The nature of the services rendered was: due diligence related to the Avista acquisition, translations and audit of the Hydro One Pension Plan, IFRS reporting to the Province and related services reasonably related to the performance of the audit or review of the Company's financial statements that are not reported under Audit Fees.
 - (3) The nature of the services rendered was: procedures in connection with a scientific research, experimental development ("SR&ED") investment tax credit claim, tax compliance services for Hydro One's Pension Funds and general tax advice.
 - (4) The nature of the services rendered was: due diligence activities.

AGREEMENTS WITH PRINCIPAL SHAREHOLDER

In connection with the November 2015 completion of the initial public offering of Hydro One Limited, on November 5, 2015, Hydro One and the Province entered into:

the Governance Agreement to address the Province's role in the governance of Hydro One Limited; and

the Registration Rights Agreement to provide the Province with the right to require Hydro One Limited to facilitate future secondary offerings of common shares or preferred shares owned or controlled by the Province.

The material terms of the Governance Agreement and the Registration Rights Agreement are summarized below. A copy of each of the Governance Agreement and the Registration Rights Agreement has been filed on SEDAR and is available under Hydro One Limited's profile at www.sedar.com. The discussion in this annual information form concerning the Governance Agreement and the Registration Rights Agreement is not complete, and is qualified in its entirety to the text of the Governance Agreement and the Registration Rights Agreement, each of which should be referred to. Not all of the terms of the Governance Agreement and the Registration Rights Agreement are described in this annual information form.

Governance Agreement

Governance Matters

The Governance Agreement specifically addresses the following governance matters:

The governance principles under which Hydro One Limited and its subsidiaries will be managed and operated.

The nomination of directors, which includes: (i) the requirement for a fully independent board of directors (other than the Chief Executive Officer), and (ii) the maximum number of directors that may be nominated by the Province.

The election and replacement of directors.

Approvals requiring a special resolution of the directors.

Governance Principles

The Governance Agreement provides that the business and affairs of Hydro One Limited will be managed and operated in accordance with certain governance principles.

The governance principles provide that:

Hydro One Limited will maintain corporate governance policies, procedures and practices consistent with the best practices of leading Canadian publicly listed companies, having regard to Hydro One Limited's ownership structure and the Governance Agreement.

The board of directors of Hydro One Limited is responsible for the management of the business and affairs of Hydro One Limited.

With respect to its ownership interest in Hydro One Limited, the Province will engage in the business and affairs of Hydro One Limited as an investor and not a manager, and the Province intends to achieve its policy objectives through legislation and regulation, as it would with respect to any other utility operating in Ontario.

Nomination of Directors

The Governance Agreement establishes qualification standards for director nominees, provides for the number of directors that may be nominated and establishes a process for confirming nominees. The Governance Agreement recognizes that the Board is to be a fully independent board (independent of both Hydro One and the Province), except the Chief Executive Officer, as described under the subheading "Independence" below.

Director Qualification Standards

Under the Governance Agreement, the Province and the Nominating, Corporate Governance, Public Policy & Regulatory Committee have agreed to nominate as directors, qualified individuals of high quality and integrity who have the experience, expertise and leadership appropriate to manage a business of the complexity, size and scale of the business of Hydro One Limited, on a basis consistent with the highest standards for directors of Canada's leading public companies.

In addition, a majority of the directors must be resident Canadians (as defined in the OBCA).

Independence

Each director nominee must, among other things:

be independent of Hydro One Limited (other than the Chief Executive Officer) within the meaning of Ontario securities laws governing the disclosure of corporate governance practices;

be independent of the Province (other than the Chief Executive Officer). A director will be independent of the Province if he or she would be independent of Hydro One Limited within the meaning of Ontario securities laws governing the disclosure of corporate governance practices if the Province and each Specified Provincial Entity were treated as Hydro One Limited's parent under that definition, but excluding, in the case only for the current directors, any prior relationship that ended before August 31, 2015. In addition, he or she may not be an employee or official of the Province or any Specified Provincial Entity, either: (i) currently or, (ii) within the last three years (excluding in the case of (ii), the current directors whose prior relationship ended before August 31, 2015); and

meet the requirements of applicable securities and other laws and any exchange on which the voting securities are listed.

A "Specified Provincial Entity" means (1)(a) the Ontario Financing Authority, (b) the IESO, (c) Ontario Power Generation Inc., (d) the Electrical Safety Authority, (e) Ontario Electricity Financial Corporation, (f) Infrastructure Ontario, or (g) a subsidiary of, or a person controlled by, any organization listed in (a) to (f); and (2) the OEB.

Number of Directors

Under the articles of Hydro One Limited and pursuant to the terms of the Governance Agreement, the Board will consist of no fewer than 10 and no more than 15 directors, with the initial Board consisting of 15 directors until the first annual meeting of shareholders following the completion of the initial public offering of Hydro One Limited.

Board Nominees

The nominees to be proposed for election to the Board by Hydro One Limited at annual meetings of shareholders will be determined as follows:

The Chief Executive Officer will be nominated.

The Province will be entitled to nominate that number of nominees equal to 40% of the number of directors to be elected (rounded to the nearest whole number), subject to certain exceptions.

The Nominating, Corporate Governance, Public Policy & Regulatory Committee will nominate the remaining directors.

Board Nomination Process

Under the Governance Agreement, the Province and representatives of the Nominating, Corporate Governance, Public Policy & Regulatory Committee are to meet after each annual meeting of shareholders to discuss expected upcoming departures from the Board (whether due to resignation, retirement or otherwise) and the impact such departures will have on the Board, having regard to continued compliance with the Governance Agreement and the ability of the Board to satisfy the Board's skills matrix, diversity policy and other governance standards. Under the Governance Agreement, at this meeting the Nominating, Corporate Governance, Public Policy & Regulatory Committee is to make

recommendations to the Province respecting potential candidates for director, including potential candidates for nomination by the Province. The Province has no obligation to nominate any of the individuals recommended as one of its director nominees.

Not later than 60 days prior to the date by which proxy solicitation materials must be mailed for Hydro One's annual meeting of shareholders, each of the Province and the Nominating, Corporate Governance, Public Policy & Regulatory Committee will notify the other of its proposed director nominees. If a proposed nominee is not already a director of Hydro One or is then a director but whose circumstances have materially changed in a way that would affect whether she or he would continue to meet the director qualification standards under the Governance Agreement, then the Province or the committee, as the case may be, will have 10 business days to confirm that nominee or reject that nominee on the basis that the nominee does not meet those director qualification standards.

If a director nominee of the Province or the Nominating, Corporate Governance, Public Policy & Regulatory Committee is rejected, then the Province or the committee will be entitled to nominate additional candidates until a nominee is confirmed by the other. If no replacement nominee is confirmed for a director who was expected to depart from the board and that director does not resign, that director shall be re-nominated. The Province and the committee will use commercially reasonable efforts to confirm director nominees prior to the date by which proxy solicitation materials must be mailed for the annual meeting of shareholders.

Election and Replacement of Directors

The Governance Agreement provides for how:

the Province will vote with respect to director nominees, including its nominees and those of the Nominating, Corporate Governance, Public Policy & Regulatory Committee,

the Province may vote at contested elections,

the Province may seek to replace the Board by withholding votes or voting for removal, and

Board vacancies will be filled.

Voting on Director Elections

At any meeting of shareholders to elect directors, the Province is required to vote in favour of the nominees selected by the Province and the Nominating, Corporate Governance, Public Policy & Regulatory Committee in accordance with the board nomination process set out in the Governance Agreement, except in the case of contested director elections or where the Province seeks to replace the Board in accordance with the Governance Agreement.

Contested Elections

At any meeting of shareholders to elect directors of Hydro One Limited at which there are more nominees for directors than there are directors to be elected, the Province may vote its Voting Securities in its sole

discretion (including to vote in favour of other candidates instead of the Province's nominees), except that the Province will vote in favour of the election of the Chief Executive Officer as a director.

Right to Withhold Votes

The Province is required under the Governance Agreement to vote in favour of all director nominees of Hydro One Limited, subject to the Province's overriding right to withhold from voting in favour of all director nominees and its right to seek to remove and replace the entire Board, including in each case its own director nominees but excluding the Chief Executive Officer and, at the Province's discretion, the Chair. Depending on the number of withheld votes a director nominee receives at a meeting of shareholders at which directors are to be elected, that director nominee may be required to tender his or her resignation to the Board in accordance with Hydro One Limited's majority voting policy.

Province's Right to Replace the Board

The Province may at any time notify Hydro One Limited that it intends to request that Hydro One Limited hold a meeting of shareholders for the purposes removing all of the directors in office, including those nominated by the Province, with the exception of the Chief Executive Officer and, at the sole discretion of the Province, the Chair (a "**Removal Notice**"). If the Province gives Hydro One a Removal Notice, then the Chair shall coordinate the establishment of an ad hoc nominating committee comprising one representative of each of the five largest beneficial owners of Voting Securities known to the Company (or if at least three such owners are not willing to provide a representative, then the individuals the Province proposes to nominate as replacement directors). The Province and the ad hoc nominating committee will identify and confirm replacement directors to be nominated at the shareholders' meeting pursuant in accordance with the process set out in the Governance Agreement. Each replacement director nominee must meet the same qualification and independence standards under the Governance Agreement as for any director nominee. Hydro One Limited will call the shareholders' meeting once the replacement director nominees are confirmed pursuant to this process, and will hold the shareholders' meeting within 60 days of this confirmation. At the shareholders' meeting, the Province will vote in favour of removing the current directors with the exception of the Chief Executive Officer and, at the Province's discretion, the Chair, and will vote in favour of the new independent director nominees.

Board Approvals Requiring a Special Resolution of the Directors

The Governance Agreement provides that certain actions require approval by a resolution of the Board passed by at least two-thirds of the votes cast at a meeting of the directors, or consented to in writing by all of the directors (a "**Special Board Resolution**"). Matters requiring approval by a Special Board Resolution include:

the appointment and annual confirmation of the Chair,

the appointment and annual confirmation of the Chief Executive Officer, and

changes to certain specified governance standards specified in the Governance Agreement to be "Hydro One's governance standards".

The governance standards subject to this special approval requirement include the Board' s skills matrix, the Ombudsman' s Mandate, the Diversity Policy and the Majority Voting Policy, the Corporate Governance Guidelines, the mandates of the Board and its committees, position descriptions for the Chief Executive Officer, the Chair, the directors and committee chairs, and the Stakeholder Engagement Policy.

Other Matters

In addition to the governance matters noted above, the Governance Agreement also addresses the following matters:

Restrictions on the right of the Province to initiate fundamental changes.

Pre-emptive rights provided to the Province with respect to future issuances of Voting Securities by Hydro One Limited.

Acquisition limits with respect to the Province' s acquisition of outstanding Voting Securities.

Restrictions on Province' s Right to Initiate Fundamental Changes

The Province has agreed not to initiate a fundamental change to Hydro One Limited (as defined in Part XIV of the OBCA), including not to initiate any arrangement or amalgamation involving Hydro One Limited or any amendment to the articles of Hydro One Limited. The Province may, however, vote its Voting Securities as it sees fit in the event any fundamental change is initiated by Hydro One Limited or another shareholder of Hydro One Limited.

Pre-emptive Rights

Hydro One Limited has granted to the Province a pre-emptive right to acquire additional Voting Securities as part of future offerings by Hydro One Limited of Voting Securities. If Hydro One Limited proposes to issue Voting Securities in the future, whether pursuant to a public offering or a private placement, Hydro One Limited must notify the Province of the proposal and provide information in accordance with the provisions of the Governance Agreement at least 30 days in advance and must offer the Province the right to purchase up to 45% of the Voting Securities being offered. Any Voting Securities not purchased by the Province pursuant to the offer may be purchased by any other person pursuant to the proposed offering.

The pre-emptive right also applies with respect to any proposed issuance by Hydro One Limited of securities convertible into or exchangeable for Voting Securities except securities convertible into or exchangeable for Voting Securities: (i) pursuant to certain employee or director compensation plans; (ii) pursuant to any dividend re-investment arrangement of the Company that is consistent with dividend reinvestment arrangements of other publicly traded utilities in Canada (including as to discount rates) and that does not include a cash purchase option; (iii) pursuant to a rights offering that is open to all shareholders of Hydro One Limited; or (iv) pursuant to any business combination, take-over bid, arrangement, asset purchase transaction or other acquisition of assets or securities of a third party.

The Province waived its pre-emptive right to participate in the Convertible Debenture Offering under the Governance Agreement. In consideration of granting the waiver, Hydro One Limited 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.

45% Acquisition Limit

The Province has agreed in the Governance Agreement, subject to certain exceptions, not to acquire previously issued Voting Securities if after that acquisition, the Province would own more than 45% of any class or series of Voting Securities. This restriction does not limit the Province from acquiring Voting Securities on an issuance by Hydro One Limited, including pursuant to the exercise by the Province of its pre-emptive right. See “Agreements with Principal Shareholder - Governance Agreement - Other Matters - Pre-emptive Rights” above.

Registration Rights Agreement

Demand Registration

Pursuant to the Registration Rights Agreement, Hydro One Limited has granted the Province certain demand registration rights providing that, from time to time while the Province is a “control person” of Hydro One Limited within the meaning of applicable Canadian securities laws, the Province can require Hydro One Limited to file, at the expense of the Province (except for internal expenses of Hydro One Limited or other expenses that Hydro One Limited would have incurred in the absence of such a request), and subject to certain exceptions, one or more prospectuses and take other procedural steps as may be reasonably necessary to facilitate a secondary offering in Canada of all or any portion of the common shares or preferred shares (“**shares**”) held by the Province.

“Piggy-Back” Registration

If Hydro One Limited proposes to undertake a Canadian public offering by prospectus, the Province is entitled, while it is a “control person” of Hydro One Limited within the meaning of applicable Canadian securities laws, to include shares owned by it as part of that offering, provided that the underwriters may reduce the number of shares proposed to be sold if in their reasonable judgment all of the shares proposed to be offered by Hydro One Limited and the Province may not be sold in an orderly manner within a price range reasonably acceptable to Hydro One Limited. In that case, the shares to be sold will be allocated pro rata between Hydro One Limited and the Province based on their relative proportionate number of shares requested to be included in the offering. Hydro One Limited and the Province will share the expenses of the offering (except for internal expenses of Hydro One Limited) in proportion to the gross proceeds they each receive from the offering.

Private Placements

Hydro One Limited has also agreed to use commercially reasonable efforts to assist, at the Province’s expense, the Province in any sale by it of shares of Hydro One Limited pursuant to an exemption from the

prospectus requirements, in the preparation of an offering memorandum and other documentation and by facilitating due diligence by the prospective buyer.

Customary Agreements

Hydro One Limited and the Province have also agreed to enter into customary agreements, including “lock-up” agreements, on customary market terms in connection with such transactions. Hydro One Limited also agreed to certain indemnification and contribution covenants in favour of the Province and any underwriters involved in such transactions.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as noted below and elsewhere in this annual information form, there are no material interests, direct or indirect, of any director or executive officer of the Company, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of Hydro One Limited’s outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect the Company.

Relationships with the Province and Other Parties

Overview

The Province is Hydro One Limited’s principal shareholder. The OEB is the principal regulator of Ontario’s electricity industry. The Province appoints the board members of the OEB and fills any vacancies on the OEB. The OEB is obligated to implement approved directives of the Province concerning general policy and objectives to be pursued by the OEB and other directives aimed at addressing existing or potential abuses of market power by industry participants. The IESO, among other matters, directs the operation of the Ontario power system by balancing supply and demand of electricity and directing electricity flow and assumed the responsibility for forecasting supply and demand of electricity over the medium and long term to meet the needs of the province. The board of directors of the IESO, other than its Chief Executive Officer, is appointed by the Province in accordance with the regulations in effect from time to time under the Electricity Act.

In connection with the initial public offering of Hydro One Limited, the Company entered into the Governance Agreement and the Registration Rights Agreement with the Province. See “Agreements with Principal Shareholder”.

Transfer Orders

The transfer orders pursuant to which Hydro One Inc. acquired Ontario Hydro’s electricity transmission, distribution and energy services businesses as of April 1, 1999, did not transfer certain assets, rights, liabilities or obligations where the transfer would constitute a breach of the terms of any such asset, right, liability or obligation or a breach of any law or order (the “**trust assets**”). The transfer orders also did not transfer title to assets located on Reserves, which assets are held by the Ontario Energy Financial

Corporation. For more information, see the Annual MD&A under the subheading “Risk Management and Risk Factors - Risks Relating to Hydro One’s Business - Risk from Transfer of Assets Located on Reserves”.

Hydro One is obligated under the transfer orders to manage both the trust assets (until it has obtained all consents necessary to complete the transfer of title to these assets to Hydro One) and the assets otherwise retained by the Ontario Electricity Financial Corporation that relate to Hydro One’s businesses. Hydro One has entered into an agreement with the Ontario Electricity Financial Corporation under which it is obligated, in managing these assets, to take instructions from the Ontario Electricity Financial Corporation if Hydro One’s actions could have a material adverse effect on the Ontario Electricity Financial Corporation. The Ontario Electricity Financial Corporation has retained the right to take control of and manage the assets, although it must notify and consult with Hydro One before doing so and must exercise its powers relating to the assets in a manner that will facilitate the operation of Hydro One’s businesses. The consent of the Ontario Electricity Financial Corporation is also required prior to any disposition of these assets.

The Province also transferred officers, employees, assets, liabilities, rights and obligations of Ontario Hydro in a similar manner to its other successor transferees. These transfer orders include a dispute resolution mechanism to resolve any disagreement among the various transferees with respect to the transfer of specific assets, liabilities, rights or obligations.

The transfer orders do not contain any representations or warranties from the Province or the Ontario Electricity Financial Corporation with respect to the transferred officers, employees, assets, liabilities, rights and obligations. Furthermore, under the Electricity Act, the Ontario Electricity Financial Corporation was released from liability in respect of all assets and liabilities transferred by the transfer orders, except for liability under Hydro One’s indemnity from the Ontario Electricity Financial Corporation. The parties, with the consent of the Minister of Finance, agreed to terminate such indemnity effective October 31, 2015. By the terms of the transfer orders, each transferee indemnifies the Ontario Electricity Financial Corporation with respect to any assets and liabilities related to that transferee’s business not effectively transferred, and is obligated to take all reasonable measures to complete the transfers where the transfers were not effective.

Hydro One has indemnified the Ontario Electricity Financial Corporation in respect of the damages, losses, obligations, liabilities, claims, encumbrances, penalties, interest, taxes, deficiencies, costs and expenses arising from matters relating to the Company’s business and any failure by Hydro One to comply with its obligations to the Ontario Electricity Financial Corporation under agreements dated as of April 1, 1999. These obligations include obligations to employ the employees transferred to Hydro One under the transfer orders, make and remit employee source deductions (including tax withholding amounts, and employer contributions), manage the real and personal properties which the Ontario Electricity Financial Corporation continues to hold in trust or otherwise and take any necessary action to transfer all of these properties to the Company, to pay realty taxes and other costs, provide access to books and records and to assume other responsibilities in respect of the assets held by the Ontario Electricity Financial Corporation in trust for the Company.

Departure Taxes

By virtue of being wholly owned by the Province, Hydro One was exempt from tax under the federal Income Tax Act and the Province of Ontario Taxation Act (the Tax Acts). However, under the Electricity Act, Hydro One was required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The payments in lieu of tax were, in general, equivalent to the amount of tax that Hydro One would otherwise be liable to pay under the Tax Acts if it was not exempt from taxes under those statutes.

In connection with the initial public offering of Hydro One Limited, Hydro One's exemption from tax under the Tax Acts ceased to apply. Under the Tax Acts, Hydro One was deemed to have disposed of its assets immediately before it lost its tax exempt status resulting in Hydro One making payments in lieu of tax under the Electricity Act totalling \$2.6 billion in respect thereof, calculated by reference to the federal Income Tax Act ("**departure tax**").

Hydro One Inc. also paid the Ontario Electricity Financial Corporation approximately \$0.3 billion in additional payments in lieu of tax in connection with the period prior to the initial public offering.

For a discussion of the departure tax and the related financial implications on the Company, see "Business of Hydro One - Regulation - Recent Transmission Rate Applications" as well as the Annual MD&A under the heading "Risk Management and Risk Factors - Risks Relating to Hydro One's Business - Regulatory Risks and Risks Relating to Hydro One's Revenues - Risks Relating to Regulatory Treatment of Deferred Tax Asset".

MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which Hydro One Limited has entered into since the beginning of the last financial year, or entered into prior to such date but which contract is still in effect:

- (a) a trust indenture dated August 9, 2017, between Hydro One Limited and Computershare Trust Company of Canada relating to the issuance of up to \$1,540,000,000 aggregate principal amount of Debentures due September 30, 2027;
- (b) an instalment receipt and pledge agreement ("**Instalment Receipt Agreement**") dated August 9, 2017, between Hydro One Limited, 2587264 Ontario Inc., a syndicate of underwriters and Computershare Trust Company of Canada, as custodian and security agent, providing for the issuance of instalment receipts evidencing beneficial ownership of the Debentures;
- (c) the underwriting agreement (the "**July 2017 Underwriting Agreement**") dated July 25, 2017, between Hydro One Limited, 2587264 Ontario Inc. and a syndicate of underwriters pursuant to which the underwriters agreed to purchase, and 2587264 Ontario Inc. agreed to sell, \$1,400,000,000 aggregate principal amount of Debentures (such aggregate principal amount of the Debentures subsequently increased to \$1,540,000,000) at a price of \$1,000 per \$1,000 principal amount of Debentures. The July 2017 Underwriting Agreement provides that Hydro One Limited and 2587264 Ontario Inc. will indemnify the underwriters and each of their

respective affiliates, and their directors, officers, partners, employees, agents and controlling persons against certain liabilities, including liabilities under Canadian securities legislation;

- (d) an agreement and plan of merger dated July 19, 2017, by and among Hydro One Limited, Olympus Holding Corp., Olympus Corp. and Avista Corporation, providing for the direct or indirect acquisition by Olympus Holding Corp., an indirect, wholly-owned subsidiary of Hydro One Limited, of Avista Corporation for an aggregate purchase price of approximately U.S.\$5,300,000,000, comprised of an equity purchase price of U.S.\$3,400,000,000 and the assumption of U.S.\$1,900,000,000 of debt;
- (e) the underwriting agreement (the “**May 2017 Underwriting Agreement**”) dated May 10, 2017, between Hydro One Limited, the Province and a syndicate of underwriters pursuant to which the Underwriters agreed to purchase, and the Province agreed to sell 120,000,000 common shares of Hydro One Limited at a price of \$23.25 per share. The May 2017 Underwriting Agreement provides that Hydro One Limited will indemnify the underwriters and each of their respective affiliates, and their directors, officers, partners, employees, agents and controlling persons against certain liabilities, including liabilities under Canadian securities legislation;
- (f) the underwriting agreement (the “**2016 Underwriting Agreement**”) dated April 7, 2016, between Hydro One Limited, the Province and a syndicate of underwriters pursuant to which the underwriters agreed to purchase, and the Province agreed to sell 72,434,800 common shares (such number of shares subsequently increased to an aggregate of 83,300,000 common shares) of Hydro One Limited at a price of \$23.65 per share. The 2016 Underwriting Agreement provides that Hydro One Limited will indemnify the underwriters and each of their respective affiliates, and their directors, officers, partners, employees, agents and controlling persons against certain liabilities, including liabilities under Canadian securities legislation; the Governance Agreement, described under “Agreements with Principal Shareholder”; and
- (g) the Registration Rights Agreement, described under “Agreements with Principal Shareholder”.

Copies of the foregoing material agreements have been filed with the Canadian securities regulatory authorities and are available on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is from time to time involved in legal proceedings of a nature considered normal to its business. Except as disclosed below, Hydro One believes that none of the litigation in which it is currently involved, or has been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to its consolidated financial condition or results of operations. The Company is not subject to any material regulatory actions.

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff’s motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court’s decision, and the appeal has been set for October 16, 2018.

In connection with the reorganization of Ontario Hydro, Hydro One Inc. succeeded Ontario Hydro as a party to various pending legal proceedings relating to the businesses, assets, real estate and employees transferred to it. Hydro One Inc. also assumed responsibility for future claims relating to the businesses, assets, real estate and employees acquired by Hydro One Inc. and arising out of events occurring prior to, as well as after, April 1, 1999. In addition to claims assumed by the Company, it is, from time to time, named as a defendant in legal actions arising in the normal course of business. There are currently no actions that are outstanding which are expected to have a material adverse effect on the Company.

To date, four putative class action lawsuits have been filed by Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The plaintiffs in the lawsuit are seeking to enjoin the Merger and may pursue other remedies, including monetary damages and attorneys' fees. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One Limited publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; Sharpenter also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß*, *Samuel*, and *Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One. See the Annual MD&A under the heading "Risk Management and Risk Factors - Risks Relating to Hydro One's Business - Risk Factors Relating to the Merger" for more information.

INTEREST OF EXPERTS

KPMG LLP, Chartered Professional Accountants, located at 333 Bay Street, Suite 4600, Bay Adelaide Centre, Toronto, Ontario M5H 2S5, is the auditor of Hydro One Limited and has audited the consolidated financial statements of Hydro One Limited as at and for the years ended December 31, 2017 and December 31, 2016. KPMG LLP has confirmed that it is independent of Hydro One Limited within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for Hydro One Limited's common shares is Computershare Trust Company of Canada at its principal office in Toronto, Ontario. Computershare Trust Company of Canada as its principal office in Toronto, Ontario also acts as the trustee for the Debentures and acts as custodian and security agent in respect of the instalment receipts.

ADDITIONAL INFORMATION

Additional information relating to Hydro One Limited may be found on SEDAR at www.sedar.com. Additional information, including with respect to directors' and officers' remuneration and indebtedness, principal holders of Hydro One Limited's securities and shares authorized for issuance under equity compensation plans, is contained in the Company's management information circular for its most recent annual meeting of shareholders that involves the election of directors.

Additional financial information is provided in the Annual MD&A and in the consolidated financial statements and notes to the consolidated financial statements of Hydro One Limited for 2017.

SCHEDULE “A”

HYDRO ONE LIMITED AUDIT COMMITTEE MANDATE

Purpose

The Audit Committee (the “**Committee**”) is a committee appointed by the board of directors (the “**Board**”) of Hydro One Limited (including its subsidiaries, the “**Company**”). The Committee is established to fulfill applicable public company obligations and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting including responsibility to oversee:

- (a) the independence, qualification and appointment of external auditors;
- (b) the integrity of the Company’s financial statements and financial reporting process, including the audit process and the Company’s internal control over financial reporting, disclosure controls and procedures and compliance with other related legal and regulatory requirements;
- (c) the performance of the Company’s financial function, internal auditors and external auditors; and
- (d) the auditing, accounting and financial reporting process.

The function of the Committee is oversight. It is not the duty or responsibility of the Committee or its members: (a) to plan or conduct audits; (b) to determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles; or (c) to conduct other types of auditing or accounting reviews or similar procedures or investigations. The Committee, its Chair and its members with accounting or finance expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day to day operation or performance of such activities.

Procedures

1. **Number of Members** - The members of the Committee shall be appointed by the Board. The Committee will be composed of not less than three (3) Board members.
2. **Independence** - The Committee shall be constituted at all times of directors who are “independent” (a) within the meaning of all Canadian securities laws and stock exchange requirements, each as in effect and applicable to Hydro One Limited from time to time; and (b) of the Province of Ontario within the meaning of the Governance Agreement between the Company and the Province of Ontario (as amended, revised or replaced from time to time, the “**Governance Agreement**”).
3. **Financial Literacy** - Each member shall be “financially literate” within the meaning of other applicable requirements or guidelines for audit committee service under securities laws or the rules of any applicable stock exchange, including NI 52-110. At least one member will otherwise

qualify as an “audit committee financial expert” as defined by applicable rules of the Securities and Exchange Commission.

4. **Cross-Appointment** - No member may serve on the audit committee of more than two other public companies, unless the Board determined that this simultaneous service would not impair the ability of the member to serve effectively on the Committee.
5. **Appointment and Replacement of Committee Members** - Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board shall fill any vacancy if the membership of the Committee is less than three directors. Whenever there is a vacancy on the Committee, the remaining members may exercise all its power as long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be appointed by the Board annually and each member of the Committee shall remain on the Committee until his or her successor shall be duly appointed and qualified or his or her earlier resignation or removal.
6. **Committee Chair** - Unless a Committee Chair is designated by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee. The Committee Chair shall be responsible for leadership of the Committee and reporting to the Board. If the Committee Chair is not present at any meeting of the Committee, one of the other members of the Committee who is present shall be chosen by the Committee to preside at the meeting. The Committee Chair shall also appoint a secretary who need not be a director.
7. **Conflicts of Interest** - If a Committee member faces a potential or actual conflict of interest relating to a matter before the Committee, other than matters relating to the compensation of directors, that member shall be responsible for alerting the Committee Chair. If the Committee Chair faces a potential or actual conflict of interest, the Committee Chair shall advise the Board Chair. If the Committee Chair, or the Board Chair, as the case may be, concurs that a potential or actual conflict of interest exists, the member faced with such conflict shall disclose to the Committee the member’s interest and shall not be present for or participate in any discussion or other consideration of the matter and shall not vote on the matter.
8. **Meetings** - The Committee shall meet regularly and as often as it deems necessary to perform the duties and discharge its responsibilities as described herein in a timely manner, but not less than four (4) times a year. The Committee shall maintain written minutes of its meetings, which will be filed in the Company’s corporate minute books. The Board Chair may attend and speak at all meetings of the Committee, whether or not the Board Chair is a member of the Committee.
9. **Separate Private Meetings** - The Committee shall meet regularly, but no less than quarterly, with the Chief Financial Officer, the head of the internal audit function (if other than the Chief Financial Officer) and the external auditors in separate private sessions to discuss any matters that the Committee or any of these groups believes should be discussed privately and such persons shall have access to the Committee to bring forward matters requiring its attention. The

Committee shall also meet at each meeting of the Committee without management or non-independent directors present, unless otherwise determined by the Committee Chair.

10. **Professional Assistance** - The Committee may require the external auditors to perform such supplemental reviews or audits as the Committee may deem desirable and may retain such special legal, accounting, financial or other consultants as the Committee may determine to be necessary to carry out the Committee's duties, in each case at the Company's expense and inform the Chair of the Governance Committee of any such retainer. The Company's external auditors will have direct access to the Committee at their own initiative.
11. **Reliance** - Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on: (a) the integrity of those persons or organizations within and outside the Company from which it receives information; (b) the accuracy of the financial and other information provided to the Committee by such persons or organizations; and (c) representations made by management and the external auditors as to any information technology, internal audit and other permissible non-audit services provided by the external auditors to the Company and its subsidiaries.
12. **Reporting to the Board** - The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Mandate.

Responsibilities

The principal responsibilities of the Committee are:

Selection and Oversight of the External Auditors

1. approve the terms of engagement and, if the shareholders authorize the Board to do so, the compensation to be paid by the Company to the external auditors with respect to the conduct of the annual audit. The external auditors are ultimately accountable to the Committee and the Board as the representatives of the shareholders of the Company and shall report directly to the Committee and the Committee shall so instruct the external auditors.
2. evaluate the quality of service, independence, objectivity, professional skepticism and performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Company to be proposed for shareholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed by the Committee or management of the Company, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent external auditors, and enquire on the qualifications of the proposed external auditors before making its recommendation to the Board.

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3. review and approve policies and procedures for the pre-approval of services to be rendered by the external auditors. All permissible non-audit services to be provided to the Company or any of its affiliates by the external auditors or any of their affiliates that are not covered by pre-approval policies and procedures approved by the Committee shall be subject to pre-approval by the Committee. The Committee shall have the sole discretion regarding the prohibition of the external auditor providing certain non-audit services to the Company and its affiliates. The Committee shall also review and approve disclosures with respect to permissible non-audit services.
 4. review the independence and professional skepticism of the external auditors and make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:
 - (a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors, including whether there are any disputes, restrictions or limitations placed on their work;
 - (b) obtain from external auditors at least annually, a formal written statement delineating all relationships between the Company and the external auditors and their affiliates;
 - (c) ensure the rotation of the lead (and concurring) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by applicable law or professional practice; and
 - (d) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.
 5. review and approve policies for the hiring by the Company of employees or former employees of the external auditors.
 6. require the external auditors to provide to the Committee, and review and discuss with the external auditors, all notices and reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include:
 - (a) a description of the external auditors' internal quality-control procedures, any material issues respecting the external auditors raised by the most recent internal quality-control review, peer review or review body with auditing oversight responsibility over the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and

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- (b) a report describing: (i) the proposed audit plan and approach, (ii) all critical accounting policies and practices to be used by the Company; (iii) all alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; and (iv) other material written communication between the external auditors and management, such as any management letter or schedule of unadjusted differences.
7. meet periodically with the external auditors to discuss their audit plan for the year, progress of their activities, any significant findings stemming from the external audit, any changes required in the planned scope of their audit plan, whether there are any disputes or any restrictions or limitations on the external auditors.
 8. review the experience and qualifications of the audit team and review the performance of the external auditors, including assessing their effectiveness and quality of service, annually and, every five (5) years, perform a comprehensive review of the performance of the external auditors over multiple years to provide further insight on the audit firm, its independence and application of professional standards.

Appointment and Oversight of Internal Auditors

9. review and approve the appointment, terms of engagement, compensation, replacement or dismissal of the internal auditors. When the internal audit function is performed by employees of the Company, the Committee may delegate responsibility for approving the employment, terms of employment, compensation and termination of employees engaged in such function other than the head of the Company's internal audit function.
10. meet periodically with the internal auditors to review and approve their audit plan for the year, and discuss progress of their activities, any significant findings stemming from internal audits, any changes required in the planned scope of their audit plan and whether there are any disputes, restrictions or limitations on internal audit.
11. review summaries of the significant reports to management prepared by the internal auditors, or the actual reports if requested by the Committee, and management's responses to such reports.
12. communicate with, as it deems necessary, the internal auditors with respect to their reports and recommendations, the extent to which prior recommendations have been implemented and any other matters that the internal auditor brings to the attention of the Committee. The head of the internal audit function shall have unrestricted access to the Committee.
13. evaluate, annually or more frequently as it deems necessary, the internal audit function, including its activities, organizational structure, independence and the qualifications, effectiveness and adequacy of the function.

Oversight and Review of Accounting Principles and Practices

14. review and discuss with management, the external auditors and the internal auditors (together and separately as it deems necessary), among other items and matters:
 - (a) the quality, appropriateness and acceptability of the Company's accounting principles, practices and policies used in its financial reporting, its consistency from period to period, changes in the Company's accounting principles or practices and the application of particular accounting principles and disclosure practices by management to new transactions or events;
 - (b) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements and any "second opinions" sought by management from an external auditor with respect to the accounting treatment of a particular item;
 - (c) any material change to the Company's auditing and accounting principles and practices as recommended by management, the external auditors or the internal auditors or which may result from proposed changes to applicable generally accepted accounting principles;
 - (d) the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented;
 - (e) any reserves, accruals, provisions or estimates that may have a material effect upon the financial statements of the Company;
 - (f) the use of any "pro forma" or "adjusted" information which is not in accordance with generally accepted accounting principles;
 - (g) the effect of regulatory and accounting initiatives on the Company's financial statements and other financial disclosures; and
 - (h) legal matters, claims and contingencies that could have a significant impact on the Company's financial statements.
15. review and resolve disagreements between management and the external auditors regarding financial reporting or the application of any accounting principles or practices.

Oversight and Monitoring of Internal Controls

16. exercise oversight of, review and discuss with management, the external auditors and the internal auditors (together and separately, as it deems necessary):

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- (a) the adequacy and effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures designed to ensure compliance with applicable laws and regulations;
 - (b) any significant deficiencies or material weaknesses in internal control over financial reporting or disclosure controls and procedures, and the status of any plans for their remediation;
 - (c) the adequacy of the Company's internal controls and any related significant findings and recommendations of the external auditors and internal auditors together with management's responses thereto; and
 - (d) management's compliance with the Company's processes, procedures and internal controls.

Oversight and Monitoring of the Company's Financial Reporting and Disclosures

- 17. review with the external auditors and management and recommend to the Board for approval the audited annual financial statements and unaudited interim financial statements, and the notes and Managements' Discussion and Analysis accompanying all such financial statements, the Company's annual report and any other disclosure documents or regulatory filings containing or accompanying financial information of the Company, prior to the release of any summary of the financial results or the filing of such reports with applicable regulators.
- 18. discuss earnings press releases prior to their distribution, as well as financial information and earnings guidance prior to public disclosure, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Company gives earning guidance.
- 19. review with management the Company's disclosure controls and procedures and material changes to the design of the Company's disclosure controls and procedures.
- 20. receive and review the financial statements and other financial information of material subsidiaries of the Company and any auditor recommendations concerning such subsidiaries.
- 21. meet with management to review the adequacy of the process and systems in place for ensuring the reliability of public disclosure documents that contain audited and unaudited financial information.

Oversight of Finance Matters

22. periodically review matters pertaining to the Company's material policies and practices respecting cash management and material financing strategies or policies or proposed financing arrangements and objectives of the Company.
23. periodically review the Company's major financial risk exposures (including foreign exchange and interest rate) and management's initiatives to control such exposures, including the use of financial derivatives and hedging activities.
24. review and discuss with management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), leases and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves, or significant components of revenues or expenses.
25. review and discuss with management any equity investments, acquisitions and divestitures that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves, or significant components of revenues or expenses.
26. review and discuss with management the Company's effective tax rate, adequacy of tax reserves, tax payments and reporting of any pending tax audits or assessments, and material tax policies and tax planning initiatives.
27. review the organizational structure of the finance function and satisfy itself as to the qualifications, effectiveness and adequacy of the function.
28. review the work plan and progress on implementation of major information technology system changes and satisfy itself as to the adequacy of the information system infrastructure.

Regulatory Matters

29. review the financial impact to the Company of electrical regulatory initiatives.
30. review the financial impact to the Company of regulatory matters.
31. review the financial implications of Company initiatives which may have a material impact on transmission and distribution rate filing applications.

Code of Business Conduct, Whistleblower Policy and Fraud Risk Assessment Management Program

32. review and recommend to the Board for approval any changes to the Code of Business Conduct for employees, officers and directors of the Company.
33. review and approve changes to the whistleblower policy or other procedures for: (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
34. oversee management's monitoring of, compliance with the Company's Code of Business Conduct and the Whistleblower Policy.
35. oversee the Company's Fraud Risk Assessment Management Program and monitor management's compliance with that Program.

Enterprise Risk Management

36. review the Enterprise Risk Management framework for the Company and assess the adequacy and completeness of the process for identifying and assessing the key risks facing the Company.
37. meet with the head of the Enterprise Risk Management function at least semi-annually.
38. ensure that primary oversight responsibility for each of the key risks identified in the Enterprise Risk Management framework is assigned to the Board or one of its Committees.

Additional Responsibilities

39. review the Company's privacy and data security risk exposures and measures taken to protect the security and integrity of its management information systems and Company and customer data.
40. review and approve in advance any proposed related-party transactions and required disclosures of such in accordance with applicable securities laws and regulations and consistent with the Company's related party transaction policy, and report to the Board on any approved transactions.
41. review on an annual basis reports on the expense accounts of the Chief Executive Officer and his or her direct reports.
42. review the directors' and officers' insurance policies of the Company and make recommendations to the Board for approval of renewal of such policies or amendment or the replacement of the insurer.

43. undertake on behalf of the Board such other initiatives as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting and perform such other functions as required by law, stock exchange rules or the Company' s constating documents.

44. review annually the adequacy of this Mandate and ensure that it is disclosed in compliance with applicable securities laws and stock exchange rules and posted on the Company' s website.

Approved by the Board on February 13, 2018.

hydro**One**

**HYDRO ONE LIMITED
MANAGEMENT' S REPORT**

The Consolidated Financial Statements, Management' s Discussion and Analysis (MD&A) and related financial information have been prepared by the management of Hydro One Limited (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management' s judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 12, 2018.

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting as described in the annual MD&A. Management evaluated the effectiveness of the design and operation of internal control over financial reporting based on the framework and criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that the Company' s internal control over financial reporting was effective at a reasonable level of assurance as of December 31, 2017. As required, the results of that evaluation were reported to the Audit Committee of the Hydro One Board of Directors and the external auditors.

The Consolidated Financial Statements have been audited by KPMG LLP, independent external auditors appointed by the shareholders of the Company. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with United States Generally Accepted Accounting Principles. The Independent Auditors' Report outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control over reporting and disclosure. The Audit Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit findings.

On behalf of Hydro One' s management:



Mayo Schmidt
President and Chief Executive Officer



Christopher Lopez
Senior Vice President, Finance
acting in the capacity of chief financial officer

HYDRO ONE LIMITED INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hydro One Limited

We have audited the accompanying consolidated financial statements of Hydro One Limited, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro One Limited as at December 31, 2017 and December 31, 2016, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles.



Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 12, 2018

HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016

Year ended December 31 (millions of Canadian dollars, except per share amounts)	2017	2016
Revenues		
Distribution (includes \$279 related party revenues; 2016 - \$160) (Note 27)	4,366	4,915
Transmission (includes \$1,523 related party revenues; 2016 - \$1,553) (Note 27)	1,578	1,584
Other	46	53
	5,990	6,552
Costs		
Purchased power (includes \$1,594 related party costs; 2016 - \$2,103) (Note 27)	2,875	3,427
Operation, maintenance and administration (Note 27)	1,066	1,069
Depreciation and amortization (Note 5)	817	778
	4,758	5,274
Income before financing charges and income taxes	1,232	1,278
Financing charges (Note 6)	439	393
Income before income taxes	793	885
Income taxes (Note 7)	111	139
Net income	682	746
Other comprehensive income	1	–
Comprehensive income	683	746
Net income attributable to:		
Noncontrolling interest (Note 26)	6	6
Preferred shareholders	18	19
Common shareholders	658	721
	682	746
Comprehensive income attributable to:		
Noncontrolling interest (Note 26)	6	6
Preferred shareholders	18	19
Common shareholders	659	721
	683	746
Earnings per common share (Note 24)		
Basic	\$1.11	\$1.21
Diluted	\$1.10	\$1.21
Dividends per common share declared (Note 23)	\$0.87	\$0.97

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
CONSOLIDATED BALANCE SHEETS
At December 31, 2017 and 2016

December 31 (millions of Canadian dollars)	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	25	50
Accounts receivable (Note 8)	636	838
Due from related parties (Note 27)	253	158
Other current assets (Note 9)	105	102
	1,019	1,148
Property, plant and equipment (Note 10)	19,947	19,140
Other long-term assets:		
Regulatory assets (Note 12)	3,049	3,145
Deferred income tax assets (Note 7)	987	1,235
Intangible assets (Note 11)	369	349
Goodwill (Note 4)	325	327
Other assets	5	7
	4,735	5,063
Total assets	25,701	25,351
Liabilities		
Current liabilities:		
Short-term notes payable (Note 15)	926	469
Long-term debt payable within one year (Notes 15, 17)	752	602
Accounts payable and other current liabilities (Note 13)	905	945
Due to related parties (Note 27)	157	147
	2,740	2,163
Long-term liabilities:		
Long-term debt (includes \$541 measured at fair value; 2016 - \$548) (Notes 15, 17)	9,315	10,078
Convertible debentures (Notes 16, 17)	487	-
Regulatory liabilities (Note 12)	128	209
Deferred income tax liabilities (Note 7)	71	60
Other long-term liabilities (Note 14)	2,707	2,752
	12,708	13,099
Total liabilities	15,448	15,262
<i>Contingencies and Commitments (Notes 29, 30)</i>		
<i>Subsequent Events (Note 32)</i>		
Noncontrolling interest subject to redemption (Note 26)	22	22
Equity		
Common shares (Note 22)	5,631	5,623
Preferred shares (Note 22)	418	418
Additional paid-in capital (Note 25)	49	34
Retained earnings	4,090	3,950
Accumulated other comprehensive loss	(7)	(8)
Hydro One shareholders' equity	10,181	10,017
Noncontrolling interest (Note 26)	50	50
Total equity	10,231	10,067
	25,701	25,351

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:



David Denison
Chair



Philip Orsino
Chair, Audit Committee

HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016

Year ended December 31, 2017 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest (Note 26)	Total Equity
January 1, 2017	5,623	418	34	3,950	(8)	10,017	50	10,067
Net income	-	-	-	676	-	676	4	680
Other comprehensive income	-	-	-	-	1	1	-	1
Distributions to noncontrolling interest	-	-	-	-	-	-	(4)	(4)
Dividends on preferred shares	-	-	-	(18)	-	(18)	-	(18)
Dividends on common shares	-	-	-	(518)	-	(518)	-	(518)
Common shares issued	8	-	(8)	-	-	-	-	-
Stock-based compensation (Note 25)	-	-	23	-	-	23	-	23
December 31, 2017	5,631	418	49	4,090	(7)	10,181	50	10,231

Year ended December 31, 2016 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest (Note 26)	Total Equity
January 1, 2016	5,623	418	10	3,806	(8)	9,849	52	9,901
Net income	-	-	-	740	-	740	4	744
Other comprehensive income	-	-	-	-	-	-	-	-
Distributions to noncontrolling interest	-	-	-	-	-	-	(6)	(6)
Dividends on preferred shares	-	-	-	(19)	-	(19)	-	(19)
Dividends on common shares	-	-	-	(577)	-	(577)	-	(577)
Stock-based compensation (Note 25)	-	-	24	-	-	24	-	24
December 31, 2016	5,623	418	34	3,950	(8)	10,017	50	10,067

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

Year ended December 31 (millions of Canadian dollars)	2017	2016
Operating activities		
Net income	682	746
Environmental expenditures	(24)	(20)
Adjustments for non-cash items:		
Depreciation and amortization (excluding asset removal costs)	727	688
Regulatory assets and liabilities	112	(16)
Deferred income taxes	85	114
Other	21	10
Changes in non-cash balances related to operations (Note 28)	113	134
Net cash from operating activities	1,716	1,656
Financing activities		
Long-term debt issued	–	2,300
Long-term debt repaid	(602)	(502)
Short-term notes issued	3,795	3,031
Short-term notes repaid	(3,338)	(4,053)
Convertible debentures issued (Note 16)	513	–
Dividends paid	(536)	(596)
Distributions paid to noncontrolling interest	(6)	(9)
Other (Note 16)	(27)	(10)
Net cash from (used in) financing activities	(201)	161
Investing activities		
Capital expenditures (Note 28)		
Property, plant and equipment	(1,467)	(1,600)
Intangible assets	(80)	(61)
Acquisitions (Note 4)	–	(224)
Capital contributions received (Note 28)	9	21
Other	(2)	3
Net cash used in investing activities	(1,540)	(1,861)
Net change in cash and cash equivalents	(25)	(44)
Cash and cash equivalents, beginning of year	50	94
Cash and cash equivalents, end of year	25	50

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At December 31, 2017, the Province held approximately 47.4% (2016 - 70.1%) of the common shares of Hydro One.

The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These 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.

Use of Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumptions are made, with any adjustments being recognized in results of operations in the period they arise. Significant estimates relate to regulatory assets and regulatory liabilities, environmental liabilities, pension benefits, post-retirement and post-employment benefits, asset retirement obligations, goodwill and asset impairments, contingencies, unbilled revenues, and deferred income tax assets and liabilities. Actual results may differ significantly from these estimates.

Rate Setting

The Company's Transmission Business consists of the transmission business of Hydro One Inc., which includes the transmission business of Hydro One Networks Inc. (Hydro One Networks), Hydro One Sault Ste. Marie LP (HOSSM) (formerly Great Lakes Power Transmission LP), and its 66% interest in B2M Limited Partnership (B2M LP). The Company's Distribution Business consists of the distribution business of Hydro One Inc., which includes the distribution businesses of Hydro One Networks, as well as Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Transmission

In November 2017, the Ontario Energy Board (OEB) approved Hydro One Networks' 2017 transmission rates revenue requirement of \$1,438 million. See Note 12 - Regulatory Assets and Liabilities for additional information.

In December 2015, the OEB approved B2M LP's 2015-2019 rates revenue requirements of \$39 million, \$36 million, \$37 million, \$38 million and \$37 million for the respective years. On January 14, 2016, the OEB approved the B2M LP revenue requirement recovery through the 2016 Uniform Transmission Rates, and the establishment of a deferral account to capture costs of Tax Rate and Rule changes. On June 8, 2017, the OEB approved the 2017 rates revenue requirement of \$34 million, updated for the cost of capital parameters.

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

Distribution

In March 2015, the OEB approved Hydro One Networks' distribution revenue requirements of \$1,326 million for 2015, \$1,430 million for 2016 and \$1,486 million for 2017. The OEB has subsequently approved updated revenue requirements of \$1,410 million for 2016 and \$1,415 million for 2017.

On March 30, 2017, the OEB approved an increase of 1.9% to Hydro One Remote Communities' basic rates for the distribution and generation of electricity, with an effective date of May 1, 2017.

Regulatory Accounting

The OEB has the general power to include or exclude revenues, costs, gains or losses in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have been applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The

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Company's regulatory assets represent amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities that generally represent amounts that are refundable to future customers. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will include its regulatory assets and liabilities in setting future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in setting future rates, the appropriate carrying amount would be reflected in results of operations in the period that the assessment is made.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less.

Revenue Recognition

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential, and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Revenues are recorded net of indirect taxes.

Accounts Receivable and Allowance for Doubtful Accounts

Billed accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. Unbilled accounts receivable are recorded at their estimated value. Overdue amounts related to regulated billings bear interest at OEB-approved rates. The allowance for doubtful accounts reflects the Company's best estimate of losses on billed accounts receivable balances. The Company estimates the allowance for doubtful accounts on billed accounts receivable by applying internally developed loss rates to the outstanding receivable balances by aging category. Loss rates applied to the billed accounts receivable balances are based on historical overdue balances, customer payments and write-offs. Accounts receivable are written-off against the allowance when they are deemed uncollectible. The allowance for doubtful accounts is affected by changes in volume, prices and economic conditions.

Noncontrolling interest

Noncontrolling interest represents the portion of equity ownership in subsidiaries that is not attributable to shareholders of Hydro One. Noncontrolling interest is initially recorded at fair value and subsequently the amount is adjusted for the proportionate share of net income and other comprehensive income (OCI) attributable to the noncontrolling interest and any dividends or distributions paid to the noncontrolling interest.

If a transaction results in the acquisition of all, or part, of a noncontrolling interest in a subsidiary, the acquisition of the noncontrolling interest is accounted for as an equity transaction. No gain or loss is recognized in consolidated net income or comprehensive income as a result of changes in the noncontrolling interest, unless a change results in the loss of control by the Company.

Income Taxes

Current and deferred income taxes are computed based on the tax rates and tax laws enacted as at the balance sheet date. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the "more-likely-than-not" recognition threshold is satisfied and are measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. Significant management judgment is required to determine recognition thresholds and the related amount of tax benefits to be recognized in the Consolidated Financial Statements. Management re-evaluates tax positions each period using new information about recognition or measurement as it becomes available.

Deferred Income Taxes

Deferred income taxes are provided for using the liability method. Under this method, deferred income tax liabilities are recognized on all taxable temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are

recognized for deductible temporary differences between tax bases and carrying amounts of assets and liabilities, the carry forward unused tax credits and tax losses to the extent that it is more-likely-than-not that these deductions, credits, and losses

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can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates and tax laws that have been enacted as at the balance sheet date. Deferred income taxes that are not included in the rate-setting process are charged or credited to the Consolidated Statements of Operations and Comprehensive Income.

Management reassesses the deferred income tax assets at each balance sheet date and reduces the amount to the extent that it is more-likely-than-not that the deferred income tax asset will not be realized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more-likely-than-not that the tax benefit will be realized.

The Company records regulatory assets and liabilities associated with deferred income tax assets and liabilities that will be included in the rate-setting process.

The Company uses the flow-through method to account for investment tax credits (ITCs) earned on eligible scientific research and experimental development expenditures, and apprenticeship job creation. Under this method, only non-refundable ITCs are recognized as a reduction to income tax expense.

Materials and Supplies

Materials and supplies represent consumables, small spare parts and construction materials held for internal construction and maintenance of property, plant and equipment. These assets are carried at average cost less any impairments recorded.

Property, Plant and Equipment

Property, plant and equipment is recorded at original cost, net of customer contributions, and any accumulated impairment losses. The cost of additions, including betterments and replacement asset components, is included on the Consolidated Balance Sheets as property, plant and equipment.

The original cost of property, plant and equipment includes direct materials, direct labour (including employee benefits), contracted services, attributable capitalized financing costs, asset retirement costs, and direct and indirect overheads that are related to the capital project or program. Indirect overheads include a portion of corporate costs such as finance, treasury, human resources, information technology and executive costs. Overhead costs, including corporate functions and field services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology.

Property, plant and equipment in service consists of transmission, distribution, communication, administration and service assets and land easements. Property, plant and equipment also includes future use assets, such as land, major components and spare parts, and capitalized project development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity, such as transmission lines, support structures, foundations, insulators, connecting hardware and grounding systems, and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, including transformers, circuit breakers and switches.

Distribution

Distribution assets include assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include fibre optic and microwave radio systems, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, personal computers, transport and work equipment, tools and other minor assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other land access rights.

Intangible Assets

Intangible assets separately acquired or internally developed are measured on initial recognition at cost, which comprises purchased software, direct labour (including employee benefits), consulting, engineering, overheads and attributable capitalized financing charges.

Following initial recognition, intangible assets are carried at cost, net of any accumulated amortization and accumulated impairment losses. The Company' s intangible assets primarily represent major computer applications.

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Capitalized Financing Costs

Capitalized financing costs represent interest costs attributable to the construction of property, plant and equipment or development of intangible assets. The financing cost of attributable borrowed funds is capitalized as part of the acquisition cost of such assets. The capitalized financing costs are a reduction of financing charges recognized in the Consolidated Statements of Operations and Comprehensive Income. Capitalized financing costs are calculated using the Company's weighted average effective cost of debt.

Construction and Development in Progress

Construction and development in progress consists of the capitalized cost of constructed assets that are not yet complete and which have not yet been placed in service.

Depreciation and Amortization

The cost of property, plant and equipment and intangible assets is depreciated or amortized on a straight-line basis based on the estimated remaining service life of each asset category, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external independent review of its property, plant and equipment and intangible asset depreciation and amortization rates, as required by the OEB. Any changes arising from OEB approval of such a review are implemented on a remaining service life basis, consistent with their inclusion in electricity rates. The most recent reviews resulted in changes to rates effective January 1, 2015 and January 1, 2017 for Hydro One Networks' distribution and transmission businesses, respectively. A summary of average service lives and depreciation and amortization rates for the various classes of assets is included below:

	Average Service Life	Range	Rate Average
Property, plant and equipment:			
Transmission	55 years	1% - 3%	2%
Distribution	46 years	1% - 7%	2%
Communication	16 years	1% - 15%	6%
Administration and service	20 years	1% - 20%	6%
Intangible assets	10 years	10%	10%

In accordance with group depreciation practices, the original cost of property, plant and equipment, or major components thereof, and intangible assets that are normally retired, is charged to accumulated depreciation, with no gain or loss being reflected in results of operations. Where a disposition of property, plant and equipment occurs through sale, a gain or loss is calculated based on proceeds and such gain or loss is included in depreciation expense.

Acquisitions and Goodwill

The Company accounts for business acquisitions using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair value at the date of acquisition. Costs associated with pending acquisitions are expensed as incurred. Goodwill represents the cost of acquired companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date. Goodwill is not included in rate base.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. The Company performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount. If the Company determines, as a result of its qualitative assessment, that it is not more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, no further testing is required. If the Company determines, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of the applicable reporting unit is less than its carrying amount, a goodwill impairment assessment is performed using a two-step, fair value-based test. The first step compares the fair value of the applicable reporting unit to its carrying amount, including goodwill. If the carrying amount of the applicable reporting unit exceeds its fair value, a second step is performed. The second step requires an allocation of fair value to the individual assets and liabilities using purchase price allocation in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, an impairment loss is recorded as a reduction to goodwill and as a charge to results of operations.

Based on assessment performed as at September 30, 2017, the Company has concluded that goodwill was not impaired at December 31, 2017.

Long-Lived Asset Impairment

When circumstances indicate the carrying value of long-lived assets may not be recoverable, the Company evaluates whether the carrying value of such assets, excluding goodwill, has been impaired. For such long-lived assets, the Company evaluates whether impairment may exist by estimating future estimated undiscounted cash flows expected to result from the use and eventual disposition of the asset. When alternative courses of action to recover the carrying amount of a long-lived asset are under consideration, a probability-weighted approach is used to develop estimates of future undiscounted cash flows. If the carrying value of the long-lived

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asset is not recoverable based on the estimated future undiscounted cash flows, an impairment loss is recorded, measured as the excess of the carrying value of the asset over its fair value. As a result, the asset's carrying value is adjusted to its estimated fair value.

Within its regulated business, the carrying costs of most of Hydro One's long-lived assets are included in rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable.

Hydro One regularly monitors the assets of its unregulated Hydro One Telecom subsidiary for indications of impairment. Management assesses the fair value of such long-lived assets using commonly accepted techniques. Techniques used to determine fair value include, but are not limited to, the use of recent third-party comparable sales for reference and internally developed discounted cash flow analysis. Significant changes in market conditions, changes to the condition of an asset, or a change in management's intent to utilize the asset are generally viewed by management as triggering events to reassess the cash flows related to these long-lived assets. As at December 31, 2017 and 2016, no asset impairment had been recorded for assets within either the Company's regulated or unregulated businesses.

Costs of Arranging Debt Financing

For financial liabilities classified as other than held-for-trading and for convertible debentures, the Company defers the external transaction costs related to obtaining financing and presents such amounts net of related debt or convertible debentures on the Consolidated Balance Sheets. Deferred issuance costs are amortized over the contractual life of the related debt or convertible debentures on an effective-interest basis and the amortization is included within financing charges in the Consolidated Statements of Operations and Comprehensive Income. Transaction costs for items classified as held-for-trading are expensed immediately.

Comprehensive Income

Comprehensive income is comprised of net income and OCI. Hydro One presents net income and OCI in a single continuous Consolidated Statement of Operations and Comprehensive Income.

Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-to-maturity; loans and receivables; held-for-trading; other liabilities; or available-for-sale. Financial assets and liabilities classified as held-for-trading are measured at fair value. All other financial assets and liabilities are measured at amortized cost, except accounts receivable and amounts due from related parties, which are measured at the lower of cost or fair value. Accounts receivable and amounts due from related parties are classified as loans and receivables. The Company considers the carrying amounts of accounts receivable and amounts due from related parties to be reasonable estimates of fair value because of the short time to maturity of these instruments. Provisions for impaired accounts receivable are recognized as adjustments to the allowance for doubtful accounts and are recognized when there is objective evidence that the Company will not be able to collect amounts according to the original terms. All financial instrument transactions are recorded at trade date.

Derivative instruments are measured at fair value. Gains and losses from fair valuation are included within financing charges in the period in which they arise. The Company determines the classification of its financial assets and liabilities at the date of initial recognition. The Company designates certain of its financial assets and liabilities to be held at fair value, when it is consistent with the Company's risk management policy disclosed in Note 17 - Fair Value of Financial Instruments and Risk Management.

Derivative Instruments and Hedge Accounting

The Company closely monitors the risks associated with changes in interest rates on its operations and, where appropriate, uses various instruments to hedge these risks. Certain of these derivative instruments qualify for hedge accounting and are designated as accounting hedges, while others either do not qualify as hedges or have not been designated as hedges (hereinafter referred to as undesignated contracts) as they are part of economic hedging relationships.

The accounting guidance for derivative instruments requires the recognition of all derivative instruments not identified as meeting the normal purchase and sale exemption as either assets or liabilities recorded at fair value on the Consolidated Balance Sheets. For derivative instruments that qualify for hedge accounting, the Company may elect to designate such derivative instruments as either cash flow hedges or fair value hedges. The Company offsets fair value amounts recognized on its Consolidated Balance Sheets related to derivative instruments executed with the same counterparty under the same master netting agreement.

For derivative instruments that qualify for hedge accounting and which are designated as cash flow hedges, the effective portion of any gain or loss, net of tax, is reported as a component of accumulated OCI (AOCI) and is reclassified to results of operations in the same period or periods during which the hedged transaction affects results of operations. Any gains or losses on the derivative instrument that represent either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in results of operations. For fair value hedges, changes in fair value of both the derivative instrument and the underlying hedged exposure are recognized in the Consolidated Statements of Operations and Comprehensive Income in the current period. The gain or loss on the derivative instrument is included in the same line item as the offsetting gain or loss on the hedged item in

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the Consolidated Statements of Operations and Comprehensive Income. The changes in fair value of the undesignated derivative instruments are reflected in results of operations.

Embedded derivative instruments are separated from their host contracts and are carried at fair value on the Consolidated Balance Sheets when: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the hybrid instrument is not measured at fair value, with changes in fair value recognized in results of operations each period; and (c) the embedded derivative itself meets the definition of a derivative. The Company does not engage in derivative trading or speculative activities and had no embedded derivatives that required bifurcation at December 31, 2017 or 2016.

Hydro One periodically develops hedging strategies taking into account risk management objectives. At the inception of a hedging relationship where the Company has elected to apply hedge accounting, Hydro One formally documents the relationship between the hedged item and the hedging instrument, the related risk management objective, the nature of the specific risk exposure being hedged, and the method for assessing the effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on a quarterly basis, whether the hedging instruments are effective in offsetting changes in fair values or cash flows of the hedged items.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, post-retirement and post-employment benefits. The costs of the Company's pension, post-retirement and post-employment benefit plans are recorded over the periods during which employees render service.

The Company recognizes the funded status of its defined benefit pension, post-retirement and post-employment plans on its Consolidated Balance Sheets and subsequently recognizes the changes in funded status at the end of each reporting year. Defined benefit pension, post-retirement and post-employment plans are considered to be underfunded when the projected benefit obligation exceeds the fair value of the plan assets. Liabilities are recognized on the Consolidated Balance Sheets for any net underfunded projected benefit obligation. The net underfunded projected benefit obligation may be disclosed as a current liability, long-term liability, or both. The current portion is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months exceeds the fair value of plan assets. If the fair value of plan assets exceeds the projected benefit obligation of the plan, an asset is recognized equal to the net overfunded projected benefit obligation. The post-retirement and post-employment benefit plans are unfunded because there are no related plan assets.

Hydro One recognizes its contributions to the defined contribution pension plan as pension expense, with a portion being capitalized as part of labour costs included in capital expenditures. The expensed amount is included in operation, maintenance and administration costs in the Consolidated Statements of Operations and Comprehensive Income.

Defined Benefit Pension

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Pension costs are actuarially determined using the projected benefit method prorated on service and are based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases. Past service costs from plan amendments and all actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees in the plan, and over the estimated remaining life expectancy of inactive employees in the plan. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are fair valued at the end of each year. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its pension plan.

Post-retirement and Post-employment Benefits

Post-retirement and post-employment benefits are recorded and included in rates on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments are amortized to results of operations based on the expected average remaining service period.

For post-retirement benefits, all actuarial gains or losses are deferred using the "corridor" approach. The amount calculated above the "corridor" is amortized to results of operations on a straight-line basis over the expected average remaining service life of active employees in the plan and over the remaining life expectancy of inactive employees in the plan. The post-retirement benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

For post-employment obligations, the associated regulatory liabilities representing actuarial gains on transition to US GAAP are amortized to results of operations based on the "corridor" approach. The actuarial gains and losses on post-employment obligations that are incurred during the year are recognized immediately to results of operations. The post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment.

All post-retirement and post-employment future benefit costs are attributed to labour and are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets.



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Stock-Based Compensation

Share Grant Plans

Hydro One measures share grant plans based on fair value of share grants as estimated based on the grant date common share price. The costs are recognized in the financial statements using the graded-vesting attribution method for share grant plans that have both a performance condition and a service condition. The Company records a regulatory asset equal to the accrued costs of share grant plans recognized in each period. Costs are transferred from the regulatory asset to labour costs at the time the share grants vest and are issued, and are recovered in rates. Forfeitures are recognized as they occur.

Deferred Share Unit (DSU) Plans

The Company records the liabilities associated with its Directors' and Management DSU Plans at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the DSU liability is based on the Company's common share closing price at the end of each reporting period.

Long-term Incentive Plan (LTIP)

The Company measures the restricted share units (RSUs) and performance share units (PSUs), issued under its LTIP, at fair value based on the grant date common share price. The related compensation expense is recognized over the vesting period on a straight-line basis. Forfeitures are recognized as they occur.

Loss Contingencies

Hydro One is involved in certain legal and environmental matters that arise in the normal course of business. In the preparation of its Consolidated Financial Statements, management makes judgments regarding the future outcome of contingent events and records a loss for a contingency based on its best estimate when it is determined that such loss is probable and the amount of the loss can be reasonably estimated. Where the loss amount is recoverable in future rates, a regulatory asset is also recorded. When a range estimate for the probable loss exists and no amount within the range is a better estimate than any other amount, the Company records a loss at the minimum amount within the range.

Management regularly reviews current information available to determine whether recorded provisions should be adjusted and whether new provisions are required. Estimating probable losses may require analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, provincial and local courts or regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the Consolidated Financial Statements may differ from the actual outcome once the contingency is resolved. Such differences could have a material impact on future results of operations, financial position and cash flows of the Company.

Provisions are based upon current estimates and are subject to greater uncertainty where the projection period is lengthy. A significant upward or downward trend in the number of claims filed, the nature of the alleged injuries, and the average cost of resolving each claim could change the estimated provision, as could any substantial adverse or favourable verdict at trial. A federal or provincial legislative outcome or structured settlement could also change the estimated liability. Legal fees are expensed as incurred.

Environmental Liabilities

Environmental liabilities are recorded in respect of past contamination when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated. Hydro One records a liability for the estimated future expenditures associated with contaminated land assessment and remediation and for the phase-out and destruction of polychlorinated biphenyl (PCB)-contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. The Company determines the present value with a discount rate equal to its credit-adjusted risk-free interest rate on financial instruments with comparable maturities to the pattern of future environmental expenditures. As the Company anticipates that the future expenditures will continue to be recoverable in future rates, an offsetting regulatory asset has been recorded to reflect the future recovery of these environmental expenditures from customers. Hydro One reviews its estimates of future environmental expenditures annually, or more frequently if there are indications that circumstances have changed.

Asset Retirement Obligations

Asset retirement obligations are recorded for legal obligations associated with the future removal and disposal of long-lived assets. Such obligations may result from the acquisition, construction, development and/or normal use of the asset. Conditional asset retirement obligations are recorded when there is a legal obligation to perform a future asset retirement activity but where the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. In such a case, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

When recording an asset retirement obligation, the present value of the estimated future expenditures required to complete the asset retirement activity is recorded in the period in which the obligation is incurred, if a reasonable estimate can be made. In general, the present value of the estimated future expenditures is added to the carrying amount of the associated asset and the

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resulting asset retirement cost is depreciated over the estimated useful life of the asset. Where an asset is no longer in service when an asset retirement obligation is recorded, the asset retirement cost is recorded in results of operations.

Some of the Company's transmission and distribution assets, particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no asset retirement obligations have been recorded for these assets. If, at some future date, a particular facility is shown not to meet the perpetuity assumption, it will be reviewed to determine whether an estimable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time.

The Company's asset retirement obligations recorded to date relate to estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-06	March 2016	Contingent call (put) options that are assessed to accelerate the payment of principal on debt instruments need to meet the criteria of being "clearly and closely related" to their debt hosts.	January 1, 2017	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05 2017-10 2017-13 2017-14	May 2014 - November 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 all its revenue streams and has concluded that there will be no material impact upon adoption.
2016-02 2018-01	February 2016 - January 2018	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. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.	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.
2016-15	August 2016	The amendments provide guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	No material impact
2017-01	January 2017	The amendment clarifies the definition of a business and provides additional guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	No material impact
2017-04	January 2017	The amendment removes the second step of the current two-step goodwill impairment test to simplify the process of testing goodwill.	January 1, 2020	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	Hydro One has applied for a regulatory deferral account to maintain the capitalization of OPEB related costs. As such, there will be no material impact.
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HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

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	No impact
2017-11	July 2017	When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock.	January 1, 2019	Under assessment
2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.	January 1, 2019	Under assessment

4. BUSINESS COMBINATIONS

Avista Corporation Purchase Agreement

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately \$6.7 billion in an all-cash transaction. Avista Corporation is an investor-owned utility providing electric generation, transmission, and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger is subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions. See Note 16 - Convertible Debentures and Note 17 - Fair Value of Financial Instruments and Risk Management for details of convertible debentures and foreign exchange contract, respectively, related to financing of the Merger.

Acquisition of HOSSM

On October 31, 2016, Hydro One acquired HOSSM, an Ontario regulated electricity transmission business operating along the eastern shore of Lake Superior, north and east of Sault Ste. Marie, Ontario from Brookfield Infrastructure Holdings Inc. The total purchase price for HOSSM was approximately \$376 million, including the assumption of approximately \$150 million in outstanding indebtedness. During 2017, the Company completed the final determination of the fair value of assets acquired and liabilities assumed with no significant changes, which resulted in a total goodwill of approximately \$157 million arising from the HOSSM acquisition. The difference between the preliminary and final purchase price allocation to fair value of assets acquired and liabilities related to a \$2 million decrease in deferred income tax liabilities which resulted in a corresponding decrease to goodwill. The following table summarizes the final fair value of the assets acquired and liabilities assumed:

(millions of dollars)

Cash and cash equivalents	5
Property, plant and equipment	221
Intangible assets	1
Regulatory assets	50
Goodwill	157
Working capital	(2)
Long-term debt	(186)
Pension and post-employment benefit liabilities, net	(5)
Deferred income taxes	(15)
	226

Goodwill arising from the HOSSM acquisition consists largely of the synergies and economies of scale expected from combining the operations of Hydro One and HOSSM. HOSSM contributed revenues of \$6 million and less than \$1 million of net income to the Company's consolidated financial results for the year ended December 31, 2016. All costs related to the acquisition have been expensed through the Consolidated Statements of Operations and Comprehensive Income. HOSSM's financial information was not material to the Company's consolidated financial results for the year ended December 31, 2016 and therefore, has not been disclosed on a pro forma basis.

Agreement to Purchase Orillia Power

On August 15, 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for approximately \$41 million, including the assumption of approximately \$15 million in outstanding indebtedness and regulatory liabilities, subject to closing adjustments. The acquisition is subject to regulatory approval by the OEB.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

5. DEPRECIATION AND AMORTIZATION

Year ended December 31 (millions of dollars)	2017	2016
Depreciation of property, plant and equipment	641	612
Asset removal costs	90	90
Amortization of intangible assets	62	56
Amortization of regulatory assets	24	20
	817	778

6. FINANCING CHARGES

Year ended December 31 (millions of dollars)	2017	2016
Interest on long-term debt	450	424
Interest on convertible debentures	24	–
Interest on short-term notes	6	9
Unrealized loss on foreign exchange contract	3	–
Other	14	16
Less: Interest capitalized on construction and development in progress	(56)	(54)
Interest earned on cash and cash equivalents	(2)	(2)
	439	393

7. INCOME TAXES

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

Year ended December 31 (millions of dollars)	2017	2016
Income before income taxes	793	885
Income taxes at statutory rate of 26.5% (2016 - 26.5%)	210	235
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(55)	(53)
Pension contributions in excess of pension expense	(13)	(16)
Overheads capitalized for accounting but deducted for tax purposes	(17)	(16)
Interest capitalized for accounting but deducted for tax purposes	(15)	(14)
Environmental expenditures	(6)	(5)
Other	3	5
Net temporary differences	(103)	(99)
Net permanent differences	4	3
Total income taxes	111	139

The major components of income tax expense are as follows:

Year ended December 31 (millions of dollars)	2017	2016
Current income taxes	26	25
Deferred income taxes	85	114
Total income taxes	111	139
Effective income tax rate	14.0%	15.7%

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities expected to be included in the rate-setting process are offset by regulatory assets and liabilities to reflect the anticipated recovery or disposition of these balances within future electricity rates. Deferred income tax assets and liabilities arise from differences between the tax basis and the carrying amounts of the assets and liabilities. At December 31, 2017 and 2016, deferred income tax assets and liabilities consisted of the following:

December 31 (millions of dollars)	2017	2016
Deferred income tax assets		
Depreciation and amortization in excess of capital cost allowance	125	495
Non-depreciable capital property	271	271
Post-retirement and post-employment benefits expense in excess of cash payments	561	607
Environmental expenditures	71	74
Non-capital losses	255	213
Tax credit carryforwards	49	27
Investment in subsidiaries	84	75
Other	13	3
	1,429	1,765
Less: valuation allowance	(364)	(352)
Total deferred income tax assets	1,065	1,413
Less: current portion	-	-
	1,065	1,413
Deferred income tax liabilities		
Regulatory amounts that are not recognized for tax purposes	(47)	(153)
Goodwill	(10)	(10)
Capital cost allowance in excess of depreciation and amortization	(75)	(64)
Other	(17)	(11)
Total deferred income tax liabilities	(149)	(238)
Less: current portion	-	-
	(149)	(238)
Net deferred income tax assets	916	1,175

The net deferred income tax assets are presented on the Consolidated Balance Sheets as follows:

December 31 (millions of dollars)	2017	2016
Long-term:		
Deferred income tax assets	987	1,235
Deferred income tax liabilities	(71)	(60)
Net deferred income tax assets	916	1,175

The valuation allowance for deferred tax assets as at December 31, 2017 was \$364 million (2016 - \$352 million). The valuation allowance primarily relates to temporary differences for non-depreciable assets and investments in subsidiaries. As of December 31, 2017 and 2016, the Company had non-capital losses carried forward available to reduce future years' taxable income, which expire as follows:

Year of expiry (millions of dollars)	2017	2016
2034	2	2
2035	222	222
2036	560	580
2037	175	-
Total losses	959	804

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

8. ACCOUNTS RECEIVABLE

December 31 (millions of dollars)	2017	2016
Accounts receivable - billed	298	431
Accounts receivable - unbilled	367	442
Accounts receivable, gross	665	873
Allowance for doubtful accounts	(29)	(35)
Accounts receivable, net	636	838

The following table shows the movements in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016:

Year ended December 31 (millions of dollars)	2017	2016
Allowance for doubtful accounts - beginning	(35)	(61)
Write-offs	25	37
Additions to allowance for doubtful accounts	(19)	(11)
Allowance for doubtful accounts - ending	(29)	(35)

9. OTHER CURRENT ASSETS

December 31 (millions of dollars)	2017	2016
Regulatory assets (Note 12)	46	37
Materials and supplies	18	19
Prepaid expenses and other assets	41	46
	105	102

10. PROPERTY, PLANT AND EQUIPMENT

December 31, 2017 (millions of dollars)	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	15,509	5,162	989	11,336
Distribution	10,213	3,513	149	6,849
Communication	1,266	853	31	444
Administration and service	1,561	857	46	750
Easements	638	70	-	568
	29,187	10,455	1,215	19,947

December 31, 2016 (millions of dollars)	Property, Plant and Equipment	Accumulated Depreciation	Construction in Progress	Total
Transmission	14,692	4,862	910	10,740
Distribution	9,656	3,305	243	6,594
Communication	1,233	777	20	476
Administration and service	1,632	924	61	769
Easements	628	67	-	561
	27,841	9,935	1,234	19,140

Financing charges capitalized on property, plant and equipment under construction were \$54 million in 2017 (2016 - \$52 million).

11. INTANGIBLE ASSETS

December 31, 2017 (millions of dollars)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	698	370	41	369
Other	5	5	-	-
	703	375	41	369

December 31, 2016 (millions of dollars)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
Computer applications software	621	326	53	348

Other	5	4	-	1
	626	330	53	349



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

Financing charges capitalized to intangible assets under development were \$2 million in 2017 (2016 - \$2 million). The estimated annual amortization expense for intangible assets is as follows: 2018 - \$67 million; 2019 - \$57 million; 2020 - \$40 million; 2021 - \$39 million; and 2022 - \$36 million.

12. REGULATORY ASSETS AND LIABILITIES

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

December 31 (millions of dollars)	2017	2016
Regulatory assets:		
Deferred income tax regulatory asset	1,762	1,587
Pension benefit regulatory asset	981	900
Post-retirement and post-employment benefits	36	243
Environmental	196	204
Share-based compensation	40	31
Debt premium	27	32
Foregone revenue deferral	23	-
Distribution system code exemption	10	10
B2M LP start-up costs	4	5
Retail settlement variance account	-	145
2015-2017 rate rider	-	7
Pension cost variance	-	4
Other	16	14
Total regulatory assets	3,095	3,182
Less: current portion	(46)	(37)
	3,049	3,145
Regulatory liabilities:		
Green Energy expenditure variance	60	69
External revenue variance	46	64
CDM deferral variance	28	54
Pension cost variance	23	-
2015-2017 rate rider	6	-
Deferred income tax regulatory liability	5	4
Other	17	18
Total regulatory liabilities	185	209
Less: current portion	(57)	-
	128	209

Deferred Income Tax Regulatory Asset and Liability

Deferred income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The Company has recognized regulatory assets and liabilities that correspond to deferred income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's income tax expense would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the 2017 income tax expense would have been higher by approximately \$113 million (2016 - \$104 million).

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately \$370 million related to Hydro One Networks' distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which is scheduled for mid-February 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination

of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at



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this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

Pension Benefit Regulatory Asset

In accordance with OEB rate orders, pension costs are recovered on a cash basis as employer contributions are paid to the pension fund in accordance with the Pension Benefits Act (Ontario). The Company recognizes the net unfunded status of pension obligations on the Consolidated Balance Sheets with an offset to the associated regulatory asset. A regulatory asset is recognized because management considers it to be probable that pension benefit costs will be recovered in the future through the rate-setting process. The pension benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, OCI would have been lower by \$80 million and operation, maintenance and administration expenses would have been higher by \$1 million (2016 - OCI higher by \$52 million).

Post-Retirement and Post-Employment Benefits

The Company recognizes the net unfunded status of post-retirement and post-employment obligations on the Consolidated Balance Sheets with an incremental offset to the associated regulatory assets. A regulatory asset is recognized because management considers it to be probable that post-retirement and post-employment benefit costs will be recovered in the future through the rate-setting process. The post-retirement and post-employment benefit obligation is remeasured to its fair value at each year end based on an annual actuarial report, with an offset to the associated regulatory asset, to the extent of the remeasurement adjustment. In the absence of rate-regulated accounting, 2017 OCI would have been higher by \$207 million (2016 - lower by \$3 million).

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2017, the environmental regulatory asset increased by \$1 million (2016 - decreased by \$1 million) to reflect related changes in the Company's PCB liability, and increased by \$7 million (2016 - \$10 million) due to changes in the land assessment and remediation liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred and charged to environmental liabilities. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of Hydro One's actual environmental expenditures. In the absence of rate-regulated accounting, 2017 operation, maintenance and administration expenses would have been higher by \$8 million (2016 - \$9 million). In addition, 2017 amortization expense would have been lower by \$24 million (2016 - \$20 million), and 2017 financing charges would have been higher by \$8 million (2016 - \$8 million).

Share-based Compensation

The Company recognizes costs associated with share grant plans in a regulatory asset as management considers it probable that share grant plans' costs will be recovered in the future through the rate-setting process. In the absence of rate-regulated accounting, 2017 operation, maintenance and administration expenses would have been higher by \$8 million (2016 - \$9 million). Share grant costs are transferred to labour costs at the time the share grants vest and are issued, and are recovered in rates in accordance with recovery of said labour costs.

Debt Premium

The value of debt assumed in the acquisition of HOSSM has been recorded at fair value in accordance with US GAAP - Business Combinations. The OEB allows for recovery of interest at the coupon rate of the Senior Secured Bonds and a regulatory asset has been recorded for the difference between the fair value and face value of this debt. The debt premium is recovered over the remaining term of the debt.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks' transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The OEB approved a similar account for B2M LP in June 2017 to record the difference between revenue earned under the newly approved rates, effective January 1, 2017, and the revenue recorded under the interim 2017 rates. The balances of these accounts will be returned to or recovered from ratepayers, respectively, over a one-year period ending December 31, 2018. The draft rate order submitted by Hydro One Networks was approved by the OEB in November, 2017. This draft rate order reflects the September 2017 decision, including a reduction of the amount of cash taxes approved for recovery in transmission rates due to the OEB's basis to share the savings resulting from a deferred tax asset with ratepayers. The Company's position in the aforementioned Motion is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and

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ratepayers. Therefore, the Company has also reflected the impact of the Company's position with respect to the Motion in the Foregone Revenue Deferral account. The timing for recovery of this impact will be determined as part of the outcome of the Motion.

Distribution System Code (DSC) Exemption

In June 2010, Hydro One Networks filed an application with the OEB regarding the OEB's new cost responsibility rules contained in the OEB's October 2009 Notice of Amendment to the DSC, with respect to the connection of certain renewable generators that were already connected or that had received a connection impact assessment prior to October 21, 2009. The application sought approval to record and defer the unanticipated costs incurred by Hydro One Networks that resulted from the connection of certain renewable generation facilities. The OEB ruled that identified specific expenditures can be recorded in a deferral account subject to the OEB's review in subsequent Hydro One Networks distribution applications. In March 2015, the OEB approved the disposition of the DSC exemption deferral account balance at December 31, 2013, including accrued interest, which was recovered through the 2015-2017 Rate Rider. In addition, the OEB also approved Hydro One's request to discontinue this deferral account. There were no additions to this regulatory account in 2017 or 2016. The remaining balance in this account at December 31, 2016, including accrued interest, was requested for recovery through the 2018-2022 distribution rate application.

B2M LP Start-up Costs

In December 2015, OEB issued its decision on B2M LP's application for 2015-2019 and as part of the decision approved the recovery of \$8 million of start-up costs relating to B2M LP. The costs are being recovered over a four-year period which began in 2016, in accordance with the OEB decision.

Retail Settlement Variance Account (RSVA)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook. In March 2015, the OEB approved the disposition of the total RSVA balance accumulated from January 2012 to December 2013, including accrued interest, to be recovered through the 2015-2017 Rate Rider.

2015-2017 Rate Rider

In March 2015, as part of its decision on Hydro One Networks' distribution rate application for 2015-2019, the OEB approved the disposition of certain deferral and variance accounts, including RSVAs and accrued interest. The 2015-2017 Rate Rider account included the balances approved for disposition by the OEB and was disposed of in accordance with the OEB decision over a 32-month period ended on December 31, 2017. The balance remaining in the account represents an over-collection to be returned to ratepayers in a future rate application. We have not requested recovery of the remaining balance of this account in the current distribution rate application.

Pension Cost Variance

A pension cost variance account was established for Hydro One Networks' transmission and distribution businesses to track the difference between the actual pension expenses incurred and estimated pension costs approved by the OEB. The balance in this regulatory account reflects the deficit of pension costs paid as compared to OEB-approved amounts. In March 2015, the OEB approved the disposition of the distribution business portion of the total pension cost variance account at December 31, 2013, including accrued interest, which was recovered through the 2015-2017 Rate Rider. In September 2017, the OEB approved the disposition of the transmission business portion of the total pension cost variance account as at December 31, 2015, including accrued interest, which is being recovered over a two-year period ending December 31, 2018. In the absence of rate-regulated accounting, 2017 revenue would have been higher by \$24 million (2016 - \$25 million).

Green Energy Expenditure Variance

In April 2010, the OEB requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and the actual recoveries received.

External Revenue Variance

In May 2009, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use, and external revenue from station maintenance and engineering and construction work. In November 2012, the OEB again approved forecasted amounts related to these revenue categories and extended the scope to encompass all other external revenues. The external revenue variance account balance reflects the excess of actual external revenues compared to the OEB-approved forecasted amounts. In September 2017, the OEB approved the disposition of the external revenue variance account as at December 31, 2015, including accrued interest, which is being returned to customers over a two-year period ending December 31, 2018.

CDM Deferral Variance Account

As part of Hydro One Networks' application for 2013 and 2014 transmission rates, Hydro One agreed to establish a new regulatory deferral variance account to track the impact of actual Conservation and Demand Management (CDM) and demand response results on the load forecast compared to the estimated load forecast included in the revenue requirement. The balance in the CDM deferral variance account relates to the actual 2013 and 2014 CDM compared to the amounts included in 2013 and 2014 revenue

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requirements, respectively. There were no additions to this regulatory account in 2017 or 2016. The balance of the account at December 31, 2015, including interest, was approved for disposition in the 2017-2018 transmission rate decision and is currently being drawn down over a 2-year period ending December 31, 2018.

13. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

December 31 (millions of dollars)	2017	2016
Accounts payable	177	181
Accrued liabilities	572	659
Accrued interest	99	105
Regulatory liabilities (Note 12)	57	–
	905	945

14. OTHER LONG-TERM LIABILITIES

December 31 (millions of dollars)	2017	2016
Post-retirement and post-employment benefit liability (Note 19)	1,519	1,641
Pension benefit liability (Note 19)	981	900
Environmental liabilities (Note 20)	168	177
Asset retirement obligations (Note 21)	9	9
Long-term accounts payable and other liabilities	30	25
	2,707	2,752

15. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of \$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 December 31, 2017, Hydro One's consolidated committed, unsecured and undrawn credit facilities totalling \$2,550 million consisted of the following:

<i>(millions of dollars)</i>	Maturity	Amount
Hydro One Inc.		
Revolving standby credit facility	June 2022 ¹	2,300
Hydro One		
Five-year senior, revolving term credit facility	November 2021	250
Total		2,550

¹ In June 2017, the maturity date of Hydro One Inc.'s \$2.3 billion credit facilities was extended from June 2021 to June 2022.

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

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Long-Term Debt

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

December 31 (millions of dollars)	2017	2016
5.18% Series 13 notes due 2017	–	600
2.78% Series 28 notes due 2018	750	750
Floating-rate Series 31 notes due 2019 ¹	228	228
1.48% Series 37 notes due 2019 ²	500	500
4.40% Series 20 notes due 2020	300	300
1.62% Series 33 notes due 2020 ²	350	350
1.84% Series 34 notes due 2021	500	500
3.20% Series 25 notes due 2022	600	600
2.77% Series 35 notes due 2026	500	500
7.35% Debentures due 2030	400	400
6.93% Series 2 notes due 2032	500	500
6.35% Series 4 notes due 2034	385	385
5.36% Series 9 notes due 2036	600	600
4.89% Series 12 notes due 2037	400	400
6.03% Series 17 notes due 2039	300	300
5.49% Series 18 notes due 2040	500	500
4.39% Series 23 notes due 2041	300	300
6.59% Series 5 notes due 2043	315	315
4.59% Series 29 notes due 2043	435	435
4.17% Series 32 notes due 2044	350	350
5.00% Series 11 notes due 2046	325	325
3.91% Series 36 notes due 2046	350	350
3.72% Series 38 notes due 2047	450	450
4.00% Series 24 notes due 2051	225	225
3.79% Series 26 notes due 2062	310	310
4.29% Series 30 notes due 2064	50	50
Hydro One Inc. long-term debt (a)	9,923	10,523
6.6% Senior Secured Bonds due 2023 (Face value - \$110 million)	136	144
4.6% Note Payable due 2023 (Face value - \$36 million)	40	40
HOSSM long-term debt (b)	176	184
	10,099	10,707
Add: Net unamortized debt premiums	14	15
Add: Unrealized mark-to-market gain ²	(9)	(2)
Less: Deferred debt issuance costs	(37)	(40)
Total long-term debt	10,067	10,680

¹ The interest rates of the floating-rate notes are referenced to the three-month Canadian dollar bankers' acceptance rate, plus a margin.

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

(a) Hydro One Inc. long-term debt

At December 31, 2017, long-term debt of \$9,923 million (2016 - \$10,523 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in December 2015 is \$3.5 billion. At December 31 2017, \$1.2 billion remained available for issuance until January 2018. In 2017, no long-term debt was issued and \$600 million of long-term debt was repaid under the MTN Program (2016 - \$2,300 million issued and \$500 million repaid).

(b) HOSSM long-term debt

At December 31, 2017, long-term debt of \$176 million (2016 - \$184 million), with a face value of \$146 million (2016 - \$148 million) was held by HOSSM. In 2017, \$2 million of HOSSM long-term debt was repaid (2016 - \$2 million).

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The total long-term debt is presented on the consolidated balance sheets as follows:

December 31 (millions of dollars)	2017	2016
Current liabilities:		
Long-term debt payable within one year	752	602
Long-term liabilities:		
Long-term debt	9,315	10,078
Total long-term debt	10,067	10,680

Principal and Interest Payments

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

Years to Maturity	Long-term Debt Principal Repayments (millions of dollars)	Weighted Average Interest Rate (%)
1 year	752	2.8
2 years	731	1.6
3 years	653	2.9
4 years	503	1.9
5 years	604	3.2
	3,243	2.5
6 - 10 years	631	3.5
Over 10 years	6,195	5.2
	10,069	4.2

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

Year	Interest Payments (millions of dollars)
2018	426
2019	402
2020	384
2021	370
2022	355
	1,937
2023-2027	1,672
2028+	4,081
	7,690

16. CONVERTIBLE DEBENTURES

(millions of dollars, except as otherwise noted)

Maturity date	September 30, 2027
Coupon rate	4.00%
Conversion price per common share	\$ 21.40
Carrying value at December 31, 2016	-
Receipt of Initial Instalment, net of deferred financing costs	486
Amortization of deferred financing costs	1
Carrying value at December 31, 2017	487
Face value at December 31, 2017	513

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

The Convertible Debentures were sold on an instalment basis at a price of \$1,000 per Convertible Debenture, of which \$333 (Initial Instalment) was paid on closing of the Debenture Offering and the remaining \$667 (Final Instalment) is payable on a date (Final Instalment Date) to be fixed by the Company following satisfaction of conditions precedent to the closing of the acquisition of Avista Corporation. The gross proceeds received from the Initial Instalment were \$513 million. The Company incurred financing costs of

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\$27 million, which are being amortized to financing charges over approximately 10 years, the contractual term of the Convertible Debentures, using the effective interest rate method.

The Convertible Debentures will mature on September 30, 2027. A coupon rate of 4% is paid on the \$1,540 million aggregate principal amount of the Convertible Debentures, and based on the carrying value of the Initial Instalment, this translates into an effective annual yield of 12%. After the Final Instalment Date, the interest rate will be 0%. The interest expense recorded in 2017 is \$24 million.

If the Final Instalment Date occurs on a day that is prior to the first anniversary of the closing of the Debenture Offering, holders of the Convertible Debentures who have paid the Final Instalment on or before the Final Instalment Date will be entitled to receive, in addition to the payment of accrued and unpaid interest to and including the Final Instalment Date, an amount equal to the interest that would have accrued from the day following the Final Instalment Date to and including the first anniversary of the closing of the Debenture Offering had the Convertible Debentures remained outstanding and continued to accrue interest until and including such date (Make-Whole Payment). No Make-Whole Payment will be payable if the Final Instalment Date occurs on or after the first anniversary of the closing of the Debenture Offering.

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

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

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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received in the sale of an asset or the amount that would be paid to transfer a liability.

Hydro One classifies its fair value measurements based on the following hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Hydro One has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs are those other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest-rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A Level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 inputs are any fair value measurements that include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A Level 3 measurement may be based primarily on Level 2 inputs.

Non-Derivative Financial Assets and Liabilities

At December 31, 2017 and 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.

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Fair Value Measurements of Long-Term Debt

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

December 31 (millions of dollars)	2017 Carrying Value	2017 Fair Value	2016 Carrying Value	2016 Fair Value
\$50 million of MTN Series 33 notes	49	49	50	50
\$500 million MTN Series 37 notes	492	492	498	498
Other notes and debentures	9,526	11,027	10,132	11,462
Long-term debt, including current portion	10,067	11,568	10,680	12,010

Fair Value Measurements of Derivative Instruments

At December 31, 2017, Hydro One Inc. had interest-rate swaps in the amount of \$550 million (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 6% (2016 - 5%) of its total long-term debt. At December 31, 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 December 31, 2017 and 2016, the Company had no interest-rate swaps classified as undesignated contracts.

In October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract is contingent on the Company closing the proposed Avista Corporation acquisition (see Note 4 - Business Combinations) and is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures (see Note 16 - Convertible Debentures). If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed upon approval of the acquisition up to March 31, 2019. This contract is an economic hedge and does not qualify for hedge accounting. It has been accounted for as an undesignated contract.

Fair Value Hierarchy

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

December 31, 2017 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	25	25	25	-	-
	25	25	25	-	-

Liabilities:					
Short-term notes payable	926	926	926	-	-
Long-term debt, including current portion	10,067	11,568	-	11,568	-
Convertible debentures	487	574	574	-	-
Derivative instruments					
Fair value hedges - interest-rate swaps	9	9	9	-	-
Foreign exchange contract	3	3	-	-	3
	11,492	13,080	1,509	11,568	3

December 31, 2016 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	50	50	50	-	-
	50	50	50	-	-

Liabilities:					
Short-term notes payable	469	469	469	-	-
Long-term debt, including current portion	10,680	12,010	-	12,010	-
Derivative instruments					
Fair value hedges - interest-rate swaps	2	2	2	-	-



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

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

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

The Company uses derivative instruments as an economic hedge for foreign exchange risk. The value of the foreign exchange contract is derived using valuation models commonly used for derivatives. These valuation models require a variety of inputs, including contractual terms, forward price yield curves, probability of closing the Avista Corporation acquisition, and the contract settlement of date. The Company's valuation models also reflect measurements for credit risk. The fair value of the foreign exchange contract includes significant unobservable inputs, and therefore has been classified accordingly as Level 3. The significant unobservable inputs used in the fair value measurement of the foreign exchange contract relates to the assessment of probability of closing the Avista Corporation acquisition and the contract settlement date.

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

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2017 and 2016.

<u>Year ended December 31 (millions of dollars)</u>	<u>2017</u>	<u>2016</u>
Fair value, beginning of year	-	-
Unrealized loss on foreign exchange contract included in financing charges (Note 6)	3	-
Fair value, end of year	3	-

There were no transfers between any of the fair value levels during the years ended December 31, 2017 or 2016.

Risk Management

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

Market Risk

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

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

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the years ended December 31, 2017 and 2016.

The Company is exposed to foreign exchange fluctuations as a result of entering into a deal-contingent foreign exchange forward agreement (see section Fair Value Measurements of Derivative Instruments above). This agreement is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures (see Note 16 - Convertible Debentures).

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 years ended December 31, 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 December 31, 2017 and 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 December 31, 2017 and 2016, there was no material accounts receivable balance due from any single customer. At December 31, 2017, the Company's provision for bad debts was \$29 million (2016 - \$35 million). Adjustments and write-offs are determined on the basis

of a review of overdue accounts, taking into consideration historical experience. At December 31, 2017, approximately 5% (2016 - 6%) of the Company's net accounts receivable were outstanding for more than 60 days.



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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 December 31, 2017 and 2016, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At December 31, 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.

18. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing access to capital, the Company targets to maintain strong credit quality. At December 31, 2017 and 2016, the Company's capital structure was as follows:

December 31 (millions of dollars)	2017	2016
Long-term debt payable within one year	752	602
Short-term notes payable	926	469
Less: cash and cash equivalents	(25)	(50)
	1,653	1,021
Long-term debt	9,315	10,078
Convertible debentures	487	-
Preferred shares	418	418
Common shares	5,631	5,623
Retained earnings	4,090	3,950
Total capital	21,594	21,090

Hydro One Inc. and HOSSM have customary covenants typically associated with long-term debt. Hydro One Inc.'s long-term debt and credit facility covenants limit permissible debt to 75% of its total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2017, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

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

Hydro One has a defined benefit pension plan (Pension Plan), a defined contribution pension plan (DC Plan), a supplemental pension plan (Supplemental Plan), and post-retirement and post-employment benefit plans.

DC Plan

Hydro One established a DC Plan effective January 1, 2016. The DC Plan covers eligible management employees hired on or after January 1, 2016, as well as management employees hired before January 1, 2016 who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. Members of the DC Plan have an option to contribute 4%, 5% or 6% of their pensionable earnings, with matching contributions by Hydro One.

Hydro One contributions to the DC Plan for the year ended December 31, 2017 were \$1 million (2016 - less than \$1 million). At December 31, 2017, Company contributions payable included in accrued liabilities on the Consolidated Balance Sheets were less than \$1 million (2016 - less than \$1 million).

Pension Plan, Supplemental Plan, and Post-Retirement and Post-Employment Plans

The Pension Plan is a defined benefit contributory plan which covers eligible regular employees of Hydro One and its subsidiaries. The Pension Plan provides benefits based on highest three-year average pensionable earnings. For management employees who

commenced employment on or after January 1, 2004, and for The Society of Energy Professionals (The Society)-represented staff hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions



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are indexed to inflation. Membership in the Pension Plan was closed to management employees who were not eligible or had not irrevocably elected to join the Pension Plan as of September 30, 2015. These employees are eligible to join the DC Plan.

Company and employee contributions to the Pension Plan are based on actuarial valuations performed at least every three years. Annual Pension Plan contributions for 2017 of \$87 million (2016 - \$108 million) were based on an actuarial valuation effective December 31, 2016 (2016 - based on an actuarial valuation effective December 31, 2015) and the level of pensionable earnings. Estimated annual Pension Plan contributions for 2018 and 2019 are approximately \$71 million for each year based on the actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings. Future minimum contributions beyond 2019 will be based on an actuarial valuation effective no later than December 31, 2019. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash.

The Supplemental Plan provides members of the Pension Plan with benefits that would have been earned and payable under the Pension Plan but for limitations imposed by the *Income Tax Act* (Canada). The Supplemental Plan obligation is included with other post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets.

Hydro One recognizes the overfunded or underfunded status of the Pension Plan, and post-retirement and post-employment benefit plans (Plans) as an asset or liability on its Consolidated Balance Sheets, with offsetting regulatory assets and liabilities as appropriate. The underfunded benefit obligations for the Plans, in the absence of regulatory accounting, would be recognized in AOCI. The impact of changes in assumptions used to measure pension, post-retirement and post-employment benefit obligations is generally recognized over the expected average remaining service period of the employees. The measurement date for the Plans is December 31.

Year ended December 31 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2017	2016	2017	2016
Change in projected benefit obligation				
Projected benefit obligation, beginning of year	7,774	7,683	1,690	1,610
Current service cost	147	144	49	42
Employee contributions	49	45	–	–
Interest cost	304	308	67	67
Benefits paid	(368)	(354)	(44)	(43)
Net actuarial loss (gain)	352	(52)	(197)	14
Projected benefit obligation, end of year	8,258	7,774	1,565	1,690
Change in plan assets				
Fair value of plan assets, beginning of year	6,874	6,731	–	–
Actual return on plan assets	662	370	–	–
Benefits paid	(368)	(354)	(34)	(43)
Employer contributions	87	108	34	43
Employee contributions	49	45	–	–
Administrative expenses	(27)	(26)	–	–
Fair value of plan assets, end of year	7,277	6,874	–	–
Unfunded status	981	900	1,565	1,690

Hydro One presents its benefit obligations and plan assets net on its Consolidated Balance Sheets as follows:

December 31 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2017	2016	2017	2016
Other assets ¹	1	1	–	–
Accrued liabilities	–	–	53	56
Pension benefit liability	981	900	–	–
Post-retirement and post-employment benefit liability ²	–	–	1,519	1,641
Net unfunded status	980	899	1,572	1,697

¹ Represents the funded status of HOSSM defined benefit pension plan.

² Includes \$7 million (2016 - \$7 million) relating to HOSSM post-employment benefit plans.

The funded or unfunded status of the pension, post-retirement and post-employment benefit plans refers to the difference between the fair value of plan assets and the projected benefit obligations for the Plans. The funded/unfunded status changes over time due to several factors, including contribution levels, assumed discount rates and actual returns on plan assets.

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The following table provides the projected benefit obligation (PBO), accumulated benefit obligation (ABO) and fair value of plan assets for the Pension Plan:

December 31 (millions of dollars)	2017	2016
PBO	8,258	7,774
ABO	7,614	7,094
Fair value of plan assets	7,277	6,874

On an ABO basis, the Pension Plan was funded at 96% at December 31, 2017 (2016 - 97%). On a PBO basis, the Pension Plan was funded at 88% at December 31, 2017 (2016 - 88%). The ABO differs from the PBO in that the ABO includes no assumption about future compensation levels.

Components of Net Periodic Benefit Costs

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2017 and 2016 for the Pension Plan:

Year ended December 31 (millions of dollars)	2017	2016
Current service cost	147	144
Interest cost	304	308
Expected return on plan assets, net of expenses	(442)	(432)
Amortization of actuarial losses	79	96
Net periodic benefit costs	88	116
Charged to results of operations ¹	39	48

¹ The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the year ended December 31, 2017, pension costs of \$87 million (2016 - \$108 million) were attributed to labour, of which \$39 million (2016 - \$48 million) was charged to operations, and \$48 million (2016 - \$60 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

The following table provides the components of the net periodic benefit costs for the years ended December 31, 2017 and 2016 for the post-retirement and post-employment benefit plans:

Year ended December 31 (millions of dollars)	2017	2016
Current service cost	49	42
Interest cost	67	67
Amortization of actuarial losses	16	15
Net periodic benefit costs	132	124
Charged to results of operations	59	55

Assumptions

The measurement of the obligations of the Plans and the costs of providing benefits under the Plans involves various factors, including the development of valuation assumptions and accounting policy elections. When developing the required assumptions, the Company considers historical information as well as future expectations. The measurement of benefit obligations and costs is impacted by several assumptions including the discount rate applied to benefit obligations, the long-term expected rate of return on plan assets, Hydro One's expected level of contributions to the Plans, the incidence of mortality, the expected remaining service period of plan participants, the level of compensation and rate of compensation increases, employee age, length of service, and the anticipated rate of increase of health care costs, among other factors. The impact of changes in assumptions used to measure the obligations of the Plans is generally recognized over the expected average remaining service period of the plan participants. In selecting the expected rate of return on plan assets, Hydro One considers historical economic indicators that impact asset returns, as well as expectations regarding future long-term capital market performance, weighted by target asset class allocations. In general, equity securities, real estate and private equity investments are forecasted to have higher returns than fixed-income securities.

The following weighted average assumptions were used to determine the benefit obligations at December 31, 2017 and 2016:

Year ended December 31	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2017	2016	2017	2016
Significant assumptions:				
Weighted average discount rate	3.40%	3.90%	3.40%	3.90%
Rate of compensation scale escalation (long-term)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trends ¹	-	-	4.04%	4.36%

¹ 5.26% per annum in 2018, grading down to 4.04% per annum in and after 2031 (2016 - 6.25% in 2017, grading down to 4.36% per annum in and after 2031).

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The following weighted average assumptions were used to determine the net periodic benefit costs for the years ended December 31, 2017 and 2016. Assumptions used to determine current year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Year ended December 31	2017	2016
Pension Benefits:		
Weighted average expected rate of return on plan assets	6.50%	6.50%
Weighted average discount rate	3.90%	4.00%
Rate of compensation scale escalation (long-term)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees (years)	15	15
Post-Retirement and Post-Employment Benefits:		
Weighted average discount rate	3.90%	4.10%
Rate of compensation scale escalation (long-term)	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%
Average remaining service life of employees (years)	15.2	15.3
Rate of increase in health care cost trends ¹	4.36%	4.36%

¹ 6.25% per annum in 2017, grading down to 4.36% per annum in and after 2031 (2016 - 6.38% in 2016, grading down to 4.36% per annum in and after 2031).

The discount rate used to determine the current year pension obligation and the subsequent year's net periodic benefit costs is based on a yield curve approach. Under the yield curve approach, expected future benefit payments for each plan are discounted by a rate on a third-party bond yield curve corresponding to each duration. The yield curve is based on "AA" long-term corporate bonds. A single discount rate is calculated that would yield the same present value as the sum of the discounted cash flows.

The effect of a 1% change in health care cost trends on the projected benefit obligation for the post-retirement and post-employment benefits at December 31, 2017 and 2016 is as follows:

December 31 (millions of dollars)	2017	2016
Projected benefit obligation:		
Effect of a 1% increase in health care cost trends	250	289
Effect of a 1% decrease in health care cost trends	(189)	(221)

The effect of a 1% change in health care cost trends on the service cost and interest cost for the post-retirement and post-employment benefits for the years ended December 31, 2017 and 2016 is as follows:

Year ended December 31 (millions of dollars)	2017	2016
Service cost and interest cost:		
Effect of a 1% increase in health care cost trends	29	23
Effect of a 1% decrease in health care cost trends	(20)	(17)

The following approximate life expectancies were used in the mortality assumptions to determine the projected benefit obligations for the pension and post-retirement and post-employment plans at December 31, 2017 and 2016:

December 31, 2017				December 31, 2016			
Life expectancy at 65 for a member currently at		Life expectancy at 65 for a member currently at		Life expectancy at 65 for a member currently at		Life expectancy at 65 for a member currently at	
Age 65		Age 45		Age 65		Age 45	
Male	Female	Male	Female	Male	Female	Male	Female
22	24	23	24	22	24	23	24

Estimated Future Benefit Payments

At December 31, 2017, estimated future benefit payments to the participants of the Plans were:

(millions of dollars)	Pension Benefits	Post-Retirement and Post-Employment Benefits
2018	326	53
2019	335	54
2020	342	56
2021	350	57
2022	358	58
2023 through to 2027	1,886	312
Total estimated future benefit payments through to 2027	3,597	590

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Components of Regulatory Assets

A portion of actuarial gains and losses and prior service costs is recorded within regulatory assets on Hydro One's Consolidated Balance Sheets to reflect the expected regulatory inclusion of these amounts in future rates, which would otherwise be recorded in OCI. The following table provides the actuarial gains and losses and prior service costs recorded within regulatory assets:

Year ended December 31 (millions of dollars)	2017	2016
Pension Benefits:		
Actuarial loss (gain) for the year	159	35
Amortization of actuarial losses	(79)	(96)
	80	(61)
Post-Retirement and Post-Employment Benefits:		
Actuarial loss (gain) for the year	(197)	14
Amortization of actuarial losses	(16)	(15)
Amounts not subject to regulatory treatment	6	4
	(207)	3

The following table provides the components of regulatory assets that have not been recognized as components of net periodic benefit costs for the years ended December 31, 2017 and 2016:

Year ended December 31 (millions of dollars)	2017	2016
Pension Benefits:		
Actuarial loss	981	900
Post-Retirement and Post-Employment Benefits:		
Actuarial loss	36	243

The following table provides the components of regulatory assets at December 31 that are expected to be amortized as components of net periodic benefit costs in the following year:

December 31 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2017	2016	2017	2016
Actuarial loss	84	79	2	6

Pension Plan Assets

Investment Strategy

On a regular basis, Hydro One evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when due. As part of this ongoing evaluation, Hydro One may make changes to its targeted asset allocation and investment strategy. The Pension Plan is managed at a net asset level. The main objective of the Pension Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Company. The Pension Plan fulfills its primary objective by adhering to specific investment policies outlined in its Summary of Investment Policies and Procedures (SIPP), which is reviewed and approved by the Human Resource Committee of Hydro One's Board of Directors. The Company manages net assets by engaging knowledgeable external investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. The performance of the managers is monitored through a governance structure. Increases in net assets are a direct result of investment income generated by investments held by the Pension Plan and contributions to the Pension Plan by eligible employees and by the Company. The main use of net assets is for benefit payments to eligible Pension Plan members.

Pension Plan Asset Mix

At December 31, 2017, the Pension Plan target asset allocations and weighted average asset allocations were as follows:

	Target Allocation (%)	Pension Plan Assets (%)
Equity securities	55	60
Debt securities	35	31
Other ¹	10	9
	100	100

¹ Other investments include real estate and infrastructure investments.

At December 31, 2017, the Pension Plan held \$11 million (2016 - \$11 million) Hydro One corporate bonds and \$415 million (2016 - \$450 million) of debt securities of the Province.



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Concentrations of Credit Risk

Hydro One evaluated its Pension Plan's asset portfolio for the existence of significant concentrations of credit risk as at December 31, 2017 and 2016. Concentrations that were evaluated include, but are not limited to, investment concentrations in a single entity, concentrations in a type of industry, and concentrations in individual funds. At December 31, 2017 and 2016, there were no significant concentrations (defined as greater than 10% of plan assets) of risk in the Pension Plan's assets.

The Pension Plan's Statement of Investment Beliefs and Guidelines provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions, and also by ensuring that exposure is diversified across counterparties. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation.

Fair Value Measurements

The following tables present the Pension Plan assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy at December 31, 2017 and 2016:

December 31, 2017 (millions of dollars)	Level 1	Level 2	Level 3	Total
Pooled funds	–	16	549	565
Cash and cash equivalents	153	–	–	153
Short-term securities	–	109	–	109
Derivative instruments	–	5	–	5
Corporate shares - Canadian	921	–	–	921
Corporate shares - Foreign	3,307	125	–	3,432
Bonds and debentures - Canadian	–	1,879	–	1,879
Bonds and debentures - Foreign	–	194	–	194
Total fair value of plan assets¹	4,381	2,328	549	7,258

¹ At December 31, 2017, the total fair value of Pension Plan assets and liabilities excludes \$28 million of interest and dividends receivable, \$10 million of pension administration expenses payable, \$1 million of sold investments receivable, and \$1 million of purchased investments payable.

December 31, 2016 (millions of dollars)	Level 1	Level 2	Level 3	Total
Pooled funds	–	20	425	445
Cash and cash equivalents	146	–	–	146
Short-term securities	–	127	–	127
Corporate shares - Canadian	911	–	–	911
Corporate shares - Foreign	2,985	113	–	3,098
Bonds and debentures - Canadian	–	1,943	–	1,943
Bonds and debentures - Foreign	–	193	–	193
Total fair value of plan assets¹	4,042	2,396	425	6,863

¹ At December 31, 2016, the total fair value of Pension Plan assets excludes \$27 million of interest and dividends receivable, \$15 million of purchased investments payable, \$9 million of pension administration expenses payable, and \$7 million of sold investments receivable.

See note 17 - Fair Value of Financial Instruments and Risk Management for a description of levels within the fair value hierarchy.

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

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the years ended December 31, 2017 and 2016. The Pension Plan classifies financial instruments as Level 3 when the fair value is measured based on at least one significant input that is not observable in the markets or due to lack of liquidity in certain markets. The gains and losses presented in the table below may include changes in fair value based on both observable and unobservable inputs.

Year ended December 31 (millions of dollars)	2017	2016
Fair value, beginning of year	425	301
Realized and unrealized gains	(31)	23
Purchases	171	151
Sales and disbursements	(16)	(50)
Fair value, end of year	549	425

There were no significant transfers between any of the fair value levels during the years ended December 31, 2017 and 2016.

The Company performs sensitivity analysis for fair value measurements classified in Level 3, substituting the unobservable inputs with one or more reasonably possible alternative assumptions. This sensitivity analysis resulted in negligible changes in the fair value of financial instruments classified in this level.

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Valuation Techniques Used to Determine Fair Value

Pooled funds mainly consist of private equity, real estate and infrastructure investments. Private equity investments represent private equity funds that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include limited partnerships in businesses that are characterized by high internal growth and operational efficiencies, venture capital, leveraged buyouts and special situations such as distressed investments. Real estate and infrastructure investments represent funds that invest in real assets which are not publicly traded on a stock exchange. Investment strategies in real estate include limited partnerships that seek to generate a total return through income and capital growth by investing primarily in global and Canadian limited partnerships. Investment strategies in infrastructure include limited partnerships in core infrastructure assets focusing on assets that generate stable, long-term cash flows and deliver incremental returns relative to conventional fixed-income investments. Private equity, real estate and infrastructure valuations are reported by the fund manager and are based on the valuation of the underlying investments which includes inputs such as cost, operating results, discounted future cash flows and market-based comparable data. Since these valuation inputs are not highly observable, private equity and infrastructure investments have been categorized as Level 3 within pooled funds.

Cash equivalents consist of demand cash deposits held with banks and cash held by the investment managers. Cash equivalents are categorized as Level 1.

Short-term securities are valued at cost plus accrued interest, which approximates fair value due to their short-term nature. Short-term securities are categorized as Level 2.

Derivative instruments are used to hedge the Pension Plan's foreign currency exposure back to Canadian dollars. The most significant currencies being hedged against the Canadian dollar are the United States dollar, Euro, and Japanese Yen. The terms to maturity of the forward exchange contracts at December 31, 2017 are within three months. The fair value of the derivative instruments is determined using inputs other than quoted prices that are observable for these assets. The fair value is determined using standard interpolation methodology primarily based on the World Markets exchange rates. Derivative instruments are categorized as Level 2.

Corporate shares are valued based on quoted prices in active markets and are categorized as Level 1. Investments denominated in foreign currencies are translated into Canadian currency at year-end rates of exchange.

Bonds and debentures are presented at published closing trade quotations, and are categorized as Level 2.

20. ENVIRONMENTAL LIABILITIES

The following tables show the movements in environmental liabilities for the years ended December 31, 2017 and 2016:

<i>Year ended December 31, 2017 (millions of dollars)</i>	PCB	Land Assessment and Remediation	Total
Environmental liabilities - beginning	143	61	204
Interest accretion	6	2	8
Expenditures	(16)	(8)	(24)
Revaluation adjustment	1	7	8
Environmental liabilities - ending	134	62	196
Less: current portion	(20)	(8)	(28)
	114	54	168

<i>Year ended December 31, 2016 (millions of dollars)</i>	PCB	Land Assessment and Remediation	Total
Environmental liabilities - beginning	148	59	207
Interest accretion	7	1	8
Expenditures	(11)	(9)	(20)
Revaluation adjustment	(1)	10	9
Environmental liabilities - ending	143	61	204
Less: current portion	(18)	(9)	(27)
	125	52	177

The following tables show 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>December 31, 2017 (millions of dollars)</i>	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	142	64	206
Less: discounting environmental liabilities to present value	(8)	(2)	(10)
Discounted environmental liabilities	134	62	196

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December 31, 2016 (millions of dollars)	PCB	Land Assessment and Remediation	Total
Undiscounted environmental liabilities	158	66	224
Less: discounting environmental liabilities to present value	(15)	(5)	(20)
Discounted environmental liabilities	143	61	204

At December 31, 2017, the estimated future environmental expenditures were as follows:

(millions of dollars)	
2018	28
2019	27
2020	32
2021	34
2022	31
Thereafter	54
	206

Hydro One records a liability for the estimated future expenditures for land assessment and remediation and for the phase-out and destruction of PCB-contaminated mineral oil removed from electrical equipment when it is determined that future environmental remediation expenditures are probable under existing statute or regulation and the amount of the future expenditures can be reasonably estimated.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations, and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation rate assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. 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. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, with respect to the PCB environmental liability, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures.

PCBs

The Environment Canada regulations, enacted under the *Canadian Environmental Protection Act, 1999*, govern the management, storage and disposal of PCBs based on certain criteria, including type of equipment, in-use status, and PCB-contamination thresholds. Under current regulations, Hydro One's PCBs have to be disposed of by the end of 2025, with the exception of specifically exempted equipment. Contaminated equipment will generally be replaced, or will be decontaminated by removing PCB-contaminated insulating oil and retro filling with replacement oil that contains PCBs in concentrations of less than 2 ppm.

The Company's best estimate of the total estimated future expenditures to comply with current PCB regulations is \$142 million (2016 - \$158 million). These expenditures are expected to be incurred over the period from 2018 to 2025. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2017 to increase the PCB environmental liability by \$1 million (2016 - reduce by \$1 million).

Land Assessment and Remediation

The Company's best estimate of the total estimated future expenditures to complete its land assessment and remediation program is \$64 million (2016 - \$66 million). These expenditures are expected to be incurred over the period from 2018 to 2044. As a result of its annual review of environmental liabilities, the Company recorded a revaluation adjustment in 2017 to increase the land assessment and remediation environmental liability by \$7 million (2016 - \$10 million).

21. ASSET RETIREMENT OBLIGATIONS

Hydro One records a liability for the estimated future expenditures for the removal and disposal of asbestos-containing materials installed in some of its facilities. Asset retirement obligations, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected expenditures for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate can be made. If the asset remains in service at the recognition date, the present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred and this additional carrying amount is depreciated over the remaining life of the asset. If an asset retirement obligation is recorded

in respect of an out-of-service asset, the asset retirement cost is charged to results of operations. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated

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with the asset retirement obligation, which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired, changes in legislation or regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3.0% to 5.0%, depending on the appropriate rate for the period when expenditures are expected to be incurred. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

At December 31, 2017, Hydro One had recorded asset retirement obligations of \$9 million (2016 - \$9 million), primarily consisting of the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The amount of interest recorded is nominal.

22. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At December 31, 2017, the Company had 595,386,711 (2016 - 595,000,000) common shares issued and outstanding.

The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board of Directors may consider relevant.

The following tables present the changes to common shares during the years ended December 31, 2017 and 2016:

Year ended December 31, 2017 (number of shares)	Ownership by		
	Public	Province	Total
Common shares - beginning	178,196,340	416,803,660	595,000,000
Secondary offering ¹	120,000,000	(120,000,000)	-
Common shares issued - share grants ²	371,611	-	371,611
Common shares issued - LTIP ³	15,100	-	15,100
Sale of common shares ⁴	14,391,012	(14,391,012)	-
Common shares - ending	312,974,063	282,412,648	595,386,711
	52.6	% 47.4	% 100

¹ On May 17, 2017, Hydro One announced the closing of a secondary offering by the Province, on a bought deal basis, of 120 million common shares of Hydro One on the Toronto Stock Exchange. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

² On April 1, 2017, Hydro One issued from treasury 371,611 common shares in accordance with provisions of the Power Workers' Union (PWU) Share Grant Plan.

³ In 2017, Hydro One issued from treasury 15,100 common shares in accordance with provisions of the LTIP.

⁴ On December 29, 2017, the Province sold 14,391,012 common shares of Hydro One to OFN Power Holdings LP, a limited partnership wholly-owned by Ontario First Nations Sovereign Wealth LP, which is in turn owned by 129 First Nations in Ontario. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

Year ended December 31, 2016 (number of shares)	Ownership by		
	Public	Province	Total
Common shares - beginning	94,896,340	500,103,660	595,000,000
Secondary offering ¹	83,300,000	(83,300,000)	-
Common shares - ending	178,196,340	416,803,660	595,000,000
	29.9	% 70.1	% 100

¹ On April 14, 2016, Hydro One announced the closing of a secondary offering by the Province, on a bought deal basis, of 72,434,800 common shares of Hydro One on the Toronto Stock Exchange. In addition, the Province granted the underwriters an over-allotment option to purchase up to an additional 10,865,200 common shares of Hydro One which was fully exercised and closed on April 29, 2016. Hydro One did not receive any of the proceeds from the sale of common shares by the Province.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At December 31, 2017 and 2016, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares. At

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December 31, 2017 and 2016, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

Hydro One may from time to time issue preferred shares in one or more series. Prior to issuing shares in a series, the Hydro One Board of Directors is required to fix the number of shares in the series and determine the designation, rights, privileges, restrictions and conditions attaching to that series of preferred shares. Holders of Hydro One's preferred shares are not entitled to receive notice of, to attend or to vote at any meeting of the shareholders of Hydro One except that votes may be granted to a series of preferred shares when dividends have not been paid on any one or more series as determined by the applicable series provisions. Each series of preferred shares ranks on parity with every other series of preferred shares, and are entitled to a preference over the common shares and any other shares ranking junior to the preferred shares, with respect to dividends and the distribution of assets and return of capital in the event of the liquidation, dissolution or winding up of Hydro One.

For the period commencing from the date of issue of the Series 1 preferred shares and ending on and including November 19, 2020, the holders of Series 1 preferred shares are entitled to receive fixed cumulative preferential dividends of \$1.0625 per share per year, if and when declared by the Board of Directors, payable quarterly. The dividend rate will reset on November 20, 2020 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.53%. The Series 1 preferred shares will not be redeemable by Hydro One prior to November 20, 2020, but will be redeemable by Hydro One on November 20, 2020 and on November 20 of every fifth year thereafter at a redemption price equal to \$25.00 for each Series 1 preferred share redeemed, plus any accrued or unpaid dividends. The holders of Series 1 preferred shares will have the right, at their option, on November 20, 2020 and on November 20 of every fifth year thereafter, to convert all or any of their Series 1 preferred shares into Series 2 preferred shares on a one-for-one basis, subject to certain restrictions on conversion. At December 31, 2017, no preferred share dividends were in arrears.

The holders of Series 2 preferred shares will be entitled to receive quarterly floating rate cumulative dividends, if and when declared by the Board of Directors, at a rate equal to the sum of the then three-month Government of Canada treasury bill rate and 3.53% as reset quarterly. The Series 2 preferred shares will not be redeemable by Hydro One prior to November 20, 2020, but will be redeemable by Hydro One at a redemption price equal to \$25.00 for each Series 2 preferred share redeemed, if redeemed on November 20, 2025 or on November 20 of every fifth year thereafter, or \$25.50 for each Series 2 preferred share redeemed, if redeemed on any other date after November 20, 2020, in each case plus any accrued or unpaid dividends. The holders of Series 2 preferred shares will have the right, at their option, on November 20, 2025 and on November 20 of every fifth year thereafter, to convert all or any of their Series 2 preferred shares into Series 1 preferred shares on a one-for-one basis, subject to certain restrictions on conversion.

Share Ownership Restrictions

The *Electricity Act* imposes share ownership restrictions on securities of Hydro One carrying a voting right (Voting Securities). These restrictions provide that no person or company (or combination of persons or companies acting jointly or in concert) may beneficially own or exercise control or direction over more than 10% of any class or series of Voting Securities, including common shares of the Company (Share Ownership Restrictions). The Share Ownership Restrictions do not apply to Voting Securities held by the Province, nor to an underwriter who holds Voting Securities solely for the purpose of distributing those securities to purchasers who comply with the Share Ownership Restrictions.

23. DIVIDENDS

In 2017, preferred share dividends in the amount of \$18 million (2016 - \$19 million) and common share dividends in the amount of \$518 million (2016 - \$577 million) were declared. The 2016 common share dividends include \$77 million for the post-Initial Public Offering (IPO) period from November 5 to December 31, 2015, and \$500 million for the year ended December 31, 2016.

24. EARNINGS PER COMMON SHARE

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

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

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Year ended December 31	2017	2016
Net income attributable to common shareholders <i>(millions of dollars)</i>	658	721
Weighted average number of shares		
Basic	595,287,586	595,000,000
Effect of dilutive stock-based compensation plans	2,234,665	1,700,823
Diluted	597,522,251	596,700,823
EPS		
Basic	\$1.11	\$1.21
Diluted	\$1.10	\$1.21

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

25. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (PWU Share Grant Plan) and one for the benefit of certain members of The Society (Society Share Grant Plan).

The PWU Share Grant Plan provides for the issuance of common shares of Hydro One from treasury to certain eligible members of the PWU annually, commencing on April 1, 2017 and continuing until the earlier of April 1, 2028 or the date an eligible employee no longer meets the eligibility criteria of the PWU Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on April 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. The requisite service period for the PWU Share Grant Plan began on July 3, 2015, which is the date the share grant plan was ratified by the PWU. The number of common shares issued annually to each eligible employee will be equal to 2.7% of such eligible employee's salary as at April 1, 2015, divided by \$20.50, being the price of the common shares of Hydro One in the IPO. The aggregate number of common shares issuable under the PWU Share Grant Plan shall not exceed 3,981,763 common shares. In 2015, 3,979,062 common shares were granted under the PWU Share Grant Plan.

The Society Share Grant Plan provides for the issuance of common shares of Hydro One from treasury to certain eligible members of The Society annually, commencing on April 1, 2018 and continuing until the earlier of April 1, 2029 or the date an eligible employee no longer meets the eligibility criteria of the Society Share Grant Plan. To be eligible, an employee must be a member of the Pension Plan on September 1, 2015, be employed on the date annual share issuance occurs and continue to have under 35 years of service. Therefore the requisite service period for the Society Share Grant Plan began on September 1, 2015. The number of common shares issued annually to each eligible employee will be equal to 2.0% of such eligible employee's salary as at September 1, 2015, divided by \$20.50, being the price of the common shares of Hydro One in the IPO. The aggregate number of common shares issuable under the Society Share Grant Plan shall not exceed 1,434,686 common shares. In 2015, 1,433,292 common shares were granted under the Society Share Grant Plan.

The fair value of the Hydro One 2015 share grants of \$111 million was estimated based on the grant date share price of \$20.50 and is recognized using the graded-vesting attribution method as the share grant plans have both a performance condition and a service condition. In 2017, 371,611 common shares were granted under the Share Grant Plans (2016 - nil). Total share based compensation recognized during 2017 was \$17 million (2016 - \$21 million) and was recorded as a regulatory asset.

A summary of share grant activity under the Share Grant Plans during years ended December 31, 2017 and 2016 is presented below:

Year ended December 31, 2017	Share Grants <i>(number of common shares)</i>	Weighted-Average Price
Share grants outstanding - beginning	5,334,415	\$20.50
Vested and issued ¹	(371,611)	-
Forfeited	(137,072)	\$20.50
Share grants outstanding - ending	4,825,732	\$20.50

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

Year ended December 31, 2016	Share Grants <i>(number of common shares)</i>	Weighted-Average Price
Share grants outstanding - beginning	5,412,354	\$20.50
Forfeited	(77,939)	\$20.50
Share grants outstanding - ending	5,334,415	\$20.50

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Directors' DSU Plan

Under the Directors' DSU Plan, directors can elect to receive credit for their annual cash retainer in a notional account of DSUs in lieu of cash. Hydro One's Board of Directors may also determine from time to time that special circumstances exist that would reasonably justify the grant of DSUs to a director as compensation in addition to any regular retainer or fee to which the director is entitled. 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 years ended December 31, 2017 and 2016, the Company granted awards under the Directors' DSU Plan, as follows:

Year ended December 31 (number of DSUs)	2017	2016
DSUs outstanding - beginning	99,083	20,525
DSUs granted	88,007	78,558
DSUs outstanding - ending	187,090	99,083

For the year ended December 31, 2017, an expense of \$2 million (2016 - \$2 million) was recognized in earnings with respect to the Directors' DSU Plan. At December 31, 2017, a liability of \$4 million (2016 - \$2 million), related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$22.40 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

Under the 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 years ended December 31, 2017 and 2016, the Company granted awards under the Management DSU Plan, as follows:

Year ended December 31 (number of DSUs)	2017	2016
DSUs outstanding - beginning	-	-
Granted	68,897	-
Paid	(1,068)	-
DSUs outstanding - ending	67,829	-

For the year ended December 31, 2017, an expense of \$2 million (2016 - \$nil) was recognized in earnings with respect to the Management DSU Plan. At December 31, 2017, a liability of \$2 million (2016 - \$nil) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$22.40 and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Employee Share Ownership Plan

In 2015, Hydro One established Employee Share Ownership Plans (ESOP) for certain eligible management and non-represented employees (Management ESOP) and for certain eligible Society-represented staff (Society ESOP). Under the Management ESOP, the eligible management and non-represented employees may contribute between 1% and 6% of their base salary towards purchasing common shares of Hydro One. The Company matches 50% of their contributions, up to a maximum Company contribution of \$25,000 per calendar year. Under the Society ESOP, the eligible Society-represented staff may contribute between 1% and 4% of their base salary towards purchasing common shares of Hydro One. The Company matches 25% of their contributions, with no maximum Company contribution per calendar year. In 2017, Company contributions made under the ESOP were \$2 million (2016 - \$2 million).

LTIP

Effective August 31, 2015, the Board of Directors of Hydro One adopted an LTIP. Under the LTIP, long-term incentives are granted to certain executive and management employees of Hydro One and its subsidiaries, and all equity-based awards will be settled in newly issued shares of Hydro One from treasury, consistent with the provisions of the plan. The aggregate number of shares issuable under the LTIP shall not exceed 11,900,000 shares of Hydro One.

The LTIP provides flexibility to award a range of vehicles, RSUs, PSUs, stock options, share appreciation rights, restricted shares, deferred share units and other share-based awards. The mix of vehicles is intended to vary by role to recognize the level of executive accountability for overall business performance.

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During 2017 and 2016, the Company granted awards under its LTIP as follows:

Year ended December 31 (number of units)	PSUs		RSUs	
	2017	2016	2017	2016
Units outstanding - beginning	230,600	-	254,150	-
Units granted	303,240	235,420	242,860	258,970
Units vested	(609)	-	(14,079)	-
Units forfeited	(103,251)	(4,820)	(89,501)	(4,820)
Units outstanding - ending	429,980	230,600	393,430	254,150

The grant date total fair value of the awards granted in 2017 was \$13 million (2016 - \$12 million). The compensation expense related to these awards recognized by the Company during 2017 was \$6 million (2016 - \$3 million).

26. NONCONTROLLING INTEREST

On December 16, 2014, transmission assets totalling \$526 million were transferred from Hydro One Networks to B2M LP. This was financed by 60% debt (\$316 million) and 40% equity (\$210 million). On December 17, 2014, the Saugeen Ojibway Nation (SON) acquired a 34.2% equity interest in B2M LP for consideration of \$72 million, representing the fair value of the equity interest acquired. The SON's initial investment in B2M LP consists of \$50 million of Class A units and \$22 million of Class B units.

The Class B units have a mandatory put option which requires that upon the occurrence of an enforcement event (i.e. an event of default such as a debt default by the SON or insolvency event), Hydro One purchase the Class B units of B2M LP for net book value on the redemption date. The noncontrolling interest relating to the Class B units is classified on the Consolidated Balance Sheet as temporary equity because the redemption feature is outside the control of the Company. The balance of the noncontrolling interest is classified within equity.

The following tables show the movements in noncontrolling interest during the years ended December 31, 2017 and 2016:

Year ended December 31, 2017 (millions of dollars)	Temporary Equity	Equity	Total
Noncontrolling interest - beginning	22	50	72
Distributions to noncontrolling interest	(2)	(4)	(6)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest - ending	22	50	72

Year ended December 31, 2016 (millions of dollars)	Temporary Equity	Equity	Total
Noncontrolling interest - beginning	23	52	75
Distributions to noncontrolling interest	(3)	(6)	(9)
Net income attributable to noncontrolling interest	2	4	6
Noncontrolling interest - ending	22	50	72

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

27. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at December 31, 2017. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. 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.

Year ended December 31 (millions of dollars)

Related Party	Transaction	2017	2016
Province	Dividends paid	301	451
IESO	Power purchased	1,583	2,096
	Revenues for transmission services	1,521	1,549
	Amounts related to electricity rebates	357	-
	Distribution revenues related to rural rate protection	247	125
	Distribution revenues related to the supply of electricity to remote northern communities	32	32
	Funding received related to CDM programs	59	63
OPG	Power purchased	9	6
	Revenues related to provision of construction and equipment maintenance services	3	5
	Costs related to the purchase of services	1	1
OEFC	Power purchased from power contracts administered by the OEFC	2	1
OEB	OEB fees	8	11
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	-	3

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.

28. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Year ended December 31 (millions of dollars)	2017	2016
Accounts receivable	195	(60)
Due from related parties	(95)	33
Materials and supplies	1	2
Prepaid expenses and other assets	7	(15)
Accounts payable	7	19
Accrued liabilities	(89)	53
Due to related parties	10	9
Accrued interest	(6)	9
Long-term accounts payable and other liabilities	(2)	6
Post-retirement and post-employment benefit liability	85	78
	113	134

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:

Year ended December 31 (millions of dollars)	2017	2016
Capital investments in property, plant and equipment	(1,493)	(1,630)
Capitalized depreciation and net change in accruals included in capital investments in property, plant and equipment	26	30
Cash outflow for capital expenditures - property, plant and equipment	(1,467)	(1,600)

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:

Year ended December 31 (millions of dollars)	2017	2016
Capital investments in intangible assets	(74)	(67)
Net change in accruals included in capital investments in intangible assets	(6)	6
Cash outflow for capital expenditures - intangible assets	(80)	(61)

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

Capital Contributions

Hydro One enters into contracts governed by the OEB Transmission System Code when a transmission customer requests a new or upgraded transmission connection. The customer is required to make a capital contribution to Hydro One based on the shortfall between the present value of the costs of the connection facility and the present value of revenues. The present value of revenues is based on an estimate of load forecast for the period of the contract with Hydro One. Once the connection facility is commissioned, in accordance with the OEB Transmission System Code, Hydro One will periodically reassess the estimated of load forecast which will lead to a decrease, or an increase in the capital contributions from the customer. The increase or decrease in capital contributions is recorded directly to fixed assets in service. In 2017, capital contributions from these reassessments totalled \$9 million (2016 - \$21 million), which represents the difference between the revised load forecast of electricity transmitted compared to the load forecast in the original contract, subject to certain adjustments.

Supplementary Information

Year ended December 31 (millions of dollars)	2017	2016
Net interest paid	475	418
Income taxes paid	12	32

29. CONTINGENCIES

Legal Proceedings

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

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities, and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff' s motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court' s decision, and it is likely that no decision will be rendered by the appeal court until the second half of 2018. At this time, an estimate of a possible loss related to this claim cannot be made.

To date, four putative class action lawsuits have been filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation' s directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation' s directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß, Samuel, and Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

Transfer of Assets

The transfer orders by which the Company acquired certain of Ontario Hydro' s businesses as of April 1, 1999 did not transfer title to some assets located on Reserves (as defined in the *Indian Act* (Canada)). Currently, the OEFC holds these assets. Under the terms of the transfer orders, the Company is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. In 2017, the Company paid approximately \$2 million (2016 - \$1 million) in respect of consents obtained. If the Company cannot obtain the required consents, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company' s results of operations if the Company is not able to recover them in future rate orders.

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

30. 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:

December 31, 2017 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	139	95	2	2	2	7
Long-term software/meter agreement	17	17	16	2	1	3
Operating lease commitments	12	7	11	6	4	4

Outsourcing Agreements

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

Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) (Brookfield) provides services to Hydro One, including facilities management and execution of certain capital projects as deemed required by the Company. The agreement with Brookfield for these services expires in December 2024.

Long-term Software/Meter Agreement

Trilliant Holdings Inc. and Trilliant Networks (Canada) Inc. (collectively Trilliant) provide services to Hydro One for the supply, maintenance and support services for smart meters and related hardware and software, including additional software licences, as well as certain professional services. The agreement with Trilliant for these services expires in December 2025, but Hydro One has the option to renew for an additional term of five years at its sole discretion.

Operating Leases

Hydro One is committed as lessee to irrevocable operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have typical terms of between three and five years, but several leases have lesser or greater terms to address special circumstances and/or opportunities. Renewal options, which are generally prevalent in most leases, have similar terms of three to five years. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. During the year ended December 31, 2017, the Company made lease payments totalling \$12 million (2016 - \$11 million).

Other Commitments

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

December 31, 2017 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Credit facilities	-	-	-	250	2,300	-
Letters of credit ¹	177	-	-	-	-	-
Guarantees ²	325	-	-	-	-	-

¹ Letters of credit consist of a \$154 million letter of credit related to retirement compensation arrangements, a \$16 million letter of credit provided to the IESO for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

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

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees and/or letters of credit if these purchasers fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any letters of credit plus the amount of the parental guarantees.

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for Hydro One Inc.'s liability under the terms of a trust fund established pursuant to the supplementary pension plan for eligible employees of Hydro One Inc. The supplementary pension plan trustee is required to draw upon these letters of credit if Hydro One Inc. is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to

HYDRO ONE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2017 and 2016

secure Hydro One Inc.'s liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the letters of credit.

31. 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).

Year ended December 31, 2017 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,578	4,366	46	5,990
Purchased power	-	2,875	-	2,875
Operation, maintenance and administration	375	593	98	1,066
Depreciation and amortization	420	390	7	817
Income (loss) before financing charges and income taxes	783	508	(59)	1,232

Capital investments	968	588	11	1,567
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Year ended December 31, 2016 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	1,584	4,915	53	6,552
Purchased power	-	3,427	-	3,427
Operation, maintenance and administration	382	608	79	1,069
Depreciation and amortization	390	379	9	778
Income (loss) before financing charges and income taxes	812	501	(35)	1,278

Capital investments	988	703	6	1,697
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Total Assets by Segment:

December 31 (millions of dollars)	2017	2016
Transmission	13,608	13,071
Distribution	9,259	9,379
Other	2,834	2,901
Total assets	25,701	25,351

Total Goodwill by Segment:

December 31 (millions of dollars)	2017	2016
Transmission (Note 4)	157	159
Distribution	168	168
Total goodwill	325	327

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

32. SUBSEQUENT EVENTS

Dividends

On February 12, 2018, preferred share dividends in the amount of \$4 million and common share dividends in the amount of \$131 million (\$0.22 per common share) were declared.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the years ended December 31, 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 consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the year ended December 31, 2017. 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 year ended December 31, 2017, based on information available to management as of February 12, 2018.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Year ended December 31 (millions of dollars, except as otherwise noted)	2017	2016	Change
Revenues	5,990	6,552	(8.6%)
Purchased power	2,875	3,427	(16.1%)
Revenues, net of purchased power ¹	3,115	3,125	(0.3%)
Operation, maintenance and administration costs	1,066	1,069	(0.3%)
Depreciation and amortization	817	778	5.0%
Financing charges	439	393	11.7%
Income tax expense	111	139	(20.1%)
Net income attributable to common shareholders of Hydro One	658	721	(8.7%)
Basic earnings per common share (EPS)	\$1.11	\$1.21	(8.3%)
Diluted EPS	\$1.10	\$1.21	(9.1%)
Basic adjusted non-GAAP EPS (Adjusted EPS) ¹	\$1.17	\$1.21	(3.3%)
Diluted Adjusted EPS ¹	\$1.16	\$1.21	(4.1%)
Net cash from operating activities	1,716	1,656	3.6%
Funds from operations (FFO) ¹	1,579	1,494	5.7%
Capital investments	1,567	1,697	(7.7%)
Assets placed in-service	1,592	1,605	(0.8%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,587	20,690	(5.3%)
Distribution: Electricity distributed to Hydro One customers (GWh)	25,876	26,289	(1.6%)
		2017	2016
Debt to capitalization ratio ²		52.9 %	52.6%

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

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

OVERVIEW

Hydro One is the largest electricity transmission and distribution company in Ontario. Through its wholly-owned subsidiary, Hydro One Inc., Hydro One owns and operates substantially all of Ontario's electricity transmission network, and approximately 123,000 circuit kilometres of primary low-voltage distribution network. Hydro One has three business segments: (i) transmission; (ii) distribution; and (iii) other business.

For the year ended December 31, 2017, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

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

At December 31, 2017, Hydro One's business segments accounted for the Company's total assets as follows:

	Transmission		Distribution		Other	
Percentage of Company's total assets	53	%	36	%	11	%

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

Transmission Segment

Hydro One' s transmission business owns, operates and maintains Hydro One' s transmission system, which accounts for approximately 98% of Ontario' s transmission capacity based on revenue approved by the Ontario Energy Board (OEB). The transmission business consists of the transmission system operated by Hydro One Inc.' s subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM) (formerly Great Lakes Power Transmission LP), as well as a 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation in respect of the Bruce-to-Milton transmission line. The Company' s transmission business is a rate-regulated business that earns revenues mainly from charging transmission rates that are approved by the OEB.

	2017	2016
Electricity transmitted ¹ (MWh)	132,090,992	136,989,747
Transmission lines spanning the province (circuit-kilometres)	30,290	30,259
Rate base (millions of dollars)	11,251	10,775
Capital investments (millions of dollars)	968	988
Assets placed in-service (millions of dollars)	889	937

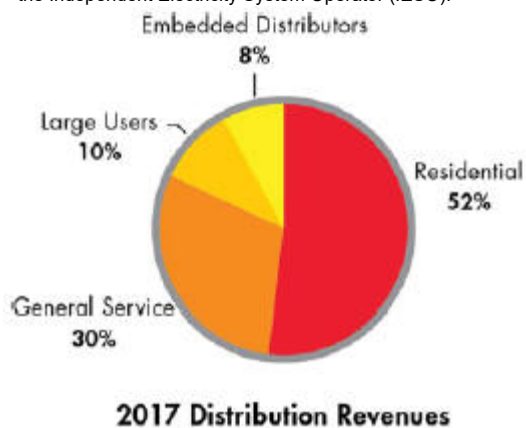
¹ Electricity transmitted represents total electricity transmission in Ontario by all transmitters.

Distribution Segment

Hydro One' s distribution business is the largest in Ontario and consists of the distribution system operated by Hydro One Inc.' s subsidiaries, Hydro One Networks and Hydro One Remote Communities Inc. The Company' s distribution business is a rate-regulated business that earns revenues mainly by charging distribution rates that are approved by the OEB.

	2017	2016
Electricity distributed to Hydro One customers (GWh)	25,876	26,289
Electricity distributed through Hydro One lines (GWh) ¹	36,525	37,394
Distribution lines spanning the province (circuit-kilometres)	123,361	122,599
Distribution customers (number of customers)	1,372,362	1,355,302
Rate base (millions of dollars)	7,389	7,056
Capital investments (millions of dollars)	588	703
Assets placed in-service (millions of dollars)	689	662

¹ Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the Independent Electricity System Operator (IESO).



Other Business Segment

Hydro One' s other business segment consists of the Company' s telecommunications business and certain corporate activities. The telecommunications business provides telecommunications support for the Company' s transmission and distribution businesses, and also offers communications and IT solutions to organizations with broadband network requirements utilizing Hydro One Telecom Inc.' s (Hydro One Telecom) fibre optic network to provide diverse, secure and highly reliable broadband connectivity. Hydro One' s other business segment is not rate-regulated.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

PRIMARY FACTORS AFFECTING RESULTS OF OPERATIONS

Transmission Revenues

Transmission revenues primarily consist of regulated transmission rates approved by the OEB which are charged based on the monthly peak electricity demand across Hydro One' s high-voltage network. Transmission rates are designed to generate revenues necessary to construct, upgrade, extend and support a transmission system with sufficient capacity to accommodate maximum forecasted demand and a regulated return on the Company' s investment. Peak electricity demand is primarily influenced by weather and economic conditions. Transmission revenues also include export revenues associated with transmitting electricity to markets outside of Ontario. Ancillary revenues include revenues from providing maintenance services to power generators and from third-party land use.

Distribution Revenues

Distribution revenues include regulated distribution rates approved by the OEB and amounts to recover the cost of purchased power used by the customers of the distribution business. Distribution rates are designed to generate revenues necessary to construct and support the local distribution system with sufficient capacity to accommodate existing and new customer demand and a regulated return on the Company' s investment. Accordingly, distribution revenues are influenced by distribution rates, the cost of purchased power, and the amount of electricity the Company distributes. Distribution revenues also include ancillary distribution service revenues, such as fees related to the joint use of Hydro One' s distribution poles by the telecommunications and cable television industries, as well as miscellaneous revenues such as charges for late payments.

Purchased Power Costs

Purchased power costs are incurred by the distribution business and represent the cost of the electricity purchased by the Company for delivery to customers within Hydro One' s distribution service territory. These costs are comprised of the following: the wholesale commodity cost of energy; the Global Adjustment, which is the difference between amounts the IESO pays energy producers for the electricity they produce and the actual fair market value of this electricity; and the wholesale market service and transmission charges levied by the IESO. Hydro One passes the cost of electricity that it delivers to its customers, and is therefore not exposed to wholesale electricity commodity price risk

Operation, Maintenance and Administration Costs

Operation, maintenance and administration (OM&A) costs are incurred to support the operation and maintenance of the transmission and distribution systems, and other costs such as property taxes related to transmission and distribution lines, stations and buildings. Transmission OM&A costs are incurred to sustain the Company' s high-voltage transmission stations, lines, and rights-of-way, and include preventive and corrective maintenance costs related to power equipment, overhead transmission lines, transmission station sites, and forestry control to maintain safe distance between line spans and trees. Distribution OM&A costs are required to maintain the Company' s low-voltage distribution system to provide safe and reliable electricity to the Company' s residential, small business, commercial, and industrial customers across the province. These include costs related to distribution line clearing and forestry control to reduce power outages caused by trees, line maintenance and repair, land assessment and remediation, as well as issuing timely and accurate bills and responding to customer inquiries. Hydro One manages its costs through ongoing efficiency and productivity initiatives, while continuing to complete planned work programs associated with the development and maintenance of its transmission and distribution networks.

Depreciation and Amortization

Depreciation and amortization costs relate primarily to depreciation of the Company' s property, plant and equipment, and amortization of certain intangible assets and regulatory assets. Depreciation and amortization also includes the costs incurred to remove property, plant and equipment where no asset retirement obligations have been recorded on the balance sheet.

Financing Charges

Financing charges relate to the Company' s financing activities, and include interest expense on the Company' s long-term debt and short-term borrowings, and gains and losses on interest rate swap agreements, contingent foreign exchange or other similar contracts, net of interest earned on short-term investments. A portion of financing charges incurred by the Company is capitalized to the cost of property, plant and equipment associated with the periods during which such assets are under construction before being placed in-service.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the year ended December 31, 2017 of \$658 million is a decrease of \$63 million or 8.7% from the prior year. Significant influences on net income included:

decrease in transmission and distribution revenues due to lower energy consumption during 2017 resulting from milder weather;

higher transmission revenues driven by OEB' s decision on the 2017-2018 transmission rates filing;

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%;

lower OM&A costs primarily resulting from a reduction of provision for payments in lieu of property taxes following a favourable reassessment of the regulations, insurance proceeds received due to failed equipment at two transformer stations, and a tax recovery of previous year' s expenses; as well as reduced vegetation management costs and lower support services costs. These factors were offset by higher consulting costs primarily related to the acquisition of Avista Corporation; and lower bad debt expense in 2016 due to revised estimates of uncollectible accounts resulting from the stabilization of the customer information system;

increased financing charges primarily due to the issuance of convertible debentures in August 2017; as well as a higher weighted average long-term debt portfolio during 2017 compared to 2016, including long-term debt assumed as part of the HOSSM acquisition in the fourth quarter of 2016; and

higher depreciation expense due to an increase in property, plant and equipment.

EPS and Adjusted EPS

EPS of \$1.11 in 2017, compared to \$1.21 in 2016. The decrease in EPS was driven by lower net income in 2017, as discussed above. Adjusted EPS, which adjusts for costs related to the Avista Corporation acquisition, was \$1.17 in 2017, compared to \$1.21 in 2016. The decrease in Adjusted EPS was also driven by lower net income in 2017, as discussed above, excluding the aforementioned impact related to Avista Corporation acquisition. See section "Non-GAAP Measures" for description of Adjusted EPS.

Revenues

Year ended December 31 (millions of dollars, except as otherwise noted)	2017	2016	Change
Transmission	1,578	1,584	(0.4%)
Distribution	4,366	4,915	(11.2%)
Other	46	53	(13.2%)
Total revenues	5,990	6,552	(8.6%)
Transmission	1,578	1,584	(0.4%)
Distribution, net of purchased power	1,491	1,488	0.2%
Other	46	53	(13.2%)
Total revenues, net of purchased power	3,115	3,125	(0.3%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,587	20,690	(5.3%)
Distribution: Electricity distributed to Hydro One customers (GWh)	25,876	26,289	(1.6%)

Transmission Revenues

Transmission revenues decreased by 0.4% in 2017 primarily due to the following:

lower average monthly Ontario 60-minute peak demand mainly due to milder weather in the first three quarters of 2017;

decreased OEB-approved transmission rates primarily reflecting a reduction in 2017 allowed ROE for the transmission business from 9.19% to 8.78%; offset by

higher revenues driven by the OEB' s decision on the 2017-2018 transmission rates filing; and

additional revenues resulting from the acquisition of HOSSM in the fourth quarter of 2016.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 0.2% in 2017 primarily due to the following:

lower energy consumption mainly resulting from milder weather in the first three quarters of 2017; offset by

higher external revenues related to Conservation and Demand Management (CDM) incentive bonus; and

higher OEB-approved distribution rates for 2017, net of a reduction in 2017 allowed ROE for the distribution business from 9.19% to 8.78%.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

OM&A Costs

Year ended December 31 (millions of dollars)	2017	2016	Change
Transmission	375	382	(1.8%)
Distribution	593	608	(2.5%)
Other	98	79	24.1%
	1,066	1,069	(0.3%)

Transmission OM&A Costs

The decrease of 1.8% in transmission OM&A costs for the year ended December 31, 2017 was primarily due to:

- a reduction of provision for payments in lieu of property taxes following a favourable reassessment of the regulation;
- lower support services costs; and
- insurance proceeds received due to equipment failures at the Fairchild and Campbell transmission stations; partially offset by higher volume of environmental management program work.

Distribution OM&A Costs

The decrease of 2.5% in distribution OM&A costs for the year ended December 31, 2017 was primarily due to:

- continued lower expenditures for vegetation management due to strategic changes to the forestry program scope that resulted in cost efficiency and improved management of the Company's rights of ways;
- lower volume of line maintenance work;
- lower spend on development and research programs; and
- a tax recovery of previous year's expenses; partially offset by lower bad debt expense in 2016 due to revised estimates of uncollectible accounts as a result of stabilization of the customer information system, partially offset by lower bad debt expense in 2017 attributable to lower write-offs and improved accounts receivable aging; and
- increased storm restoration costs as a result of Hurricane Irma restoration efforts in Florida. These restoration efforts had no impact on the Company's net income, as related revenues were recorded in distribution revenues during the year.

Other OM&A Costs

The increase in other OM&A costs for the year ended December 31, 2017 was driven by higher consulting costs primarily related to the acquisition of Avista Corporation.

Depreciation and Amortization

The increase of \$39 million or 5.0% in depreciation and amortization costs for 2017 was mainly due to the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Financing Charges

The increase of \$46 million or 11.7% in financing charges for the year ended December 31, 2017 was primarily due to the following:

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

Income Tax Expense

Income tax expense for the year ended December 31, 2017 decreased by \$28 million compared to 2016, and the Company realized an effective tax rate of approximately 14.0% in 2017, compared to approximately 15.7% realized in 2016. The decreases in the tax expense and the effective tax rate are primarily due to lower income before taxes in 2017.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

Common Share Dividends

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

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 9, 2017	March 14, 2017	March 31, 2017	\$0.21	125
May 3, 2017	June 13, 2017	June 30, 2017	\$0.22	131
August 8, 2017	September 12, 2017	September 29, 2017	\$0.22	131
November 9, 2017	December 12, 2017	December 29, 2017	\$0.22	131
				518

Following the conclusion of the fourth quarter of 2017, the Company declared a cash dividend to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 12, 2018	March 13, 2018	March 29, 2018	\$0.22	131

SELECTED ANNUAL FINANCIAL STATISTICS

Year ended December 31 (millions of dollars, except per share amounts)	2017	2016	2015
Revenues	5,990	6,552	6,538
Net income attributable to common shareholders	658	721	690
Basic EPS	\$1.11	\$1.21	\$1.39
Diluted EPS	\$1.10	\$1.21	\$1.39
Basic Adjusted EPS	\$1.17	\$1.21	\$1.16
Diluted Adjusted EPS	\$1.16	\$1.21	\$1.16
Dividends per common share declared	\$0.87	\$0.971	\$1.83
Dividends per preferred share declared	\$1.06	\$1.12	\$1.03

¹ The \$0.97 per share dividends declared in 2016 included \$0.13 for the post-IPO period from November 5 to December 31, 2015, and \$0.84 for the year ended December 31, 2016.

December 31 (millions of dollars)	2017	2016	2015
Total assets	25,701	25,351	24,294
Total non-current financial liabilities	9,802	10,078	8,207

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS)	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Revenues	1,439	1,522	1,371	1,658	1,614	1,706	1,546	1,686
Purchased power	662	675	649	889	858	870	803	896
Revenues, net of purchased power	777	847	722	769	756	836	743	790
Net income to common shareholders	155	219	117	167	128	233	152	208
Basic EPS	\$0.26	\$0.37	\$0.20	\$0.28	\$0.22	\$0.39	\$0.26	\$0.35
Diluted EPS	\$0.26	\$0.37	\$0.20	\$0.28	\$0.21	\$0.39	\$0.25	\$0.35
Basic Adjusted EPS ¹	\$0.29	\$0.40	\$0.20	\$0.28	\$0.22	\$0.39	\$0.26	\$0.35
Diluted Adjusted EPS ¹	\$0.28	\$0.40	\$0.20	\$0.28	\$0.21	\$0.39	\$0.25	\$0.35

¹ 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 years ended December 31, 2017 and 2016

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the year ended December 31, 2017 and 2016:

Year ended December 31 (millions of dollars)	2017	2016	Change
Transmission	889	937	(5.1%)
Distribution	689	662	4.1%
Other	14	6	133.3%
Total assets placed in-service	1,592	1,605	(0.8%)

Transmission Assets Placed In-Service

Transmission assets placed in-service decreased by \$48 million or 5.1% during the year ended December 31, 2017 primarily due to the following:

- substantial investments of two major local area supply projects, Guelph Area Transmission Refurbishment and Toronto Midtown Transmission Reinforcement, were placed in-service in 2016;
- completion of the Advanced Distribution System project at Owen Sound transmission station in 2016;
- timing of assets placed in-service for the sustainment investments at Burlington and Bruce A transmission stations; partially offset by investments at Aylmer and Overbrook transmission stations; and
- lower volume of end-of-life transformer replacements work; partially offset by
- substantial investments of major development projects at Leamington and Holland transmission stations were placed in-service in the fourth quarter of 2017;
- higher volume of overhead lines and component refurbishments and replacements; and
- the completion of the Field Workforce Optimization (Move-to-Mobile) project in June 2017.

Distribution Assets Placed In-Service

Distribution assets placed in-service increased by \$27 million or 4.1% during the year ended December 31, 2017 primarily due to the following:

- higher volume of subdivision connections due to increased demand;
- the completion of the Move-to-Mobile project in June 2017;
- the completion of an operation center in Bolton in February 2017;
- the completion of the Outage Response Management System (ORMS) project in the third quarter of 2017; and
- substantial investments that were placed in-service for the Leamington transmission station feeder development project; partially offset by
- the Advanced Metering Infrastructure Wireless Telecom project was placed in-service during 2016;
- lower volume of generation connection projects; and
- lower volume of distribution station refurbishments and spare transformer purchases.

Capital Investments

The following table presents Hydro One's capital investments during the years ended December 31, 2017 and 2016:

Year ended December 31 (millions of dollars)	2017	2016	Change
Transmission			
Sustaining	764	750	1.9%
Development	137	156	(12.2%)
Other	67	82	(18.3%)
	968	988	(2.0%)
Distribution			
Sustaining	280	384	(27.1%)
Development	227	217	4.6%
Other	81	102	(20.6%)
	588	703	(16.4%)
Other	11	6	83.3%

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

Transmission Capital Investments

Transmission capital investments decreased by \$20 million or 2.0% during the year ended December 31, 2017. Principal impacts on the levels of capital investments included:

- construction work on Clarington Transmission Station project is substantially complete and therefore, lower investments in 2017;
- decreased investments in information technology projects, primarily due to completion of certain projects and timing of work on other projects;
- lower volume of transmission station refurbishments and component replacements work; and
- substantial completion of the Guelph Area Transmission Refurbishment project in 2016; partially offset by
- higher volume of overhead lines and component refurbishments and replacements; and
- substantial completion of the Leamington transmission station project to address the electricity needs in Windsor and Essex County.

Distribution Capital Investments

Distribution capital investments decreased by \$115 million or 16.4% during the year ended December 31, 2017. Principal impacts on the levels of capital investments included:

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

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at December 31, 2017:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
Development Projects:					
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	\$57 million ¹	\$52 million
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	\$267 million	\$223 million
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2021	\$157 million	\$7 million
Northwest Bulk Transmission Line	Thunder Bay Northwestern Ontario	New transmission line	2024	\$350 million	\$1 million
Sustainment Projects:					
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2020	\$109 million ²	\$105 million
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	\$103 million	\$85 million
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	\$93 million	\$51 million

Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	\$95 million	\$44 million
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1 In February 2018, the estimated cost to complete the Supply to Essex County Transmission Reinforcement project was reduced from \$ 73 million to \$57 million.
2 The estimated cost to complete the Bruce A Transmission Station project is currently under review.

Future Capital Investments

Following is a summary of estimated capital investments by Hydro One over the years 2018 to 2022. The Company's estimates are based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework. The 2018 transmission capital investments estimates differ from the prior year disclosures, representing an annual



HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

decrease of \$122 million to reflect the OEB's focus on planning practices and the pacing of sustainment capital investments, specifically, tower coating, stations, and insulator investments, as indicated in the OEB's 2017-2018 transmission rates decision issued in September 2017. The projections and the timing of 2019-2022 expenditures are subject to approval by the OEB.

The following table summarizes Hydro One's annual projected capital investments for 2018 to 2022, by business segment:

<i>(millions of dollars)</i>	2018	2019	2020	2021	2022
Transmission	1,010	1,217	1,278	1,486	1,404
Distribution	641	751	715	719	805
Other	9	8	6	9	8
Total capital investments	1,660	1,976	1,999	2,214	2,217

The following table summarizes Hydro One's annual projected capital investments for 2018 to 2022, by category:

<i>(millions of dollars)</i>	2018	2019	2020	2021	2022
Sustainment	1,103	1,220	1,328	1,547	1,608
Development	340	484	487	490	430
Other ¹	217	272	184	177	179
Total capital investments	1,660	1,976	1,999	2,214	2,217

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

SUMMARY OF SOURCES AND USES OF CASH

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

<i>Year ended December 31 (millions of dollars)</i>	2017	2016
Cash provided by operating activities	1,716	1,656
Cash provided by (used in) financing activities	(201)	161
Cash used in investing activities	(1,540)	(1,861)
Decrease in cash and cash equivalents	(25)	(44)

Cash provided by operating activities

Cash from Operating Activities increased by \$60 million during 2017 primarily due to changes in regulatory variance and deferral accounts, as well as lower energy-related receivables which decreased as a result of improved collections in 2017. These factors were partially offset by changes in accrual balances.

Cash provided by financing activities

Sources of cash

The Company did not issue long-term debt in 2017, compared to proceeds from the issuance of \$2.3 billion in 2016.

The Company received proceeds of \$3,795 million from the issuance of short-term notes in 2017, compared to \$3,031 million received in 2016.

In 2017, the Company received proceeds of \$513 million, representing the first instalment of the convertible debentures issued, gross of \$27 million financing costs, compared to no convertible debentures issuances in 2016.

Uses of cash

Dividends paid in 2017 were \$536 million, consisting of \$518 million common share dividends and \$18 million of preferred share dividends, compared to dividends of \$596 million paid in 2016, consisting of \$577 million common share dividends and \$19 million of preferred share dividends. The 2016 common share dividends included \$77 million of dividends for the post-IPO period from November 5 to December 31, 2015, and \$500 million of dividends for the year ended December 31, 2016.

The Company repaid \$3,338 million of short-term notes in 2017, compared to \$4,053 million repaid in 2016.

The Company repaid \$602 million of long-term debt in 2017, compared to long-term debt of \$502 million repaid in 2016.

Cash used in investing activities

Uses of cash

Capital expenditures were \$114 million lower in 2017, primarily due to lower volume and timing of capital investment work.

In 2016, the Company paid \$224 million to acquire HOSSM, compared to no acquisition payments made in 2017.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

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 December 31, 2017, Hydro One Inc. had \$926 million in commercial paper borrowings outstanding, compared to \$469 million outstanding at December 31, 2016. In addition, the Company has 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 December 31, 2017, the Company' s long-term debt in the principal amount of \$10,069 million included \$9,923 million of long-term debt, the majority of which was issued under Hydro One Inc.' s Medium Term Note (MTN) Program, and long-term debt in the principal amount of \$146 million held by HOSSM. At December 31, 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 2018 and 2064, and at December 31, 2017, had an average term to maturity of approximately 15.8 years and a weighted average coupon rate of 4.2%.

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

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

To mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed by the issuance of Convertible Debentures, in October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract is contingent on the Company closing the proposed Avista Corporation acquisition. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed upon approval of the acquisition up to March 31, 2019. The balance of the Avista Corporation acquisition will be financed by issuing long-term debt denominated in US dollars which will act as an economic hedge. At December 31, 2017, a fair value loss of \$3 million was recorded with a corresponding derivative liability.

At December 31, 2017, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

Credit Ratings

At December 31, 2017, Hydro One' s corporate credit ratings were as follows:

Rating Agency	Corporate Credit Rating
Standard & Poor' s Rating Services (S&P) ¹	A

¹ On July 19, 2017, S&P revised its outlook on the Company to negative from stable, while affirming the existing corporate credit rating.

Hydro One has not obtained a credit rating in respect of any of its securities. An issuer rating from S&P is a forward-looking opinion about an obligor' s overall creditworthiness. This opinion focuses on the obligor' s capacity and willingness to meet its financial commitments as they come due but it does not apply to any specific financial obligation. An obligor with a long-term credit rating of 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

The rating above is not a recommendation to purchase, sell or hold any of Hydro One' s securities and does not comment on the market price or suitability of any of the securities for a particular investor. There can be no assurance that the rating will remain in effect for any given period of time or that the rating will not be revised or withdrawn entirely by S&P at any time in the future. Hydro One has made, and anticipates making, payments to S&P pursuant to agreements entered into with S&P in respect of the rating assigned to Hydro One and expects to make payments to S&P in the future to the extent it obtains a rating specific to any of its securities.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

At December 31, 2017, Hydro One Inc.' s long-term and short-term debt ratings were as follows:

Rating Agency	Short-term Debt Rating	Long-term Debt Rating
DBRS Limited	R-1 (low)	A (high)
Moody' s Investors Service (Moody' s) ¹	Prime-2	A3
S&P ¹	A-1	A

¹ On July 19, 2017, S&P and Moody' s revised their outlooks on Hydro One Inc. to negative from stable, while affirming the existing debt ratings.

Effect of Interest Rates

The Company is exposed to fluctuations of interest rates as its regulated return on equity (ROE) is derived using a formulaic approach that takes into account changes in benchmark interest rates for Government of Canada debt and the A-rated utility corporate bond yield spread. See section "Risk Management and Risk Factors - Risks Relating to Hydro One' s Business - Market, Financial Instrument and Credit Risk" for more details.

Pension Plan

In 2017, Hydro One contributed approximately \$87 million to its pension plan, compared to contributions of approximately \$108 million in 2016, and incurred \$88 million in net periodic pension benefit costs, compared to \$116 million incurred in 2016.

In May 2017, Hydro One filed an actuarial valuation of its Pension Plan as at December 31, 2016. Based on this valuation and 2017 levels of pensionable earnings, the 2017 annual Company pension contributions have decreased by approximately \$17 million from \$105 million as estimated at December 31, 2016, primarily due to 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. Hydro One estimates that total Company pension contributions for 2018 and 2019 will be approximately \$71 million for each year.

The Company' s pension benefits obligation is impacted by various assumptions and estimates, such as discount rate, rate of return on plan assets, rate of cost of living increase and mortality assumptions. A full discussion of the significant assumptions and estimates can be found in the section "Critical Accounting Estimates - Employee Future Benefits".

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 years ended December 31, 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:

December 31, 2017 (millions of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations (due by year)					
Long-term debt - principal repayments	10,069	752	1,384	1,107	6,826
Long-term debt - interest payments	7,690	426	786	725	5,753
Convertible debentures - principal repayments ¹	513	-	-	-	513
Convertible debentures - interest payments	601	62	123	123	293
Short-term notes payable	926	926	-	-	-
Pension contributions ²	151	71	80	-	-
Environmental and asset retirement obligations	215	28	59	65	63
Outsourcing agreements	247	139	97	4	7
Operating lease commitments	44	12	18	10	4
Long-term software/meter agreement	56	17	33	3	3
Total contractual obligations	20,512	2,433	2,580	2,037	13,462
Other commercial commitments (by year of expiry)					
Credit facilities ³	2,550	-	-	2,550	-
Letters of credit ⁴	177	177	-	-	-
Guarantees ⁵	325	325	-	-	-
Total other commercial commitments	3,052	502	-	2,550	-

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

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

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

⁴ Letters of credit consist of a \$154 million letter of credit related to retirement compensation arrangements, a \$16 million letter of credit provided to the IESO for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

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

REGULATION

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

Application	Years	Type	Status
Electricity Rates			
Hydro One Networks	2017-2018	Transmission - Cost-of-service	OEB decision received ¹
Hydro One Networks	2015-2017	Distribution - Custom	OEB decision received
Hydro One Networks	2018-2022	Distribution - Custom	OEB decision pending
B2M LP	2015-2019	Transmission - Cost-of-service	OEB decision received
HOSSM	2017-2018	Transmission - Revenue Cap	OEB decision received
Mergers Acquisitions Amalgamations and Divestitures (MAAD)			
Orillia Power Distribution Corporation	n/a	Acquisition	OEB decision pending
Leave to Construct			
East-West Tie Station Expansion	n/a	Section 92	OEB decision pending

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

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the years ended December 31, 2017 and 2016

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

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2017	8.78% (A)	\$10,523 million	Approved in September 2017	Approved in November 2017
	2018	9.00% (A)	\$11,148 million	Approved in September 2017	Approved in December 2017
B2M LP	2017	8.78% (A)	\$509 million	Approved in December 2015	Approved in June 2017
	2018	9.00% (A)	\$502 million	Approved in December 2015	Filed in December 2017
	2019	9.00% (F)	\$496 million	Approved in December 2015	To be filed in 2018 Q4
HOSSM	2017	9.19% (A)	\$218 million	Approved in September 2017	n/a
	2018	9.19% (A)	\$218 million	Approved in September 2017	n/a
Distribution					
Hydro One Networks	2017	8.78% (A)	\$7,190 million	Approved in March 2015	Approved in December 2016
	2018	9.00% (A)	\$7,666 million	Filed in March 2017 ¹	To be filed in 2018 Q4
	2019	9.00% (F)	\$8,027 million	Filed in March 2017 ¹	To be filed in 2018 Q4
	2020	9.00% (F)	\$8,430 million	Filed in March 2017 ¹	To be filed in 2019 Q4
	2021	9.00% (F)	\$8,960 million	Filed in March 2017 ¹	To be filed in 2020 Q4
	2022	9.00% (F)	\$9,327 million	Filed in March 2017 ¹	To be filed in 2021 Q4

¹ On June 7 and December 21, 2017, Hydro One Networks filed updates to the application reflecting recent financial results and other adjustments.

Electricity Rates Applications

Hydro One Networks - Transmission

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

In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately \$370 million related to Hydro One Networks' distribution deferred income tax regulatory asset.

In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which is scheduled for mid-February 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million, resulting in an annual decrease to FFO in the range of \$50 million to \$60 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

In October 2017, the intervenor Anwaatin Inc. also filed a Motion to Review and Vary the OEB Decision (Anwaatin Motion) alleging that the OEB breached its duty of procedural fairness, failed to respond to certain evidence, and failed to provide reasons on the capital budget as it related to reliability issues impacting Anwaatin Inc.'s constituents. The Anwaatin Motion will be heard by the OEB on February 13, 2018.

On November 23, 2017, the OEB approved the 2017 rates revenue requirement of \$1,438 million. On December 20, 2017, the OEB approved the 2018 rates revenue requirement of \$1,511 million, which included a \$25 million increase from the approved amount, as a result of the OEB-updated cost of capital parameters. Uniform Transmission Rates (UTRs), reflecting these approved amounts, were approved by the OEB on February 1, 2018 to be effective as of January 1, 2018.

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Hydro One Networks - Distribution

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

On November 17, 2017, Hydro One filed with the OEB a request for interim rates based on current OEB-approved rates, adjusted for an updated load forecast. On December 1, 2017, the OEB denied this request and set interim rates based on current OEB-approved rates with no adjustments.

In Hydro One's December 21, 2017 update to the 2018-2022 Distribution Application, Hydro One described the impact to the proposed revenue requirement of various developments since initially filing the application. These included, without limitation, the updated cost of capital parameters and inflation factor for 2018 issued by the OEB, and reductions in the 2018 OM&A forecast and 2018-2022 capital forecasts.

B2M LP

In December 2015, the OEB approved B2M LP's revenue requirement for years 2015 to 2019, subject to annual updates in each of 2016, 2017 and 2018 to adjust its revenue requirement for the following year consistent with the OEB's updated cost of capital parameters. On June 8, 2017, the OEB approved B2M LP's Rate Order reflecting 2017 transmission revenue requirement of \$34 million, effective January 1, 2017.

On February 1, 2018, the OEB issued its Decision and Rate Order for 2018 UTRs declaring the 2018 UTRs as interim, as the B2M LP application for an update to its 2018 transmission revenue requirement is still under consideration by the OEB.

HOSSM

On September 28, 2017, the OEB issued its Decision and Order on HOSSM's 2017 transmission rates application, denying the requested revenue requirement for 2017. HOSSM's 2016 approved revenue requirement of \$41 million will remain in effect for 2017 and 2018.

Hydro One Remote Communities Inc.

On August 28, 2017, Hydro One Remote Communities Inc. filed an application with the OEB seeking approval of its 2018 revenue requirement of \$57 million and electricity rates effective May 1, 2018. On December 14, 2017, the OEB issued a Procedural Order with key dates for filing additional materials and reply submissions. On February 7, 2018, Hydro One Remote Communities Inc. and the intervenors in the rate proceeding reached a full settlement agreement on all issues. The agreement is expected to be reviewed by the OEB for approval in March 2018. Upon the OEB's approval, new rates are expected to be implemented by May 1, 2018.

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

MAAD Applications

Orillia Power MAAD Application

In August 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power). The acquisition is subject to regulatory approval by the OEB. On July 27, 2017, the OEB issued a Procedural Order No. 6 (Procedural Order) in the matter of Hydro One's MAAD application to acquire Orillia Power. The Procedural Order stated that the OEB has decided to delay a decision on the Orillia Power MAAD application until Hydro One defends its cost allocation proposal in the 2018-2022 Distribution Application hearing to determine if the Orillia Power acquisition is likely to cause harm to any of its current customers. Because of the timetable of the 2018-2022 Distribution Application hearing, and the time it will take to receive a decision in that hearing, the effect of the Procedural Order will be to delay the Orillia Power MAAD application decision by as much as 18 months or more. On August 14, 2017, Hydro One filed a Motion to Review and Vary the Procedural Order requesting the OEB to allow the Orillia Power MAAD application to proceed immediately in the ordinary course. On October 24, 2017, the OEB issued a Procedural Order in response to Hydro One's Motion to Review and Vary, with key dates for filing additional materials on the Motion, hearing date, and filing of reply submissions. Final argument on the Motion to Review and Vary was filed on December 13, 2017.

On January 4, 2018, the OEB issued its Decision on Hydro One's Motion to Review and Vary, granting the motion and referring the MAAD file back to the original OEB panel for reconsideration. The OEB's findings were based on both procedural unfairness and the impact that a lengthy delay will have on the operations of Orillia Power. On February 5, 2018, the OEB issued Procedural Order No. 7 directing Hydro One to file evidence or submissions on its expectations of the overall cost structures following the deferred rebasing period and the effect on Orillia Power customers by February 15, 2018.

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Other Applications

East-West Tie

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

On September 22, 2017, Hydro One filed with the OEB a Letter of Intent indicating that the Company plans to file a Leave to Construct application to construct the East-West Tie Line Project. On December 21, 2017, Hydro One re-confirmed with the OEB that it still intends to file this application in early 2018.

On November 13, 2017, NextBridge filed a letter with the OEB asserting that the OEB should strictly limit Hydro One' s intervenor status to matters related to interconnection of the NextBridge East-West Tie Line Project to Hydro One transmission facilities and to ensure that Hydro One does not use its status as the Province' s incumbent transmitter to compete unfairly against NextBridge' s Leave to Construct application.

On December 1, 2017, the IESO released its needs assessment for the East-West Tie Line Project, as requested by the Minister of Energy. The IESO has reconfirmed that the project is still the recommended solution to supply electricity in Northwestern Ontario and continues to recommend an in-service date of 2020.

On December 5, 2017, Hydro One filed a letter with the OEB in response to NextBridge' s request to impose limitations on Hydro One' s participation as an intervenor. In the letter, Hydro One asked that the OEB allow Hydro One' s status as an intervenor in the proceeding with full intervenor rights, and that the OEB reject NextBridge' s requests relating to (i) documentation provided to Hydro One, (ii) creation of a confidentiality screen, and (iii) creation of novel filing requirements for a Leave to Construct application by Hydro One.

On December 21, 2017, both NextBridge and Hydro One received interrogatories from the OEB and Intervenors related to their respective Leave to Construct applications. Hydro One submitted its responses by the January 25, 2017 due date.

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 came into effect on July 1, 2017 and resulted in a reduction of approximately 25% on electricity bills for typical Ontario residential customers. The Province also launched a new Affordability Fund aimed at assisting electricity customers who cannot qualify for low-income conservation programs. Additional enhancements were also made to the existing Ontario Electricity Support Program (OESP).

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

Hydro One continues to work with First Nations customers living on reserves to help ensure the required applications are submitted to receive the benefits associated with the First Nations rate assistance program which provides a credit on the delivery charge.

OEB Pension and Other Post-Employment Benefits Costs

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

Hydro One currently reports and recovers its pension expense on a cash basis, and maintains the accrual method with respect to OPEBs. Transitioning from the cash basis to an accrual method for pension may have material negative rate impacts for customers, including a higher cost recovered through rates, more volatility relating to the ability to predict the effect on rates, and the pension offset (cumulative difference between the cash and accrual basis which is \$981 million as at December 31, 2017) having to be recovered in rates on an accelerated basis. As the Report establishes that a basis other than the accrual accounting method may

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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

Strategy

In 2017, the Company's Board of Directors approved Hydro One's strategy which details the Company's goal to become North America's leading utility, centered around three key pillars: (i) optimization and innovation, (ii) diversification, and (iii) growth.

Common Shares

On May 17, 2017, Hydro One completed a secondary offering (Offering) by the Province, on a bought deal basis, of 120 million common shares of Hydro One. Following completion of the Offering, the Province directly held 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.

On December 29, 2017, the Province sold 14,391,012 common shares of Hydro One, representing approximately 2.4% of the outstanding common shares, to OFN Power Holdings LP, a limited partnership wholly-owned by Ontario First Nations Sovereign Wealth LP, which is in turn owned by 129 First Nations in Ontario. After completing this transaction, the Province owns approximately 47.4% or 282.4 million common shares of Hydro One. Hydro One did not receive any of the proceeds from the sale of the common shares by the Province.

Collective Agreements

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

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

The current collective agreement with the PWU expires on March 31, 2018. In January 2018, Hydro One and the PWU commenced collective bargaining with the official exchange of bargaining agendas. Both sides acknowledged their commitment to working towards the timely completion of collective bargaining.

Exemptive Relief

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

Avista Corporation Purchase Agreement

On July 19, 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately \$6.7 billion in an all-cash transaction. Avista Corporation is an investor-owned utility providing electric generation, transmission, and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger is expected to occur in the second half of 2018, subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions.

On September 14, 2017, Hydro One and Avista Corporation filed applications with state utility commissions in Washington, Idaho, Oregon, Montana, and Alaska, as well as with the Federal Energy Regulatory Commission, requesting regulatory approval of the Merger on or before August 14, 2018. On November 21, 2017, the Merger was approved by the shareholders of Avista Corporation. On January 16, 2018, the Federal Energy Regulatory Commission approved the Merger application. Required filings with a number of other agencies will be made in the coming months, including with the Committee on Foreign Investment in the United States, the

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Federal Communications Commission, and the Department of Justice and the Federal Trade Commission pursuant to the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*.

Convertible Debenture Offering

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company and its wholly-owned subsidiary, 2587264 Ontario Inc., completed the sale of \$1,540 million aggregate principal amount of 4.00% convertible unsecured subordinated debentures represented by instalment receipts (Debenture Offering). Upon closing of the Avista Corporation transaction and conversion of the Convertible Debentures into Hydro One common shares, the Province' s ownership of Hydro One will decrease to approximately 42.3%. See section "Liquidity and Financing Strategy".

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

Litigation

Litigation Relating to the Merger

To date, four putative class action lawsuits have been filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation' s directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation' s directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß*, *Samuel*, and *Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

Class Action Lawsuit

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff' s motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court' s decision, and it is likely that no decision will be rendered by the appeal court until the second half of 2018. At this time, an estimate of a possible loss related to this claim cannot be made.

Appointment of Chief Financial Officer

On January 28, 2018, Mr. Paul Dobson was appointed to the position of Chief Financial Officer of Hydro One, effective March 1, 2018. Mr. Dobson was most recently the Chief Financial Officer at Direct Energy Ltd. in Houston, Texas.

HYDRO ONE WORK FORCE

Hydro One has a skilled and flexible work force of approximately 5,400 regular employees and 2,000 non-regular employees province-wide, comprising of a mix of skilled trades, engineering, professional, managerial and executive personnel. Hydro One' s regular employees are supplemented primarily by accessing a large external labour force available through arrangements with the Company' s trade unions for variable workers, sometimes referred to as "hiring halls", and also by access to contract personnel. The hiring halls offer Hydro One the ability to flexibly utilize highly trained and appropriately skilled workers on a project-by-project and seasonal basis.

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The following table sets out the number of Hydro One employees as at December 31, 2017:

	Regular Employees	Non-Regular Employees	Total
PWU ¹	3,362	706	4,068
The Society	1,379	35	1,414
Canadian Union of Skilled Workers (CUSW) and construction building trade unions ²	–	1,254	1,254
Total employees represented by unions	4,741	1,995	6,736
Management and non-represented employees	681	23	704
Total employees	5,422	2,018	7,440

¹ Includes 575 non-regular "hiring hall" employees covered by the PWU agreement.

² The construction building trade unions have collective agreements with the Electrical Power Systems Construction Association (EPSCA).

Share-based Compensation

During 2017 and 2016, the Company granted awards under its Long-term Incentive Plan, consisting of Performance Stock Units (PSUs) and Restricted Stock Units (RSUs), all of which are equity settled. At December 31, 2017 and 2016, 429,980 and 230,600 PSUs, respectively, and 393,430 and 254,150 RSUs, respectively, were outstanding.

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.

Year ended December 31 (millions of dollars)	2017	2016
Net cash from operating activities	1,716	1,656
Changes in non-cash balances related to operations	(113)	(134)
Preferred share dividends	(18)	(19)
Distributions to noncontrolling interest	(6)	(9)
FFO	1,579	1,494

Adjusted Net Income and Adjusted EPS

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

Year ended December 31	2017	2016
Net income attributable to common shareholders (millions of dollars)	658	721
Costs related to acquisition of Avista Corporation (millions of dollars)	36	–
Adjusted net income attributable to common shareholders (millions of dollars)	694	721
Weighted average number of shares		
Basic	595,287,586	595,000,000
Effect of dilutive stock-based compensation plans	2,234,665	1,700,823
Diluted	597,522,251	596,700,823
Adjusted EPS		
Basic	\$1.17	\$1.21
Diluted	\$1.16	\$1.21

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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.

Year ended December 31 (millions of dollars)	2017	2016
Revenues	5,990	6,552
Less: Purchased power	2,875	3,427
Revenues, net of purchased power	3,115	3,125

Year ended December 31 (millions of dollars)	2017	2016
Distribution revenues	4,366	4,915
Less: Purchased power	2,875	3,427
Distribution revenues, net of purchased power	1,491	1,488

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 47.4% ownership at December 31, 2017. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. 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 years ended December 31, 2017 and 2016:

Year ended December 31 (millions of dollars)		2017	2016
Related Party	Transaction		
Province	Dividends paid	301	451
IESO	Power purchased	1,583	2,096
	Revenues for transmission services	1,521	1,549
	Amounts related to electricity rebates	357	-
	Distribution revenues related to rural rate protection	247	125
	Distribution revenues related to the supply of electricity to remote northern communities	32	32
	Funding received related to CDM programs	59	63
OPG	Power purchased	9	6
	Revenues related to provision of construction and equipment maintenance services	3	5
	Costs related to the purchase of services	1	1
OEFC	Power purchased from power contracts administered by the OEFC	2	1
OEB	OEB fees	8	11
Hydro One Brampton	Cost recovery from management, administrative and smart meter network services	-	3

RISK MANAGEMENT AND RISK FACTORS

Risks Relating to Hydro One' s Business

Regulatory Risks and Risks Relating to Hydro One' s Revenues

Risks Relating to Obtaining Rate Orders

The Company is subject to the risk that the OEB will not approve the Company' s transmission and distribution revenue requirements requested in outstanding or future applications for rates. Rate applications for revenue requirements are subject to the OEB' s review process, usually involving participation from intervenors and a public hearing process. There can be no assurance that resulting decisions or rate orders issued by the OEB will permit Hydro One to recover all costs actually incurred, costs of debt and income taxes, or to earn a particular ROE. A failure to obtain acceptable rate orders, or approvals of appropriate returns on equity and costs actually incurred, such as occurred in the September 28, 2017 and November 9, 2017 OEB decisions (details above in "Electricity Rates Applications – Hydro One Networks – Transmission"), may materially adversely affect: Hydro One' s transmission or distribution businesses, the undertaking or timing of capital expenditures, ratings assigned by credit rating agencies, the cost and issuance of

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long-term debt, and other matters, any of which may in turn have a material adverse effect on the Company. In addition, there is no assurance that the Company will receive regulatory decisions in a timely manner and, therefore, costs may be incurred prior to having an approved revenue requirement and cash flows could be impacted.

Risks Relating to Actual Performance Against Forecasts

The Company's ability to recover the actual costs of providing service and earn the allowed ROE depends on the Company achieving its forecasts established and approved in the rate-setting process. Actual costs could exceed the approved forecasts if, for example, the Company incurs operations, maintenance, administration, capital and financing costs above those included in the Company's approved revenue requirement. The inability to obtain acceptable rate decisions or to recover any significant difference between forecast and actual expenses could materially adversely affect the Company's financial condition and results of operations.

Further, the OEB approves the Company's transmission and distribution rates based on projected electricity load and consumption levels, among other factors. If actual load or consumption materially falls below projected levels, the Company's revenue and net income for either, or both, of these businesses could be materially adversely affected. Also, the Company's current revenue requirements for these businesses are based on cost and other assumptions that may not materialize. There is no assurance that the OEB would allow rate increases sufficient to offset unfavourable financial impacts from unanticipated changes in electricity demand or in the Company's costs.

The Company is subject to risk of revenue loss from other factors, such as economic trends and weather conditions that influence the demand for electricity. The Company's overall operating results may fluctuate substantially on a seasonal and year-to-year basis based on these trends and weather conditions. For instance, a cooler than normal summer or warmer than normal winter can be expected to reduce demand for electricity below that forecast by the Company, causing a decrease in the Company's revenues from the same period of the previous year. The Company's load could also be negatively affected by successful Conservation and Demand Management programs whose results exceed forecasted expectations.

Risks Relating to Rate-Setting Models for Transmission and Distribution

The OEB approves and periodically changes the ROE for transmission and distribution businesses. The OEB may in the future decide to reduce the allowed ROE for either of these businesses, modify the formula or methodology it uses to determine the ROE, or reduce the weighting of the equity component of the deemed capital structure. Any such reduction could reduce the net income of the Company.

The OEB's recent Custom Incentive Rate-setting model requires that the term of a custom rate application be a minimum five-year period. There are risks associated with forecasting key inputs such as revenues, operating expenses and capital, over such a long period. For instance, if unanticipated capital expenditures arise that were not contemplated in the Company's most recent rate decision, the Company may be required to incur costs that may not be recoverable until a future period or not recoverable at all in future rates. This could have a material adverse effect on the Company.

After rates are set as part of a Custom Incentive Rate application, the OEB expects there to be no further rate applications for annual updates within the five-year term, unless there are exceptional circumstances, with the exception of the clearance of established deferral and variance accounts. For example, the OEB does not expect to address annual rate applications for updates for cost of capital (including ROE), working capital allowance or sales volumes. If there were an increase in interest rates over the period of a rate decision and no corresponding changes were permitted to the Company's allowed cost of capital (including ROE), then the result could be a decrease in the Company's financial performance.

To the extent that the OEB approves an In-Service Variance Account for the transmission and/or distribution businesses, and should the Company fail to meet the threshold levels of in-service capital, the OEB may reclaim a corresponding portion of the Company's revenues.

Risks Relating to Capital Expenditures

In order to be recoverable, capital expenditures require the approval of the OEB, either through the approval of capital expenditure plans, rate base or revenue requirements for the purposes of setting transmission and distribution rates, which include the impact of capital expenditures on rate base or cost of service. There can be no assurance that all capital expenditures incurred by Hydro One will be approved by the OEB. Capital cost overruns may not be recoverable in transmission or distribution rates. The Company could incur unexpected capital expenditures in maintaining or improving its assets, particularly given that new technology may be required to support renewable generation and unforeseen technical issues may be identified through implementation of projects. There is risk that the OEB may not allow full recovery of such expenditures in the future. To the extent possible, Hydro One aims to mitigate this risk by ensuring prudent expenditures, seeking from the regulator clear policy direction on cost responsibility, and pre-approval of the need for capital expenditures.

Any regulatory decision by the OEB to disallow or limit the recovery of any capital expenditures would lead to a lower than expected approved revenue requirement or rate base, potential asset impairment or charges to the Company's results of operations, any of which could have a material adverse effect on the Company.

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Risks Relating to Regulatory Treatment of Deferred Tax Asset

As a result of leaving the PILs Regime and entering the Federal Tax Regime in connection with the IPO of the Company, Hydro One recorded a deferred tax asset due to the revaluation of the tax basis of Hydro One' s fixed assets at their fair market value and recognition of eligible capital expenditures. The OEB' s September 28, 2017 and November 9, 2017 decisions (see details above in "Electricity Rates Applications – Hydro One Networks –Transmission") alter Hydro One' s allocation of the tax savings resulting from the deferred tax asset. If this approach is followed (pending the outcome of the Motion and Appeal), the exposure from the potential impairment from the regulatory treatment of the deferred tax asset could be a one-time decrease in net income, resulting in annual decreases to FFO.

Risks Relating to Other Applications to the OEB

The Company is also subject to the risk that it will not obtain, or will not obtain in a timely manner, required regulatory approvals for other matters, such as leave to construct applications, applications for mergers, acquisitions, amalgamations and divestitures, and environmental approvals. Decisions to acquire or divest other regulated businesses licensed by the OEB are subject to OEB approval. Accordingly, there is the risk that such matters may not be approved or that unfavourable conditions will be imposed by the OEB.

Indigenous Claims Risk

Some of the Company' s current and proposed transmission and distribution assets are or may be located on reserve (as defined in the *Indian Act* (Canada)) (Reserve) lands, and lands over which Indigenous people have Aboriginal, treaty, or other legal claims. Some Indigenous leaders, communities, and their members have made assertions related to sovereignty and jurisdiction over Reserve lands and traditional territories and are increasingly willing to assert their claims through the courts, tribunals, or by direct action. These claims and/or settlement of these claims could have a material adverse effect on the Company or otherwise materially adversely impact the Company' s operations, including the development of current and future projects.

The Company' s operations and activities may give rise to the Crown' s duty to consult and potentially accommodate Indigenous communities. Procedural aspects of the duty to consult may be delegated to the Company by the Province or the federal government. A perceived failure by the Crown to sufficiently consult an Indigenous community, or a perceived failure by the Company in relation to delegated consultation obligations, could result in legal challenges against the Crown or the Company, including judicial review or injunction proceedings, or could potentially result in direct action against the Company by a community or its citizens. If this occurs, it could disrupt or delay the Company' s operations and activities, including current and future projects, and have a material adverse effect on the Company.

Risk from Transfer of Assets Located on Reserves

The transfer orders by which the Company acquired certain of Ontario Hydro' s businesses as of April 1, 1999 did not transfer title to assets located on Reserves. The transfer of title to these assets did not occur because authorizations originally granted by the federal government for the construction and operation of these assets on Reserves could not be transferred without required consent. In several cases, the authorizations had either expired or had never been issued.

Currently, the OEFC holds legal title to these assets and it is expected that the Company will manage them until it has obtained permits to complete the title transfer. To occupy Reserves, the Company must have valid permits. For each permit, the Company must negotiate an agreement (in the form of a memorandum of understanding) with the First Nation, the OEFC and any members of the First Nation who have occupancy rights. The agreement includes provisions whereby the First Nation consents to the issuance of a permit. For transmission assets, the Company must negotiate terms of payment. It is difficult to predict the aggregate amount that the Company may have to pay to obtain the required agreements from First Nations. If the Company cannot reach satisfactory agreements with the relevant First Nation to obtain federal permits, it may have to relocate these assets to other locations and restore the lands at a cost that could be substantial. In a limited number of cases, it may be necessary to abandon a line and replace it with diesel generation facilities. In either case, the costs relating to these assets could have a material adverse effect on the Company if the costs are not recoverable in future rate orders.

Compliance with Laws and Regulations

Hydro One must comply with numerous laws and regulations affecting its business, including requirements relating to transmission and distribution companies, environmental laws, employment laws and health and safety laws. The failure of the Company to comply with these laws could have a material adverse effect on the Company' s business. See also "– Health, Safety and Environmental Risk".

For example, Hydro One' s licensed transmission and distribution businesses are required to comply with the terms of their licences, with codes and rules issued by the OEB, and with other regulatory requirements, including regulations of the National Energy Board. In Ontario, the Market Rules issued by the IESO require the Company to, among other things, comply with the reliability standards established by the North American Electric Reliability Corporation (NERC) and Northeast Power Coordinating Council, Inc. (NPCC). The incremental costs associated with compliance with these reliability standards are expected to be recovered through rates, but there can be no assurance that the OEB will approve the recovery of all of such incremental costs. Failure to obtain such approvals could have a material adverse effect on the Company.

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There is the risk that new legislation, regulations, requirements or policies will be introduced in the future. These may require Hydro One to incur additional costs, which may or may not be recovered in future transmission and distribution rates.

Risk of Natural and Other Unexpected Occurrences

The Company's facilities are exposed to the effects of severe weather conditions, natural disasters, man-made events including but not limited to cyber and physical terrorist type attacks, events which originate from third-party connected systems, or any other potentially catastrophic events. The Company's facilities may not withstand occurrences of this type in all circumstances. The Company does not have insurance for damage to its transmission and distribution wires, poles and towers located outside its transmission and distribution stations resulting from these or other events. Where insurance is available for other assets, such insurance coverage may have deductibles, limits and/or exclusions. Losses from lost revenues and repair costs could be substantial, especially for many of the Company's facilities that are located in remote areas. The Company could also be subject to claims for damages caused by its failure to transmit or distribute electricity or costs related to ensuring its continued ability to transmit or distribute electricity.

Risk Associated with Information Technology Infrastructure and Data Security

The Company's ability to operate effectively in the Ontario electricity market is, in part, dependent upon it developing, maintaining and managing complex information technology systems which are employed to operate and monitor its transmission and distribution facilities, financial and billing systems and other business systems. The Company's increasing reliance on information systems and expanding data networks increases its exposure to information security threats. The Company's transmission business is required to comply with various rules and standards for transmission reliability, including mandatory standards established by the NERC and the NPCC. These include standards relating to cyber-security and information technology, which only apply to certain of the Company's assets (generally being those whose failure could impact the functioning of the bulk electricity system). The Company may maintain different or lower levels of information technology security for its assets that are not subject to these mandatory standards. The Company must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information and information regarding consumers, wholesalers, generators and retailers.

Cyber-attacks or unauthorized access to corporate and information technology systems could result in service disruptions and system failures, which could have a material adverse effect on the Company, including as a result of a failure to provide electricity to customers. Due to operating critical infrastructure, Hydro One may be at greater risk of cyber-attacks from third parties (including state run or controlled parties) that could impair or incapacitate its assets. In addition, in the course of its operations, the Company collects, uses, processes and stores information which could be exposed in the event of a cyber-security incident or other unauthorized access or disclosure, such as information about customers, suppliers, counterparties, employees and other third parties.

Security and system disaster recovery controls are in place; however, there can be no assurance that there will not be system failures or security breaches or that such threats would be detected or mitigated on a timely basis. Upon occurrence and detection, the focus would shift from prevention to isolation, remediation and recovery until the incident has been fully addressed. Any such system failures or security breaches could have a material adverse effect on the Company.

Labour Relations Risk

The substantial majority of the Company's employees are represented by either the PWU or the Society. Over the past several years, significant effort has been expended to increase Hydro One's flexibility to conduct operations in a more cost-efficient manner. Although the Company has achieved improved flexibility in its collective agreements, the Company may not be able to achieve further improvements. The Company reached an agreement with the PWU for a renewal collective agreement with a three-year term, covering the period from April 1, 2015 to March 31, 2018 and an early renewal collective agreement with the Society with a three-year term, covering the period from April 1, 2016 to March 31, 2019. The Company also reached a renewal collective agreement with the Canadian Union of Skilled Workers for a five-year term, covering the period from May 1, 2017 to April 30, 2022. Additionally, the EPSCA and a number of construction unions have reached renewal agreements, to which Hydro One is bound, for a five-year term, covering the period from May 1, 2015 to April 30, 2020. Agreements have also been reached with the Society and the PWU to facilitate the insourcing of customer service operations services effective March 1, 2018. Future negotiations with unions present the risk of a labour disruption and the ability to sustain the continued supply of energy to customers. The Company also faces financial risks related to its ability to negotiate collective agreements consistent with its rate orders. In addition, in the event of a labour dispute, the Company could face operational risk related to continued compliance with its requirements of providing service to customers. Any of these could have a material adverse effect on the Company.

Work Force Demographic Risk

By the end of 2017, approximately 22% of the Company's employees who are members of the Company's defined benefit and defined contribution pension plans were eligible for retirement, and by the end of 2018, approximately 20% could be eligible. These percentages are not evenly spread across the Company's work force, but tend to be most significant in the most senior levels of the Company's staff and especially among management staff. During 2017, approximately 5% of the Company's work force (up from 3% in 2016) elected to retire. Accordingly, the Company's continued success will be tied to its ability to continue to attract and

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retain sufficient qualified staff to replace the capability lost through retirements and meet the demands of the Company's work programs.

In addition, the Company expects the skilled labour market for its industry will remain highly competitive. Many of the Company's current and potential employees being sought after possess skills and experience that are also highly coveted by other organizations inside and outside the electricity sector. The failure to attract and retain qualified personnel for Hydro One's business could have a material adverse effect on the Company.

Risk Associated with Arranging Debt Financing

The Company expects to borrow to repay its existing indebtedness and to fund a portion of capital expenditures. Hydro One Inc. has substantial debt principal repayments, including \$752 million in 2018, \$731 million in 2019, and \$653 million in 2020. In addition, from time to time, the Company may draw on its syndicated bank lines and/or issue short-term debt under Hydro One Inc.'s \$1.5 billion commercial paper program which would mature within approximately one year of issuance. The Company also plans to incur continued material capital expenditures for each of 2018 and 2019. Cash generated from operations, after the payment of expected dividends, will not be sufficient to fund the repayment of the Company's existing indebtedness and capital expenditures. The Company's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by numerous factors, including the regulatory environment in Ontario, the Company's results of operations and financial position, market conditions, the ratings assigned to its debt securities by credit rating agencies, an inability of the Corporation to comply with its debt covenants, and general economic conditions. A downgrade in the Company's credit ratings could restrict the Company's ability to access debt capital markets and increase the Company's cost of debt. Any failure or inability on the Company's part to borrow the required amounts of debt on satisfactory terms could impair its ability to repay maturing debt, fund capital expenditures and meet other obligations and requirements and, as a result, could have a material adverse effect on the Company. This risk may be further exacerbated by the funding requirements for completing the Merger. See also "Risk Factors Relating to the Merger – Sources of funding that would be used to fund the Merger may not be available".

Market, Financial Instrument and Credit Risk

Market risk refers primarily to the risk of loss that results from changes in costs, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates as its regulated ROE is derived using a formulaic approach that takes into account anticipated interest rates, but is not currently exposed to material commodity price risk. The Company is exposed to foreign exchange risk in connection with the Merger. See "Risk Factors Relating to the Merger – Foreign exchange risk". In the future, the Company may be exposed to additional foreign exchange risk in connection with other acquisitions or transactions in which it completes in a currency other than Canadian dollars. Although the Company may attempt to mitigate such risk through hedging transactions, there can be no assurance any such hedge will fully mitigate the risk of currency exchange fluctuations.

The OEB-approved adjustment formula for calculating ROE in a deemed regulatory capital structure of 60% debt and 40% equity provides for increases and decreases depending on changes in benchmark interest rates for Government of Canada debt and the A-rated utility corporate bond yield spread. The Company estimates that a decrease of 100 basis points in the combination of the forecasted long-term Government of Canada bond yield and the A-rated utility corporate bond yield spread used in determining its rate of return would reduce the Company's transmission business' 2019 net income by approximately \$24 million. For the distribution business, after distribution rates are set as part of a Custom Incentive Rate application, the OEB does not expect to address annual rate applications for updates to allowed ROE, so fluctuations will have no impact to net income. The Company periodically utilizes interest rate swap agreements to mitigate elements of interest rate risk.

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. Derivative financial instruments result in exposure to credit risk, since there is a risk of counterparty default. Hydro One monitors and minimizes credit risk through various techniques, including dealing with highly rated counterparties, limiting total exposure levels with individual counterparties, entering into agreements which enable net settlement, and by monitoring the financial condition of counterparties. The Company does not trade in any energy derivatives. The Company is required to procure electricity on behalf of competitive retailers and certain local distribution companies for resale to their customers. The resulting concentrations of credit risk are mitigated through the use of various security arrangements, including letters of credit, which are incorporated into the Company's service agreements with these retailers in accordance with the OEB's Retail Settlement Code.

The failure to properly manage these risks could have a material adverse effect on the Company.

Risks Relating to Asset Condition and Capital Projects

The Company continually incurs sustainment and development capital expenditures and monitors the condition of its transmission assets to manage the risk of equipment failures and to determine the need for and timing of major refurbishments and replacements of its transmission and distribution infrastructure. However, the lack of real time monitoring of distribution assets increases the risk of distribution equipment failure. The connection of large numbers of generation facilities to the distribution network has resulted in greater than expected usage of some of the Company's equipment. This increases maintenance requirements and may accelerate the aging of the Company's assets.

Execution of the Company's capital expenditure programs, particularly for development capital expenditures, is partially dependent on external factors, such as environmental approvals, municipal permits, equipment outage schedules that accommodate the IESO,

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generators and transmission-connected customers, and supply chain availability for equipment suppliers and consulting services. There may also be a need for, among other things, *Environmental Assessment Act* (Ontario) approvals, approvals which require public meetings, appropriate engagement with Indigenous communities, OEB approvals of expropriation or early access to property, and other activities. Obtaining approvals and carrying out these processes may also be impacted by opposition to the proposed site of the capital investments. Delays in obtaining required approvals or failure to complete capital projects on a timely basis could materially adversely affect transmission reliability or customers' service quality or increase maintenance costs which could have a material adverse effect on the Company. Failure to receive approvals for projects when spending has already occurred would result in the inability of the Company to recover the investment in the project as well as forfeit the anticipated return on investment. The assets involved may be considered impaired and result in the write off of the value of the asset, negatively impacting net income. External factors are considered in the Company's planning process. If the Company is unable to carry out capital expenditure plans in a timely manner, equipment performance may degrade, which may reduce network capacity, result in customer interruptions, compromise the reliability of the Company's networks or increase the costs of operating and maintaining these assets. Any of these consequences could have a material adverse effect on the Company.

Increased competition for the development of large transmission projects and legislative changes relating to the selection of transmitters could impact the Company's ability to expand its existing transmission system, which may have an adverse effect on the Company. To the extent that other parties are selected to construct, own and operate new transmission assets, the Company's share of Ontario's transmission network would be reduced.

Health, Safety and Environmental Risk

The Company is subject to provincial health and safety legislation. Findings of a failure to comply with this legislation could result in penalties and reputational risk, which could negatively impact the Company.

The Company is subject to extensive Canadian federal, provincial and municipal environmental regulation. Failure to comply could subject the Company to fines or other penalties. In addition, the presence or release of hazardous or other harmful substances could lead to claims by third parties or governmental orders requiring the Company to take specific actions such as investigating, controlling and remediating the effects of these substances. Contamination of the Company's properties could limit its ability to sell or lease these assets in the future.

In addition, actual future environmental expenditures may vary materially from the estimates used in the calculation of the environmental liabilities on the Company's balance sheet. The Company does not have insurance coverage for these environmental expenditures.

There is also risk associated with obtaining governmental approvals, permits, or renewals of existing approvals and permits related to constructing or operating facilities. This may require environmental assessment or result in the imposition of conditions, or both, which could result in delays and cost increases. Failure to obtain necessary approvals or permits could result in an inability to complete projects.

Hydro One emits certain greenhouse gases, including sulphur hexafluoride or "SF₆". There are increasing regulatory requirements and costs, along with attendant risks, associated with the release of such greenhouse gases, all of which could impose additional material costs on Hydro One.

Any regulatory decision to disallow or limit the recovery of such costs could have a material adverse effect on the Company.

Pension Plan Risk

Hydro One has the Hydro One Defined Benefit Pension Plan in place for the majority of its employees. Contributions to the pension plan are established by actuarial valuations which are required to be filed with the Financial Services Commission of Ontario on a triennial basis. The most recently filed valuation was prepared as at December 31, 2016, and was filed in May 2017, covering a three-year period from 2017 to 2019. Hydro One's contributions to its pension plan satisfy, and are expected to satisfy, minimum funding requirements. Contributions beyond 2019 will depend on the funded position of the plan, which is determined by investment returns, interest rates and changes in benefits and actuarial assumptions at that time. A determination by the OEB that some of the Company's pension expenditures are not recoverable through rates could have a material adverse effect on the Company, and this risk may be exacerbated if the amount of required pension contributions increases.

In 2017, the OEB released a report establishing 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. 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 or material negative impacts on the company should recovery of costs be disallowed by the OEB. See "Other Post-Employment and Post-Retirement Benefits Risks".

Risk of Recoverability of Total Compensation Costs

The Company manages all of its total compensation costs, including pension and other post-employment and post-retirement benefits, subject to restrictions and requirements imposed by the collective bargaining process. Any element of total compensation

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costs which is disallowed in whole or part by the OEB and not recoverable from customers in rates could result in costs which could be material and could decrease net income, which could have a material adverse effect on the Company.

Other Post-Employment and Post-Retirement Benefits Risks

The Company provides other post-employment and post-retirement benefits, including workers compensation benefits and long-term disability benefits to qualifying employees. In 2017, the OEB released a report establishing 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. Hydro One currently maintains the accrual accounting method with respect to OPEBs. If the OEB directed Hydro One to transition to a different accounting method for OPEBs, this could result in income volatility, due to an inability of the company to book the difference between the accrual and cash as a regulatory asset. A determination that some of the Company's post-employment and post-retirement benefit costs are not recoverable could have a material adverse effect on the Company.

Risk Associated with Outsourcing Arrangements

Hydro One has entered into an outsourcing arrangement with a third party for the provision of back office and IT services and call centre services. If the outsourcing arrangement or statements of work thereunder are terminated for any reason or expire before a new supplier is selected and fully transitioned, the Company could be required to transfer to another service provider or insource, which could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

Risk from Provincial Ownership of Transmission Corridors

The Province owns some of the corridor lands underlying the Company's transmission system. Although the Company has the statutory right to use these transmission corridors, the Company may be limited in its options to expand or operate its systems. Also, other uses of the transmission corridors by third parties in conjunction with the operation of the Company's systems may increase safety or environmental risks, which could have a material adverse effect on the Company.

Litigation Risks

In the normal course of the Company's operations, it becomes involved in, is named as a party to and is the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, relating to actual or alleged violations of law, common law damages claims, personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company, which could have a material adverse effect on the Company. Even if the Company prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the Company's business operations, which could adversely affect the Company. See also "Other Developments – Litigation – Class Action Lawsuit" and "- Risk Factors Relating to the Merger – Legal proceedings in connection with the Merger, the outcomes of which are uncertain, could have an adverse impact on Hydro One, including by delaying or preventing the completion of the Merger".

Transmission Assets on Third-Party Lands Risk

Some of the lands on which the Company's transmission assets are located are owned by third parties, including the Province and federal Crown, and are or may become subject to land claims by First Nations. The Company requires valid occupation rights to occupy such lands (which may take the form of land use permits, easements or otherwise). If the Company does not have valid occupational rights on third-party owned lands or has occupational rights that are subject to expiry, it may incur material costs to obtain or renew such occupational rights, or if such occupational rights cannot be renewed or obtained it may incur material costs to remove and relocate its assets and restore the subject land. If the Company does not have valid occupational rights and must incur costs as a result, this could have a material adverse effect on the Company or otherwise materially adversely impact the Company's operations.

Reputational, Public Opinion and Political 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, such as denial of requested rates, and accommodations for Hydro One's planned projects, escalated costs, legal or regulatory action, and damage to stakeholder relationships.

Risks Associated with Acquisitions

While the Company has experience in operating in the Ontario electricity market, as it pursues acquisitions outside of Ontario it will need to develop additional expertise in these new markets. Such acquisitions include inherent risks that some or all of the expected benefits may fail to materialize, or may not occur within the time periods anticipated, and Hydro One may incur material unexpected costs. Realization of the anticipated benefits will depend, in part, on the Company's ability to successfully integrate the acquired business, including the requirement to devote management attention and resources to integrating business practices and support

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functions. The failure to realize the anticipated benefits, the diversion of management' s attention, or any delays or difficulties encountered in connection with the integration could have an adverse effect on the Company' s business, results of operations, financial condition or cash flows. See "Risk Factors Relating to the Merger" for the specific risks in respect of the Company' s proposed acquisition of Avista Corporation.

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 or at all. The completion of the Merger is subject to receipt of 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.

Length of time required to complete the Merger is unknown

As described above under "Hydro One may fail to complete the Merger", the closing of the Merger is subject to the receipt of 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 Hydro One' 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 unfavourable 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), Hydro One 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 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 portion of the funds ultimately used to finance the Merger, are denominated in Canadian dollars. As a result, increases in the value of the US dollar versus the Canadian dollar prior to payment of the final instalment will increase the purchase price translated in Canadian dollars and thereby reduce the proportion of the purchase price for the Merger ultimately obtained by Hydro One under the Debenture Offering, which could cause a failure to realize the anticipated benefits of the Merger. This risk has been partially mitigated through entering into a foreign exchange forward agreement to convert \$1.4 billion Canadian to US dollars which is contingent upon the closing of the Merger.

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

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

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

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

Hydro One intends to finance the cash purchase price of the Merger and the Merger-related expenses at the closing of the Merger with a combination of some or all of the following: (i) net proceeds of the first instalment (to the extent available) and final instalment under the Debenture Offering; (ii) net proceeds of any subsequent bond or other debt offerings; (iii) amounts drawn under Hydro

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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 or changes in tax rates that could affect the underlying after-tax 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 approvals. Additional unanticipated costs may be incurred.

Legal proceedings in connection with the Merger, the outcomes of which are uncertain, could have an adverse impact on Hydro One, including by delaying or preventing the completion of the Merger

One of the four putative class action lawsuits commenced since the announcement of the Merger is still in existence, namely a putative class action lawsuit that has been filed in Washington state court which names Hydro One, Olympus Holding Corp. and Olympus Corp. as defendants and alleges that they aided and abetted Avista Corporation's directors' breach of their fiduciary duties in connection with the Merger. The court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. The plaintiffs in the lawsuit are seeking to enjoin the Merger and may pursue other remedies, including monetary damages and attorneys' fees. The lawsuit and other potential legal proceedings could have an adverse impact on Hydro One, including by delaying or preventing the Merger from becoming effective. See also "Other Developments - Litigation - Litigation Relating to the Merger".

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 (*pro forma* assumed no exercise of the Over-Allotment Option), Hydro One would have had approximately \$17,098 million of total indebtedness outstanding. Hydro One's substantially increased amount of indebtedness following the Merger 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 or otherwise 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.

Risks Relating to the Company's Relationship with the Province

Ownership and Continued Influence by the Province and Voting Power: Share Ownership Restrictions

The Province currently owns approximately 47.4% of the outstanding common shares of Hydro One. The *Electricity Act* restricts the Province from selling voting securities of Hydro One (including common shares) of any class or series if it would own less than 40% of the outstanding number of voting securities of that class or series after the sale and in certain circumstances also requires the Province to take steps to maintain that level of ownership. Accordingly, the Province is expected to continue to maintain a significant ownership interest in voting securities of Hydro One for an indefinite period.

As a result of its significant ownership of the common shares of Hydro One, the Province has, and is expected indefinitely to have, the ability to determine or significantly influence the outcome of shareholder votes, subject to the restrictions in the governance agreement entered into between Hydro One and the Province dated November 5, 2015 (Governance Agreement; available on SEDAR at www.sedar.com). Despite the terms of the Governance Agreement in which the Province has agreed to engage in the business and affairs of the Company as an investor and not as a manager, there is a risk that the Province's engagement in the business and affairs of the Company as an investor will be informed by its policy objectives and may influence the conduct of the business and affairs of the Company in ways that may not be aligned with the interests of other shareholders.

The share ownership restrictions in the *Electricity Act* (Share Ownership Restrictions) and the Province's significant ownership of common shares of Hydro One together effectively prohibit one or more persons acting together from acquiring control of Hydro One. They also may limit or discourage transactions involving other fundamental changes to Hydro One and the ability of other shareholders to successfully contest the election of the directors proposed for election pursuant to the Governance Agreement. The Share Ownership Restrictions may also discourage trading in, and may limit the market for, the common shares and other voting securities.

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Nomination of Directors and Confirmation of Chief Executive Officer and Chair

Although director nominees (other than the Chief Executive Officer) are required to be independent of both the Company and the Province pursuant to the Governance Agreement, there is a risk that the Province will nominate or confirm individuals who satisfy the independence requirements but who it considers are disposed to support and advance its policy objectives and give disproportionate weight to the Province' s interests in exercising their business judgment and balancing the interests of the stakeholders of Hydro One. This, combined with the fact certain matters require a two-thirds vote of the Board of Directors, could allow the Province to unduly influence certain Board actions such as confirmation of the Chair and confirmation of the Chief Executive Officer.

Board Removal Rights

Under the Governance Agreement, the Province has the right to withhold from voting in favour of all director nominees and has the right to seek to remove and replace the entire Board of Directors, including in each case its own director nominees but excluding the Chief Executive Officer and, at the Province' s discretion, the Chair. In exercising these rights in any particular circumstance, the Province is entitled to vote in its sole interest, which may not be aligned with the interests of other shareholders.

More Extensive Regulation

Although under the Governance Agreement, the Province has agreed to engage in the business and affairs of Hydro One as an investor and not as a manager and has stated that its intention is to achieve its policy objectives through legislation and regulation as it would with respect to any other utility operating in Ontario, there is a risk that the Province will exercise its legislative and regulatory power to achieve policy objectives in a manner that has a material adverse effect on the Company.

Prohibitions on Selling the Company' s Transmission or Distribution Business

The *Electricity Act* prohibits the Company from selling all or substantially all of the business, property or assets related to its transmission system or distribution system that is regulated by the OEB. There is a risk that these prohibitions may limit the ability of the Company to engage in sale transactions involving a substantial portion of either system, even where such a transaction may otherwise be considered to provide substantial benefits to the Company and the holders of the common shares.

Future Sales of Common Shares by the Province

Although the Province has indicated that it does not intend to sell further common shares of Hydro One, the registration rights agreement between Hydro One and the Province dated November 5, 2015 (available on SEDAR at www.sedar.com) grants the Province the right to request that Hydro One file one or more prospectuses and take other procedural steps to facilitate secondary offerings by the Province of the common shares of Hydro One. Future sales of common shares of Hydro One by the Province, or the perception that such sales could occur, may materially adversely affect market prices for these common shares and impede Hydro One' s ability to raise capital through the issuance of additional common shares, including the number of common shares that Hydro One may be able to sell at a particular time or the total proceeds that may be realized.

Limitations on Enforcing the Governance Agreement

The Governance Agreement includes commitments by the Province restricting the exercise of its rights as a holder of voting securities, including with respect to the maximum number of directors that the Province may nominate and on how the Province will vote with respect to other director nominees. Hydro One' s ability to obtain an effective remedy against the Province, if the Province were not to comply with these commitments, is limited as a result of the *Proceedings Against the Crown Act* (Ontario). This legislation provides that the remedies of injunction and specific performance are not available against the Province, although a court may make an order declaratory of the rights of the parties, which may influence the Province' s actions. A remedy of damages would be available to Hydro One, but damages may not be an effective remedy, depending on the nature of the Province' s non-compliance with the Governance Agreement.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of Hydro One Consolidated Financial Statements requires the Company to make key estimates and critical judgments that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingencies. Hydro One bases its estimates and judgments on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the Company' s accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments. Hydro One has identified the following critical accounting estimates used in the preparation of its Consolidated Financial Statements:

Revenues

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is

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estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Regulatory Assets and Liabilities

Hydro One' s regulatory assets represent certain amounts receivable from future electricity customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. The regulatory assets mainly include costs related to the pension benefit liability, deferred income tax liabilities, post-retirement and post-employment benefit liability, share-based compensation costs, and environmental liabilities. The Company' s regulatory liabilities represent certain amounts that are refundable to future electricity customers, and pertain primarily to OEB deferral and variance accounts. The regulatory assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the amounts have been approved for inclusion in the electricity rates by the OEB, or if such approval is judged to be probable by management. If management judges that it is no longer probable that the OEB will allow the inclusion of a regulatory asset or liability in future electricity rates, the applicable carrying amount of the regulatory asset or liability will be reflected in results of operations in the period that the judgment is made by management.

Environmental Liabilities

Hydro One records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment, and for the assessment and remediation of chemically contaminated lands. There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. All factors used in estimating the Company' s environmental liabilities represent management' s best estimates of the present value of costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company' s current assumptions. Environmental liabilities are reviewed annually or more frequently if significant changes in regulations or other relevant factors occur. Estimate changes are accounted for prospectively.

Employee Future Benefits

Hydro One' s employee future benefits consist of pension and post-retirement and post-employment plans, and include pension, group life insurance, health care, and long-term disability benefits provided to the Company' s current and retired employees. Employee future benefits costs are included in Hydro One' s labour costs that are either charged to results of operations or capitalized as part of the cost of property, plant and equipment and intangible assets. Changes in assumptions affect the benefit obligation of the employee future benefits and the amounts that will be charged to results of operations or capitalized in future years. The following significant assumptions and estimates are used to determine employee future benefit costs and obligations:

Weighted Average Discount Rate

The weighted average discount rate used to calculate the employee future benefits obligation is determined at each year end by referring to the most recently available market interest rates based on "AA"-rated corporate bond yields reflecting the duration of the applicable employee future benefit plan. The discount rate at December 31, 2017 decreased to 3.40% (from 3.90% at December 31, 2016) for pension benefits and decreased to 3.40% (from 3.90% at December 31, 2016) for the post-retirement and post-employment plans. The decrease in the discount rate has resulted in a corresponding increase in employee future benefits liabilities for the pension, post-retirement and post-employment plans for accounting purposes. The liabilities are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management' s best estimates.

Expected Rate of Return on Plan Assets

The expected rate of return on pension plan assets is based on expectations of long-term rates of return at the beginning of the year and reflects a pension asset mix consistent with the pension plan' s current investment policy.

Rates of return on the respective portfolios are determined with reference to respective published market indices. The expected rate of return on pension plan assets reflects the Company' s long-term expectations. The Company believes that this assumption is reasonable because, with the pension plan' s balanced investment approach, the higher volatility of equity investment returns is intended to be offset by the greater stability of fixed-income and short-term investment returns. The net result, on a long-term basis, is a lower return than might be expected by investing in equities alone. In the short term, the pension plan can experience fluctuations in actual rates of return.

Rate of Cost of Living Increase

The rate of cost of living increase is determined by considering differences between long-term Government of Canada nominal bonds and real return bonds, which decreased from 1.80% per annum as at December 31, 2016 to approximately 1.60% per annum as at December 31, 2017. Given the Bank of Canada' s commitment to keep long-term inflation between 1.00% and 3.00%,

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management believes that the current rate is reasonable to use as a long-term assumption and as such, has used a 2.0% per annum inflation rate for employee future benefits liability valuation purposes as at December 31, 2017.

Salary Increase Assumptions

Salary increases should reflect general wage increases plus an allowance for merit and promotional increases for current members of the plan, and should be consistent with the assumptions for consumer price inflation and real wage growth in the economy. The merit and promotion scale was developed based on the salary increase assumption review performed in 2017. The review considers actual salary experience from 2002 to 2016 using valuation data for all active members as at December 31, 2016, based on age and service and Hydro One's expectation of future salary increases. Additionally, the salary scale reflect negotiated salary rate increases over the contract period.

Mortality Assumptions

The Company's employee future benefits liability is also impacted by changes in life expectancies used in mortality assumptions. Increases in life expectancies of plan members result in increases in the employee future benefits liability. The mortality assumption used at December 31, 2017 is 95% of 2014 Canadian Pensioners Mortality Private Sector table projected generationally using improvement Scale B.

Rate of Increase in Health Care Cost Trends

The costs of post-retirement and post-employment benefits are determined at the beginning of the year and are based on assumptions for expected claims experience and future health care cost inflation. For the post-retirement benefit plans, a trend study of historical Hydro One experience was conducted in 2017, which resulted in a change in the prescription drug, dental and hospital trends to be used for 2017 year-end reporting purposes. A 1% increase in the health care cost trends would result in a \$29 million increase in 2017 interest cost plus service cost, and a \$250 million increase in the benefit liability at December 31, 2017.

Valuation of Deferred Tax Assets

Hydro One assesses the likelihood of realizing deferred tax assets by reviewing all readily available current and historical information, including a forecast of future taxable income. To the extent management considers it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is recognized.

Asset Impairment

Within Hydro One's regulated businesses, the carrying costs of most of the long-lived assets are included in the rate base where they earn an OEB-approved rate of return. Asset carrying values and the related return are recovered through OEB-approved rates. As a result, such assets are only tested for impairment in the event that the OEB disallows recovery, in whole or in part, or if such a disallowance is judged to be probable. The Company regularly monitors the assets of its unregulated Hydro One Telecom subsidiary for indications of impairment. As at December 31, 2017, no asset impairment had been recorded for assets within Hydro One's regulated or unregulated businesses.

Goodwill is evaluated for impairment on an annual basis, or more frequently if circumstances require. Hydro One has concluded that goodwill was not impaired at December 31, 2017. Goodwill represents the cost of acquired distribution and transmission companies that is in excess of the fair value of the net identifiable assets acquired at the acquisition date.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are part of a broad internal control framework integral to ensuring that the Company fairly presents in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented in this MD&A and the Company's Annual Report. Disclosure controls and procedures include processes designed to ensure that information is recorded, processed, summarized and reported on a timely basis to the Company's management, including its Chief Executive and Chief Financial Officers, as appropriate, to make timely decisions regarding required disclosure. At the direction of the Company's Chief Executive Officer and the Senior Vice President, Finance, acting in the capacity of Chief Financial Officer, management evaluated disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective at a reasonable level of assurance as at December 31, 2017.

Internal control over financial reporting is a subset of the internal control framework designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. The Company's internal control over financial reporting framework includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

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The Company' s management, at the direction of the Chief Executive Officer and with the participation of the Senior Vice President, Finance, acting in the capacity of Chief Financial Officer, evaluated the effectiveness of the design and operation of internal control over financial reporting based on the framework and criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that the Company' s internal control over financial reporting was effective at a reasonable level of assurance as at December 31, 2017.

Together, disclosure controls and procedures and internal control over financial reporting provide internal control over reporting and disclosure. 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 executives with full oversight provided by the Chief Executive Officer. This model is expected to remain in place until Paul Dobson assumes the role of the new Chief Financial Officer on March 1, 2018. There were no significant changes in the design of the Company' s internal control over financial reporting during the three months ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the operation of the Company' s internal control over financial reporting.

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

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NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-06	March 2016	Contingent call (put) options that are assessed to accelerate the payment of principal on debt instruments need to meet the criteria of being "clearly and closely related" to their debt hosts.	January 1, 2017	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2014-09 2015-14 2016-08 2016-10 2016-12 2016-20 2017-05 2017-10 2017-13 2017-14	May 2014 - November 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 all its revenue streams and has concluded that there will be no material impact upon adoption.
2016-02 2018-01	February 2016 - January 2018	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. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.	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.
2016-15	August 2016	The amendments provide guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	No material impact
2017-01	January 2017	The amendment clarifies the definition of a business and provides additional guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	No material impact
2017-04	January 2017	The amendment removes the second step of the current two-step goodwill impairment test to simplify the process of testing goodwill.	January 1, 2020	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	Hydro One has applied for a regulatory deferral account to maintain the capitalization of OPEB related costs. As such, there will be no material impact.
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	No impact
2017-11	July 2017	When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock.	January 1, 2019	Under assessment
2017-12	August 2017	Amendments will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results.	January 1, 2019	Under assessment

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SUMMARY OF FOURTH QUARTER RESULTS OF OPERATIONS

Three months ended December 31 (millions of dollars, except EPS)	2017	2016	Change
Revenues			
Distribution	1,049	1,228	(14.6%)
Transmission	379	373	1.6%
Other	11	13	(15.4%)
	1,439	1,614	(10.8%)
Costs			
Purchased power	662	858	(22.8%)
OM&A			
Distribution	146	163	(10.4%)
Transmission	79	98	(19.4%)
Other	19	26	(26.9%)
	244	287	(15.0%)
Depreciation and amortization	214	204	4.9%
	1,120	1,349	(17.0%)
Income before financing charges and income taxes	319	265	20.4%
Financing charges	119	101	17.8%
Income before income taxes	200	164	22.0%
Income taxes	38	29	31.0%
Net income	162	135	20.0%
Net income attributable to common shareholders of Hydro One	155	128	21.1%
Basic EPS	\$0.26	\$0.22	18.2%
Diluted EPS	\$0.26	\$0.21	23.8%
Basic Adjusted EPS	\$0.29	\$0.22	31.8%
Diluted Adjusted EPS	\$0.28	\$0.21	33.3%
Capital Investments			
Distribution	161	201	(19.9%)
Transmission	267	274	(2.6%)
Other	3	2	50.0%
	431	477	(9.6%)
Assets Placed In-Service			
Distribution	207	211	(1.9%)
Transmission	522	488	7.0%
Other	4	0	100.0%
	733	699	4.9%

Net Income

Net income attributable to common shareholders for the quarter ended December 31, 2017 of \$155 million is an increase of \$27 million or 21.1% from the prior year. Significant influences on net income included:

increase in distribution revenues due to higher energy consumption;

higher transmission revenues driven by OEB's decision on the 2017-2018 transmission rates filing;

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%;

lower OM&A costs primarily resulting from a reduction of provision for payments in lieu of property taxes following a favourable reassessment of the regulations, insurance proceeds received on failed equipment at two transformer stations, a tax recovery of previous year's expenses, lower support services costs, and reduced vegetation management costs;

higher depreciation expense due to an increase in rate base; and

increased financing charges primarily due to the issuance of Convertible Debentures in August 2017.

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EPS and Adjusted EPS

EPS was \$0.26 in the three months ended December 31, 2017, compared to \$0.22 in the prior year. The increase in EPS was driven by higher net income for the fourth quarter of 2017, as discussed above. Adjusted EPS, which adjusts for costs related to Avista Corporation acquisition, was \$0.29 in the three months ended December 31, 2017, compared to \$0.22 in the prior year. The increase in Adjusted EPS was also driven by higher net income for the fourth quarter of 2017, net of aforementioned impact related to Avista Corporation acquisition.

Revenues

The quarterly increase of \$6 million or 1.6% in transmission revenues was primarily due to higher revenues driven by the OEB's decision on the 2017-2018 transmission rates filing, partially offset by lower OEB-approved transmission rates.

The quarterly increase of \$17 million or 4.6% in distribution revenues, net of purchased power, was primarily due to higher energy consumption mainly resulting from colder weather in the fourth quarter of 2017; and higher external revenues related to CDM incentive bonus; partially offset by reduction in 2017 allowed ROE for the distribution business.

OM&A Costs

The quarterly decrease of \$19 million or 19.4% in transmission OM&A costs was primarily due to a reduction of provision for payments in lieu of property taxes following a favourable reassessment of the regulations, lower support services costs, and insurance proceeds received due to equipment failures at the Fairchild and Campbell transmission stations.

The quarterly decrease of \$17 million or 10.4% in distribution OM&A costs was primarily due to lower expenditures for vegetation management programs due to strategic changes to the forestry program scope that resulted in cost efficiency and improved management of the Company's rights of ways; lower bad debt expense attributable to lower write-offs and improved accounts receivable aging; and a tax recovery of previous year's expenses.

A further decrease of \$7 million in other OM&A is primarily due to lower corporate organizational costs in the other segment.

Depreciation and Amortization

The increase of \$10 million or 4.9% in depreciation and amortization costs for the fourth quarter of 2017 was mainly due to the growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program.

Financing Charges

The quarterly increase of \$18 million or 17.8% in financing charges was primarily due to an increase in interest expense related to the Convertible Debentures issued in August 2017; partially offset by a decrease in interest expense on long-term debt resulting from a decrease in weighted average long-term debt outstanding during the quarter, together with a decrease in the weighted average interest rate.

Income Taxes

Income tax expense for the fourth quarter of 2017 increased by \$9 million compared to 2016, and the Company realized an effective tax rate of approximately 19.0% in the fourth quarter of 2017, compared to approximately 17.7% realized in 2016. The increase in the tax expense is primarily due to higher income before taxes in the fourth quarter of 2017.

Capital Investments

The decrease in transmission capital investments during the fourth quarter was primarily due to the following:

- lower volume and timing of spare transformer equipment purchases;
- timing and substantial completion of major development projects, including Guelph Area Transmission Refurbishment, Midtown Transmission Reinforcement, and Holland and Hawthorne transmission stations; and
- timing of work related to the Clarington Transmission Station project; partially offset by
- timing on work on station refurbishments and equipment replacement projects; and
- timing of work at Leamington transmission station.

The decrease in distribution capital investments during the fourth quarter was primarily due to the following:

- timing of capital contributions for jointly used facilities and lower volume of line relocation work;
- substantial completion of work on the Bolton Operation Centre in the fourth quarter of 2016;
- lower volume of work within distribution station refurbishment programs;
- timing of information technology projects including e-Billing and website redesign;

lower volume of line refurbishments and replacements work; and
lower volume of fleet and work equipment purchases; partially offset by
high volume of work on new connections and upgrades due to increased demand.

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Assets Placed In-Service

The increase in transmission assets placed in-service during the fourth quarter was primarily due to the following:

- substantial investments of major development projects at Leamington and Holland transmission stations were placed in-service in the fourth quarter of 2017;
- higher volume of investments for overhead lines and component refurbishments and replacement programs;
- timing of assets placed in-service for sustainment investment projects including the transformer asset replacement project at Overbrook transmission station and the breaker replacement project at Richview transmission station; partially offset by
- a large number of cumulative sustainment investments that were placed in-service in the fourth quarter of 2016 at the Bruce A and Burlington transmission stations;
- timing of investments that were placed in-service for the Advanced Distribution System project; and
- timing of assets that were placed in-service in the fourth quarter of 2016 for certain information technology development projects.

The decrease in distribution assets placed in-service during the fourth quarter was primarily due to the following:

- timing of distribution station refurbishments and spare transformer purchases; and
- lower volume of work on distribution generation connection projects; partially offset by
- higher volume of subdivision connections due to increased demand; and
- substantial investments that were placed in-service in the fourth quarter of 2017 for the Leamington transmission station feeder development project.

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company' s oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company' s business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company' s transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company' s liquidity and capital resources and operational requirements; the standby credit facilities; expectations regarding the Company' s financing activities; the Company' s maturing debt; ongoing and planned projects and initiatives, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB; the Motion and the Appeal; the Anwaatin Motion; the East-West Tie Line Project and related regulatory application; collective agreements; Inergi outsourcing and customer service operations arrangements; the pension plan, future pension contributions, valuations and expected impacts; impacts of OEB treatment of pension and OPEBs costs; dividends; credit ratings; Hydro One' s strategy and goals; effect of interest rates; non-GAAP measures; critical accounting estimates, including environmental liabilities, regulatory assets and liabilities, and employee future benefits; occupational rights; internal control over financial reporting and disclosure; the Fair Hydro Plan and First Nations Rate Assistance Program, including expected outcomes and impacts; recent accounting-related guidance; the Universal Base Shelf Prospectus; the Convertible Debentures; the Province' s waiver of its pre-emptive right under the Governance Agreement to participate in the Debenture Offering; the Company' s acquisitions and mergers, including Orillia Power and Avista Corporation; the appointment of Hydro One' s new Chief Financial Officer; risk associated with acquisitions; cyber and data security; expectations related to work force demographics; the Company' s financing strategy and foreign currency hedging relating to the acquisition of Avista Corporation; class action litigation, including litigation relating to the Merger; the risk that the Company may fail to complete the Merger; 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; the Province' s ownership of HydroOne; future sales of shares of Hydro One; and reputational, public opinion and political 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

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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 "Risk Management and Risk Factors" in this MD&A.

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

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(unaudited)
For the three months ended March 31, 2018 and 2017

Three months ended March 31 (millions of Canadian dollars, except per share amounts)	2018	2017
Revenues		
Distribution (includes \$67 related party revenues; 2017 - \$69) (Note 22)	1,145	1,279
Transmission (includes \$405 related party revenues; 2017 - \$369) (Note 22)	421	367
Other	10	12
	1,576	1,658
Costs		
Purchased power (includes \$518 related party costs; 2017 - \$656) (Note 22)	751	889
Operation, maintenance and administration (Note 22)	270	271
Depreciation and amortization (Note 5)	197	195
	1,218	1,355
Income before financing charges and income taxes	358	303
Financing charges	88	103
Income before income taxes	270	200
Income taxes (Note 6)	42	27
Net income	228	173
Other comprehensive income	-	1
Comprehensive income	228	174
Net income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	5
Common shareholders	222	167
	228	173
Comprehensive income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	5
Common shareholders	222	168
	228	174
Earnings per common share (Note 20)		
Basic	\$0.37	\$0.28
Diluted	\$0.37	\$0.28
Dividends per common share declared (Note 19)	\$0.22	\$0.21

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At March 31, 2018 and December 31, 2017

<i>(millions of Canadian dollars)</i>	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	28	25
Accounts receivable (Note 7)	588	636
Due from related parties	243	253
Other current assets (Note 8)	143	105
	1,002	1,019
Property, plant and equipment (Note 9)	20,069	19,947
Other long-term assets:		
Regulatory assets	3,105	3,049
Deferred income tax assets	918	987
Intangible assets (net of accumulated amortization - \$392; 2017 - \$375)	365	369
Goodwill	325	325
Other assets	5	5
	4,718	4,735
Total assets	25,789	25,701
Liabilities		
Current liabilities:		
Short-term notes payable (Note 13)	989	926
Long-term debt payable within one year (Notes 13, 15)	981	752
Accounts payable and other current liabilities (Note 11)	911	905
Due to related parties	37	157
	2,918	2,740
Long-term liabilities:		
Long-term debt (includes \$541 measured at fair value; 2017 - \$541) (Notes 13, 15)	9,085	9,315
Convertible debentures (Note 14, 15)	488	487
Regulatory liabilities	160	128
Deferred income tax liabilities	72	71
Other long-term liabilities (Note 12)	2,718	2,707
	12,523	12,708
Total liabilities	15,441	15,448
<i>Contingencies and Commitments (Notes 24, 25)</i>		
<i>Subsequent Events (Note 27)</i>		
Noncontrolling interest subject to redemption	21	22
Equity		
Common shares (Note 18)	5,631	5,631
Preferred shares (Note 18)	418	418
Additional paid-in capital	55	49
Retained earnings	4,181	4,090
Accumulated other comprehensive loss	(7)	(7)
Hydro One shareholders' equity	10,278	10,181
Noncontrolling interest	49	50
Total equity	10,327	10,231
	25,789	25,701

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

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

For the three months ended March 31, 2018 and 2017

Three months ended March 31, 2018 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2018	5,631	418	49	4,090	(7)	10,181	50	10,231
Net income	-	-	-	227	-	227	1	228
Distributions to noncontrolling interest	-	-	-	-	-	-	(2)	(2)
Dividends on preferred shares	-	-	-	(5)	-	(5)	-	(5)
Dividends on common shares	-	-	-	(131)	-	(131)	-	(131)
Stock-based compensation	-	-	6	-	-	6	-	6
March 31, 2018	5,631	418	55	4,181	(7)	10,278	49	10,327

Three months ended March 31, 2017 <i>(millions of Canadian dollars)</i>	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2017	5,623	418	34	3,950	(8)	10,017	50	10,067
Net income	-	-	-	172	-	172	1	173
Other comprehensive income	-	-	-	-	1	1	-	1
Dividends on preferred shares	-	-	-	(5)	-	(5)	-	(5)
Dividends on common shares	-	-	-	(125)	-	(125)	-	(125)
Stock-based compensation	-	-	6	-	-	6	-	6
March 31, 2017	5,623	418	40	3,992	(7)	10,066	51	10,117

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2018 and 2017

Three months ended March 31 <i>(millions of Canadian dollars)</i>	2018	2017
Operating activities		
Net income	228	173
Environmental expenditures	(4)	(4)
Adjustments for non-cash items:		
Depreciation and amortization (excluding asset removal costs)	179	174
Regulatory assets and liabilities	8	31
Deferred income taxes	35	20
Unrealized gain on foreign exchange contract	(27)	-
Other	3	-
Changes in non-cash balances related to operations <i>(Note 23)</i>	(46)	77
Net cash from operating activities	376	471
Financing activities		
Short-term notes issued	1,172	572
Short-term notes repaid	(1,109)	(590)
Dividends paid	(136)	(130)
Distributions paid to noncontrolling interest	(3)	-
Net cash used in financing activities	(76)	(148)
Investing activities		
Capital expenditures <i>(Note 23)</i>		
Property, plant and equipment	(286)	(335)
Intangible assets	(14)	(14)
Capital contributions received	-	7
Other	3	(8)
Net cash used in investing activities	(297)	(350)
Net change in cash and cash equivalents	3	(27)
Cash and cash equivalents, beginning of period	25	50
Cash and cash equivalents, end of period	28	23

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

HYDRO ONE LIMITED

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three months ended March 31, 2018 and 2017

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At March 31, 2018, the Province held approximately 47.4% (December 31, 2017 - 47.4%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

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

Rate Setting

Transmission

In December 2017, the Ontario Energy Board (OEB) approved Hydro One Networks Inc.'s (Hydro One Networks) 2018 rates revenue requirement of \$1,511 million. See Note 10 - Regulatory Assets and Liabilities for additional information.

On May 10, 2018, the OEB issued its Decision and Rate Order on B2M LP's 2018 transmission application reflecting revenue requirement of \$36 million, effective January 1, 2018.

Distribution

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates, requesting revenue requirements of \$1,517 million for 2018, \$1,564 million for 2019, \$1,611 million for 2020, \$1,684 million for 2021, and \$1,726 million for 2022. The OEB approval is pending.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

Basis of Accounting

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

The accounting policies applied are consistent with those outlined in Hydro One's annual audited consolidated financial statements for the year ended December 31, 2017, with the exception of the adoption of new accounting standards as described below and in Note 3. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary 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 2017 annual audited consolidated financial statements.

Revenue Recognition

The Company adopted Accounting Standard Codification (ASC) 606 - *Revenue from Contracts with Customers* on January 1, 2018 using the retrospective method, without the election of any practical expedients. There was no material impact to the Company's revenue recognition policy as a result of adopting ASC 606.

Nature of Revenues

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential, and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered. Revenues are recorded net of indirect taxes.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

Employee Future Benefits

The Company adopted Accounting Standard Update (ASU) 2017-07 on January 1, 2018. The Company used the retrospective method for guidance relating to the presentation of the service cost component and the other components of net periodic pension and post-retirement benefit costs in the Statement of Operations and Comprehensive Income. There was no change in presentation in the Statement of Operations and Comprehensive Income. The Company used the prospective method for guidance relating to the capitalization of the service cost component of net periodic pension and post-retirement and post-employment benefit costs in assets. Upon adoption of ASU 2017-07, the Company recognized the Post-Retirement and Post-Employment Benefits Non-Service Costs Regulatory Asset. See Note 10 - Regulatory Assets and Liabilities for additional information.

Defined Benefit Pension

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its defined benefit pension plan. Defined benefit pension costs are attributed to labour and a portion not exceeding the service cost component of accrual basis defined benefit pension costs is capitalized as part of the cost of property, plant and equipment and intangible assets. The remaining defined benefit pension costs are charged to results of operations (operation, maintenance and administration costs).

Post-Retirement and Post-Employment Benefits

All post-retirement and post-employment benefit costs are attributed to labour and are either charged to results of operations (operation, maintenance and administration costs) or capitalized as part of the cost of property, plant and equipment and intangible assets for service cost component and to regulatory assets for all other components of the benefit costs, consistent with their inclusion in OEB-approved rates.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present ASUs and ASC guidance issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Adopted Accounting Guidance

<u>Guidance</u>	<u>Date issued</u>	<u>Description</u>	<u>Effective date</u>	<u>Impact on Hydro One</u>
ASC Topic 606	May 2014 - November 2017	ASC Topic 606 <i>Revenue from Contracts with Customers</i> replaced ASC Topic 605 <i>Revenue Recognition</i> . ASC Topic 606 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.	January 1, 2018	Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption.
ASU 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	Hydro One applied for a regulatory deferral account to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

<u>ASU</u>	<u>Date issued</u>	<u>Description</u>	<u>Effective date</u>	<u>Anticipated impact on Hydro One</u>
2016-02 2018-01	February 2016 - January 2018	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. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC Topic 842 land easements that exist or expired before the entity's adoption of ASC Topic 842 and that were not previously accounted for as leases under ASC Topic 840.	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.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

4. BUSINESS COMBINATIONS**Avista Corporation Purchase Agreement**

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately \$6.7 billion in an all-cash transaction. Avista Corporation is an investor-owned utility providing electric generation, transmission, and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger is subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions. See Note 14 - Convertible Debentures and Note 15 - Fair Value of Financial Instruments and Risk Management for details of convertible debentures and foreign exchange contract, respectively, related to financing of the Merger.

5. DEPRECIATION AND AMORTIZATION

Three months ended March 31 (millions of dollars)	2018	2017
Depreciation of property, plant and equipment	158	155
Asset removal costs	18	21
Amortization of intangible assets	17	15
Amortization of regulatory assets	4	4
	197	195

6. INCOME TAXES

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

Three months ended March 31 (millions of dollars)	2018	2017
Income before income taxes	270	200
Income taxes at statutory rate of 26.5% (2017 - 26.5%)	72	53
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(12)	(11)
Overheads capitalized for accounting but deducted for tax purposes	(5)	(4)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)
Pension contributions in excess of pension expense	(3)	(5)
Environmental expenditures	(2)	(3)
Other	(1)	-
Net temporary differences	(27)	(27)
Net permanent differences	(3)	1
Total income taxes	42	27
Effective income tax rate	15.6%	13.5%

7. ACCOUNTS RECEIVABLE

(millions of dollars)	March 31, 2018	December 31, 2017
Accounts receivable - billed	307	298
Accounts receivable - unbilled	307	367
Accounts receivable, gross	614	665
Allowance for doubtful accounts	(26)	(29)
Accounts receivable, net	588	636

The following table shows the movements in the allowance for doubtful accounts for the three months ended March 31, 2018 and the year ended December 31, 2017:

(millions of dollars)	Three months ended March 31, 2018	Year ended December 31, 2017
Allowance for doubtful accounts - beginning	(29)	(35)
Write-offs	8	25
Additions to allowance for doubtful accounts	(5)	(19)
Allowance for doubtful accounts - ending	(26)	(29)

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

8. OTHER CURRENT ASSETS

<i>(millions of dollars)</i>	March 31, 2018	December 31, 2017
Regulatory assets	49	46
Materials and supplies	20	18
Prepaid expenses and other assets	50	41
Derivative instrument - foreign exchange contract	24	-
	143	105

9. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of dollars)</i>	March 31, 2018	December 31, 2017
Property, plant and equipment	29,025	29,025
Less: accumulated depreciation	(10,490)	(10,455)
	18,535	18,570
Construction in progress	1,372	1,215
Future use land, components and spares	162	162
	20,069	19,947

10. REGULATORY ASSETS AND LIABILITIES**Deferred Income Tax Regulatory Asset**

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately \$370 million related to Hydro One Networks' distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks' transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The OEB approved a similar account for B2M LP in June 2017 to record the difference between revenue earned under the newly approved rates, effective January 1, 2017, and the revenue recorded under the interim 2017 rates. The balances of these accounts are being returned to or recovered from ratepayers, respectively, over a one-year period ending December 31, 2018. The draft rate order submitted by Hydro One Networks was approved by the OEB in November 2017. This draft rate order reflects the September 2017 decision, including a reduction of the amount of cash taxes approved for recovery in transmission rates due to the OEB's basis to share the savings resulting from a deferred tax asset with ratepayers. The Company's position in the aforementioned Motion is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. Therefore, the Company has also reflected the impact of the Company's position with respect to the Motion in the Foregone Revenue Deferral account. The timing for recovery of this impact will be determined as part of the outcome of the Motion.

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

Hydro One applied to the OEB for a deferral account to record the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets prior to adoption of ASU 2017-07. In May 2018, the OEB approved the deferral account for Hydro One Networks' Transmission Business.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

It is expected that the deferral account application for Hydro One Networks' Distribution business will be considered as part of Hydro One Networks' application for 2018-2022 distribution rates, OEB approval of which is currently pending. Hydro One has recorded the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets in the Post-Retirement and Post-Employment Benefits Non-Service Cost Regulatory Asset.

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>(millions of dollars)</i>	March 31, 2018	December 31, 2017
Accounts payable	143	177
Accrued liabilities	606	572
Accrued interest	116	99
Regulatory liabilities	46	57
	911	905

12. OTHER LONG-TERM LIABILITIES

<i>(millions of dollars)</i>	March 31, 2018	December 31, 2017
Post-retirement and post-employment benefit liability	1,534	1,519
Pension benefit liability	982	981
Environmental liabilities <i>(Note 17)</i>	162	168
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	31	30
	2,718	2,707

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

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

At March 31, 2018, 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.

Long-Term Debt

The following table presents long-term debt outstanding at March 31, 2018 and December 31, 2017:

<i>(millions of dollars)</i>	March 31, 2018	December 31, 2017
Hydro One Inc. long-term debt <i>(a)</i>	9,923	9,923
HOSSM long-term debt <i>(b)</i>	175	176
	10,098	10,099
Add: Net unamortized debt premiums	14	14
Add: Unrealized mark-to-market gain ¹	(9)	(9)
Less: Unamortized deferred debt issuance costs	(37)	(37)
Total long-term debt	10,066	10,067
	(981)	(752)
Less: Long-term debt payable within one year	9,085	9,315

¹ The unrealized mark-to-market net gain relates to \$50 million of the Series 33 notes due 2020 and \$500 million Series 37 notes due 2019. The unrealized mark-to-market net gain is offset by a \$9 million (December 31, 2017 - \$9 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At March 31, 2018, long-term debt of \$9,923 million (December 31, 2017 - \$9,923 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is \$4.0 billion. At March 31, 2018, the entire

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

amount remained available for issuance until April 2020. During the three months ended March 31, 2018 and 2017, no long-term debt was issued or repaid.

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

At March 31, 2018, long-term debt of \$175 million (December 31, 2017 - \$176 million), with a face value of \$146 million (December 31, 2017 - \$146 million) was held by HOSSM. During the three months ended March 31, 2018 and 2017, no long-term debt was issued or repaid.

Principal and Interest Payments

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

Years to Maturity	Long-term Debt Principal Repayments (millions of dollars)	Weighted Average Interest Rate (%)
1 year	981	2.6
2 years	503	1.5
3 years	1,153	2.5
4 years	603	3.2
5 years	3	6.6
	3,243	2.5
6 - 10 years	631	3.5
Over 10 years	6,195	5.2
	10,069	4.2

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

Year	Interest Payments (millions of dollars)
Remainder of 2018	365
2019	402
2020	384
2021	370
2022	355
	1,876
2023-2027	1,672
2028+	4,081
	7,629

14. CONVERTIBLE DEBENTURES

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company completed the sale of \$1,540 million aggregate principal amount of convertible unsecured subordinated debentures (Convertible Debentures). The Convertible Debentures were sold on an instalment basis at a price of \$1,000 per Convertible Debenture, of which \$333 (Initial Instalment) was paid on closing of the Debenture Offering and the remaining \$667 (Final Instalment) is payable on a date (Final Instalment Date) to be fixed by the Company following satisfaction of conditions precedent to the closing of the acquisition of Avista Corporation. The gross proceeds received from the Initial Instalment were \$513 million. The Convertible Debentures will mature on September 30, 2027. A coupon rate of 4% is paid on the \$1,540 million aggregate principal amount of the Convertible Debentures, and based on the carrying value of the Initial Instalment, this translates into an effective annual yield of 12%. After the Final Instalment Date, the interest rate will be 0%. The interest expense recorded during the three months ended March 31, 2018 was \$15 million (2017—\$nil). At the option of the holders and provided that payment of the Final Instalment has been made, each Convertible Debenture will be convertible into common shares of the Company at any time on or after the Final Instalment Date, but prior to the earlier of maturity or redemption by the Company, at a conversion price of \$21.40 per common share.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

The following table shows the movements in convertible debentures during the three months ended March 31, 2018 and the year ended December 31, 2017:

<i>(millions of dollars)</i>	Three months ended March 31, 2018	Year ended December 31, 2017
Carrying value - beginning	487	-
Receipt of Initial Instalment, net of deferred financing costs	-	486
Amortization of deferred financing costs	1	1
Carrying value - ending	488	487
Face value - ending	513	513

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**Non-Derivative Financial Assets and Liabilities**

At March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017 are as follows:

<i>(millions of dollars)</i>	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
\$50 million of MTN Series 33 notes	49	49	49	49
\$500 million MTN Series 37 notes	492	492	492	492
Other notes and debentures	9,525	10,906	9,526	11,027
Long-term debt, including current portion	10,066	11,447	10,067	11,568

Fair Value Measurements of Derivative Instruments

At March 31, 2018, Hydro One Inc. had interest-rate swaps in the amount of \$550 million (December 31, 2017 - \$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 6% (December 31, 2017 - 6%) of its total long-term debt. At March 31, 2018, 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 March 31, 2018 and December 31, 2017, the Company had no interest-rate swaps classified as undesignated contracts.

In October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract is contingent on the Company closing the proposed Avista Corporation acquisition and is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed upon approval of the acquisition up to March 31, 2019. This contract is an economic hedge and does not qualify for hedge accounting. It has been accounted for as an undesignated contract.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at March 31, 2018 and December 31, 2017 is as follows:

March 31, 2018 (millions of dollars)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	28	28	28	-	-
Derivative instrument					
Foreign exchange contract	24	24	-	-	24
	52	52	28	-	24
Liabilities:					
Short-term notes payable	989	989	989	-	-
Long-term debt, including current portion	10,066	11,447	-	11,447	-
Convertible debentures	488	491	491	-	-
Derivative instruments					
Fair value hedges - interest-rate swaps	9	9	9	-	-
	11,552	12,936	1,489	11,447	-
December 31, 2017 (millions of dollars)					
Assets:					
Cash and cash equivalents	25	25	25	-	-
	25	25	25	-	-
Liabilities:					
Short-term notes payable	926	926	926	-	-
Long-term debt, including current portion	10,067	11,568	-	11,568	-
Convertible debentures	487	574	574	-	-
Derivative instruments					
Fair value hedges - interest-rate swaps	9	9	9	-	-
Foreign exchange contract	3	3	-	-	3
	11,492	13,080	1,509	11,568	3

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

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

The fair value of the convertible debentures is based on their closing price on March 29, 2018 (last business day in March 2018), as posted on the Toronto Stock Exchange.

The Company uses derivative instruments as an economic hedge for foreign exchange risk. The value of the foreign exchange contract is derived using valuation models commonly used for derivatives. These valuation models require a variety of inputs, including contractual terms, forward price yield curves, probability of closing the Avista Corporation acquisition, and the contract settlement date. The Company's valuation models also reflect measurements for credit risk. The fair value of the foreign exchange contract includes significant unobservable inputs, and therefore has been classified accordingly as Level 3. The significant unobservable inputs used in the fair value measurement of the foreign exchange contract relates to the assessment of probability of closing the Avista Corporation acquisition and the contract settlement date.

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

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the three months ended March 31, 2018 and the year ended December 31, 2017:

<i>(millions of dollars)</i>	Three months ended March 31, 2018	Year ended December 31, 2017
Fair value of asset (liability) - beginning	(3)	-
Unrealized gain (loss) on foreign exchange contract included in financing charges	27	(3)
Fair value of asset (liability) - ending	24	(3)

There were no transfers between any of the fair value levels during the three months ended March 31, 2018 and the year ended December 31, 2017.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****For the three months ended March 31, 2018 and 2017****Risk Management**

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

Market Risk

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

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

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the three months ended March 31, 2018 and 2017.

The Company is exposed to foreign exchange fluctuations as a result of entering into a deal-contingent foreign exchange forward agreement. This agreement is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures.

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 months ended March 31, 2018 and 2017 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017, there was no material accounts receivable balance due from any single customer.

At March 31, 2018, the Company's provision for bad debts was \$26 million (December 31, 2017 - \$29 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At March 31, 2018, approximately 5% (December 31, 2017 - 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties 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 March 31, 2018 and December 31, 2017, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At March 31, 2018, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

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

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

Estimated annual defined benefit pension plan contributions for 2018 and 2019 are approximately \$71 million for each year based on an actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings. Employer contributions made during the three months ended March 31, 2018 were \$18 million (2017 - \$28 million).

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

The following table provides the components of the net periodic benefit costs for the three months ended March 31, 2018 and 2017:

Three months ended March 31 (millions of dollars)	Pension Benefits		Post-Retirement and Post-Employment Benefits	
	2018	2017	2018	2017
Current service cost	44	36	12	12
Interest cost	71	76	14	17
Expected return on plan assets, net of expenses ¹	(117)	(110)	-	-
Amortization of actuarial losses	21	20	1	2
Net periodic benefit costs	19	22	27	31
Charged to results of operations ²	9	13	12	14

¹ The expected long-term rate of return on pension plan assets for the year ending December 31, 2018 is 6.5% (2017 - 6.5%).

² The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three months ended March 31, 2018, pension costs of \$21 million (2017 - \$30 million) were attributed to labour, of which \$9 million (2017 - \$13 million) was charged to operations, and \$12 million (2017 - \$17 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

17. ENVIRONMENTAL LIABILITIES

The following table shows the movements in environmental liabilities for the three months ended March 31, 2018 and the year ended December 31, 2017:

(millions of dollars)	Three months ended March 31, 2018	Year ended December 31, 2017
Environmental liabilities - beginning	196	204
Interest accretion	2	8
Expenditures	(4)	(24)
Revaluation adjustment	-	8
Environmental liabilities - ending	194	196
Less: current portion	(32)	(28)
	162	168

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

(millions of dollars)	March 31, 2018	December 31, 2017
Undiscounted environmental liabilities	202	206
Less: discounting environmental liabilities to present value	(8)	(10)
Discounted environmental liabilities	194	196

At March 31, 2018, the estimated future environmental expenditures were as follows:

(millions of dollars)	
Remainder of 2018	24
2019	27
2020	32
2021	34
2022	31
Thereafter	54
	202

18. SHARE CAPITAL**Common Shares**

The Company is authorized to issue an unlimited number of common shares. At March 31, 2018, the Company had 595,386,711 common shares issued and outstanding (December 31, 2017 - 595,386,711).

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At March 31, 2018 and December 31, 2017, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

At March 31, 2018 and December 31, 2017, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

19. DIVIDENDS

During the three months ended March 31, 2018, preferred share dividends in the amount of \$5 million (2017 - \$5 million) and common share dividends in the amount of \$131 million (2017 - \$125 million) were declared and paid.

20. EARNINGS PER COMMON SHARE

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

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

Three months ended March 31	2018	2017
Net income attributable to common shareholders <i>(millions of dollars)</i>	222	167
Weighted average number of shares		
Basic	595,386,711	595,000,000
Effect of dilutive stock-based compensation plans	2,322,393	2,257,005
Diluted	597,709,104	597,257,005
EPS		
Basic	\$0.37	\$0.28
Diluted	\$0.37	\$0.28

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

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

There were no changes in share grants under the Share Grant Plans during the three months ended March 31, 2018 and 2017.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSUs activity under the Directors' DSU Plan during the three months ended March 31, 2018 and 2017 is presented below:

Three months ended March 31 <i>(number of DSUs)</i>	2018	2017
DSUs outstanding - beginning	187,090	99,083
Granted	27,753	20,680
DSUs outstanding - ending	214,843	119,763

At March 31, 2018, a liability of \$4 million (December 31, 2017 - \$4 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$20.92 (December 31, 2017 - \$22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

A summary of DSUs activity under the Management DSU Plan during the three months ended March 31, 2018 and 2017 is presented below:

Three months ended March 31 <i>(number of DSUs)</i>	2018	2017
DSUs outstanding - beginning	67,829	-
Granted	36,809	66,952
DSUs outstanding - ending	104,638	66,952

At March 31, 2018, a liability of \$2 million (December 31, 2017 - \$2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of \$20.92 (December 31, 2017 - \$22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

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

A summary of PSU and RSU awards activity under the LTIP during the three months ended March 31, 2018 and 2017 is presented below:

Three months ended March 31 (number of units)	PSUs		RSUs	
	2018	2017	2018	2017
Units outstanding - beginning	429,980	230,600	393,430	254,150
Granted	427,940	267,450	332,440	218,950
Forfeited	(13,220)	(14,435)	(9,880)	(15,885)
Units outstanding - ending	844,700	483,615	715,990	457,215

The grant date total fair value of the awards granted during the three months ended March 31, 2018 was \$16 million (2017 - \$12 million). The compensation expense related to these awards recognized by the Company during the three months ended March 31, 2018 was \$2 million (2017 - \$1 million).

Stock Options

The Company is authorized to grant stock options under its LTIP to certain eligible employees. During the three months ended March 31, 2018, the Company granted 1,450,880 stock options (2017 - nil). The stock options granted are exercisable for a period not to exceed seven years from the date of grant and vest evenly over a three-year period on each anniversary of the date of grant.

The Company uses the fair value based method to measure compensation expense related to stock options and recognizes the expense over the vesting period on a straight-line basis. The fair value of the stock option awards granted was estimated on the date of grant using a Black-Scholes valuation model.

Stock options granted and the weighted average assumptions used in the valuation model for options granted during the three months ended March 31, 2018 are as follows:

Exercise price ¹	\$20.70
Grant date fair value per option	\$1.66
Valuation assumptions:	
Expected dividend yield ²	3.78 %
Expected volatility ³	15.01 %
Risk-free interest rate ⁴	2.00 %
Expected option term ⁵	4.5 years

¹ Hydro One common share price on the date of the grant.

² Based on dividend and Hydro One common share price on the date of the grant.

³ Based on average daily volatility of peer entities for a 4.5-year term.

⁴ Based on bond yield for an equivalent Canadian government bond.

⁵ Determined using the option term and the vesting period.

A summary of stock options activity during the three months ended March 31, 2018 is presented below:

Three months ended March 31 (number of stock options)	2018
Stock options outstanding - beginning	-
Granted ¹	1,450,880
Stock options outstanding - ending ¹	1,450,880

¹ All stock options granted and outstanding at March 31, 2018 are non-vested.

The compensation expense related to stock options recognized by the Company during the three months ended March 31, 2018 was not material. At March 31, 2018, there was \$2 million of unrecognized compensation expense related to stock options not yet vested, which is expected to be recognized over a weighted average period of approximately three years.

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

22. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at March 31, 2018. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province.

Three months ended March 31 (millions of dollars)		2018	2017
Related Party	Transaction		
Province	Dividends paid	67	92
IESO	Power purchased	513	651
	Revenues for transmission services	405	369
	Amounts related to electricity rebates	137	77
	Distribution revenues related to rural rate protection	57	61
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	12	16
OPG	Power purchased	4	4
	Revenues related to provision of construction and equipment maintenance services	2	-
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	2	2

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

23. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Three months ended March 31 (millions of dollars)		2018	2017
Accounts receivable		48	91
Due from related parties		10	(45)
Materials and supplies		(2)	-
Prepaid expenses and other assets		(9)	-
Accounts payable		(31)	(3)
Accrued liabilities		33	20
Due to related parties		(120)	(36)
Accrued interest		17	25
Long-term accounts payable and other liabilities		1	2
Post-retirement and post-employment benefit liability		7	23
		(46)	77

Capital Expenditures

The following tables reconcile investments in property, plant and equipment, intangible assets and regulatory assets and the amounts presented in the Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017:

Three months ended March 31, 2018 (millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(293)	(12)	(305)
Net change in accruals included in capital investments ¹	7	(2)	5
Cash outflow for capital expenditures	(286)	(14)	(300)

¹ For property, plant and equipment, the amount also includes capitalized depreciation.

Three months ended March 31, 2017 (millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(337)	(13)	(350)
Net change in accruals included in capital investments ¹	2	(1)	1
Cash outflow for capital expenditures	(335)	(14)	(349)

¹ For property, plant and equipment, the amount also includes capitalized depreciation.

HYDRO ONE LIMITED
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
For the three months ended March 31, 2018 and 2017

Supplementary Information

Three months ended March 31 (millions of dollars)	2018	2017
Net interest paid	105	88
Income taxes paid	6	4

24. CONTINGENCIES

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

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal is scheduled to be heard on October 16, 2018, and it is possible that no decision will be rendered by the appeal court until the first quarter of 2019. At this time, an estimate of a possible loss related to this claim cannot be made.

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß, Samuel, and Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

25. COMMITMENTS

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

March 31, 2018 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	145	112	84	2	3	5
Long-term software/meter agreement	17	17	13	1	1	3
Operating lease commitments	12	7	9	4	1	3

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

March 31, 2018 (millions of dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Credit facilities	-	-	-	250	2,300	-
Letters of credit ¹	173	-	-	-	-	-
Guarantees ²	325	-	-	-	-	-

¹ Letters of credit consist of a \$154 million letter of credit related to retirement compensation arrangements, a \$12 million letter of credit provided to the IESO for prudential support, \$6 million in letters of credit to satisfy debt service reserve requirements, and \$1 million in letters of credit for various operating purposes.

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

26. SEGMENTED REPORTING

Hydro One has three reportable segments:

The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;

HYDRO ONE LIMITED**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

For the three months ended March 31, 2018 and 2017

The Distribution Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and

Other Segment, which includes certain corporate activities and the operations of the Company's telecommunications business.

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

Three months ended March 31, 2018 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	421	1,145	10	1,576
Purchased power	–	751	–	751
Operation, maintenance and administration	105	145	20	270
Depreciation and amortization	103	92	2	197
Income (loss) before financing charges and income taxes	213	157	(12)	358

Capital investments	190	114	1	305
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Three months ended March 31, 2017 (millions of dollars)	Transmission	Distribution	Other	Consolidated
Revenues	367	1,279	12	1,658
Purchased power	–	889	–	889
Operation, maintenance and administration	102	145	24	271
Depreciation and amortization	101	92	2	195
Income (loss) before financing charges and income taxes	164	153	(14)	303

Capital investments	209	138	3	350
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Total Assets by Segment:

(millions of dollars)	March 31, 2018	December 31, 2017
Transmission	13,698	13,608
Distribution	9,253	9,259
Other	2,838	2,834
Total assets	25,789	25,701

Total Goodwill by Segment:

(millions of dollars)	March 31, 2018	December 31, 2017
Transmission	157	157
Distribution	168	168
Total goodwill	325	325

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

27. SUBSEQUENT EVENTS**Dividends**

On May 14, 2018, preferred share dividends in the amount of \$4 million and common share dividends in the amount of \$137 million (\$0.23 per common share) were declared.

Share Grant Plans

On April 1, 2018, Hydro One issued from treasury 481,227 common shares to eligible employees in accordance with provisions of the Power Workers' Union and the Society of Energy Professionals Share Grant Plans.

Agreement to Purchase Orillia Power

In 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia, subject to regulatory approval by the OEB. On April 12, 2018, the OEB issued a decision denying Hydro One' s proposed acquisition of Orillia Power. In May 2018, Hydro One filed a Motion to Review and Vary the OEB' s decision.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2018 and 2017

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the condensed interim unaudited consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three months ended March 31, 2018, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2017. 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 months ended March 31, 2018, based on information available to management as of May 14, 2018.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 (millions of dollars, except as otherwise noted)	2018	2017	Change
Revenues	1,576	1,658	(4.9%)
Purchased power	751	889	(15.5%)
Revenues, net of purchased power ¹	825	769	7.3%
Operation, maintenance and administration costs	270	271	(0.4%)
Depreciation and amortization	197	195	1.0%
Financing charges	88	103	(14.6%)
Income tax expense	42	27	55.6%
Net income attributable to common shareholders of Hydro One	222	167	32.9%
Basic earnings per common share (EPS)	\$0.37	\$0.28	32.1%
Diluted EPS	\$0.37	\$0.28	32.1%
Basic adjusted non-GAAP EPS (Adjusted EPS) ¹	\$0.35	\$0.28	25.0%
Diluted Adjusted EPS ¹	\$0.35	\$0.28	25.0%
Net cash from operating activities	376	471	(20.2%)
Funds from operations (FFO) ¹	414	389	6.4%
Capital investments	305	350	(12.9%)
Assets placed in-service	145	228	(36.4%)
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,815	19,795	0.1%
Distribution: Electricity distributed to Hydro One customers (GWh)	7,406	6,967	6.3%
		2018	2017
Debt to capitalization ratio ²		52.8%	52.9%

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

² Debt to capitalization ratio has been presented at March 31, 2018 and December 31, 2017, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to noncontrolling interest.

OVERVIEW

For the three months ended March 31, 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

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

At March 31, 2018, Hydro One's business segments accounted for the Company's total assets as follows:

	Transmission	Distribution	Other
Percentage of Company's total assets	53%	36%	11%

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended March 31, 2018 of \$222 million is an increase of \$55 million or 32.9% from the prior year. Significant influences on net income included:

- increase in transmission and distribution revenues due to higher energy consumption resulting from colder winter in 2018;
- higher transmission revenues driven by timing of the Ontario Energy Board (OEB)'s decision on the 2017-2018 transmission rate filing and increased OEB-approved transmission rates for 2018;
- lower operation, maintenance and administration (OM&A) costs primarily resulting from lower corporate support costs, which were partially offset by costs relating to Hydro One's response to the Northeastern storms; and
- lower financing charges primarily due to revaluation of the deal-contingent foreign exchange forward contract and a decrease in interest expense on long-term debt, partially offset by interest incurred on the Convertible Debentures issued in August 2017.

EPS and Adjusted EPS

EPS was \$0.37 in the first quarter of 2018, compared to \$0.28 in the first quarter of 2017. The increase in EPS was driven by higher net income for the first quarter of 2018, as discussed above. Adjusted EPS, which adjusts for income related to Avista Corporation acquisition, was \$0.35 in the first quarter of 2018, compared to \$0.28 in the first quarter of 2017. The increase in Adjusted EPS was driven by higher net income for the first quarter of 2018, as discussed above, but exclude the impact of items related to Avista Corporation acquisition. See section "Non-GAAP Measures" for description of Adjusted EPS.

Revenues

Three months ended March 31 (millions of dollars, except as otherwise noted)	2018	2017	Change
Transmission	421	367	14.7%
Distribution	1,145	1,279	(10.5%)
Other	10	12	(16.7%)
Total revenues	1,576	1,658	(4.9%)
Transmission	421	367	14.7%
Distribution, net of purchased power	394	390	1.0%
Other	10	12	(16.7%)
Total revenues, net of purchased power	825	769	7.3%
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,815	19,795	0.1%
Distribution: Electricity distributed to Hydro One customers (GWh)	7,406	6,967	6.3%

Transmission Revenues

Transmission revenues increased by 14.7% during the quarter ended March 31, 2018 primarily due to the following:

- higher revenues driven by timing of the OEB's decision on the 2017-2018 transmission rate filing and increased OEB-approved transmission rates for 2018;
- higher average monthly Ontario 60-minute peak demand primarily due to colder winter in 2018; and
- increased 2018 allowed return on equity (ROE) for the transmission business.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 1.0% during the quarter ended March 31, 2018 primarily due to the following:

- higher energy consumption resulting from colder winter in 2018; partially offset by
- lower deferred regulatory adjustments.

OM&A Costs

Three months ended March 31 (millions of dollars)	2018	2017	Change
Transmission	105	102	2.9%
Distribution	145	145	-%
Other	20	24	(16.7%)
Total	270	271	(0.4%)

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Transmission OM&A Costs

The increase of 2.9% in transmission OM&A costs for the quarter ended March 31, 2018 was primarily due to:

- higher volume of maintenance work for operation facilities and real estate; and
- higher rights payments associated with transmission occupations as a result of recent rent reviews.

Distribution OM&A Costs

Distribution OM&A costs for the quarter ended March 31, 2018 were consistent with prior year. Main factors included the following:

- lower corporate support costs;
- lower emergency power and storm restoration costs;
- lower spend on vegetation management as a result of hiring delays of temporary trade resources;
- increased costs as a result of Nova Scotia, Baltimore and Boston storm restoration efforts. These restoration efforts had no impact on the Company's net income, as related revenues were recorded in distribution revenues during the quarter; and
- project and inventory write-offs due to revision of asset replacement strategies, alternatives not pursued, and obsolete inventory and technology.

Other OM&A Costs

The decrease in other OM&A costs for the quarter ended March 31, 2018 was primarily due to lower costs related to strategy development.

Financing Charges

The decrease of \$15 million or 14.6% in financing charges for the quarter ended March 31, 2018 was primarily due to the following:

- an unrealized gain recorded in the first quarter of 2018 due to revaluation of the deal-contingent foreign exchange forward contract related to the Avista Corporation merger; and
- a decrease in interest expense on long-term debt driven by a lower weighted average long-term debt portfolio during the first quarter of 2018; partially offset by
- an increase in interest expense related to the Convertible Debentures issued in August 2017.

Income Tax Expense

Income tax expense for the quarter ended March 31, 2018 increased by \$15 million compared to the first quarter in 2017, and the Company realized an effective tax rate of approximately 15.6% in the quarter, compared to approximately 13.5% realized in the same period last year. The higher tax expense and the effective tax rate are attributable to higher income before taxes in the first quarter of 2018.

Common Share Dividends

In 2018, the Company declared and paid cash dividends to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
February 12, 2018	March 13, 2018	March 29, 2018	\$0.22	131

Following the conclusion of the first quarter of 2018, the Company declared a cash dividend to common shareholders reflecting an increase of 5% as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount (millions of dollars)
May 14, 2018	June 12, 2018	June 29, 2018	\$0.23	137

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

QUARTERLY RESULTS OF OPERATIONS

Quarter ended (millions of dollars, except EPS)	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Revenues	1,576	1,439	1,522	1,371	1,658	1,614	1,706	1,546
Purchased power	751	662	675	649	889	858	870	803
Revenues, net of purchased power	825	777	847	722	769	756	836	743
Net income to common shareholders	222	155	219	117	167	128	233	152
Basic EPS	\$0.37	\$0.26	\$0.37	\$0.20	\$0.28	\$0.22	\$0.39	\$0.26
Diluted EPS	\$0.37	\$0.26	\$0.37	\$0.20	\$0.28	\$0.21	\$0.39	\$0.25
Basic Adjusted EPS ¹	\$0.35	\$0.29	\$0.40	\$0.20	\$0.28	\$0.22	\$0.39	\$0.26
Diluted Adjusted EPS ¹	\$0.35	\$0.28	\$0.40	\$0.20	\$0.28	\$0.21	\$0.39	\$0.25

¹ 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.

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the three months ended March 31, 2018 and 2017:

Three months ended March 31 (millions of dollars)	2018	2017	Change
Transmission	38	82	(53.7%)
Distribution	105	146	(28.1%)
Other	2	-	100.0%
Total assets placed in-service	145	228	(36.4%)

Transmission Assets Placed In-Service

Transmission assets placed in-service decreased by \$44 million or 53.7% during the first quarter of 2018 primarily due to the following:

- timing of assets placed in-service for the station sustainment investments, primarily at the Richview, Nepean, Bruce A and Birch transmission stations; and the Hinchinbrooke switching station;
- a major local area supply project, 115kV switchyard upgrade at Manby transmission station, that was placed in-service in the first quarter of 2017; and
- lower volume of spare transformer purchases; partially offset by
- cumulative investments that were placed in-service for the Source-to-Order Transformation project, which aims to modernize the Company's sourcing and procurement capabilities.

Distribution Assets Placed In-Service

Distribution assets placed in-service decreased by \$41 million or 28.1% during the first quarter of 2018 primarily due to the following:

- the completion of an operation center in Bolton in February 2017;
- higher volume of lines large sustainment carryover work in the first quarter of 2017;
- lower volume of distribution station refurbishments and spare transformer purchases; and
- lower volume of emergency power and storm restorations work; partially offset by
- increased assets placed in-service for the Advanced Distribution System project; and
- cumulative investments that were placed in-service for the Source-to-Order Transformation project, which aims to modernize the Company's sourcing and procurement capabilities.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Capital Investments

The following table presents Hydro One' s capital investments during the three months ended March 31, 2018 and 2017:

Three months ended March 31 <i>(millions of dollars)</i>	2018	2017	Change
Transmission			
Sustaining	155	162	(4.3%)
Development	23	37	(37.8%)
Other	12	10	20.0%
	190	209	(9.1%)
Distribution			
Sustaining	59	72	(18.1%)
Development	46	47	(2.1%)
Other	9	19	(52.6%)
	114	138	(17.4%)
Other	1	3	(66.7%)
Total capital investments	305	350	(12.9%)

Transmission Capital Investments

Transmission capital investments decreased by \$19 million or 9.1% during the first quarter of 2018. Principal impacts on the levels of capital investments included:

- timing of project activities on major development projects;
- lower volume of transmission station refurbishments and replacements work; and
- lower volume of wood pole replacements; partially offset by
- higher volume of overhead lines refurbishments and replacements; and
- timing of work on load customer connections.

Distribution Capital Investments

Distribution capital investments decreased by \$24 million or 17.4% during the first quarter of 2018. Principal impacts on the levels of capital investments included:

- lower volume of lines and station refurbishments and replacements work; and
- lower volume of emergency power and storm restorations work.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at March 31, 2018:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
Development Projects:					
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	\$57 million	\$53 million
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	\$252 million	\$228 million
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2021	\$157 million	\$9 million
Northwest Bulk Transmission Line	Thunder Bay-Atikokan Northwestern Ontario	New transmission line	2024	\$350 million	\$1 million
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line	2019	\$119 million	\$102 million
Sustainment Projects:					
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2020	\$109 million ¹	\$109 million
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	\$103 million	\$88 million
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	\$93 million	\$54 million
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	\$95 million	\$48 million

¹ The estimated cost to complete the Bruce A Transmission Station project is currently under review.

SUMMARY OF SOURCES AND USES OF CASH

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

Three months ended March 31 (millions of dollars)	2018	2017
Cash provided by operating activities	376	471
Cash used in financing activities	(76)	(148)
Cash used in investing activities	(297)	(350)
Increase (decrease) in cash and cash equivalents	3	(27)

Cash provided by operating activities

Cash from Operating Activities for the first quarter of 2018 decreased by \$95 million compared to the first quarter of 2017, primarily due to lower payables to the Independent Electricity System Operator (IESO) for energy purchases which decreased as a result of milder weather in March 2018, as well as lower commodity rates.

Cash provided by financing activities

Sources of cash

The Company received proceeds of \$1,172 million from the issuance of short-term notes in the first quarter of 2018, compared to \$572 million received in the prior year.

Uses of cash

Dividends paid in the first quarter of 2018 were \$136 million, consisting of \$131 million common share dividends and \$5 million of preferred share dividends, compared to dividends of \$130 million paid in the prior year, consisting of \$125 million common share dividends and \$5 million of preferred share dividends.

The Company repaid \$1,109 million of short-term notes in the first quarter of 2018, compared to \$590 million repaid in the prior year.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Cash used in investing activities

Uses of cash

Capital expenditures were \$49 million lower in the first quarter of 2018, 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 March 31, 2018, Hydro One Inc. had \$989 million in commercial paper borrowings outstanding, compared to \$926 million outstanding at December 31, 2017. In addition, the Company has 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 March 31, 2018, the Company' s long-term debt in the principal amount of \$10,069 million included \$9,923 million of long-term debt, the majority of which was issued under Hydro One Inc.' s Medium Term Note (MTN) Program, and long-term debt in the principal amount of \$146 million held by Hydro One Sault Ste. Marie LP (HOSSM). At March 31, 2018, the maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 was \$4.0 billion, with the entire amount remaining available for issuance until April 2020. The long-term debt consists of notes and debentures that mature between 2018 and 2064, and at March 31, 2018, had an average term to maturity of approximately 15.5 years and a weighted average coupon rate of 4.2%.

Hydro One' s universal short form shelf prospectus (Universal Base Shelf Prospectus) filed in March 2016, which allowed 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, expired on April 30, 2018. The Company plans to file a new Universal Base Shelf Prospectus in the second quarter of 2018.

To mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed by the issuance of Convertible Debentures, in October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert \$1.4 billion Canadian to US dollars. For the three months ended March 31, 2018, a fair value gain of \$27 million was recorded related to this contract, compared to a fair value loss of \$3 million recorded for the year ended December 31, 2017. At March 31, 2018, the corresponding derivative asset was \$24 million, compared to a derivative liability of \$3 million at December 31, 2017.

At March 31, 2018, the Company was in compliance with all financial covenants and limitations associated with the outstanding borrowings and credit facilities.

OTHER OBLIGATIONS

Off-Balance Sheet Arrangements

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

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

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:

March 31, 2018 (millions of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations (due by year)					
Long-term debt - principal repayments	10,069	981	1,656	606	6,826
Long-term debt - interest payments	7,629	427	785	711	5,706
Convertible debentures - principal repayments ¹	513	–	–	–	513
Convertible debentures - interest payments	586	62	123	123	278
Short-term notes payable	989	989	–	–	–
Pension contributions ²	130	71	59	–	–
Environmental and asset retirement obligations	211	30	61	57	63
Outsourcing agreements	351	145	196	5	5
Operating lease commitments	36	12	16	5	3
Long-term software/meter agreement	52	17	30	2	3
Total contractual obligations	20,566	2,734	2,926	1,509	13,397
Other commercial commitments (by year of expiry)					
Credit facilities	2,550	–	–	2,550	–
Letters of credit ³	173	173	–	–	–
Guarantees ⁴	325	325	–	–	–
Total other commercial commitments	3,048	498	–	2,550	–

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

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

³ Letters of credit consist of a \$154 million letter of credit related to retirement compensation arrangements, a \$12 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.

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

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

² In May 2018, Hydro One and Orillia Power Distribution Corporation both filed a Motion to Review and Vary the OEB' s decision.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

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

Application	Year	ROE Allowed (A) or Forecast (F)	Rate Base Allowed (A) or Forecast (F)	Rate Application Status	Rate Order Status
Transmission					
Hydro One Networks	2018	9.00% (A)	\$11,148 million (A)	Approved in September 2017	Approved in December 2017
B2M LP	2018	9.00% (A)	\$502 million (A)	Approved in December 2015	Filed in December 2017
	2019	9.00% (F)	\$496 million (A)	Approved in December 2015	To be filed in 2018 Q4
HOSSM	2018	9.19% (A)	\$218 million (A)	Approved in September 2017	n/a
Distribution					
Hydro One Networks	2018	9.00% (A)	\$7,666 million (F)	Filed in March 2017 ¹	To be filed in 2018 Q4
	2019	9.00% (F)	\$8,027 million (F)	Filed in March 2017 ¹	To be filed in 2018 Q4
	2020	9.00% (F)	\$8,430 million (F)	Filed in March 2017 ¹	To be filed in 2019 Q4
	2021	9.00% (F)	\$8,960 million (F)	Filed in March 2017 ¹	To be filed in 2020 Q4
	2022	9.00% (F)	\$9,327 million (F)	Filed in March 2017 ¹	To be filed in 2021 Q4

¹ On June 7 and December 21, 2017, Hydro One Networks filed updates to the application reflecting recent financial results and other adjustments.

Electricity Rates Applications

Hydro One Networks - Transmission

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

In its Decision, the OEB concluded that the net deferred tax asset resulting from transition from the payments in lieu of tax regime under the *Electricity Act* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's shareholders and that a portion should be shared with ratepayers. On November 9, 2017, the OEB issued a Decision and Order that calculated the portion of the tax savings that should be shared with ratepayers. The OEB's calculation would result in an impairment of Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately \$515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately \$370 million related to Hydro One Networks' distribution deferred income tax regulatory asset.

In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately \$885 million, resulting in an annual decrease to FFO in the range of \$50 million to \$60 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders. An OEB hearing of the merits of the Motion was held on February 12, 2018.

In October 2017, the intervenor Anwaatin Inc. also filed a Motion to Review and Vary the OEB Decision (Anwaatin Motion) alleging that the OEB breached its duty of procedural fairness, failed to respond to certain evidence, and failed to provide reasons on the capital budget as it related to reliability issues impacting Anwaatin Inc.'s constituents. The Anwaatin Motion was heard by the OEB on February 13, 2018.

On November 23, 2017, the OEB approved the 2017 rates revenue requirement of \$1,438 million. On December 20, 2017, the OEB approved the 2018 rates revenue requirement of \$1,511 million, which included a \$25 million increase from the approved amount, as a result of the OEB-updated cost of capital parameters. Uniform Transmission Rates (UTRs), reflecting these approved amounts, were approved by the OEB on February 1, 2018 to be effective as of January 1, 2018.

In March 2017, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) 2017-07, which limits capitalization of post-employment benefit related costs to the service cost component. Hydro One filed an application requesting the OEB to approve a deferral account, to record the amounts no longer permitted for capitalization under the new standard, effective January 1, 2018. In May 2018, the OEB approved the deferral account.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

On March 16, 2018, the OEB issued a letter requesting Hydro One to file the transmission revenue requirement application for a four-year test period from 2019 to 2022, rather than the minimum 5-year period allowed under existing OEB policy. The OEB indicated that it is more appropriate to consider rates for Hydro One's distribution and transmission businesses in a single application, and stated that it expected Hydro One to file a single application for distribution rates (including Hydro One Remote Communities Inc.) and transmission revenue requirement for the period from 2023 to 2027.

Hydro One plans to file an application with the OEB for 2019-2022 transmission rates in mid-2018.

Hydro One Networks - Distribution

On March 9, 2018, the OEB issued a procedural order stating that the oral hearing related to Hydro One Networks' application for 2018-2022 distribution rates will commence on June 4, 2018.

B2M LP

On May 10, 2018, the OEB issued its Decision and Rate Order on B2M LP's 2018 transmission application reflecting revenue requirement of \$36 million, effective January 1, 2018.

Hydro One Remote Communities Inc.

On March 19, 2018, the OEB approved the settlement agreement related to the 2018 rates application reached by Hydro One Remote Communities Inc. and the intervenors in the rate proceeding. On March 26, 2018, a draft rate order was filed with the OEB for 2018 rates. The OEB approved the draft rate order on April 12, 2018, and the new rates were implemented effective May 1, 2018.

MAAD Application

Orillia Power MAAD Application

On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power Distribution Corporation from the City of Orillia, Ontario. On May 2, 2018, Hydro One and Orillia Power Distribution Corporation both filed a Motion to Review and Vary the OEB's decision.

Other Applications

Lake Superior Link Project

On February 15, 2018, Hydro One filed a Leave to Construct application with the OEB to construct the east-west tie line in northwestern Ontario (Lake Superior Link Project), which will compete with an application filed by NextBridge Infrastructure to construct this line.

OTHER DEVELOPMENTS

Collective Agreements

On March 1, 2018, Hydro One insourced its customer service operations, which had been previously outsourced to Inergi LP and Vertex Customer Management (Canada) Limited since 2002. The insourcing was facilitated through labour agreements reached with the Power Workers' Union (PWU) and The Society of Energy Professionals (now known as the Society of United Professionals) in 2017.

The current collective agreement with the PWU expired on March 31, 2018. On March 26, 2018, Hydro One and the PWU reached a tentative agreement that is now subject to ratification by the PWU.

US GAAP - Exemptive Relief

On March 27, 2018, Hydro One was granted exemptive relief by securities regulators in each province and territory of Canada which allows Hydro One to continue to report its financial results in accordance with US GAAP (Exemptive Relief). The Exemptive Relief will remain in effect until the earlier of: (i) January 1, 2024; (ii) the first day of Hydro One's financial year that commences after Hydro One ceases to have activities subject to rate regulation; and (iii) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards specific to entities with activities subject to rate regulation.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Avista Corporation Merger

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger). The following table summarizes the status of the Merger approval process:

Approval Required	Status
Alaska ¹	Settlement agreement filed on April 3, 2018 ⁵
Washington ¹	Settlement agreement filed on March 27, 2018 ⁴
Idaho ¹	Settlement agreement filed on April 13, 2018 ⁸
Oregon ¹	Evidentiary hearing scheduled for June 21, 2018 ¹⁰
Montana ¹	Evidentiary hearing scheduled for May 17, 2018
Federal Communications Commission	Consent received on May 4, 2018 ⁹
Committee on Foreign Investment in the United States	Filed for clearance on April 10, 2018 ⁷
Hart-Scott-Rodino Antitrust	Clearance received on April 5, 2018 ⁶
Federal Energy Regulatory Commission	Approval received on January 16, 2018 ³
Avista shareholders	Approval received on November 21, 2017 ²

¹ On September 14, 2017, Hydro One and Avista Corporation filed applications with the state utility commissions in Alaska, Washington, Idaho, Oregon, and Montana, requesting regulatory approval of the Merger on or before August 14, 2018.

² On November 21, 2017, the Merger was approved by the shareholders of Avista Corporation.

³ On January 16, 2018, the Federal Energy Regulatory Commission approved the Merger application.

⁴ On March 27, 2018, an all-parties, all-issues settlement agreement was filed with the Washington Utilities and Transportation Commission.

⁵ On April 3, 2018, an all-parties, all-issues settlement agreement was filed with the Regulatory Commission of Alaska.

⁶ On April 5, 2018, the 30-day waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, for the Merger expired. This expiration of the waiting period means that the parties have received antitrust clearance for the Merger and satisfies one of the closing conditions of the transaction.

⁷ On April 10, 2018, Hydro One and Avista Corporation filed for clearance of the Merger with the Committee on Foreign Investment in the United States (CFIUS). Hydro One and Avista Corporation had previously pre-filed with the CFIUS on February 9, 2018.

⁸ On April 13, 2018, an all-parties, all-issues settlement agreement was filed with the Idaho Public Utilities Commission.

⁹ On May 4, 2018, consent for the transfer of control of the wireless licences held by Avista Corporation and one of its subsidiaries to Hydro One as a result of the Merger was received from the Federal Communications Commission.

¹⁰ On May 8, 2018, a settlement in principle with all parties in the Oregon proceeding was reached. The parties intend to file the full settlement agreement with the Oregon Public Utility Commission for review.

Applications for regulatory approval of the Merger are pending with utility commissions in Alaska, Washington, Idaho, Oregon, and Montana. The settlement agreements remain subject to approval by the respective commissions. Also required is clearance by the Committee on Foreign Investment in the United States and the satisfaction of customary closing conditions. Hydro One anticipates closing the Merger in the second half of 2018.

Litigation

Class Action Lawsuit

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to \$125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal is scheduled to be heard on October 16, 2018, and it is possible that no decision will be rendered by the appeal court until the first quarter of 2019. At this time, an estimate of a possible loss related to this claim cannot be made.

Litigation Relating to the Merger

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al.*, *Samuel v. Avista Corp., et al.*, and *Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß*, *Samuel*, and *Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Appointment of Chief Financial Officer

On January 28, 2018, Mr. Paul Dobson was appointed to the position of Chief Financial Officer of Hydro One, effective March 1, 2018. Mr. Dobson was most recently the Chief Financial Officer at Direct Energy Ltd. in Houston, Texas.

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 March 31 (millions of dollars)	2018	2017
Net cash from operating activities	376	471
Changes in non-cash balances related to operations	46	(77)
Preferred share dividends	(5)	(5)
Distributions to noncontrolling interest	(3)	-
FFO	414	389

Adjusted Net Income and Adjusted EPS

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

Three months ended March 31	2018	2017
Net income attributable to common shareholders (millions of dollars)	222	167
Income related to acquisition of Avista Corporation (millions of dollars)	(12)	-
Adjusted net income attributable to common shareholders (millions of dollars)	210	167
Weighted average number of shares		
Basic	595,386,711	595,000,000
Effect of dilutive stock-based compensation plans	2,322,393	2,257,005
Diluted	597,709,104	597,257,005
Adjusted EPS		
Basic	\$0.35	\$0.28
Diluted	\$0.35	\$0.28

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.

Three months ended March 31 (millions of dollars)	2018	2017
Revenues	1,576	1,658
Less: Purchased power	751	889
Revenues, net of purchased power	825	769
Three months ended March 31 (millions of dollars)	2018	2017
Distribution revenues	1,145	1,279
Less: Purchased power	751	889
Distribution revenues, net of purchased power	394	390

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

HYDRO ONE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at March 31, 2018. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. The following is a summary of the Company's related party transactions during the three months ended March 31, 2018 and 2017:

Three months ended March 31 (millions of dollars)

Related Party	Transaction	2018	2017
Province	Dividends paid	67	92
IESO	Power purchased	513	651
	Revenues for transmission services	405	369
	Amounts related to electricity rebates	137	77
	Distribution revenues related to rural rate protection	57	61
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	12	16
OPG	Power purchased	4	4
	Revenues related to provision of construction and equipment maintenance services	2	-
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	2	2

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Paul Dobson assumed the role of Chief Financial Officer on March 1, 2018. However, there were no changes in the Company's internal control over financial reporting in the first quarter of 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

The following tables present ASUs and Accounting Standards Codification (ASC) guidance issued by the FASB that are applicable to Hydro One:

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Impact on Hydro One
ASC Topic 606	May 2014 - November 2017	ASC Topic 606 <i>Revenue from Contracts with Customers</i> replaced ASC Topic 605 <i>Revenue Recognition</i> . ASC Topic 606 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.	January 1, 2018	Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption.
ASU 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	Hydro One applied for a regulatory deferral account to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption.

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02 2018-01	February 2016 - January 2018	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. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC Topic 842 land easements that exist or expired before the entity' s adoption of ASC Topic 842 and that were not previously accounted for as leases under ASC Topic 840.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

FORWARD-LOOKING STATEMENTS AND INFORMATION

The Company' s oral and written public communications, including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the Company' s business and the industry, regulatory and economic environments in which it operates, and include beliefs and assumptions made by the management of the Company. Such statements include, but are not limited to, statements regarding: the Company' s transmission and distribution rate applications, including resulting decisions, rates and expected impacts and timing; the Company' s liquidity and capital resources and operational requirements; the standby credit facilities; expectations regarding the Company' s financing activities; the Company' s maturing debt; ongoing and planned projects, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB; the Motion and the Appeal; the Anwaatin Motion; the Lake Superior Link Project and related regulatory application; collective agreements; the pension plan, future pension contributions, valuations and expected impacts; impacts of OEB treatment of post-employment benefit costs; dividends; non-GAAP measures; internal control over financial reporting; recent accounting-related guidance; a new Universal Base Shelf Prospectus; the Convertible Debentures; the Exemptive Relief; the Company' s acquisitions and mergers, including Orillia Power and Avista Corporation; the Company' s financing strategy and foreign currency hedging relating to the acquisition of Avista Corporation; and class action litigation, including litigation relating to the Merger. 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;

risks relating to the Merger, including (i) the risk that Hydro One may fail to complete the Merger, (ii) uncertainty regarding the length of time required to complete the Merger, (iii) the risk that the purchase price for Avista Corporation could increase, and (iv) the risk that the anticipated benefits of the Merger may not materialize or may not occur within the time periods contemplated by Hydro One;

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;

HYDRO ONE LIMITED
MANAGEMENT' S DISCUSSION AND ANALYSIS (continued)
For the three months ended March 31, 2018 and 2017

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 related to the financing of the Merger;

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.

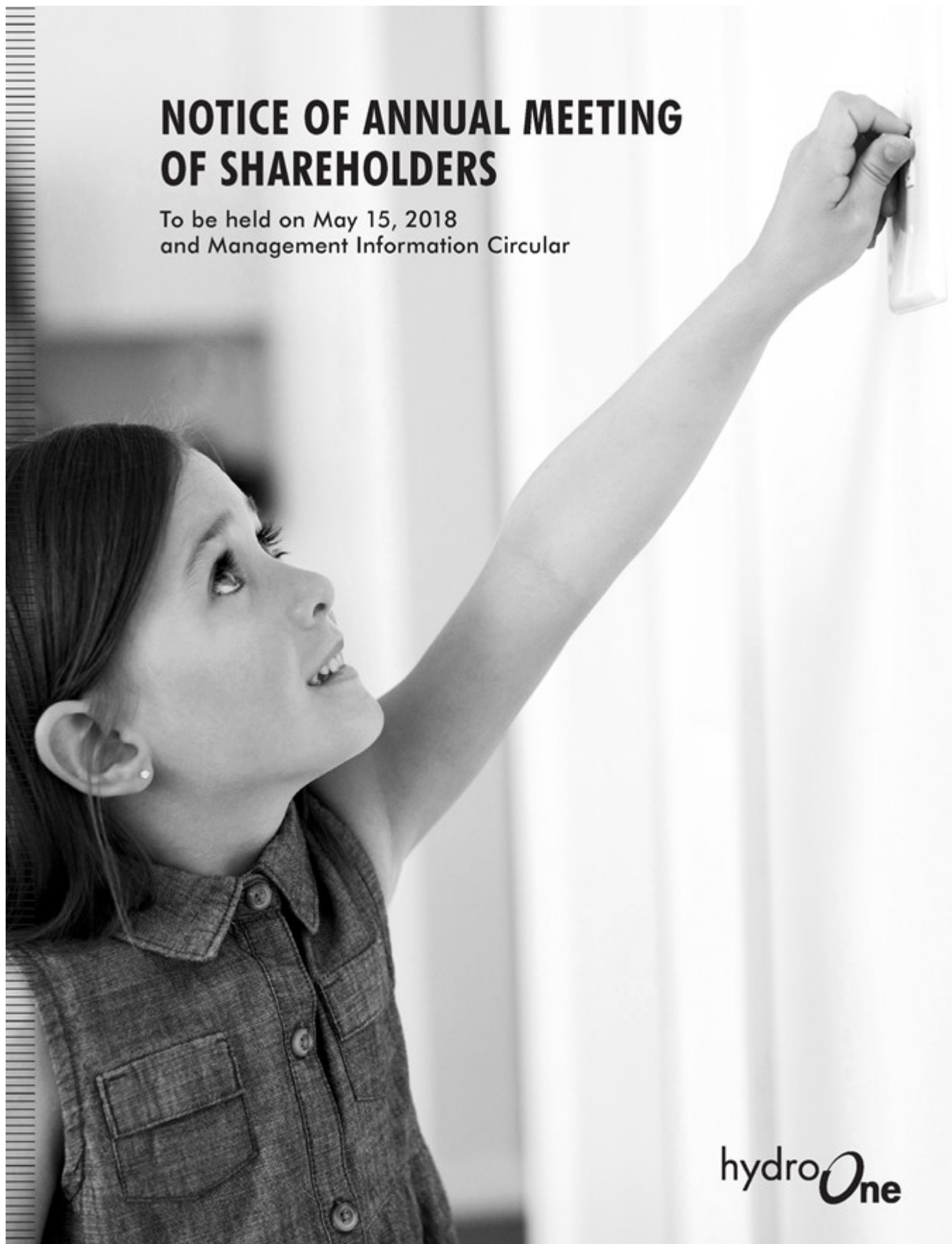
Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risk Factors" in the 2017 MD&A.

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

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be held on May 15, 2018
and Management Information Circular



hydroOne



Notice of 2018 annual meeting of shareholders and availability of proxy materials

Hydro One Limited (*Hydro One* or the *company*) is providing you with access to its management information circular (the *circular*) for its 2018 annual meeting of shareholders (the *meeting*) electronically via notice and access, instead of mailing out paper copies, as permitted by Canadian securities regulators. Electronic delivery is more environmentally friendly and significantly reduces the cost of printing and mailing materials to shareholders. All shareholders are reminded to review the circular before voting. Shareholders with questions about notice and access can call 1-855-887-2244 toll-free, for service in English or French. This notice provides details of the date, time and place of the meeting, including the matters to be voted on at the meeting. Accompanying this notice is a form of proxy or voting instruction form that you will need to vote by proxy.

Notice is hereby given that an annual meeting of shareholders of Hydro One will be held:

When:

Tuesday, May 15, 2018
9:30 a.m. (Eastern Time)

Where:

Ryerson University
7th Floor Auditorium
55 Dundas St. W.
Toronto, Ontario
M5G 2C3

for the following purposes and to transact any other business that may properly come before the meeting and any postponement(s) or adjournment(s) thereof:

Matters to be Voted on by Shareholders

Financial Statements: receive Hydro One's 2017 audited consolidated financial statements together with the report of the external auditors on those statements

Election of Directors: elect directors to the board for the ensuing year

Appointment of External Auditors: appoint KPMG LLP as external auditors for the ensuing year and authorize the directors to fix their remuneration

Say on Pay: an advisory resolution on Hydro One's approach to executive compensation

Other Business: to transact such other business as may properly come before the meeting and any postponement(s) or adjournment(s) thereof

Section of Circular

See "Business of the Meeting - 1. Financial Statements"

See "Business of the Meeting - 2. Election of Directors"

See "Business of the Meeting - 3. Appointment of External Auditors"

See "Business of the Meeting - 4. Advisory Vote on Executive Compensation"

See "Other Information - Other Business"

How do I get an electronic copy of the circular?

Electronic copies of the circular may be accessed online on Hydro One's website at <https://www.hydroone.com/investor-relations/agm> or under the Hydro One Limited profile on the System for Electronic Document Analysis and Retrieval (*SEDAR*) at www.sedar.com. You can also access our 2017 annual report (the *annual report*) in the same manner.

How do I get a paper copy of the circular?

In addition to being able to quickly view or print the circular and/or annual report online at our website, you can request a paper copy of either or both documents be sent to you by regular postal delivery, free of charge. Requests may be made by phone, email or online, as may be applicable, using the methods below, which are different depending on whether you are: (i) a non-registered (beneficial) shareholder who holds common shares through a broker or other intermediary; or (ii) a registered shareholder who holds a share certificate or statement from a direct registration system confirming your ownership of common shares.

If you are a non-registered (beneficial) shareholder

By phone (English/French): 1-877-907-7643 (toll-free within North America) or 905-507-5450 (outside of North America)

By email: noticeandaccess@broadridge.com (outside of North America)

Online: www.proxyvote.com (enter the control number located on the voting instruction form)

If you are a registered shareholder

By phone (English/French): 1-855-887-2243 (toll-free within North America)

By email: investor.relations@HydroOne.com

A paper copy will be mailed to you within three business days of receiving your request, if the request is made at any time prior to the meeting. To receive the meeting materials prior to the proxy deadline (as defined below) for the meeting, you should make your request before 5:00 p.m. (Eastern Time) on May 3, 2018. For requests received on or after the date of the meeting, a paper copy will be mailed to you within 10 calendar days after receiving your request. Following the meeting, the meeting materials will also remain available at www.proxyvote.com for a period of at least one year after the meeting materials were filed on SEDAR.

How do I vote my shares?

If you cannot attend the meeting, you may vote by proxy in any of the following ways. You will need the control number contained in the accompanying form of proxy or voting instruction form in order to vote.

Internet voting



For non-registered (beneficial) shareholders, go to www.proxyvote.com

For registered shareholders, go to www.investorvote.com

Telephone voting



Call the toll-free number shown on the form of proxy or voting instruction form

Voting by mail or delivery



Complete the form of proxy or voting instruction form and return it in the envelope provided

To be valid, registered shareholders must return their proxies using one of the above applicable methods to Computershare Trust Company of Canada, Hydro One's transfer agent, by no later than 9:30 a.m. (Eastern Time) on May 11, 2018 (the proxy deadline) or, if the meeting is postponed or adjourned, no later than 48 hours (not including Saturdays, Sundays or statutory holidays in Ontario) prior to the reconvened meeting. Non-registered shareholders should return their voting instruction forms using one of the above methods at least one business day in advance of the proxy deadline to allow sufficient time for their voting instructions to be provided by their intermediary to Computershare Trust Company of Canada.

Hydro One reserves the right to accept late proxies and to waive the proxy deadline, with or without notice, but is under no obligation to accept or reject any particular late proxy.

The meeting

The meeting will be audio webcast live and a rebroadcast will also be available following the meeting at: <https://www.hydroone.com/investor-relations/agm>

The contents of the circular and the sending thereof to the shareholders have been approved by Hydro One's board of directors.

DATED at Toronto, Ontario this 19th day of March, 2018.

By order of the board of directors

Maureen Wareham
Corporate Secretary

Please **review** the circular **prior** to voting



Letter from the chair of the board

Dear Shareholder,

You are invited to attend Hydro One Limited's annual meeting of shareholders (the *meeting*), which will be held at the 7th Floor Auditorium of Ryerson University located at 55 Dundas St. W., Toronto, Ontario M5G 2C3, at 9:30 a.m. (Eastern Time) on Tuesday, May 15, 2018. At the meeting, you will have an opportunity to ask questions and to meet with the board of directors, management and your fellow shareholders. If you are unable to attend in person you may view a live webcast of the meeting on our website at <https://www.hydroone.com/investor-relations/agm>.

At this meeting, you will be voting on several important matters so please take the time to carefully consider the information set out in the management information circular. Your vote is important. If you cannot attend the meeting in person and you owned Hydro One Limited common shares on April 3, 2018, you may use the enclosed proxy or voting instruction form to submit your vote prior to the meeting.

Sincerely,

A handwritten signature in black ink that reads "D. Denison".

David F. Denison, O.C.
Chair of the Board
Hydro One Limited



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Schedule "A"

Hydro One Limited Board Mandate	A-1
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2018 Management Information Circular

You have received this management information circular (the *circular*) because you owned Hydro One common shares as of the close of business on April 3, 2018 (the *record date*), and have the right to vote at our annual meeting.

Management is soliciting your proxy for the shareholder meeting on May 15, 2018.

In this document:

- *we, us, our, the company and Hydro One* mean Hydro One Limited
- *you and your* mean holders of our common shares
- *common shares and shares* mean the common shares of Hydro One

This document tells you about the meeting and governance and compensation matters at Hydro One. We have organized it into separate sections to make it easy to find what you're looking for, and to help you vote with confidence.

We pay the cost of proxy solicitation for all registered owners and for beneficial owners, other than beneficial owners who object to their name and address being given to the company. We are soliciting proxies mainly by mail, but you may also be contacted by phone, mail or in person by employees of Hydro One or Computershare Trust Company of Canada (*Computershare*), our transfer agent. We may also engage solicitation agents at a nominal cost to contact you.

The date of this circular is March 19, 2018 but all information in the circular is provided as of March 14, 2018 and all dollar amounts are in Canadian dollars, unless indicated otherwise.

All references to financial results are based on Hydro One's financial statements, prepared in accordance with United States Generally Accepted Accounting Principles (*US GAAP*). References in this circular to the meeting include any postponement(s) or adjournment(s) that may occur.

Read about the four items of business and how to vote your shares

pages 2 – 28

1 BUSINESS OF THE MEETING

Learn about our governance practices and the board

pages 29 – 47

2 CORPORATE GOVERNANCE

Find out what we paid our executive officers in 2017 and why

pages 48 – 95

3 EXECUTIVE COMPENSATION

Business of the Meeting

Items of Business

As set out in the notice of meeting, shareholders of Hydro One will be asked to consider and, as required, vote on the following four matters at the meeting:

1. Financial Statements

The audited consolidated financial statements of Hydro One for the fiscal year ended December 31, 2017 and the report of the external auditors on the financial statements will be received.

2. Election of Directors

The company's board of directors (the *board*) currently comprises 15 directors. On January 24, 2018, Ms. Kathryn Jackson informed the Chair of the board of her decision to not stand for re-election at the company's 2018 annual meeting of shareholders. The board has approved the reduction in size of the board to 14 members as of the date of the company's 2018 annual meeting of shareholders. As such, at the meeting, the shareholders will be asked to elect 14 directors in accordance with Hydro One's majority voting policy

(the *majority voting policy*), which is explained in more detail starting on page 8. All directors so elected will hold office until the next annual meeting of shareholders or until their successors are elected or appointed.

Other details respecting the nominees for election as directors are set out under "About the nominated directors" starting on page 8.

The board recommends that you vote *FOR* the election to the board of each of the nominated directors.

3. Appointment of External Auditors

The external auditor of Hydro One is KPMG LLP (*KPMG*), Chartered Professional Accountants, located in Toronto, Ontario. KPMG was initially appointed as the external auditor of Hydro One on August 31, 2015. KPMG has also acted as the external auditor of Hydro One's principal subsidiary (Hydro One Inc.) since 2008. Shareholders are being asked to approve the appointment of KPMG as the external auditor of Hydro One for the ensuing year and to authorize the directors of Hydro One to fix their remuneration.

The aggregate fees billed by KPMG to Hydro One and its subsidiaries in 2017 and 2016 for professional services are presented below:

	Year ended December 31, 2017	Year ended December 31, 2016
Audit Fees(1)	\$1,559,514	\$1,524,814
Audit-Related Fees(2)	\$1,171,700	\$488,854
Tax Fees(3):		
Tax Compliance and SR&ED Claim	\$161,000	\$90,000
General Tax Advice	\$100,000	\$57,500
Tax advice on Avista Acquisition	\$311,300	–
Other Fees(4)	–	\$413,643
Total	\$3,303,514	\$2,574,811

Notes:

- The nature of the services rendered was: audit of annual financial statements of the company and its subsidiaries, and statutory and regulatory filings.
- The nature of the services rendered was: due diligence related to the Avista acquisition, translations and audit of the Hydro One Pension Plan, IFRS reporting to the Province and related services reasonably related to the performance of the audit or review of the company's financial statements that are not reported under Audit Fees.
- The nature of the services rendered was: procedures in connection with a scientific research, experimental development ("SR&ED") investment tax credit claim, tax compliance services for Hydro One's Pension Funds and general tax advice.
- The nature of the services rendered was: due diligence activities.

The board recommends that you vote FOR the approval of the appointment of KPMG as the external auditors of Hydro One and authorize the directors of Hydro One to fix their remuneration.

4. Advisory Vote on Executive Compensation

Our compensation program seeks to attract, retain, motivate and reward individuals through competitive pay practices which reinforce Hydro One's pay-for-performance philosophy. It is designed to focus employees on developing and implementing strategies that create and deliver value for shareholders. Hydro One believes that its compensation program is consistent with these objectives, and is in the best interests of shareholders. For detailed disclosure of our executive compensation program, see "Executive Compensation" starting on page 48.

The board has adopted a policy to hold an advisory vote on the approach to executive compensation (*say on pay*) at each annual meeting. This shareholder say on pay vote forms an important part of the ongoing process of engagement between shareholders and the board on executive compensation.

At the meeting, shareholders will have an opportunity to vote on our approach to executive compensation through consideration of the following say on pay advisory resolution:

"Resolved, on an advisory basis and not to diminish the role and responsibilities of the board of directors, that the shareholders accept the approach to executive compensation disclosed in the management information circular delivered in advance of the 2018 annual meeting of shareholders of the company."

This resolution conforms to the form of resolution recommended by the Canadian Coalition for Good Governance and is in the same form as our say on pay resolution that was approved by the shareholders at our 2017 annual meeting of shareholders. Approval of this resolution requires that it be passed by a majority of the votes cast by shareholders thereon in person and by proxy. Because your vote is advisory, it will not be binding upon the board. However, the board will take into account the results of the vote when considering future executive compensation arrangements.

The board recommends that you vote FOR approval of the advisory resolution on Hydro One's approach to executive compensation.

At our 2017 annual meeting, the say on pay resolution was approved by shareholders, with shareholders holding 489,688,822 common shares voting in favour representing approximately 99.76% of the votes cast on the resolution.



BUSINESS OF THE MEETING

Information About Voting

Delivery of Proxy Materials

As permitted by Canadian securities regulators, Hydro One is providing shareholders with electronic access to its circular for the company's annual meeting of shareholders and its 2017 annual report, instead of mailing out paper copies. This means of delivery is more environmentally friendly and will reduce the cost of printing and mailing materials to shareholders.

Shareholders will receive a notice of availability of proxy materials (*notice*) together with a form of proxy or voting instruction form. The notice provides instructions on how shareholders may access and review an electronic copy of the circular and how shareholders may request a paper copy. Shareholders who have already provided instructions on their account to receive paper copies of the circular will receive a paper copy of the circular with a copy of the notice

regarding its electronic availability. The notice also provides instructions on voting at the meeting.

Proxy materials are being sent to registered shareholders directly and will be sent to intermediaries to be forwarded to all non-registered (beneficial) shareholders. We pay the cost of proxy solicitation for all registered owners and for beneficial owners other than beneficial owners who object to their name and address being given to the company. An objecting beneficial owner will only receive proxy materials if their intermediary assumes the cost of delivery.

Shares Outstanding

As of March 14, 2018, there were 595,386,711 common shares outstanding, each carrying the right to one vote per common share.

The *Electricity Act, 1998* (Ontario) and our articles preclude any person or company (or combination of persons or companies acting jointly or in concert), other than Her Majesty the Queen in Right of Ontario, as represented by the Minister of Energy (the *Province*), from owning, or exercising control or direction over, more than 10% of any class or series of voting securities, including common shares of Hydro One.

Who Can Vote

You have the right to one vote per common share held on the record date for the meeting, April 3, 2018.

Other than the Province, any person, or an entity controlled by a person, who beneficially owns shares that are, in the aggregate, more than 10% of the eligible votes that may be cast at the meeting, may not vote any of their shares.

As of March 14, 2018, our directors and executive officers were not aware of any person or entity who beneficially owns, directly or

indirectly, or exercises control or direction over more than 10% of our outstanding common shares, other than the Province, which holds 282,412,648 common shares (representing approximately 47.4% of the outstanding common shares).

Under a governance agreement the company entered into with the Province on November 5, 2015 (the *governance agreement*), the Province is required to vote in favour of the nominees identified in this circular except in the case of contested director elections and where the Province seeks to replace the board in accordance with the governance agreement by withholding votes or voting for removal.

How to Vote

How you vote depends on whether you are a non-registered (beneficial) shareholder who holds common shares through a broker or other intermediary or a registered shareholder who holds a share certificate or statement from a direct registration system confirming your ownership of common shares. You can vote in person or you can appoint someone to attend the meeting and vote your shares for you (called voting by proxy). Please read these instructions carefully.

	Non-Registered (Beneficial) Shareholders	Registered Shareholders
	Your intermediary has sent you a voting instruction form. We may not have records of your shareholdings as a non-registered shareholder and you must follow the instructions from your intermediary to vote.	Our transfer agent has sent you a proxy form.
If you want to come to the meeting and vote in person	<p>Use the voting instruction form provided by your intermediary.</p> <p>In most cases, you simply print your name in the space provided for appointing a proxyholder and return the voting instruction form as instructed by your intermediary. Your intermediary may also allow you to do this through the Internet. Do <i>not</i> complete the voting section of the voting instruction form, because you will be voting at the meeting.</p> <p>If the voting instruction form does not provide a space for appointing a proxyholder, you may have to indicate on the voting instruction form that you wish to receive a proxy form, and then return the form as instructed by your intermediary. The intermediary will mail a proxy form that you will need to complete, sign and return to our transfer agent, Computershare.</p> <p>When you arrive at the meeting, please register with Computershare.</p>	<p>Do <i>not</i> complete the proxy form or return it to us. Simply bring it with you to the meeting.</p> <p>When you arrive at the meeting, please register with our transfer agent, Computershare.</p>
If you do not plan to attend the meeting	<p>Complete the enclosed voting instruction form and return it to your intermediary.</p> <p>You can either mark your voting instructions on the voting instruction form and return it to your intermediary or you can appoint a proxyholder to attend the meeting and vote your common shares for you. Alternatively, shareholders may also vote online, by telephone or by mail or delivery, by following the instructions shown on the voting instruction form.</p>	<p>Complete the enclosed proxy form and return it to Computershare.</p> <p>You can either mark your voting instructions on the proxy form or you can appoint another person to attend the meeting and vote your shares for you.</p> <p>Alternatively, shareholders may also vote online, by telephone or by mail or delivery, by following the instructions shown on the proxy form.</p>



BUSINESS OF THE MEETING

BUSINESS OF THE MEETING

	Non-Registered (Beneficial) Shareholders	Registered Shareholders
Returning the form	<p>Return your voting instruction form using one of the methods noted on the voting instruction form provided by your intermediary.</p> <p>Remember that your intermediary must receive your voting instructions in sufficient time to act on them, generally one business day before the proxy deadline below.</p> <p>For your votes to count, Computershare must receive your voting instructions from your intermediary by no later than the proxy deadline, which is 9:30 a.m. Eastern Time on May 11, 2018, or if the meeting is postponed or adjourned, no later than 48 hours (not including Saturdays, Sundays or statutory holidays in Ontario) before the postponed or adjourned meeting convenes.</p>	<p>The enclosed proxy form tells you how to submit your voting instructions.</p> <p>Computershare must receive your proxy, including any amended proxy, by no later than the proxy deadline, which is 9:30 a.m. Eastern Time on May 11, 2018, or if the meeting is postponed or adjourned, no later than 48 hours (not including Saturdays, Sundays or statutory holidays in Ontario) before the postponed or adjourned meeting convenes.</p> <p>You may return your proxy by mail, in the envelope provided.</p>
Changing your vote/revoking your proxy	<p>If you have provided voting instructions to your intermediary and change your mind about your vote, or you decide to attend the meeting and vote in person, contact your intermediary to find out what to do.</p> <p>If your intermediary gives you the option of using the Internet to provide your voting instructions, you can also use the Internet to <i>change</i> your instructions, as long as your intermediary receives the new instructions in enough time to act on them before the proxy deadline. Contact your intermediary to confirm the deadline.</p>	<p>If you change your mind about how you voted before the meeting and you want to revoke your proxy, you must deliver a signed written notice specifying your instructions to one of the following:</p> <ul style="list-style-type: none"> our Corporate Secretary, by 4:00 p.m. Eastern Time on the last business day before the meeting (or any postponement(s) or adjournment(s), if the meeting is postponed or adjourned). <p>Deliver to: 483 Bay Street, South Tower, 8th Floor Reception, Toronto, Ontario, Canada M5G 2P5 Attention: Corporate Secretary</p> <ul style="list-style-type: none"> the chair of the meeting, before the meeting starts or any postponed or adjourned meeting reconvenes. <p>You can also change your voting instructions by sending amended instructions to Computershare by the proxy deadline noted above, or by voting in person at the meeting.</p>

How to Vote by Proxy

Appointing your Proxyholder

Your proxy form or voting instruction form names David F. Denison or failing him, Mayo Schmidt (the *named proxyholders*), the chair of the board (*board chair*) and the President and Chief Executive Officer (*President and CEO*) of the company, respectively, as your proxyholder. **You have the right to appoint someone else to**

represent you at the meeting. Simply print the person's name in the blank space on the form or, if voting online, follow the instructions online. Your proxyholder does not have to be a shareholder of the company. Your proxyholder must attend the meeting to vote for you.

We reserve the right to accept late proxies and to waive the proxy deadline with or without notice, but are under no obligation to accept or reject a late proxy.

How your Proxyholder will Vote

Your proxyholder must vote according to the instructions you provided on your proxy form or voting instruction form, including on any ballot that may be called for at the meeting. For directors and the appointment of the external auditors, you may either vote for or withhold, and for all other matters, you may vote for or against. If you do not specify how you want to vote, your proxyholder can vote your shares as he or she wishes. Your proxyholder will also decide how to vote on any amendment or

variation to any item of business in the notice of meeting or any new matters that are properly brought before the meeting, or any postponement(s) or adjournment(s).

If you properly complete and return your proxy form or voting instruction form, but do not appoint a different proxyholder, and do not specify how you want to vote, David F. Denison or failing him, Mayo Schmidt, the named proxyholders, will vote for you as follows:

Matters to Vote on	How Management Proxyholders Will Vote if No Choice is Specified
Election of directors	<i>FOR</i> each nominee
Appointment of the external auditors at a remuneration to be fixed by the board	<i>FOR</i>
Advisory vote on executive compensation	<i>FOR</i>

Confidentiality

To keep voting confidential, Computershare counts all proxies. Computershare only discusses proxies with us when legally necessary, when a shareholder clearly intends to communicate with management or the board of directors, or when there is a proxy contest.

Voting Results

We will file the voting results with securities regulators after the meeting and also post the results on our website at <https://www.hydroone.com/investor-relations/agm>. The results will include details regarding the percentage of support received on each matter.

Special Arrangements

If you plan on attending the meeting and require special arrangements for hearing, access and/or translation, please contact our Corporate Secretary at CorporateSecretary@HydroOne.com.

Questions at the Meeting

At the meeting, you will have an opportunity to ask questions and to meet with the board of directors, management and your fellow shareholders. The chair of the meeting reserves the right to limit questions from shareholders in order to ensure as many shareholders as possible will have the opportunity to ask questions.

Questions About Voting

If you are a registered shareholder, please contact Computershare with any questions about voting. You will find their contact information on the inside of the back cover of this circular. If you are a non-registered (beneficial) shareholder and you have questions about voting, please contact your intermediary by following the instructions on your voting instruction form.



About the nominated directors

This year, 14 directors are proposed for election to our board. On January 24, 2018, Ms. Kathryn Jackson informed the board chair of her decision to not stand for re-election at the company's 2018 annual meeting of shareholders. The board has approved the reduction in size of the board to 14 members (from the current 15 members) as of the date of the company's 2018 annual meeting of shareholders.

The director profiles, starting on page 9, tell you about each director's skills, experience and other important things to consider, including how much equity in Hydro One they own and any other public company boards they sit on.

Just as important are the skills these directors have as a group. These directors have been selected based on their abilities, independence, commercial experience, governance expertise with public companies, customer service, and knowledge about the electricity sector and public policy. You can learn more about our expectations for directors and how the board functions beginning on page 26.

Independence

Of the 14 nominated directors, 13 are independent. For Hydro One's purposes, an independent director is one who is independent of Hydro One and independent of the Province. Directors will be independent of Hydro One if they are independent within the meaning of all Canadian securities laws governing the disclosure of corporate governance practices and stock exchange requirements imposing a number or percentage of independent directors. Pursuant to Canadian securities laws, a director who is "independent" within the meaning of applicable securities laws is one who is free from any direct or indirect relationship which could, in the view of the board, be reasonably expected to interfere with a director's independent judgement, with certain specified relationships deemed to be non-independent. A director will be "independent of the Province" if he or she is independent of Hydro One under Ontario securities laws governing the disclosure of corporate governance practices, where the Province and certain specified provincial entities are treated as Hydro One's parent under that definition, but excluding current directors where the relationship ended before August 31, 2015. The governance agreement requires each of the directors, other than the CEO, to be both independent of Hydro One and independent of the Province.

The Chair of Hydro One is independent of Hydro One and the Province.

None of the independent directors have ever served as an executive of the company. Having an independent board is one of the ways we ensure that the board is able to operate independently of management and make decisions in the best interests of Hydro One and our shareholders. Mayo Schmidt is not an independent director because of his role as the company's President and CEO.

Length of Service

Each of the nominated directors is currently a member of the board. All of the nominees were initially elected to the board on August 31, 2015 in connection with the formation of the company and were re-elected to the board at our 2017 annual meeting of shareholders. If elected, each nominated director will serve until the earlier of our next annual meeting of shareholders or until his or her successor is elected or appointed.

Prior to becoming directors of the company, two of the independent director nominees and the board chair previously served on the board of directors of the company's wholly owned subsidiary, Hydro One Inc. Ms. Gale Rubenstein and Mr. George Cooke have served on the board of directors of Hydro One Inc. since March 30, 2007 and January 26, 2010, respectively. Mr. David F. Denison, the board chair, served on the board of directors and as the chair of the board of Hydro One Inc. since April 16, 2015. The board benefits from the continuity and insight of these director nominees.

Majority Voting Policy

The board has adopted a majority voting policy for the election of directors. This policy provides that in an uncontested election, any nominee for director who receives more *withheld* votes than *for* votes will immediately tender his or her resignation for consideration by the board. The board will review the matter and take whatever actions it determines are appropriate in the circumstances. The director who has tendered his or her resignation pursuant to this policy will not participate in any deliberations of the committee or the board regarding the resignation. In this instance, the other directors shall consider, and within 90 days of the election meeting, determine whether or not to accept the resignation.

The Province and Hydro One entered into the governance agreement on closing of Hydro One's initial public offering on November 5, 2015 which addresses the role of the Province in the governance of Hydro One and, among other things, requires Hydro One to maintain a majority voting policy for director elections. For more details about the governance agreement, see the description of our corporate governance practices starting on page 29.

Under the governance agreement, the Province may not withhold its votes for the nominees proposed for election in an uncontested election unless the Province withholds from voting for all nominees other than the CEO and, at the Province's discretion, the chair. Where directors have received a majority withheld vote as a result of the Province withholding its vote from their election in an uncontested election and have tendered their resignations, the board will take whatever actions it determines are appropriate, and the directors who received a majority withheld vote may participate in that determination. A resignation will be accepted absent exceptional circumstances and is effective when accepted by the board. A press release disclosing the directors' determination shall be issued promptly following such determination and, if the resignation is not accepted, will include the reasons for non-acceptance.















The majority voting policy does not apply to a contested election where the number of candidates for director validly nominated exceeds the number of directors to be elected at that meeting.

Director Profiles

Unless indicated otherwise, the information in each director profile is provided as of March 14, 2018. The profiles tell you about the directors who are currently standing for election, including:

- a brief biography of each nominee, their age and their place of residence;
- principal occupation and education;
- the year they were first elected or appointed as a director and their independence status;
- whether they are a nominee of the Province under the governance agreement;
- their experience and skills;
- other public company boards they serve on (other than the company and Hydro One Inc.);
- how much equity they hold in Hydro One and the percentage of their share ownership requirements achieved;
- their attendance at board and committee meetings held in 2017; and
- the voting results from their election at our 2017 annual meeting held on May 4, 2017 and at our 2016 annual meeting held on May 31, 2016.

Our Director Nominees at a Glance

	I. Bourne	C. Brindamour	M. Caira	C. Clark	G. Cooke	D. Denison	M. Harris	J. Hinds	R. Jamieson	F. Lankin	P. S. Orsino	J. Peverett	G. Rubenstein	M. Schmidt
Citizenship														
Public Board Interlocks	-	-	-	✓	-	-	✓	-	-	-	-	-	-	-
Independent Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x
Age	70	47	64	64	64	65	60	60	65	63	63	59	65	60
Gender	M	M	M	M	M	M	F	M	F	F	M	F	F	M
Audit Committee		✓			✓			✓	✓	✓	*			
Health, Safety, Environment and Indigenous Peoples Committee ¹⁾					✓		*	✓	✓				✓	
Human Resources Committee	*	✓	✓	✓			✓					✓	✓	
Governance Committee ²⁾	✓		✓	✓						✓	✓	*		

* denotes committee chair

¹ Formerly named the "Health, Safety, Environment and First Nations & Métis Committee". The name change was approved by the board on July 13, 2017.

² Formerly named the "Nominating, Corporate Governance, Public Policy & Regulatory Committee". The name change was approved by the board on February 13, 2018.



BUSINESS OF THE MEETING

Ian Bourne, 70



Alberta, Canada

Director since
August 31, 2015

Independent

Chair, Ballard Power Systems Inc.

Other Public Company Directorships

- Ballard Power Systems Inc.
- Wajax Corporation

Skills/Areas of Expertise include:

Accounting/Finance
Energy Sector
Human Resources/Union Relations
Information Technology
Risk Management

Not eligible for re-election in 2023

Mr. Ian Bourne is the chair of the board of directors of Ballard Power Systems Inc. (2006-present), a leader in proton exchange membrane fuel cell technology. He is a director of the Canada Pension Plan Investment Board (CPPIB), Wajax Corporation (WJX) and the Canadian Public Accountability Board (CPAB). He is also the former chair of the board of directors of SNC-Lavalin Group Inc. (2013-2015), for which he was a director from 2009 to 2015 and also served as that company's Interim Chief Executive Officer from March 2012 to October 2012. Mr. Bourne is chair of the Governance Committee of CPPIB and has been a member of the Human Resources committee of CPPIB, CPAB, Ballard Power Systems Inc. (BLDP) and SNC-Lavalin Group Inc. (SNC). Mr. Bourne has also served on the Audit Committees of CPPIB, WJX, BLDP and SNC. He was a director of Canadian Oil Sands Limited (2007-2016) and served as the chair of the Corporate Governance and Compensation Committee and was a member of the Audit Committee. Mr. Bourne has been active in serving on a variety of community based organizations including the Calgary Philharmonic Orchestra, the Glenbow Museum and the Calgary Foundation. He holds a Bachelor of Commerce degree from Mount Allison University and is a Fellow of the Institute of Corporate Directors.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Human Resources Committee (Chair)	5 of 5	100%
Governance Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,575,161	99.94%	306,670	0.06%
2016	536,332,303	99.97%	142,752	0.03%

Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	4,000	8,841	94,240	210,052	304,292	On target
2016	2,000	4,713	47,740	111,129	158,869	On target
Net Change	+2,000	+4,128	+46,500	+98,923	+145,423	

Charles Brindamour, 47



Ontario, Canada

Director since
August 31, 2015

Independent

Nominee of the Province

Chief Executive Officer, Intact Financial Corporation

Other Public Company Directorships

- Intact Financial Corporation

Skills/Areas of Expertise include:

Business Transformation
Capital Markets
Consumer
Large Company Senior Executive
Risk Management

Not eligible for re-election in 2027

Mr. Charles Brindamour is the Chief Executive Officer of Intact Financial Corporation, the largest provider of property and casualty insurance in Canada and a leading provider of specialty insurance in North America. Mr. Brindamour is a director of Intact Financial Corporation, The Geneva Association, the Business Council of Canada, the C.D. Howe Institute and Branksome Hall. He is also a member of the Advisory Committee of the University of Waterloo's Climate Change Adaptation Project and serves on the advisory board of Gibraltar Growth Corporation. Mr. Brindamour is a graduate of Laval University in Actuarial Sciences and an associate of the Casualty Actuarial Society.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	11 of 13	85%
Human Resources Committee	5 of 5	100%
Audit Committee	6 of 6	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,192,246	99.86%	689,585	0.14%
2016	535,579,304	99.83%	895,751	0.17%



Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	15,000	15,718	328,950	373,426	702,376	Yes (4.4x)
2016	15,000	8,378	328,950	197,563	526,513	Yes (3.3x)
Net Change	0	+7,340	0	+175,863	+175,863	

Marcello (Marc) Caira, 64



Ontario, Canada

Director since
August 31, 2015

Independent

Nominee of the Province

Vice-Chairman, Restaurant Brands
International Inc.

Other Public Company Directorships

- Restaurant Brands International Inc.

Skills/Areas of Expertise include:

Business Transformation
Consumer
Human Resources/Union Relations
Large Company Senior Executive
Stakeholder Engagement (including Indigenous Peoples)

Not eligible for re-election in 2027

Equity Ownership⁽²⁾

Year	Common shares	Director DSUs	Value of common shares (\$) ⁽³⁾	Value of director DSUs (\$) ⁽²⁾	Total value of common shares and director DSUs (\$) ⁽²⁾⁽³⁾	Meets share ownership requirements ⁽⁴⁾⁽⁵⁾
2017	9,100	15,718	199,290	373,426	572,716	Yes (3.6x)
2016	9,100	8,378	199,290	197,563	396,853	On target
Net Change	0	+7,340	0	+175,863	+175,863	

Mr. Marc Caira is the vice-chairman of the board of directors of Restaurant Brands International Inc., a multinational quick service restaurant company. He is also a director of the Minto Group, a private real estate developer and on the board of governors of Seneca College, a leading post-secondary educational institution. Prior to his appointment as vice-chairman of Restaurant Brands International Inc. in December 2014, Mr. Caira was President and Chief Executive Officer of Tim Hortons Inc. (July 2013-December 2014), a multinational fast food restaurant, a member of the executive board of Nestlé S.A. in Switzerland, a transnational food and beverage company, and Chief Executive Officer of Nestlé Professional. Mr. Caira holds a Diploma in Marketing Management from Seneca College, Toronto (1977) and is a graduate of the Director Program at The International Institute for Management Development, Lausanne, Switzerland.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance ⁽¹⁾	
Board of Directors	13 of 13	100%
Human Resources Committee	5 of 5	100%
Governance Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,651,045	99.95%	230,786	0.05%
2016	536,336,453	99.97%	138,602	0.03%

Christie Clark, 64



Ontario, Canada

Director since
August 31, 2015

Independent

Corporate Director

Other Public Company Directorships

- Air Canada
- Choice Properties Real Estate Investment Trust
- Loblaw Companies Limited

Skills/Areas of Expertise include:

Accounting/Finance
Business Transformation
Human Resources/Union Relations
Large Company Senior Executive
Risk Management

Not eligible for re-election in 2027

Mr. Christie Clark is a corporate director. He serves as a director of Loblaw Companies Limited, a Canadian food and pharmacy retailer, Air Canada, a Canadian airline company, and Choice Properties Real Estate Investment Trust, an owner, manager and developer of retail and commercial real estate across Canada. He previously served as the Chief Executive Officer and Senior Partner of PricewaterhouseCoopers LLP from July 2005 to July 2011. Mr. Clark is a Fellow of the Chartered Professional Accountants of Ontario, and in addition to his public company board memberships, he is on the Boards of the Canadian Olympic Committee and Own the Podium. He is also a member of the Advisory Board of the Smith School of Business at Queen's University. He is currently the Director in Residence for the Institute of Corporate Directors' national short course, "Audit Committee Effectiveness". Mr. Clark holds a Bachelor of Commerce degree from Queen's University and a Master of Business Administration degree from the University of Toronto.

Public Board Interlocks

Loblaw Companies Limited with Marianne Harris

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Human Resources Committee	5 of 5	100%
Governance Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,691,533	99.96%	190,298	0.04%
2016	536,368,012	99.98%	107,043	0.02%



Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	15,718	0	373,426	373,426	On target
2016	0	8,378	0	197,563	197,563	On target

Net Change	0	+7,340	0	+175,863	+175,863
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George Cooke, 64



Ontario, Canada

Director since
August 31, 2015

Independent

Corporate Director
Chair, OMERS Administration Corporation

Other Public Company Directorships
■ N/A

Skills/Areas of Expertise include:

Accounting/Finance
Energy Sector
Government/Regulatory/Public Policy
Human Resources/Union Relations
Risk Management

Not eligible for re-election in 2022

Mr. George Cooke is a corporate director and the chair of the board of directors of OMERS Administration Corporation and the Ontario Lottery and Gaming Corporation. He is also a governor of Curling Canada. Mr. Cooke is the former President and CEO of The Dominion of Canada General Insurance Company (The Dominion), a property and casualty insurance company, a position he held from 1992 to August 2012. In August 2012, Mr. Cooke retired from his role as President of The Dominion and continued to hold the position of Chief Executive Officer of The Dominion until December 31, 2012. Mr. Cooke obtained a Bachelor of Arts degree (Hons.) in Political Studies and a Master of Business Administration degree from Queen's University. He also holds an Honorary Doctor of Laws degree from Assumption University in Windsor.

Public Board Interlocks

None

Board/Committee Memberships

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Audit Committee	6 of 6	100%
Health, Safety, Environment and Indigenous Peoples Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,722,093	99.97%	159,738	0.03%
2016	536,367,192	99.98%	107,863	0.02%

Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	15,718	0	373,426	373,426	On target
2016	0	8,378	0	197,563	197,563	On target
Net Change	0	+7,340	0	+175,863	+175,863	

David F. Denison, 65



Ontario, Canada

Director since

August 31, 2015

Independent

Board Chair, Hydro One Limited and Hydro One Inc.

Other Public Company Directorships

- BCE Inc.
- Royal Bank of Canada

Skills/Areas of Expertise include:

Accounting/Finance
Capital Markets
Information Technology
Large Company Senior Executive
Risk Management

Not eligible for re-election in 2027

Mr. David F. Denison is the board chair of Hydro One and Hydro One Inc. He is a corporate director and previously served as President and Chief Executive Officer of the Canada Pension Plan Investment Board, a global investment management organization, from 2005 to 2012 and as a director of Allison Transmission Holdings Inc. from 2013 to 2016. Prior to that, Mr. Denison was President of Fidelity Investments Canada Limited. Mr. Denison is a director of the Royal Bank of Canada, BCE Inc. and Bell Canada. He is also a member of the Investment Board and International Advisory Committee of the Government of Singapore Investment Corporation, the International Advisory Council of China Investment Corporation, and co-chairs the University of Toronto Investment Committee. Mr. Denison earned Bachelor degrees in mathematics and education from the University of Toronto and is a Chartered Professional Accountant and a Fellow of the Chartered Professional Accountants of Ontario. Mr. Denison is an Officer of the Order of Canada. In 2018, Mr. Denison was awarded a Fellowship from the Institute of Corporate Directors.

Public Board Interlocks

None

Board/Committee Memberships

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
<i>Mr. Denison is not a member of any committee but does attend all committee meetings</i>		

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	487,984,037	99.41%	2,897,794	0.59%
2016	536,244,627	99.96%	240,428	0.04%



Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	1,036	25,540	24,361	606,817	631,178	On target
2016	1,000	13,615	23,530	321,040	344,570	On target
Net Change	+36	+11,925	+831	+285,777	+286,608	

Margaret (Marianne)
Harris, 60



Ontario, Canada

Director since
August 31, 2015

Independent

Nominee of the Province

Corporate Director

Other Public Company Directorships

- Loblaw Companies Limited
- Sun Life Assurance Company of Canada
- Sun Life Financial Inc.

Skills/Areas of Expertise include:

Accounting/Finance
Capital Markets
Government/Regulatory/Public Policy
Human Resources/Union Relations
Risk Management

Not eligible for re-election in 2027

Ms. Marianne Harris is a corporate director. She is the chair of the board of directors of the Investment Industry Regulatory Organization of Canada (IIROC), a self-regulatory organization that oversees investment dealers and trading activity on debt and equity marketplaces in Canada. Prior to becoming a corporate director, Ms. Harris was Managing Director of the Bank of America Merrill Lynch and President, Corporate and Investment Banking for Merrill Lynch Canada Inc. In addition to her position as chair of IIROC, she is a director of Sun Life Financial Inc., Sun Life Assurance Company of Canada and Loblaw Companies Limited. Ms. Harris is also a member of the Dean's Advisory Council at the Schulich School of Business (York University) and the Advisory Council of the Hennick Centre for Business and Law (York University). Ms. Harris holds a Master of Business Administration degree from the Schulich School of Business, a Juris Doctor degree from Osgoode Hall Law School (York University) and a B.Sc. (Honours) from Queen's University.

Public Board Interlocks

Loblaw Companies Limited with Christie Clark

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Human Resources Committee	4 of 5	80%
Health, Safety, Environment and Indigenous Peoples Committee (Chair)	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,715,972	99.97%	165,859	0.03%
2016	536,372,194	99.98%	102,861	0.02%

Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	17,682	0	420,104	420,104	On target
2016	0	9,426	0	222,258	222,258	On target
Net Change	0	+8,256	0	+197,846	+197,846	

James Hinds, 60



Ontario, Canada

Director since
August 31, 2015

Independent

Corporate Director

Other Public Company Directorships

- Allbanc Split Corp.

Skills/Areas of Expertise include:

Accounting/Finance
Business Transformation
Capital Markets
Energy Sector
Government/Regulatory/Public Policy

Not eligible for re-election in 2027

Mr. James Hinds is a corporate director. He is also a director of Allbanc Split Corp., a mutual fund company. He is a retired investment banker, having previously served as Managing Director of TD Securities Inc., prior to which he held positions at CIBC Wood Gundy Inc. and Newcrest Capital Inc. Mr. Hinds was the past chair of the Independent Electricity System Operator (IESO), a Crown corporation responsible for operating the electricity market, and was also chair of the former Ontario Power Authority Board of Directors (2010-2014) until its merger with the IESO effective January 1, 2015. Mr. Hinds received a Bachelor of Arts degree from Victoria College at the University of Toronto, a Master of Business Administration from the Wharton School of Business and a law degree from the University of Toronto Law School.

Public Board Interlocks

None

Board/Committee Memberships

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Audit Committee	6 of 6	100%
Health, Safety, Environment and Indigenous Peoples Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,667,230	99.96%	214,601	0.04%
2016	536,373,645	99.98%	101,410	0.02%



Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	50,000	15,715	1,183,115	373,426	1,556,541	Yes (9.7x)
2016	50,000	8,378	1,183,115	197,563	1,380,678	Yes (8.6x)
Net Change	0	+7,337	0	+175,863	+175,863	

Roberta Jamieson, 65



Ontario, Canada

Director since
August 31, 2015

Independent

Nominee of the Province

President and Chief Executive Officer, Indspire

Other Public Company Directorships

■ N/A

Skills/Areas of Expertise include:

Consumer
Energy Sector
Government/Regulatory/Public Policy
Risk Management
Stakeholder Engagement (including Indigenous Peoples)

Not eligible for re-election in 2027

Ms. Roberta Jamieson is a Mohawk woman from the Six Nations of the Grand River Territory in Ontario, where she still resides. She is also President and Chief Executive Officer of Indspire, Canada's premiere Indigenous-led charity, and Executive Producer of the Indspire Awards, a nationally broadcast gala honouring Indigenous achievement. Ms. Jamieson was the first First Nations woman to earn a law degree in Canada; the first non-parliamentarian appointed an ex-officio member of a House of Commons Committee; the first woman Ombudsman of Ontario (1989-1999); and in December 2011, she was the first woman elected Chief of the Six Nations of the Grand River Territory. She was also a director of the Ontario Power Generation Inc. board of directors (2012-2015). Ms. Jamieson was appointed a Member of the Order of Canada in 1994 and promoted to an Officer in 2016.

Ms. Jamieson holds a Bachelor of Laws from the University of Western Ontario. Ms. Jamieson is the recipient of the Canadian Council for Aboriginal Business 2018 Indigenous Women in Leadership Award. On March 7, 2018 Ms. Jamieson was appointed to the Gender Equality Advisory Council for Canada's G7 Presidency.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Audit Committee	6 of 6	100%
Health, Safety, Environment and Indigenous Peoples Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,738,816	99.97%	143,015	0.03%
2016	536,364,089	99.98%	110,966	0.02%

Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	7,858	0	186,713	186,713	On target
2016	0	4,189	0	98,781	98,781	On target
Net Change	0	+3,669	0	+87,932	+87,932	

Frances Lankin, 63



Ontario, Canada

Director since
August 31, 2015

Independent

Corporate Director

Other Public Company Directorships

■ N/A

Skills/Areas of Expertise include:

Business Transformation
Consumer
Government/Regulatory/Public Policy
Human Resources/Union Relations
Stakeholder Engagement (including Indigenous Peoples)

Not eligible for re-election in 2027

Hon. Frances Lankin is a corporate director. She was the former President and CEO of the United Way Toronto (2001-2010), a Toronto-based charity. In 2009, Ms. Lankin was appointed to the Queen's Privy Council for Canada and served for five years as a member of the Security Intelligence Review Committee. In 2014, Ms. Lankin was appointed to the Premier's Advisory Council on Government Assets whose mandate was to review and identify opportunities to modernize government business enterprises, and in 2011 and 2012, she co-led a review of Ontario's social assistance system as part of the province's poverty reduction strategy. Ms. Lankin is a director of the Ontario Lottery and Gaming Corporation. Ms. Lankin was appointed a Member of the Order of Canada in 2012 and in April of 2016, was appointed to the Senate of Canada where she sits as an Independent Senator from Ontario.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	11 of 13	85%
Audit Committee	5 of 6	83%
Governance Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,640,179	99.95%	241,652	0.05%
2016	536,361,389	99.98%	113,666	0.02%



Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	7,858	0	186,713	186,713	On target
2016	0	4,189	0	98,781	98,781	On target
Net Change	0	+3,669	0	+87,932	+87,932	

Philip S. Orsino, 63



Ontario, Canada

Director since
August 31, 2015

Independent

Corporate Director

Other Public Company Directorships

- Bank of Montreal

Skills/Areas of Expertise include:

- Accounting/Finance
- Business Transformation
- Capital Markets
- Large Company Senior Executive
- Risk Management

Not eligible for re-election in 2027

Mr. Philip S. Orsino is a corporate director. He was the President and Chief Executive Officer of Jeld-Wen Inc., a global integrated manufacturer of building products from 2011 until he retired in 2014. Formerly until October 2005, Mr. Orsino was the President and Chief Executive Officer of Masonite International Corporation for 22 years. Mr. Orsino is a director of The Bank of Montreal and chair of its Audit and Conduct Review Committee and a director of The Minto Group, a private real estate developer, and chair of the Audit Committee. He was the recipient of the 2003 Canada's Outstanding CEO of the Year Award and received the University of Toronto's Distinguished Business Alumni Award for 2002. He is a Fellow of the Chartered Professional Accountants of Ontario and holds a degree from Victoria College at the University of Toronto. Mr. Orsino was appointed an Officer of the Order of Canada in 2004.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	12 of 13	92%
Audit Committee (Chair)	6 of 6	100%
Governance Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,727,068	99.97%	154,763	0.03%
2016	536,364,932	99.98%	110,123	0.02%

Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	10,000	12,788	257,519	301,316	558,835	Yes (3.5x)
2016	10,000	4,713	257,519	111,129	368,648	On target
Net Change	0	+8,075	0	+190,187	+190,187	

Jane Peverett, 59



British Columbia, Canada

Director since
August 31, 2015

Independent

Nominee of the Province

Corporate Director

Other Public Company Directorships

- Canadian Imperial Bank of Commerce
- Canadian Pacific Railway Limited
- Northwest Natural Gas Company

Skills/Areas of Expertise include:

Accounting/Finance
Energy Sector
Government/Regulatory/Public Policy
Human Resources/Union Relations
Large Company Senior Executive

Not eligible for re-election in 2027

Ms. Jane Peverett is a corporate director. She was President and Chief Executive Officer (2005-2009) of the British Columbia Transmission Corporation, which was responsible for the high voltage electricity transmission system in British Columbia. Prior to that, she was President and CEO of Union Gas Limited. Ms. Peverett currently serves as a director of the Canadian Imperial Bank of Commerce and chairs its Audit Committee, a director of Northwest Natural Gas Company, and a director of Canadian Pacific Railway and chairs its Audit Committee. Ms. Peverett previously served as a director of British Columbia Ferry Services Inc. and Encana Corporation and chaired its Audit Committee. Ms. Peverett earned a Bachelor of Commerce degree from McMaster University and a Master of Business Administration degree from Queen's University. She is also a Certified Management Accountant, a Fellow of the Society of Management Accountants and holds the ICD.D designation from the Institute of Corporate Directors.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Human Resources Committee	5 of 5	100%
Governance Committee (Chair)	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,389,072	99.90%	492,759	0.10%
2016	536,372,397	99.98%	102,658	0.02%



Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	8,840	0	210,052	210,052	On target
2016	0	4,713	0	111,129	111,129	On target
Net Change	0	+4,127	0	+98,923	+98,923	

Gale Rubenstein, 65



Ontario, Canada

Director since
August 31, 2015

Independent

Nominee of the Province

Partner, Goodmans LLP

Other Public Company Directorships

■ N/A

Skills/Areas of Expertise include:

Consumer
Energy Sector
Government/Regulatory/Public Policy
Human Resources/Union Relations
Stakeholder Engagement (including Indigenous Peoples)

Not eligible for re-election in 2019

Equity Ownership(2)

Year	Common shares	Director DSUs	Value of common shares (\$)(3)	Value of director DSUs (\$)(2)	Total value of common shares and director DSUs (\$)(2)(3)	Meets share ownership requirements(4)(5)
2017	0	7,858	0	186,713	186,713	On target
2016	0	4,189	0	98,781	98,781	On target
Net Change	0	+3,669	0	+87,932	+87,932	

Ms. Gale Rubenstein is a partner of the law firm Goodmans LLP and a member of the firm's Executive Committee. Ms. Rubenstein was senior counsel to the Pan Canadian Investors Committee for Third Party Structured Asset Backed Commercial Paper, counsel to liquidators of numerous financial institutions, counsel to the Province in connection with the General Motors and Chrysler restructurings and counsel to the Superintendent of Financial Services (Ontario) and Province of Ontario regarding the Algoma and Stelco restructurings. She has been counsel to liquidators of numerous financial institutions. She obtained her Bachelor of Laws degree from Osgoode Hall Law School (York University) and is a member of the Canada Deposit Insurance Corporation Advisory Panel on Bank Resolution, a Fellow of the Insolvency Institute of Canada, and a director of the Ontario Heart and Stroke Foundation and Outside the March Theatre Company.

Public Board Interlocks

None

Board/Committee Memberships	2017 Attendance(1)	
Board of Directors	13 of 13	100%
Human Resources Committee	5 of 5	100%
Health, Safety, Environment and Indigenous Peoples Committee	4 of 4	100%

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,663,244	99.96%	218,587	0.04%
2016	536,372,805	99.98%	102,250	0.02%

Mayo Schmidt, 60



Ontario, Canada

Director since

August 31, 2015

Not Independent

President and Chief Executive Officer,
Hydro One Limited and Hydro One Inc.

Other Public Company Directorships

- Nutrien Ltd.

Skills/Areas of Expertise include:

Business Transformation
Consumer
Governmental/Regulatory/Public Policy
Large Company Senior Executive
Risk Management

Mr. Mayo Schmidt is the President and Chief Executive Officer of Hydro One. Prior to joining Hydro One, Mr. Schmidt served as President and Chief Executive Officer at Viterro Inc., a global food ingredients company operating in 14 countries providing critical nutritional food ingredients to over 50 countries. Early in his career, Mr. Schmidt held a number of key management positions of increasing responsibility at General Mills, Inc. until he joined ConAgra as President of their Canadian operations and spearheaded ConAgra's expansion into Canada. In 2007, he led the consolidation of Canada's agriculture sector which included the acquisition of Agricore United, following which he led the acquisition of ABB, Australia's leading agriculture corporation growing Viterra Inc. from a \$200 Million market capitalization to finally a sale in 2012 for over \$7.5 Billion. Mr. Schmidt currently sits on the Board of Directors of Nutrien Ltd. and is also Chairman of its Governance Committee. He is a member of Harvard University Private and Public, Scientific, Academic and Consumer Food Policy Group, and is on Washburn University's Foundation board of Trustees. Mr. Schmidt received his Honorary Doctorate of Commerce from Washburn in 2016 and his B.B.A. from Washburn in 1980.

Public Board Interlocks

None

Board/Committee Memberships

Board of Directors 13 of 13 100%

Mr. Schmidt is not a member of any committee but does attend all committee meetings.

Annual Meeting Voting Results

	Votes For		Votes Withheld	
2017	490,717,781	99.97%	154,050	0.03%
2016	536,370,965	99.98%	104,090	0.02%

1

BUSINESS OF THE MEETING

Re-election eligibility criteria is not applicable for the President and CEO

Equity Ownership

Common	PSUs/RSUs/ management	Value of common	Value of management DSUs, PSUs	Total value of common shares and PSUs/RSUs/ management	Meets share ownership

Year	shares	DSUs	shares (\$)(3)	and RSUs (\$)(2)	DSUs (\$)(2)(3)	requirements(4)
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For details on Mr. Schmidt' s equity ownership please refer to page 71.

BUSINESS OF THE MEETING

Notes:

- ¹ The directors of Hydro One are also directors of Hydro One Inc. and the two boards and each committee thereof hold joint meetings. See also "Director Attendance" on page 25. While Ms. Kathryn Jackson is not standing for re-election at the company's 2018 annual general meeting, her 2017 meeting attendance record was as follows: (a) board meetings: 11 of 13 or 85%; (b) Governance Committee meetings: 4 of 4 or 100% and (c) Health, Safety, Environment and Indigenous Peoples Committee meetings: 4 of 4 or 100%.
- ² The equity ownership of each director is presented as at March 17, 2017 in respect of 2016 and March 14, 2018 in respect of 2017. The value of director DSUs is calculated using the closing price of our common shares on the TSX on the date of grant of the director DSU being:

Date of Grant	TSX Closing Value
December 31, 2015	\$22.29
March 31, 2016	\$24.31
March 31, 2016 (dividend equivalents)	\$23.48 (value date of March 18, 2016)
June 30, 2016	\$25.96
June 30, 2016 (dividend equivalents)	\$24.49 (value date of June 15, 2016)
September 30, 2016	\$25.90
September 30, 2016 (dividend equivalents)	\$25.62 (value date of September 15, 2016)
December 30, 2016	\$23.58
December 30, 2016 (dividend equivalents)	\$23.22 (value date of December 15, 2016)
March 31, 2017	\$24.25
March 31, 2017 (dividend equivalents)	\$23.50 (value date of March 15, 2017)
June 30, 2017	\$23.23
June 30, 2017 (dividend equivalents)	\$23.37 (value date of June 14, 2017)
September 29, 2017	\$22.72
September 29, 2017 (dividend equivalents)	\$22.62 (value date of September 13, 2017)
December 29, 2017	\$22.40
December 29, 2017 (dividend equivalents)	\$22.49 (value date of December 13, 2017)

Fractional director DSUs can be granted, with fractions computed to three decimal places. The number of director DSUs in this table have been rounded. Mr. Schmidt, as President and CEO, is not eligible to receive director DSUs as he is not a non-employee director.

- ³ The value of the common shares held by each applicable director is calculated using the acquisition cost per share of such common shares on the date of purchase.
- ⁴ Pursuant to the corporate governance guidelines, each non-employee director is expected to achieve his or her share ownership target (being 3x the annual board membership retainer) within the later of six years following the closing of the company's initial public offering and the date of appointment to the board. The current corporate governance guidelines require a non-employee director's share ownership to be calculated on December 31st each year (based on the original acquisition cost or grant value) and compared to the share ownership requirement. Mr. Schmidt, as the President and CEO, is subject to different share ownership requirements. For details on the share ownership requirements applicable to him, and the status of his compliance with them, see pages 55 and 71.
- ⁵ The status under share ownership requirement is calculated by dividing the directors' total value of common shares and director DSUs as of December 31st of the relevant year by the amount of the annual retainer being \$160,000 for 2017 for all directors (other than the Chair) and \$260,000 for 2017 for the Chair.

Cease Trade Orders and Bankruptcies

Except as described below, no director:

- is, or within the last 10 years has served as, a director or (i) a chair, vice-chair or president, (ii) a chief executive officer or chief financial officer, (iii) a vice president in charge of a principal business unit, division or function including sales, finance or production; or (iv) an individual performing a policy making function (each of (i), (ii), (iii) and (iv), an *executive officer*) of any company that, during such service or within a year after the end of such service, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- is, or within the last 10 years has served as, a director, chief executive officer or chief financial officer of any company that, during such service or as a result of an event that occurred during such service, was subject to an order (including a cease trade order or similar order or an order that denied access to any exemption under securities legislation), for a period of more than 30 consecutive days; or
- within the last 10 years has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director.

In May 2004, Saskatchewan Wheat Pool Inc. (SWP), a predecessor to Viterra Inc., initiated a disposition of its hog operations, which had been carried on through certain of its subsidiaries, through a court supervised process under the *Companies' Creditors Arrangement Act* (Canada). On April 12, 2005, the Saskatchewan Financial Services Commission issued a cease trade order against four of SWP's subsidiaries for failing to file the required annual continuous disclosure documents. The cease trade order was revoked on October 18, 2010 pursuant to

Viterra Inc.'s application to effect a re-organization of the entities in question. Mr. Schmidt served as an officer and/or director of these entities at the time.

Mr. Orsino was a director of CFM Corporation from July 2007 until his resignation in March 2008. In April 2008, CFM filed for protection under the *Companies' Creditors Arrangement Act* (Canada).

Ms. Peverett was a director of Postmedia Network Canada Corp. between April 2013 and January 2016. On October 5, 2016, within one year of Ms. Peverett's resignation from the board of directors, Postmedia completed a recapitalization transaction (the *recapitalization transaction*) pursuant to a court approved plan of arrangement under the *Canada Business Corporations Act*. As part of the recapitalization transaction, approximately US \$268.6 Million of debt was exchanged for shares that represented approximately 98% of the outstanding shares at that time. Additionally, Postmedia repaid, extended and amended the terms of its outstanding debt obligations pursuant to the recapitalization transaction.

Penalties or Sanctions

None of the directors of Hydro One have been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or have entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Director Attendance

Directors are expected to attend board meetings, meetings of the committees on which they serve and the annual meeting of shareholders. The average attendance of all directors at board and committee meetings in 2017 was 96% and 98%, respectively.

Number of Board and Committee Meetings (January 1, 2017 to December 31, 2017)⁽¹⁾

	Regular	Non-Regular	In Camera Sessions
Board	4	9	13
Audit Committee	5	1	6
Health, Safety, Environment and Indigenous Peoples Committee	4	-	4
Human Resources Committee	5	-	5
Governance Committee	4	-	4

Note:

¹ The directors of Hydro One are also directors of Hydro One Inc. and the two boards and each committee thereof hold joint meetings.



BUSINESS OF THE MEETING

What We Expect From Our Directors

We expect our directors to have personal attributes that contribute to the board, to devote the necessary time for board and committee duties, to act with integrity, to exercise independent business

judgment and to stay informed and participate fully in board matters. The board has adopted a written position description that sets out the board's expectations for directors, including the following:

- | | |
|----------------------------|--|
| Personal Attributes | <ul style="list-style-type: none">• Business expertise, financial literacy and understanding of the Canadian business community and previous experience serving in a senior executive or leadership position• High ethical standards and integrity in personal, business and professional dealings• Strong listening, communication and advocacy skills and motivation and ability to engage effectively in board and committee work |
| Stewardship | <ul style="list-style-type: none">• Understand and contribute to fulfilling the company's mission and vision, strategies and objectives• Comply with the corporate governance guidelines of the company and perform their duties as board members• Ability to act independently of management (for directors who are not members of management) and to be accountable for board decisions to stakeholders as a whole, and not to any specific shareholders or other stakeholders |
| Integrity | <ul style="list-style-type: none">• Act honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances• Act in the highest ethical manner and with integrity in all personal, business and professional dealings and in compliance with the company's code of business conduct |
| Participation | <ul style="list-style-type: none">• Devote sufficient time to his or her responsibilities and prepare for each board and relevant committee meeting• Attend board and committee meetings and shareholder meetings and actively participate in board and committee deliberations and decisions• Work constructively and effectively with other directors, officers, employees and advisors of the company |
| Education | <ul style="list-style-type: none">• Continuously advance his or her knowledge about the company's business and operations, the communities in which it operates and emerging trends and issues and significant strategic initiatives |

All of the company's directors must be of high quality and integrity and have:

- significant experience and expertise in business or that is applicable to business,
- served in a senior executive or leadership position,
- broad exposure to and understanding of the Canadian or international business community,
- skills for directing the management of a company, and
- motivation and availability,

in each case, to the extent appropriate for a business of the complexity, size and scale of the business of Hydro One and on a basis consistent with the highest standards for directors of leading Canadian publicly listed companies. These director qualification requirements are codified in the terms of the governance agreement.

Director Compensation

The by-laws of the company provide that directors may receive remuneration for their services as determined by the board and be reimbursed for all expenses incurred in fulfilment of their duties, including travel expenses. Hydro One's director compensation policy and levels were originally established in 2015 (prior to the company's initial public offering (IPO)) and no changes were made in 2016 or 2017. The compensation levels were set near or below the median director compensation levels of the following peer group of large Canadian utility and other Canadian pipeline and storage companies:

Fortis Inc.	TransAlta Corporation
Emera Incorporated	Pembina Pipeline Corporation
ATCO Ltd.	Inter Pipeline Ltd.
Keyera Corp.	AltaGas Ltd.

The company's director compensation, travel and expense policy applies to non-employee directors. Mr. Schmidt, as President and CEO, does not receive any separate compensation for his service on the board. Details regarding Mr. Schmidt's compensation can be found under "Executive Compensation" starting on page 70.

Directors are required to receive 50% of their annual director retainer as an equity component in the form of director deferred share units (*director DSUs*). They may elect to be paid up to 100% of the cash component in the form of director DSUs. Hydro One has adopted a non-employee director deferred share unit plan providing for awards of director DSUs to Hydro One directors other than the President and CEO. A director DSU is an award that entitles the participant to receive an amount equivalent to the value of a common share at settlement following termination of service with Hydro One and its subsidiaries. Director DSUs vest immediately and accrue dividend equivalents when dividends are paid on the common shares.

The chart below outlines Hydro One's director compensation program for 2017.

Role	Cash Component (\$)	Equity Component (\$)	Total (\$)
Board chair	130,000	130,000	260,000
All other directors	80,000	80,000	160,000
Committee chair retainers	20,000	-	20,000
Board/Committee meeting attendance		No meeting attendance fees	

Directors also receive a reasonable per meeting allowance for travel and other expenses incurred to attend meetings in accordance with a company approved policy. No additional compensation is paid to directors to prepare for board or committee meetings. For 2017, the directors of Hydro One received all of the equity component of their annual director retainer payable in director DSUs.

In August 2017, the chair of the governance committee of the board engaged Hugessen Consulting Inc. to conduct a compensation benchmarking review for non-executive directors of Hydro One using the same peer group of companies used for executive compensation benchmarking as described on page 59. As a result of the review, the governance committee recommended to the board, and the board approved, the following changes to the company's director compensation policy effective on January 1, 2018: a \$25,000 increase to the directors' annual retainer (to \$185,000), a \$70,000 increase to the Chair of the board's annual retainer (to \$330,000) and an increase of \$5,000 for the Chairs of the audit committee and human resources committee (to \$25,000 each). The increase in

directors' compensation will bring the Hydro One board closer to, but still below median of, this broader peer group.

Director Share Ownership Requirements

Hydro One believes that the interests of shareholders and directors are better aligned when directors hold significant investment in Hydro One. The corporate governance guidelines require directors who are non-executives of Hydro One to retain a minimum holding of common shares or director DSUs equal to three times (3x) their total annual board retainer (calculated including the equity portion), valued at the original grant value or acquisition cost, by the later of six years following the closing of the company's initial public offering on November 5, 2015 and the date of his or her appointment to the board. The ownership requirement for directors in 2017 was \$480,000, except for the board chair, whose share ownership requirement was \$780,000. As a result of the change to the company's director compensation policy effective on January 1, 2018 (as discussed in the immediately preceding paragraph), effective on January 1, 2018 the ownership requirement for directors is \$555,000, except for the board chair, whose share ownership requirement is \$990,000.



BUSINESS OF THE MEETING

Director Compensation Table

The following table provides a summary of the compensation earned by non-employee directors of Hydro One from Hydro One and its subsidiaries for the year ended December 31, 2017:

Name	Total Compensation				Form of Payment ⁽¹⁾		
	Board Retainer (\$)	Committee Chair Fees (\$)	Travel Fees (\$)	Total Fees (\$) ⁽¹⁾	Received as Cash (\$)	Value Received as director DSUs ⁽²⁾ (\$)	Director DSU Component of Total Compensation ⁽³⁾ (%)
Ian Bourne	160,000	20,000	9,000	189,000	99,000	90,000	50
Charles Brindamour	160,000	N/A	-	160,000	-	160,000	100
Marcello (Marc) Caira	160,000	N/A	-	160,000	-	160,000	100
Christie Clark	160,000	N/A	-	160,000	-	160,000	100
George Cooke	160,000	N/A	-	160,000	-	160,000	100
David F. Denison	260,000	N/A	-	260,000	-	260,000	100
Margaret (Marianne) Harris	160,000	20,000	-	180,000	-	180,000	100
James Hinds	160,000	N/A	-	160,000	-	160,000	100
Kathryn Jackson	160,000	N/A	10,500	170,500	90,500	80,000	50
Roberta Jamieson	160,000	N/A	4,000	164,000	84,000	80,000	50
Frances Lankin	160,000	N/A	10,500	170,500	90,500	80,000	50
Philip S. Orsino	160,000	20,000	-	180,000	-	180,000	100
Jane Peverett	160,000	20,000	17,500	197,500	107,500	90,000	50
Gale Rubenstein	160,000	N/A	-	160,000	80,000	80,000	50

Notes:

- 1 All amounts in this table are pre-tax. Amounts reported include the portion of the director's board retainer, committee chair retainer and travel fees payable in cash.
- 2 All director DSUs are fully vested upon grant. Values do not include the value of any additional DSUs received in the form of dividend equivalents.
- 3 Excludes travel fees in the calculation.

Corporate Governance

Hydro One and the board recognize the importance of corporate governance to the effective long term management of the company. Independence, integrity and accountability are the foundation of our approach to corporate governance. This section discusses our approach to corporate governance, our board and its priorities and what we expect from our directors.

Hydro One's Corporate Governance Practices

We are committed to best practices. Hydro One maintains corporate governance policies, procedures and practices

consistent with the best practices of leading Canadian publicly listed companies, which commitment is reflected in the terms of the governance agreement. Our practices meet or exceed the rules and regulations issued by Canadian Securities Administrators and the Toronto Stock Exchange, including the national policy entitled "Corporate Governance Guidelines" and related disclosure requirements. The board regularly reviews and revises the company's governance practices in response to changing governance expectations, regulations and best practices.

Governance at a Glance

✓ What We Do	✗ What We Don't Do
✓ 13 of the 14 nominated directors are independent (page 8)	✗ No slate voting for directors
✓ Board committees are 100% independent (page 36)	✗ No management directors on board committees
✓ Separate roles of board chair and the CEO (pages 32 and 33)	✗ No over-boarded directors; no director sits on more than 4 public company boards ⁽²⁾
✓ Board chair is an independent director (page 32)	✗ No stock option awards for directors
✓ Majority voting policy for directors (page 8)	✗ No staggered board
✓ Shareholders will have annual say on pay (see page 3)	✗ No dual class shares, non-voting or subordinated voting shares
✓ Term limits for directors (page 38)	✗ No monetization or hedging of our common shares or equity compensation
✓ Disclose directors' equity holdings (starting on page 10)	
✓ Share ownership requirements for directors (page 27)	
✓ Strong risk oversight (page 30)	
✓ Board committees have full authority to retain independent advisors	
✓ Limits on other public company directorships and board interlocks (page 40)	
✓ 40% female directors, which met our diversity policy target of 40% female directors in 2017 (page 38) ⁽¹⁾	
✓ Independent directors meet without management present at each board and committee meeting (page 36)	
✓ Formal annual board assessments (page 40)	
✓ Code of business conduct to guide ethical behaviour (page 31)	
✓ Shareholders and other stakeholders can contact the board chair, independent directors and committee chairs (inside of the back cover)	
✓ Formal director orientation and education program (page 33)	
✓ Formal succession planning process for executives, including the CEO, and the board (page 31)	
✓ Reasonable quorum requirements - a majority of the board or committee is required to meet quorum and quorum for shareholder meetings is at least 2 persons holding at least 25% of the common shares	
✓ No casting votes for board chair	

Notes:

¹ Following the annual meeting of shareholders, our board will have 35.7% female directors.

² Totals do not include directorships on Hydro One Inc. Our governance agreement with the Province requires the board of directors of Hydro One Inc. to have the same members as the company's board.

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CORPORATE GOVERNANCE

About the Governance Agreement

In connection with the November 2015 closing of the initial public offering of the company, Hydro One entered into the governance agreement with the Province, which describes certain principles that govern how Hydro One will be managed and operated, including that the Province, in its capacity as a holder of common shares, will engage in the business and affairs of Hydro One as an investor and not as a manager. Among other things, the governance agreement:

- requires that except for the CEO, all board members be independent of Hydro One and independent of the Province;
- addresses the director nomination process, including the requirement to maintain a board of between 10 and 15 members and prescribing the maximum number of directors that may be nominated by the Province (please refer to page 38);

- requires Hydro One to maintain a majority voting policy for director elections and restricts the Province's ability to withhold from voting for directors except where the Province replaces the entire board other than the CEO and, at the Province's discretion, the board chair;
- requires approval by special resolution of the directors of the appointment and annual confirmation of the CEO, the board chair and changes to key governance practices of the company;
- restricts the right of the Province to exercise certain shareholder rights, such as to requisition a shareholder meeting to consider a fundamental change, or to solicit others to exercise rights which the Province is restricted from exercising; and
- restricts the acquisition of voting securities by the Province but grants the Province pre-emptive rights with respect to future issuances of voting securities.

Approval of the board by way of a special resolution of at least two-thirds of the votes cast at a board meeting or the unanimous written consent of all directors is required in order to make changes to the director skills matrix, board diversity policy, majority voting policy, stakeholder engagement policy, corporate disclosure policy, corporate governance guidelines, mandate for the Hydro One Ombudsman, mandates of the board and its committees, position descriptions for the CEO, the board chair, the directors and the committee chairs, code of business conduct, whistleblower policy, executive share ownership guidelines and anti-hedging policy and compensation recoupment policy.

A copy of the governance agreement has been filed on SEDAR and is available under Hydro One's profile at www.sedar.com. Additional details respecting the terms of the governance agreement are also provided in Hydro One's most recent Annual Information Form that is also available under Hydro One's profile at www.sedar.com.

The structure and role of the board is consistent with the best practices of leading Canadian publicly listed companies and the governance agreement.

Board Mandate

The mandate of the board is to oversee the business and affairs of Hydro One. As part of that mandate, the board is responsible for overseeing the interests of Hydro One's customers which are fundamental to, and inform, Hydro One's business and strategy. The board approved the mandate of the Hydro One Ombudsman who reports directly and regularly to the governance committee of the board. The board also receives comprehensive customer service reports which are a standing item at every regular board meeting. The board has adopted a written mandate, which is attached as Schedule "A" to this circular.

Board's Role in Strategy

The board oversees our strategic direction and holds management accountable for executing the company's strategy. The board participates in our strategic planning process throughout the year by reviewing and approving our strategic plan (taking into account the opportunities and risks of our business), regularly scrutinizing management's execution of business plans and their results and annually assessing the company's performance against financial and other objectives established in the company's business plans, past performance and industry peers. The board dedicates at least one meeting every year for these purposes.

Board's Role in Overseeing Risk

Our risk oversight framework sets the foundation for overseeing the identification and management of our principal business risks. The board has delegated to the audit committee the responsibility of reviewing and approving our major risk policies, our enterprise risk management framework and identifying the list of key risks that the company plans to prioritize in the next year. The audit committee also assesses the key risks facing the company.

The board retains overall responsibility for overseeing the management of risk for the company. The audit committee assists the board by ensuring that the risks identified are allocated where appropriate to the board committees, consistent with the general

scope of their respective responsibilities. As part of their assessment, the committees are expected to consider the likelihood and magnitude of the specific risks within their mandates and, through committee cross-appointments and other procedures, the potential compounding effects of risks. The audit committee reviews the company's risk profile and risk tolerances annually with the officers of the company while the President and CEO has ultimate accountability for managing the company's risks.

To assist the board in identifying the key risks faced by the company, management presents an assessment of key risks and risk mitigation/management to the board on an annual basis along with how such risks are mitigated or managed. The last assessment was completed on August 8, 2017. A comprehensive description of all of the key risks facing the company is provided in the company's Annual Information Form and Management's Discussion and Analysis for the fiscal year ended December 31, 2017 and in other filings made by the company with the securities regulatory authorities in Canada. The board's assessment of the relative significance of these risks may change over time.

Internal Controls and Management Information Systems

The board oversees the integrity and effectiveness of our management information systems and internal controls and approves our internal control policy. The work is carried out mainly by the audit committee, which oversees our key controls over financial reporting, certifications of internal controls over financial reporting and disclosure controls and procedures. The audit committee meets separately with the Chief Financial Officer (the CFO) and head of internal audit and also with the external auditors without management present, receives regular reports from management and the internal audit department on our internal controls and any significant deficiencies in controls, and oversees Hydro One's code of business conduct (the *code of business conduct*) and Hydro One's whistleblower policy (the *whistleblower policy*), which includes procedures for receiving and resolving complaints about accounting or auditing matters.

Talent Management: Leadership Development, Succession Planning and Performance Assessment

Our talent management strategy focuses on developing our executive talent to support our long term business strategy and ensure management succession. The board oversees development and implementation of our leadership development strategy with the support of the human resources committee. The human resources committee reviews the qualifications, experience and capabilities of executives on the succession plan, reviews

candidates for our most senior roles, including the President and CEO, and ratifies the appointments of the President and CEO's direct reports who hold an executive vice president level position.

The human resources committee reviews the President and CEO's assessment of the performance of his direct reports who hold an executive vice president level position. The human resources committee also assesses the President and CEO's performance against his mandate and the short and long term objectives that were set at the beginning of the year.

Ethical Business Conduct

The company has a written code of business conduct that applies to all employees, directors and officers of Hydro One and its subsidiaries.

The code of business conduct sets out Hydro One's core values and establishes standards to define how employees, officers and directors of Hydro One should act. The code of business conduct addresses, among other things, health and safety matters, conflicts of interest, discrimination and harassment, confidentiality, insider trading, environmental protection, safeguarding Hydro One's assets (including accounting and financial reporting) and relationships with outside stakeholders including investors, customers, public officials and third parties, conduct during investigations and compliance and reporting obligations. The full text of the code of business conduct can be found on Hydro One's website at www.HydroOne.com or is available under Hydro One's profile on SEDAR at www.sedar.com.

The board monitors compliance with the code of business conduct through the audit committee. Any actual, potential or suspected violation of the code of business conduct can be reported anonymously to the company's corporate ethics officer, as confidential designee of the company, in accordance with the whistleblower policy.

Whistleblower Policy

The whistleblower policy is designed as a safeguard against threats to the integrity of our financial reporting, threats to health and safety, wrongdoing by employees, representatives and business partners and actual, potential or suspected violations of our code of business conduct and applicable laws. Employees concerned about any of these matters are encouraged to discuss the matter with their supervisor and may report concerns anonymously through the company's independent third-party service provider at www.clearviewconnects.com. The whistleblower policy protects employees who make a report in good faith. All reports are investigated internally or by an

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CORPORATE GOVERNANCE

independent external party, and appropriate action is taken. The audit committee reviews all matters reported under the whistleblower policy and their disposition.

Stakeholder Engagement

The company is committed to understanding the interests of and maintaining and enhancing long term relationships with its investors, regulators, governments, creditors, employees, customers, suppliers, non-governmental organizations and other stakeholders and communities in which the company operates. The board has adopted a stakeholder engagement policy in order to promote open, effective and sustained dialogue with stakeholders consistent with the company's insider trading policy, the corporate disclosure policy and with the company's obligations to provide fair disclosure and maintain effective disclosure controls and procedures. The board, or an appropriate committee of the board, reviews the content of the company's major communications to the investing public, including, without limitation, quarterly and annual reports, earnings releases, management's discussion and analysis, information circulars, the annual information form and any registration statements or prospectuses that may be issued, filed or otherwise distributed. Shareholders may make their views known through individual voting for directors, the annual say on pay advisory vote and other matters submitted to shareholders for approval.

Below is a summary of some of the important strides made by the company in 2017 with some of its largest stakeholders:

(a) Customers:

Based on customer feedback received, Hydro One has designed a new bill which includes an easy-to-understand and easier to read format, new visuals to help customers better understand their usage and more customer friendly language.

(b) Large Customers:

In addition to the strong operational performance for residential and small business customer segments, a number of advances have been made in the large customer segment as well. In the most recent annual survey, overall satisfaction with Hydro One increased to 87% in 2017. These positive results can be partially attributed to organizational alignment as it relates to large customers, enhanced customer reporting, and a renewed commitment to customer advocacy.

(c) Communities:

To demonstrate Hydro One's renewed commitment as a customer-focused company, the company's Community Relations team continues

to support Hydro One's forestry and capital projects by building relationships with the local communities across the province through proactive, transparent, and collaborative communication.

(d) Indigenous Peoples:

Commencing in 2017, Hydro One offered a new First Nations Conservation Program for a 4-year period to 47 First Nation communities served by Hydro One who were not served by the Aboriginal Conservation Program which was offered by the Independent Electricity System Operator from 2013 to 2015. In addition, during 2017, Hydro One delivered two provincial and five regional Indigenous Peoples engagement sessions where it met with all 88 First Nation communities served by Hydro One Networks Inc. and all 29 Métis Councils in Ontario.

Hydro One is committed to increase Indigenous cultural awareness among its employees at all levels and more particularly wants to ensure its employees have the skills, knowledge and resources necessary to develop and maintain relationships with Indigenous peoples and communities based on mutual respect and trust. As such, Hydro One implemented a four pronged Indigenous Relations Leadership Learning Program in the third quarter of 2017. As at December 31, 2017, 88 of 95 (93%) of employees who are director-level and above completed the online Indigenous Cultural Awareness Course and the in-class training course was delivered to 100% of employees who are director-level and above.

On June 21, 2018 during National Aboriginal Day, Hydro One will launch an Indigenous Network Circle (INC), a new employee resource group for the company's Indigenous employees.

Board Structure

Board Chair

The board chair is responsible for leading the board in carrying out its duties and responsibilities effectively, efficiently and independent of management. Under the governance agreement, the board chair is nominated and confirmed annually by special resolution of the board. The board chair is required to be separate from the President and CEO and must be independent of Hydro One and independent of the Province.

The board chair's key responsibilities include providing leadership to the board to enhance the board's effectiveness for certain accountabilities, including supervision of management of the company and oversight of the relationships between the board, management, shareholders, customers and other stakeholders. The board chair presides over all board meetings, chairs all sessions with the independent directors, supports and assists in director orientation

and continuing education and ensures that an appropriate system is in place to annually evaluate the performance of the board as a whole.

President and CEO

The President and CEO is responsible for managing and providing strategic direction to Hydro One, including the development and implementation of plans, policies, strategies and budgets for the growth and profitable operation of the company. Under the governance agreement, the appointment of the President and CEO is confirmed annually by special resolution of the board.

Board Committees

Four standing committees assist the board in carrying out its duties and responsibilities. Descriptions of the committee mandates and membership are included in the circular starting on page 41. Except for the board chair and the President and CEO, all directors serve on at least one board committee. The board chair regularly attends each committee meeting by standing invitation. The President and CEO does not sit on any board committees because he is not independent; however he regularly attends and participates at committee meetings.

Copies of the board committee mandates are posted in the corporate governance section of our website at <https://www.hydroone.com/about/corporate-information/governance>

Committee Chairs

Committee chairs must be independent directors. They are responsible for providing leadership to the committee, facilitating the functioning of the committee independently of management and reporting to the board on its activities and its compliance with the committee's mandate, and providing input to the board chair and the chair of the governance committee on succession planning for their position and each committee, generally.

When new directors join the board, they are provided with briefings by management on the key aspects of the company's business affairs, activities, corporate governance structure and its policies and procedures. In addition, directors are also provided with access to the company's secure board portal which provides online access to all meeting materials required for the meetings and the director's information manual which contains information on board and committee mandates, position descriptions for the board chair, President and CEO, committee chairs and individual directors, and copies of the company by-laws and corporate governance guidelines.

Position Descriptions

The board has adopted written position descriptions for the board chair, the President and CEO, directors and the chair of each board committee.

The company also supports continuing education opportunities outside the company and each director is encouraged to attend external forums, conferences, seminars and education programs dealing with subject matters that are applicable to the member's role on the board or its committees or to increase the member's knowledge of the company's industry and other areas of interest relevant to the company's businesses and affairs. Approval by the board chair or the chair of the governance committee is required to attend such programs with the financial support of the company.

Orientation and Continuing Education

The company has implemented an orientation program for new directors in accordance with Hydro One's corporate governance guidelines (the *corporate governance guidelines*).

You can find more information on our governance practices on our website at: <https://www.hydroone.com/about/corporate-information/governance>

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In 2017, a majority, if not all, of the board nominees participated in both internal and external education sessions including those listed in the following table:

Internal/External	Topic	Presented/Hosted by	Attended By
Internal	First Nations Engagement	Senior Management	Board of Directors
	Risk Management Framework	Senior Management	Audit Committee
	Cybersecurity	Securonix	Board of Directors
	Diversity & Inclusion at Hydro One	Senior Management	Human Resources Committee
	Policy Framework	Senior Management	Governance Committee
	Labour Strategy	Senior Management	Board of Directors
	Smart Meters - An Overview	Senior Management	Board of Directors
	Cybersecurity	Senior Management	Audit Committee
	Indigenous Relations	Indigenous Corporate Training Inc.	Board of Directors
	Long Term Energy Plan	Ministry of Energy	Board of Directors
	Optimal Cycle Protocol	Senior Management	Board of Directors
	Long Term Incentive Plans	Hugessen / Willis Towers Watson	Human Resources Committee
	Board Tours	Senior Management	Board of Directors

Internal/External	Topic	Presented/Hosted by	Attended By
External	13th Annual Electricity Invitational Forum	Northwind Professional Institute	J. Hinds
	Activism, M&A and Board Responsibilities	Barclays & Skadden	K. Jackson
	Audit Committee Communications Project	Canadian Public Accountability Board	P. Orsino
	Audit Committee Effectiveness	Institute of Corporate Directors	C. Clark (national director/lead instructor)
	Audit Committee Oversight: Proxy Topics, Accounting Developments, Regulatory/Legal Developments	KPMG LLP	K. Jackson
	Board Oversight of Major Capital Projects	Institute of Corporate Directors	J. Peverett
	Canadian and U.S. relationship and NAFTA negotiations	Canada' s Counsel General	C. Brindamour
	CEO/Board Relationship	Institute of Corporate Directors	J. Peverett
	Climate change and extreme weather risk in Canada	Intact Centre on Climate Adaptation	C. Brindamour
	Compensation Committee Leadership Network - Board Oversight of Talent; Role of the CHRO	Tapestry Networks	M. Harris
	Compensation Committee Leadership Network - Setting Goals in an Uncertain Environment	Tapestry Networks	M. Harris
	Corporate Governance emerging trends and current issues	Intact Financial Corporation	C. Brindamour
	CPAB Audit Quality Indicators Roundtable	Canadian Public Accountability Board	D. Denison and P. Orsino
	CPAB Annual Symposium	Canadian Public Accountability Board	D. Denison, I. Bourne and P. Orsino
	Deloitte Directors' Series	Deloitte Canada	I. Bourne
	DOE Quadrennial Energy Review	Deloitte LLP	K. Jackson
	Hedging in Energy Industry	Rice Energy, Inc.	K. Jackson
	ICD Annual Conference	Institute of Corporate Directors	D. Denison and I. Bourne
	ICD Chapter Events	Institute of Corporate Directors	I. Bourne
	Key Tax Developments Affecting Power and Utilities	KPMG LLP	K. Jackson
	Northwind Conference	Northwind Professional Institute	I. Bourne and J. Hinds
	Ontario Electricity Association Annual Conference	Ontario Electricity Association	J. Hinds
	The Audit Committee' s Role in Dealing with Non-GAAP Measures	Canadian Public Accountability Board	C. Clark
	The Future of Mobility: Effects on Energy Industry	Deloitte LLP	K. Jackson
	The Role of the Audit Committee	Canadian Public Accountability Board	C. Clark (panelist)

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Independence of the Board of Directors

The board currently consists of 15 directors, 14 of whom are both independent of Hydro One and independent of the Province. The

following table summarizes the committee memberships and independence status of board members.

Director	Committees				Independence	
	Audit	Governance	Human Resources	Health, Safety, Environment and Indigenous Peoples	Independent of Hydro One	Independent of the Province
Ian Bourne	-	✓	Chair	-	✓	✓
Charles Brindamour	✓	-	✓	-	✓	✓
Marcello (Marc) Caira	-	✓	✓	-	✓	✓
Christie Clark	-	✓	✓	-	✓	✓
George Cooke	✓	-	-	✓	✓	✓
David F. Denison	-	-	-	-	✓	✓
Margaret (Marianne) Harris	-	-	✓	Chair	✓	✓
James Hinds(1)	✓	-	-	✓	✓	✓
Kathryn Jackson(2)	-	✓	-	✓	✓	✓
Roberta Jamieson(1)	✓	-	-	✓	✓	✓
Frances Lankin	✓	✓	-	-	✓	✓
Philip S. Orsino	Chair	✓	-	-	✓	✓
Jane Peverett	-	Chair	✓	-	✓	✓
Gale Rubenstein	-	-	✓	✓	✓	✓
Mayo Schmidt(3)	-	-	-	-	-	-

Notes:

1 Mr. Hinds was previously a director and the chair of the IESO and Ms. Jamieson was previously a director of Ontario Power Generation Inc., but because those relationships ended before August 31, 2015, they are independent of the Province within the meaning of the governance agreement.

2 Ms. Jackson is not standing for re-election at the company's 2018 annual meeting of shareholders.

3 Mr. Schmidt is not independent because he is the President and CEO of Hydro One.

At each meeting of the board, the independent directors hold an in camera meeting at which members of management are not present unless the board chair otherwise determines. During 2017, 13 such in camera sessions without management were held. Each committee of the board also holds regular in camera meetings, unless the chair of the applicable committee determines otherwise. As well, the audit committee meets regularly, but no less than quarterly. The audit committee also holds in camera sessions at each meeting of the committee without management or non-independent directors present, unless otherwise determined by the audit committee chair. These sessions encourage open and candid discussion among the directors.

In 2017, the audit committee met with the head of the company's internal audit function and the external auditors in separate in camera executive sessions during each of its quarterly meetings to discuss any matters that the audit committee or any of these groups believes should be discussed privately. The audit committee met in camera with the CFO during its May 2017 quarterly meeting and met in camera with the SVP, Finance (acting in the capacity of CFO) during its August 2017 quarterly meeting. The SVP, Finance (acting in the capacity of CFO) also met privately with the audit committee chair prior to each audit committee meeting in 2017.

Skills and Experience of the Board

Each director brings relevant experience to the board. The matrix below shows the board's mix of key skills and experience in areas that are important to the company's business. The skills and

experience matrix is also used to identify those skills for which the company will recruit when making changes to its board. The following chart outlines the top five key areas of skills and experience for each director (1).

Major Competencies

Director	Accounting/ Finance	Human Resources / Union Relations	Consumer	Energy Sector	Capital Markets	Stakeholder Engagement (including Indigenous Peoples)	Government/ Regulatory/ Public Policy	Information Technology	Risk Management	Business Transformation	Large Company Senior Executive
Ian Bourne Charles	✓	✓		✓				✓	✓		
Brindamour Marcello (Marc)			✓		✓				✓	✓	✓
Caira Christie Clark	✓	✓	✓			✓			✓	✓	✓
George Cooke David F. Denison	✓	✓		✓			✓		✓		✓
Margaret (Marianne) Harris					✓		✓		✓		
James Hinds Roberta	✓			✓	✓		✓			✓	
Jamieson Frances Lankin		✓	✓	✓		✓	✓		✓	✓	
Philip S. Orsino Jane Peverett	✓			✓	✓		✓		✓	✓	✓
Gale Rubenstein Mayo Schmidt		✓	✓	✓		✓	✓		✓	✓	✓
Total directors with experience	8	8	6	6	5	4	8	2	9	7	7

Note:

¹ As Ms. Kathryn Jackson will not stand for re-election to our board at the company's 2018 annual meeting of shareholders, she has not been included in this Skills Matrix.

Description of Competencies:

Accounting/finance: senior financial officer of a publicly listed company or major organization or experience in financial accounting and reporting, and corporate finance (familiarity with internal financial controls, Canadian or US GAAP, and/or International Financial Reporting Standards);

Human resources/union relations: strong understanding of human resource development, organizational/personal development and training working with a unionized workforce and compensation, benefit and pension programs, with specific expertise in executive compensation programs;

Consumer: experience with mass consumer-facing business;

Energy sector: experience in the electricity industry, combined with a strong knowledge of market participants;

Capital markets: experience in investment banking, finance or in major mergers and acquisitions;

Stakeholder engagement (including Indigenous Peoples): experience in or a strong understanding of communications and relations with investors, customers, regulators, and community relations, especially experience in relations with Indigenous communities;

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Government/regulatory/public policy: experience in, or a strong understanding of, the workings of government and public policy in Canada and internationally;

Information technology: experience in information technology with major implementations of management systems;

Risk management: experience or understanding of enterprise risk management systems, procedures and practices;

Business transformation: experience driving strategic direction changes and leading growth of an organization;

Large company senior executive: experience as a chief executive officer, chief operating officer or chief financial officer of a publicly listed company or major organization.

Nomination of Directors

The governance committee identifies qualified candidates for election to the board, having regard for their independence, background, experience and skills and the alignment of such candidates' experience and skills with Hydro One's needs. Under the governance agreement, the Province is entitled to nominate the number of directors that is equal to 40% of the number of directors to be elected (rounded to the nearest whole number). The governance committee communicates with and makes recommendations to the Province respecting potential candidates for director, including potential candidates for nomination by the Province. The Province has no obligation to nominate any of the individuals recommended as one of its director nominees.

Director nominees must meet the director qualification standards set out in the governance agreement, including the prescribed director independence requirements and requirements under securities laws and applicable stock exchange rules. If a proposed nominee is replacing an existing director, under the governance agreement, the nominee must also, when taking into account existing directors and other confirmed nominees, enable the board to satisfy the board composition requirements of Hydro One's director skills matrix, board diversity policy and other governance standards. A majority of the board must at all times be resident Canadians.

Not later than 60 days prior to the date by which proxy solicitation materials must be mailed for Hydro One's annual meeting of shareholders, each of the Province and the governance committee will notify the other of its proposed director nominees. If a proposed nominee is not already a director of Hydro One or is then a director but whose circumstances have materially changed in a way that would affect whether she or he would continue to meet the director qualification standards under the governance agreement, then the Province or the committee, as the case may be, will have 10 business days to confirm that nominee or reject that nominee on the basis that the nominee does not meet those director qualification standards.

If a director nominee of the Province or the governance committee is rejected, the Province or the committee will be entitled to nominate additional candidates until a nominee is confirmed by the other. If no replacement nominee is confirmed for a director who was expected to depart from the board and that director does not resign, that director shall be re-nominated. The Province and the committee will use commercially reasonable efforts to confirm director nominees prior to the date by which proxy solicitation materials must be mailed for the annual meeting of shareholders.

The Province is required under the governance agreement to vote in favour of all director nominees of Hydro One. That obligation is subject, however, to the Province's overriding right to withhold from voting or otherwise seek a shareholder meeting to remove and replace the entire board, including in each case its own director nominees but excluding the CEO and, at the Province's discretion, the board chair.

Board Renewal and Term Limits

The company's board is committed to a process of renewal and succession planning for directors. The board has adopted term limits on board service and a mandatory retirement age, which are set out in the corporate governance guidelines.

Non-executive directors cannot stand for re-election 12 years after the date on which the director first began serving on the board of directors of Hydro One or any of its subsidiaries, except in special circumstances (including if necessary to facilitate orderly board renewal) on the recommendation of the governance committee. No director shall be appointed or elected as a director after that person has reached 75 years of age, unless otherwise determined by the board. Additionally, after a director has held the position of committee chair for a period of four years, the governance committee will review and consider whether a change to the committee chair would be appropriate.

Diversity Policy

The board has adopted a board diversity policy (the *diversity policy*) which formalizes the company's commitment to diversity and its desire to maintain a board comprising talented and dedicated directors whose skills, experience, knowledge and backgrounds reflect the diverse nature of the business environment in which it operates, including an appropriate number of female directors. The board aspires towards a board composition in which each gender comprises at least 40% of the directors on the board. Currently, as to gender, the board includes six female directors (40%). Following the meeting, assuming all director nominees are elected, the board will include five female directors (35.7%) as Ms. Kathryn Jackson is not standing for re-election.

In considering the composition of the board and the identification of qualified nominees for election as directors, the governance committee assesses annually the diversity policy's effectiveness in promoting a diverse board. In 2017, Mr. Denison, as board chair, became a member of the 30% Club, an organization supporting gender balance on boards.

In addition to the board's formal diversity policy, Hydro One strives to ensure an inclusive corporate culture where all employees are valued and have equal access to opportunities. Hydro One also endeavors to ensure that its gender diversity is appropriately reflected at all levels of the organization, including executive positions after taking into account all relevant factors, such as merit, capability and equal treatment of employees. In 2017, the company implemented a new Diversity and Inclusion Strategy consisting of initiatives involving five key categories. These categories and specific actions taken in respect of each category are described below:

- (i) Workforce planning: We are currently working on a Workforce Planning Strategy which will explicitly consider Hydro One's focus on Diversity and Inclusion.
- (ii) Recruitment: We continue to focus on recruiting more women into executive roles. In 2017, we increased the number of women in vice president and above roles by over 10% to 33%.
- (iii) Succession planning: As part of our succession planning process, reporting and metrics now include diversity statistics to assist in raising awareness and tracking our progress.
- (iv) Education and leadership development: An initial framework for a Women in Leadership program has been developed and the program will be launched in 2018. In November 2017, Hydro One held a Women in Trades, Technology & Engineering (WTTE) Symposium with over 300 participants in attendance. The objective of the symposium was to highlight the role of men in driving gender equity.
- (v) Cultural guidance and outreach:
 - (a) During 2017, the Catalyst Accord was signed to demonstrate Hydro One's public commitment to gender parity. Catalyst is a global non-profit organization focused on accelerating progress for women through workplace inclusion. Through the Accord, Catalyst issued a call to action from Canadian corporations to increase the overall proportion of board seats and executive officer roles for women to 30% by the end of 2022. By signing the Accord, Hydro One committed to maintaining at least 30% female board members and 30% female executives.

(b) Phase one of Hydro One's Diversity & Inclusion Effectiveness Review was completed. The review is made up of three key phases:

1. Analysis of existing diversity and inclusion data, policies and the talent management life cycle;
2. A company-wide diversity and inclusion survey designed to gain insight and learn from our current situation; and
3. Focus groups and executive interviews to further explore areas of opportunity.

(c) A first meeting was held with the Power Workers' Union, the Society of United Professionals (formerly "The Society of Energy Professionals") and the Canadian Union of Skilled Workers to discuss collaboration on diversity and inclusion.

(d) An Indigenous Network Circle Workshop was held in September 2017 bringing together 30 Indigenous employees from across Hydro One to discuss their experiences and gain agreement on creating a new employee resource group. All Indigenous employees agreed to the creation of the Indigenous Network Circle (INC) and work is underway to launch this initiative on June 21, 2018 during National Aboriginal Day.

As at March 14, 2018, approximately 33% executives (those who hold a vice president role and above or equivalent) (11 out of 33) across Hydro One, including one of seven executive officers, are women. See the company's most recent Annual Information Form for a list of the executive officers of Hydro One.

Other than as committed in signing the Catalyst Accord, Hydro One has not yet set targets for the percentage of women in executive positions and the board has not yet made any determination as to whether or not targets should be set. The human resources committee's 2018 work plan includes the executive leadership team consulting with the appropriate board committee(s) to review the level of gender diversity in executive positions and make a determination regarding targets.

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Service on Other Boards

Limit on Directorships

The company recognizes that the board can benefit when a director also serves on the board of another company. However, as directors are expected to devote the time necessary to fulfill their responsibilities, a director's acceptance of additional positions as a corporate director of for-profit corporations is subject to the board's review and we limit the number of public company boards they can serve on (in each case, excluding service on the board of the company and the board of directors of Hydro One Inc.). Each non-management director is expected to hold no more than four public company directorships and the President and CEO should not hold more than one such directorship.

In addition, the audit committee mandate provides that no member of the audit committee may serve on the audit committee of more than two other publicly traded companies unless the board has first determined

that such simultaneous service would not impair the ability of the member to serve effectively on the audit committee. No current director or director nominee serves on more than four public company boards (excluding Hydro One) and no member of the audit committee serves on more than two public company boards.

Board Interlocks

The board seeks to avoid having more than one board interlock at any given time. A "board interlock" is a circumstance where two or more directors of the board serve on the board of directors of the same publicly-traded company (excluding in the case of the company directors, Hydro One Inc.). Directors may not accept an invitation to join the board of another publicly-traded company, and new candidates for service on the board will not be invited to join the board, if it would result in there being more than one board interlock (or would increase the number of directors involved in the same board interlock), in each case unless approved by the board. The company currently has one board interlock as set out below.

Company	Directors	Committee Membership
Loblaw Companies Limited	Christie Clark Marianne Harris	Audit Committee (Chair) Audit Committee

Assessments

The governance committee is responsible for overseeing the annual assessment of the effectiveness of the board as a whole, each board committee, the board chair, each committee chair and each individual director (having regard to the mandate of the board and the mandate of the relevant committee, as the case may be). Peer assessments and self-evaluations are conducted at the individual director level. At the completion of the assessments, the governance

committee reviews the annual board and committee performance evaluation process, makes recommendations to the board, and reports to the board chair the results of both the annual assessment and performance evaluation process. The process includes the completion of written questionnaires and one-on-one meetings with the board chair to discuss individual performance and the effectiveness of the board and committees. The board and each committee also review their results each year and determine objectives for the following year.

Committee Reports

The board has established four committees: (i) the audit committee; (ii) the governance committee; (iii) the health, safety, environment and Indigenous Peoples committee; and (iv) the human resources committee. All members of these committees are persons determined by the board to be independent. A majority of the members of each committee are residents of Canada. The board committees are responsible for assisting the board in fulfilling its oversight responsibilities relating to the matters set out in each committee mandate, which were approved by the board.

Audit Committee:



Philip S. Orsino (Chair)

The audit committee must consist of at least three directors, all of whom must be independent and “financially literate” (within the meaning of other applicable requirements or guidelines for audit committee service under securities laws or the rules of any applicable stock exchange, including National Instrument 52-110 *Audit Committees*).

At least one member of the audit committee must qualify as an “audit committee financial expert” as defined by the applicable rules of the United States Securities and Exchange Commission. Of the audit committee members, each of Philip S. Orsino, Charles Brindamour, George Cooke and James Hinds qualify as an audit committee financial expert.



Charles Brindamour



George Cooke

Each of the audit committee members has an understanding of the accounting principles used to prepare Hydro One’s financial statements and experience with the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For more information about the audit committee, see the section entitled “Audit Committee” in the company’s most recent Annual Information Form.



James Hinds



Roberta Jamieson

Under its mandate, the audit committee’s responsibilities include:

- overseeing the independence, qualification and appointment of external auditors;
- overseeing the appointment of the head of the company’s internal audit function;
- overseeing the integrity of Hydro One’s financial statements and financial reporting process, including the audit process and Hydro One’s internal control over financial reporting, disclosure controls and procedures and compliance with other related legal and regulatory requirements;
- overseeing the performance of Hydro One’s finance function, internal auditors and external auditors;
- overseeing the auditing, accounting and financial reporting process;
- reviewing and recommending the interim and annual financial statements, management’s discussion and analysis of the financial condition of the company and the results of its operations for release to shareholders;



Frances Lankin

The audit committee is also responsible for overseeing regulatory matters, the code of business conduct and whistleblower policy, the enterprise risk management framework and reviewing the company’s privacy and data security measures.

The committee met *in camera* without management at each of its meetings.

The committee reviewed its mandate and is satisfied that it carried out its duties and responsibilities.

2017 Accomplishments and Highlights

- Conducted the annual review of the committee’s mandate to ensure its adequacy;
- Reviewed the results of the annual performance evaluation of the committee;

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Audit Committee:

Oversight of External Auditors

- Evaluated and assessed the performance of the external auditors including members of their audit team;
- Recommended the appointment of the external auditors;
- Reviewed and approved audit and non-audit fees and services;
- Adopted a non-audit services pre-approval policy;
- Reviewed the external auditors' annual audit plan;
- Monitored the effectiveness of the relationship among the external auditors, management and the committee;

Oversight of Internal Auditors

- Approved the internal auditors' annual audit plan;
- Monitored the activities of the internal audit department and reviewed the internal auditors' reports which included internal audit dashboards, audit reports and management action plans;
- Reviewed the results of the internal audit quality assurance review conducted by Deloitte LLP;

Oversight of Accounting Principles and Practices

- Reviewed and discussed with management and the external auditors, among other things:
 - the quality, appropriateness and acceptability of the company's accounting principles, practices and policies used in its financial reporting;
 - all significant financial reporting issues and judgments made in connection with the preparation of financial statements;

Oversight of Financial Reporting and Disclosures

- Reviewed and recommended the company's interim and annual financial statements and the disclosure contained in the related management's discussion & analysis;
- Reviewed and recommended the 2016 annual report;
- Reviewed internal controls over financial reporting and disclosure controls and procedures with management;

Oversight of Finance and Regulatory Matters

- Received an overview of the company's 2017-2018 insurance program;
- Received regulatory updates;
- Reviewed summary business expense reports and provided oversight in respect of the approval process of executive expenses;

Code of Business Conduct and Whistleblower Policy

- Conducted the annual review of the company's code of business conduct and whistleblower policy;
- Received reports on activity under the whistleblower policy;

Enterprise Risk Management

- Reviewed the company's Risk Management Framework;
- Reviewed and recommended the allocation of specific risk categories to the board and each of the committees; and
- Received reports relating to the company's information technology (IT) systems, including cybersecurity and IT activities

Governance Committee:



Jane Peverett (Chair)



Ian Bourne



Marcello (Marc) Caira



Christie Clark



Kathryn Jackson*



Frances Lankin



Philip S. Orsino

The committee met *in camera* without management at each of its meetings.

The committee reviewed its mandate and is satisfied that it carried out its duties and responsibilities.

* As Ms. Kathryn Jackson is not standing for re-election at the company's 2018 annual general meeting, she will no longer be a member of this committee following the meeting.

The governance committee must consist of at least three directors, all of whom must be independent. These individuals are charged with reviewing, overseeing and evaluating the corporate governance and nominating policies of Hydro One.

Under its mandate, the governance committee's responsibilities include:

- making recommendations on the company's corporate governance framework, policies, guidelines and its approach to governance issues;
- assessing, on an annual basis, the effectiveness of the board as a whole, each committee, the board and committee chairs, and each individual director and making recommendations to the board on such matters;
- managing the process for nominating new directors to the board in accordance with the governance agreement, including recommending nominees to the board;
- overseeing director succession planning;
- overseeing director orientation and continuing education;
- appointing and overseeing the company's internal Ombudsman;

The governance committee is also responsible for recommendations on director compensation, reviewing the implementation of the company's corporate social responsibility framework, overseeing public policy matters, and overseeing the sponsorship and donations program.

2017 Accomplishments and Highlights

- Conducted the annual review of the committee's mandate to ensure its adequacy;
- Reviewed the results of the annual performance evaluation of the committee;

Corporate Governance

- Reviewed the company's corporate governance practices against best practices;
- Received updates on best corporate governance practices and trends;
- Received and reviewed a report on directors' expenses;

Board Composition, Roles, Director Nominations and Board Evaluations

- Oversaw the director nomination process under the governance agreement;
- Assessed independence of non-executive directors;
- Reviewed and revised the director skills matrix;
- Amended the board diversity policy;
- Conducted assessments of individual directors, the board, board committees, the board chair and committee chairs;
- Implemented a review of committee chairs after a period four years;
- Adopted and conducted management assessment of the board;

Director Compensation

- Engaged Hugessen to conduct benchmarking analysis and director compensation practices;

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CORPORATE GOVERNANCE

Governance Committee:

Compliance with Disclosure Requirements

- Reviewed the corporate governance disclosure in the 2017 management information circular;

Director Orientation and Continuing Education

- Reviewed and enhanced the director education program;

Corporate Social Responsibility

- Received updates on corporate social responsibility;

Public Policy

- Provided oversight of the Ombudsman's office including the Ombudsman search process, budget, and key performance indicators;
- Received quarterly reports from the Hydro One Ombudsman;
- Reviewed and recommended the Ombudsman's 2016 Annual Report;
- Reviewed Ombudsman's systemic report on management of customer complaints;
- Received the Ombudsman's 2016 report on complaints and statistics;
- Received updates on the company's community investment strategy; and
- Received reports on external and government relations.

Health, Safety, Environment and Indigenous Peoples Committee:



Margaret (Marianne)
Harris (Chair)



George Cooke



James Hinds



Kathryn Jackson*



Roberta Jamieson



Gale Rubenstein

The committee met *in camera* without management at each of its meetings.

The committee reviewed its mandate and is satisfied that it carried out its duties and responsibilities.

* As Ms. Kathryn Jackson is not standing for re-election at the company's 2018 annual general meeting, she will no longer be a member of this committee following the meeting.

The health, safety, environment and Indigenous Peoples committee must consist of at least three directors, all of whom must be independent.

Under its mandate, the health, safety, environment and Indigenous Peoples committee's responsibilities include:

- overseeing effective occupational health and safety and environmental policies and programs at Hydro One;
- overseeing Hydro One's relationship with Indigenous Peoples communities and the company's implementation of the Indigenous Peoples relations policy;
- reviewing Hydro One's preparedness for crisis response with respect to health, safety and environmental matters;
- reviewing the health, safety and environment performance update and monitoring the recordable injury frequency rate;

The health, safety, environment and Indigenous Peoples committee is also responsible for reviewing management's occupational health and safety training and education programs to build a safety first approach throughout the company, reviewing reports of actual health, safety and environment events and management's response, discussing the company's environmental objectives and reviewing the internal auditor's audit plans for auditing controls and procedures for health, safety and environmental risks.

2017 Accomplishments and Highlights

- Conducted the annual review of the committee's mandate to ensure its adequacy; revised the mandate to include Climate Change;
- Reviewed the results of the annual performance evaluation of the committee;

Relationship with Indigenous Peoples

- Received reports on Indigenous Peoples relations;
- Reviewed the Indigenous Peoples policy and framework;

Health & Safety, Environment and Public Safety

- Reviewed and approved the company's health and safety, environmental, workplace violence and harassment and public safety policies;
- Received the 2016 health, safety and environment performance results;
- Received quarterly health, safety and environment performance results;
- Reviewed significant event reports on health, safety and environment incidents, including those involving the public;
- Reviewed reports on the company's health, safety and environment programs, emerging issues and regulation updates;
- Reviewed the 2017 health, safety and environmental objectives, initiatives and benchmarks;

Internal Audit

- Reviewed the internal audit health, safety and environment audit reports; and
- Reviewed the 2017 and 2018 health, safety and environment audit plans.

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Human Resources Committee:

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Ian Bourne (Chair)



Charles Brindamour



Marcello (Marc) Caira



Christie Clark



Margaret (Marianne) Harris



Jane Peverett



Gale Rubenstein

The committee met in camera without management present at each of its meetings.

The committee reviewed its mandate and is satisfied that it carried out its duties and responsibilities.

The human resources committee must consist of at least three directors, all of whom must be independent.

Under its mandate, the human resources committee's responsibilities include:

- reviewing the compensation, attraction and retention of key senior management;
- reviewing and recommending to the board compensation payable, including appropriate performance incentives, to the President and CEO;
- reviewing and approving compensation payable, including appropriate performance incentives, to the direct reports to the President and CEO who are members of the executive leadership team;
- reviewing the administration of employee compensation and incentive plans and programs and the company's pension plans;
- implementing executive share ownership guidelines, the hedging prohibitions and the compensation recoupment policy;
- annually reviewing and recommending succession plans for the President and CEO and the direct reports to the President and CEO who are members of the executive leadership team, and contingency preparedness plans;
- monitoring, reviewing and recommending the company's labour relations strategy and collective bargaining mandates and agreements;

The human resources committee's responsibilities also include ensuring that the company's compensation programs are aligned with the company's strategic plans and risk profile, retaining appropriate compensation consultants and reviewing the company's succession planning and talent management processes for all non-union employees, assessing the integrity of the President and CEO and designated employees, and reviewing the company's workplace diversity and inclusion plans and the results of employees' engagement evaluations.

2017 Accomplishments and Highlights

- Conducted the annual review of the committee's mandate to ensure its adequacy;
- Reviewed the results of the annual performance evaluation of the committee;

Executive Compensation

- Engaged Hugessen and reviewed their 2017 annual work plan;
- Approved the executive compensation comparator group;
- Recommended the 2017 performance measures for the performance share units;
- Recommended the 2016 STIP awards for the President and CEO;
- Approved the 2016 STIP awards for the direct reports to the President and CEO who are members of the executive leadership team;
- Approved the 2017 base pay adjustments for the direct reports to the President and CEO who are members of the executive leadership team;
- Recommended the 2017 individual scorecard and compensation for the President and CEO;
- Approved the 2017 individual scorecards for the direct reports to the President and CEO who are members of the executive leadership team;
- Recommended the 2017 LTIP awards for the President and CEO, the direct reports to the President and CEO who are members of the executive leadership team;
- Reviewed the 2018 LTIP performance measures and the 2018 individual scorecards for the President and CEO and the direct reports to the President and CEO who are members of the executive leadership team;
- Reviewed and recommended revised the LTIP design for 2018;

Compensation Policies

- Received reports on 2017 trends in executive compensation, governance and shareholder engagement and regulatory matters;
- Reviewed the 2018 company scorecard;
- Recommended the 2017 STIP fund for non-executives;
- Recommended the 2017 base pay for management and non-union staff;
- Reviewed the executive share ownership guidelines;

Pension Plans

- Received reports relating to the pension plans and pension division activities;
- Approved the management pension committee terms of reference;
- Approved amendments to the defined benefit pension plan as required;
- Approved the defined benefit pension plan's statement of investment policies and procedures;
- Reviewed the defined benefit pension plan's pension and investment strategy;
- Approved the Hydro One defined benefit pension plan and defined contribution pension plan audited financial statements for the year ended December 31, 2016;

Compensation Risks

- Received a report regarding compensation risk assessment;

Succession Planning and Talent Development

- Reviewed the succession planning process and status of succession plans for the President and CEO and his direct reports;
- Reviewed organizational structure and talent strategy and plans for high potential employees;

Compliance with Disclosure Requirements

- Reviewed the annual disclosure of the company's executive compensation discussion and analysis included in the 2017 management information circular;

Culture and Integrity

- Reviewed and discussed diversity at the executive level; and

Labour Relations

- Received quarterly updates on the company's labour relations and strategy.

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Executive Compensation

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3 EXECUTIVE COMPENSATION



I – Letter to Shareholders

Dear fellow shareholders,

On behalf of Hydro One's human resources committee (the *committee*) and the board of directors, I am pleased to provide you with an overview of the key aspects of our executive compensation program and practices for 2017, as well as highlights of the committee's activities.

Executive Compensation Program Overview

The company's executive compensation program is designed to reinforce our pay for performance philosophy and align our executives' interests with those of Hydro One's shareholders and other stakeholders. While we continue to provide market competitive total compensation opportunities that enable us to attract, retain, motivate and reward highly qualified executives, our focus is to ensure that our executives' actual compensation is reflective of their contribution to Hydro One's financial performance and overall success.

The key components of the company's compensation program remain largely unchanged from last year:

- **Base salary:** Salary ranges based on peer comparator groups with individual base salary reflecting merit and potential.
- **Short Term Incentive Plan (STIP):** The STIP rewards the achievement of annual company and individual performance goals. The STIP opportunity is expressed as a percentage of base salary and payouts may range from 0% to 200% of target based on performance. Both the STIP opportunity and the weighting of company and individual goals are based on job category and are aligned with the relevant peer groups. STIP awards are subject to clawback under certain conditions.
- **Long Term Incentive Plan (LTIP):** The LTIP rewards long term value creation and encourages employee retention. The LTIP grants vest at the end of a pre-determined period (time vesting in the form of restricted share units or RSUs) and a portion of each grant is subject to specific performance measures (performance vesting in the form of performance share units or PSUs). At the time of grant, LTIP values are expressed as a percentage of base salary. The 2017 LTIP grants increased the weighting of PSUs to 60% from 50%; thereby, further increasing the performance focus of the incentive plans. Executives are required to retain shares in accordance with share ownership guidelines. LTIP awards are subject to clawback under certain conditions.
- **Pension Plans:** A defined contribution pension plan (DCPP), consistent with peer company comparators, for new externally hired management and non-union employees. Management and non-union employees who were participants in the existing defined benefit pension plan (DBPP) prior to the 2016 introduction of the DCPP continue to be members of the DBPP. All of the named executive officers discussed in the circular participate in the DCPP.

2017 Highlights

The company delivered solid financial results for 2017 and achieved a number of important strategic objectives.

As part of its growth strategy, in July 2017, Hydro One entered into a merger agreement to acquire 100% of the shares of Avista Corporation (*Avista*), a market leading, highly regarded, fully regulated transmission, distribution and generation utility headquartered in Spokane, Washington. In November 2017, the acquisition was approved by the shareholders of Avista, with approximately 79% of the outstanding shares of common stock entitled to vote on the proposal voting 98% in favour of the merger. A number of regulatory approvals are required before the transaction can be completed.

2017 also saw Hydro One successfully delivering on its work programs, achieving approximately \$89.5 Million in productivity savings and making measurable strides in becoming advocates for our customers and improving customer satisfaction.

At the committee's recommendation, the board applied discretion in determining the final corporate scorecard result of 128.9% for the 2017 STIP. Specifically, the board agreed with management's decision to reduce the health and safety achievement to zero given the tragic loss of four members of the Hydro One team in late 2017. In addition, one-time costs related to the acquisition of Avista were excluded from the 2017 net income result as management will be held accountable for delivering the net income expected from the acquisition in future years. These corporate scorecard results and specific achievements of the named executive officers (*NEOs*) are detailed in the compensation discussion and analysis (*CD&A*) that follows.

With respect to the NEOs' total direct compensation, the committee revisited the compensation peer group for the President and CEO and Chief Financial Officer and the board approved an increase in their target total direct compensation to reflect performance since the initial public offering. Mr. Schmidt's actual total direct compensation for 2017 was approximately 108% of the blended target. This outcome reflects the strong results as measured by the corporate and individual scorecards, as well as Mr. Schmidt's leadership of Hydro One's transformation over the past year. Further details are contained in the 2017 compensation profiles.

The committee also undertook a detailed review of the long-term incentive awards for the NEOs in light of the board's approval of the strategic roadmap in early 2017. Consistent with this long-term strategy, the board approved the inclusion of stock options as a component of the 2018 long-term incentive awards for the President and CEO and his executive vice president level direct reports given that stock options offer a longer term view than other equity instruments.

In addition to the 2017 accomplishments highlighted above, the company also made significant progress on the following important priorities:

Talent Management - One of the key responsibilities of the committee is to ensure that we have a robust talent pipeline, particularly for our leadership roles. In 2017, the committee oversaw further implementation of the company's talent management program, including the development of comprehensive succession and development plans. Managing the turnover of senior leaders as we continue our transformation from a government held entity to a publicly listed company is an important area of focus for the committee.

Labour Relations - The committee regularly engaged in discussions with management on labour strategy and collective bargaining to ensure that risks are being managed appropriately.

Diversity and Inclusion - We are deeply committed to diversity and inclusion. In 2017, we continued to dedicate significant resources and attention to improving the diversity of our workforce. While we continued to meet our diversity policy target of 40% female directors, Hydro One reached an important milestone of one-third women in senior leadership roles, hiring over 50% women into open executive roles during 2017. We are proud to support programs such as the Women in Trades, Technology and Engineering Network that encourage young women to enter the workforce in non-traditional roles. Hydro One has also partnered with Men Advocating for Real Change (MARC) Leaders. MARC is aimed at promoting workplace inclusion and advocating for women's rights in areas of empowerment, accountability, courage and humility with the goal of creating real change. We will continue to focus on broadening the company's activities beyond gender diversity.

2018 Priorities

The management team has been augmented with the addition of Mr. Paul Dobson as Chief Financial Officer and Mr. Patrick Meneley as EVP and Chief Corporate Development Officer in early 2018. Having filled these critical leadership roles, talent management will remain a priority on the committee's agenda with a focus on succession planning and accelerating the development of high potential employees.

While the organization has made considerable strides towards its diversity and inclusion objectives, we will continue to actively monitor initiatives that further broaden and progress Hydro One's commitment in this regard. The committee will also continue to oversee the advancement of the company's labour relations strategy and bargaining mandates, as well as pension plan performance.

With the anticipated close of Avista in the second half of 2018, the committee will be reviewing executive compensation including compensation peer groups and performance measures that recognize Hydro One's increased size and expansion into the United States (U.S.). We will also oversee the inclusion of U.S. employees into Hydro One's long-term incentive program. We will continue to monitor the overall effectiveness of the company's compensation programs and practices to ensure they remain aligned with Hydro One's strategic roadmap and stakeholder interests.

Thank you for taking the time to read the following detailed CD&A. We trust it provides you with clear and relevant information that allows you to understand and evaluate our executive compensation program and practices and to cast an informed 'say on pay' vote at the upcoming annual meeting of shareholders. We welcome any comments or questions you may have, and invite you to submit them by email c/o the Corporate Secretary at CorporateSecretary@HydroOne.com.

Sincerely,



Ian Bourne
Chair of the Human Resources Committee



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II – Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) provides information regarding the company's compensation philosophy, as well as its compensation practices, policies and plans. This CD&A pertains to Hydro One and its subsidiaries, including Hydro One Inc. Unless the context otherwise requires, references in the CD&A to the company and Hydro One refer to Hydro One and its subsidiaries and references to executive(s) refer to employees of the company who hold a vice president role and above and this includes the named executive officers (see "Named Executive Officers" - page 58).

A. Compensation Philosophy and Practices:

i. Compensation Philosophy and Guiding Principles

Hydro One's executive compensation program seeks to provide total compensation opportunities that are market competitive and attract, retain, motivate and reward highly qualified executives with the calibre of talent and skills necessary to deliver on its corporate strategy, grow its business and increase shareholder value. We are focused on becoming a more competitive and commercially-oriented company with increased accountability for our outcomes and a greater linkage between our compensation programs, employee performance, productivity and efficiencies. Our compensation strategy is guided by the following principles which are reflected in the compensation arrangements for our named executive officers.

Principle	Objective
Performance-oriented	To provide pay-for-performance and align performance objectives to strategy and core values over the short and long term horizon to reinforce our strategic business objectives and a performance-oriented culture.
Long term focus	To reward sustainable growth that supports long term value creation for shareholders and customers.
Market competitive	To attract and retain high performing employees with compensation targeted at or around the market median, but with pay outcomes that can pay above or below the median depending on performance.
Individual accountability	To foster a culture of individual ownership and accountability.
Balanced approach to risk	To support an appropriate level of risk-taking that balances short and long term company objectives.
Shared responsibility	To require employees to share responsibility for compensation risks and responsibilities.
Simple and integrated	To provide programs that are simple to understand and administer and will communicate the integrated value of monetary and non-monetary rewards.

ii. Compensation Practices at a Glance

The table below highlights executive compensation practices we have implemented to drive performance and achieve shareholder value.

✓ WHAT HYDRO ONE DOES	✗ WHAT HYDRO ONE DOES NOT DO
✓ Pay for performance - aligns pay with both corporate and individual performance and uses several performance measures to avoid undue focus on any particular measure (see pages 52 and 62)	✗ Does not allow executives to hedge their holdings of common shares, PSUs or RSUs as it would undermine alignment with shareholder interests
✓ Align pay to shareholder returns - a significant portion of total compensation is delivered in equity awards, principally in performance share units (PSUs) and restricted share units (RSUs) (see page 63)	✗ No loans to executives
✓ Pay at risk - 81% of the 2017 target total direct compensation for the President and CEO is at-risk pay - variable, contingent and not guaranteed (see page 70)	✗ No reloading of options or evergreen option plan limits
✓ Share ownership - requires all of our executives to own a significant number of shares in Hydro One (see page 55)	✗ No repricing of stock options
✓ Performance based vesting - PSUs vest at the end of three years based on results relative to corporate performance measures (see page 63)	✗ No option-based awards have been granted to date; however, on December 8, 2017, the board approved the awarding of option-based awards to eligible employees commencing in 2018
✓ Benchmarking - executive compensation benchmarked against a size and industry appropriate comparator group and targeted at or around the market median (see pages 58 to 60)	
✓ Caps on incentive payouts - short term incentive plan payouts are capped at a maximum of 200% of target. PSUs performance multipliers are also capped at 200% of target (see pages 62 and 63)	
✓ Clawbacks - recoupment policy applies to all executives with respect to their incentive compensation - updated in early 2017 to include wrongdoing/misconduct (see page 55)	
✓ Board discretion - board retains discretion as it deems necessary to address exceptional circumstances not contemplated by the performance measures	
✓ Time periods - incentive plans cover a range of time periods to balance short term objectives and longer term performance measurement (see pages 62 and 63)	
✓ Anti-hedging - directors, executives and other employees are prohibited from hedging their shares or equity-based compensation (see page 56)	
✓ Independent advice - the human resources committee may receive compensation advice from an independent advisor (see page 54)	
✓ Fixed number limits on equity plans involving share issuances (see page 95)	
✓ Executive perquisites are an immaterial part of total compensation (see page 82)	

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B. Compensation Governance:

i. Governance Framework

Hydro One's management team, the human resources committee and our compensation advisors all play a key role in determining executive compensation for the company's directors and executives and in managing compensation risk on behalf of the board.

Human Resources Committee

The human resources committee is responsible for assisting the board in fulfilling its oversight responsibilities relating to the attraction and retention of key senior management (see "Corporate Governance - Committee Reports - Human Resources Committee"). Current members of the human resources committee are:

- Mr. Ian Bourne, Chair
- Mr. Charles Brindamour
- Mr. Marcello (Marc) Caira
- Mr. Christie Clark
- Ms. Margaret (Marianne) Harris
- Ms. Jane Peverett
- Ms. Gale Rubenstein

All of our human resources committee members have gained the following relevant experience in human resources and compensation by serving as an executive officer (or equivalent) of a major organization and/or through prior service on the compensation committee of a stock exchange listed company or otherwise:

- human resources experience [experience with benefit, pension and compensation programs (in particular, executive compensation)];

- Risk management experience (knowledge and experience with internal risk controls, risk assessments and reporting as it pertains to executive compensation); and
- executive leadership experience (experience as a senior executive/officer of a public company or major organization).

Please refer to the biographies of our human resources committee members described starting on page 10 of the circular and details of their additional invaluable skills and experience described on page 37 of the circular.

Compensation Advisors

The committee engaged a compensation advisor, Hugessen Consulting Inc., during 2017 to assist it in carrying out its mandate. All decisions and actions taken by the human resources committee and the board have been based on numerous factors and considerations which may, but do not necessarily, reflect the information or advice provided by the advisor.

Hugessen Consulting Inc.

Beginning in 2015, the human resources committee retained Hugessen Consulting Inc. (*Hugessen*) as compensation advisors independent of management. Hugessen is an independent consulting firm that provides advice to boards and compensation committees on executive compensation. In 2016 and 2017, Hugessen was retained to provide advice on the competitiveness and effectiveness of Hydro One's compensation programs, including a review of the overall long-term incentive plan structure, and to provide updates to the human resources committee on executive compensation best practices and evolving governance trends in both Canada and the United States.

Hugessen's fees (including taxes) incurred during 2017 and 2016 regarding services provided to the committee are as follows:

<i>Year</i>	Executive Compensation	
	Related Fees	All other Fees
Year ended December 31, 2017	\$ 188,174 (1)	\$0
Year ended December 31, 2016	\$ 104,029	\$0

Note:

¹ Hugessen was also retained by the chair of the governance committee to conduct a compensation benchmarking review for non-executive directors of Hydro One using the same peer group used for executive compensation benchmarking as described on page 59. Fees related to this work are included in this figure.

Willis Towers Watson

In both 2016 and 2017, management engaged Willis Towers Watson to provide information requested by the committee. This included reviewing a risk assessment of its executive compensation program in the context of the Canadian Securities Administrators' (CSA) disclosure rules, reviewing the peer groups that are used for benchmarking compensation, conducting a continuing education session on long-term incentives, and providing a benchmarking analysis of compensation for executives (including the NEOs).

Willis Towers Watson's fees (including taxes) incurred during 2017 and 2016 for the services noted above are as follows:

<u>Year</u>	<u>Executive Compensation Related Fees</u>
Year ended December 31, 2017	\$71,642
Year ended December 31, 2016	\$20,340

ii. Compensation Risk Management

Hydro One's compensation program is structured to provide an appropriate balance of risk and reward consistent with the company's risk profile and to ensure that compensation practices do not encourage excessive risk-taking by executives. Such risk mitigation practices include the following:

Pay Mix	<p>The variable component of Hydro One's compensation program (which includes both short term and long term incentives) represents a sufficient percentage of "at-risk" compensation to motivate executives and other employees of the company to focus on both short term and long term results and performance criteria.</p> <p>All elements of compensation, together, ensure a balance in the mix of fixed and variable compensation, short term and long term incentives, cash versus equity, and performance-based versus time-based awards.</p>
Capped Payouts	<p>The maximum amount an executive can receive under the short term incentive plan is capped at 200% of target. Performance share units (<i>PSUs</i>) are also capped at 200% of target.</p>
Effective Design of Long Term Incentive Mix	<p>Long term incentives (currently <i>PSUs</i> and restricted share units (<i>RSUs</i>)) will vest over a specific vesting period, with both <i>PSUs</i> and <i>RSUs</i> vesting at the end of the period (with a three-year performance term for <i>PSUs</i>).</p> <p>A combination of time-vesting and performance-vesting long term incentives and varied performance measures provide a balanced approach to driving performance, avoid undue risk-taking and align management with long term shareholder interests.</p>
Clawbacks	<p>Executives may be required to forfeit outstanding incentive awards and repay incentive compensation that have already been paid if, among other things, there is wrongdoing, misconduct, a material misstatement of Hydro One's financial results, an error in any financial or operating measure used to determine incentive compensation amounts, or as may be required by applicable laws, stock exchange rules or other regulatory requirements. This applies to cash bonuses, the value of options, <i>PSUs</i>, <i>RSUs</i> and other equity-based compensation awards, whether vested or unvested, including those which have been paid or settled.</p>
Share Ownership Requirements	<p>To better align the interests of the company's executives with the interests of Hydro One's shareholders, the company has put in place share ownership guidelines based on the level of the position. Under these guidelines, the company's executives are subject to share ownership requirements which can be met through direct or beneficial ownership of the company's common shares, management deferred share units (<i>management DSUs</i>) and/or time-vested <i>RSUs</i> granted under the long term incentive plan. Individuals have until the later of five years from: (a) the closing date of the initial public offering of Hydro One's shares in November 2015; and (b) the date they first became subject to these requirements to satisfy the share ownership requirements. Employees who were subject to these requirements and are promoted or appointed into a position that is subject to a higher share ownership requirement have three years from the date of their promotion or appointment to meet the higher minimum requirement. The executives must maintain such ownership post-retirement for 24 months (in the case of our President and CEO and CFO) or 12 months (in the case of other executives).</p>

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The share ownership requirements as a multiple of annual base salary are set forth below:

Position	
President and Chief Executive Officer (CEO)	5x
Direct Reports to the President and CEO - Executive Vice Presidents or equivalent	3x
Direct reports to the President and CEO - Senior Vice President Level or equivalent	2x
Other Executives - Senior Vice President Level or equivalent, and Vice President Level or equivalent	1x

Anti-hedging	Directors, executives and other employees are prohibited from purchasing financial instruments that are designed to hedge, offset or otherwise reduce or limit their economic risk, including with respect to a decrease in market value of equity securities of the company granted as compensation or held, directly or indirectly, by such individuals, or otherwise undermining their alignment with shareholder interests. Prohibited transactions include hedging strategies, equity monetization transactions, transactions using short sales, put options, call options, exchange contracts, derivatives and other types of financial instruments (including, but not limited to, prepaid variable forward contracts, equity swaps, collars and exchange funds), and the pledging of or granting of any other security interest in equity securities of the company as security for any loan where recourse is limited to the pledged security.
Trading Restrictions	Executives are prohibited from trading Hydro One securities during our trading blackout period.
Use of Discretion	The human resources committee and/or the board can exercise discretion when making compensation decisions to address exceptional circumstances not contemplated within the compensation plan design or performance measures.

iii. Say on Pay

Hydro One strives to compensate its executives in a manner that is fair, competitive and linked to performance. The company endeavours to provide executive compensation disclosure which satisfies all legal requirements, is aligned with best practices and is complete, clear and understandable. This is done in order to assist shareholders in forming a reasoned judgment about compensation practices at Hydro One.

The board believes in shareholder engagement and offers shareholders the opportunity to make their views on the company's

approach to executive compensation known to the company. As such, Hydro One has adopted an annual say on pay advisory vote on executive compensation as part of its stakeholder engagement policy. The directors of the corporation remain responsible for overseeing the company's executive compensation practices and are not relieved of these responsibilities by a positive advisory vote by shareholders.

At our annual meeting of shareholders held on May 4, 2017, 489,688,822 (or approximately 99.76%) of the votes cast approved our overall approach to executive compensation.

C. Approach to Executive Compensation:

i. Decision-Making Process to Determine Compensation

Hydro One's compensation decision-making process involves management, the human resources committee, advice from third-party

advisors, and the board for final approval. Outlined below is a general overview of the process that the company follows in determining compensation.

- Management recommends program design.
- The human resources committee reviews and recommends the program and performance measures to the board for review and approval to ensure compensation is arrived at on a corporate-wide basis.
- The human resources committee approves the compensation payable to the President and CEO's direct reports who hold an executive vice president level position (including the named executive officers).
- Board approves the compensation payable to the President and CEO after receiving the human resources committee's recommendation.

1. Design of the compensation program

Management designs the Hydro One compensation program.

Management presents its recommended compensation program to the human resources committee, which reviews the recommendations (with its independent advisor), and then the human resources committee provides its recommendations to the board for approval.

Hydro One has successfully transitioned to a compensation program with significant variable “at risk” compensation including a stronger performance-based short term incentive plan component and a long term incentive plan component aligned with being a publicly traded organization. In 2017, the committee undertook a detailed review of the long-term incentive plan having regard to the company’s long term strategy and it approved the inclusion of stock options for certain executives for the grants to be made under the LTIP in 2018. The human resources committee continues to monitor the compensation program to ensure it is achieving its intended results and may refine the program over time to ensure it continues to be aligned with the company’s strategy and long term objectives.

Further details regarding the company’s short term incentive and long term incentive plans are provided on pages 61 and 63.

2. Choice of performance measures and annual targets

Management suggests objectives for the company and prepares corporate performance measures with their respective weightings for the incentive plans.

The human resources committee reviews the corporate performance measures and related weightings proposed by management for the short term incentive plan and the long term incentive plan and may accept them or suggest modifications. Once the human resources committee has completed its review, it recommends the corporate performance measures and related weightings to the board for approval.

At the beginning of each year, the President and CEO reviews and sets the annual individual objectives and performance measures designed to support the company’s strategy and which will be used to assess the individual performance of each of the President and CEO’s direct reports who hold an executive vice president level position (including the named executive officers) for purposes of the STIP.

The human resources committee then reviews and approves the individual annual objectives and performance measures, with adjustments as appropriate.

Similarly, at the beginning of the year, the human resources committee reviews and considers the President and CEO’s annual individual objectives and performance measures, may amend them, and then recommends them to the board for approval.

3. Set targets for executive compensation

With assistance from its independent advisor, the human resources committee develops and recommends target compensation and variable pay for the direct reports of the President and CEO who hold executive vice president level positions, including the named executive officers identified on page 58, after reviewing the results of its benchmarking analysis (see page 60 for information about our benchmarking analysis and compensation peer groups). For other executives, management develops and recommends target compensation and variable pay after reviewing compensation for similar roles and responsibilities within the comparator peer group. The peer group used for benchmarking compensation is reviewed annually by the human resources committee.

4. Assess company performance

Early in the first quarter of every year, management assesses company performance against the corporate performance measures approved by the board and presents its findings to the human resources committee. Management then makes recommendations on the results to the human resources committee.

The human resources committee reviews management’s recommendations, together with input from its independent advisor, considers whether adjustments are necessary or appropriate to reflect events occurring during the performance period that affect the applicable performance objective and recommends to the board for approval the degree to which corporate performance measures for the incentive plans were met.

The board reviews the recommendations of the human resources committee and approves the company performance results for compensation purposes.

5. Assess individual performance

In reviewing the performance and compensation of his direct reports who hold an executive vice president level position (including the named executive officers), the President and CEO:

- assesses their performance against their annual objectives; and
- recommends to the human resources committee their salary, short term incentive awards and long term incentive awards, taking into account past performance, previous awards, future potential and market position.

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The human resources committee completes an in-depth assessment of the President and CEO's individual performance in leading the company towards its corporate goals and executing against Hydro One's long term strategy, including:

- overall company performance;
- implementation of the President and CEO's strategies to increase shareholder value; and
- achievement of the President and CEO's annual objectives.

6. Award compensation

The human resources committee reviews, finalizes and approves the compensation, including base salary and incentive awards of the President and CEO's direct reports who hold an executive vice president level position (including the named executive officers).

The President and CEO is not involved in determining his own compensation. The human resources committee reviews the President and CEO's self-assessment (and consults with its independent advisor) before considering his compensation.

The human resources committee's independent advisor, if required, may provide an analysis for the human resources committee to review when making its decisions about President and CEO compensation.

Following such review, the human resources committee recommends the compensation of the President and CEO to the board for approval.

ii. Named Executive Officers

For purposes of compensation disclosure, this CD&A discloses information about the President and CEO, the former CFO, an individual acting in the capacity of the CFO and the three other most

highly compensated executive officers who provided services to the company and its subsidiaries during 2017 (collectively, the *named executive officers* or *NEOs*). The NEOs for 2017 are as follows:

Name	Title	Summary of Information
Mayo Schmidt	President and Chief Executive Officer	See Pages 72 and 73
Michael Vels	Former Chief Financial Officer	See Pages 74 and 75
Chris Lopez ⁽¹⁾	SVP, Finance (Acting in the capacity of Chief Financial Officer)	See Pages 76 and 77
Gregory Kiraly	Chief Operating Officer	See Pages 78 and 79
Ferio Pugliese	EVP, Customer Care and Corporate Affairs	See Pages 80 and 81
James Scarlett	EVP and Chief Legal Officer	See Pages 82 and 83

Note:

¹ Mr. Lopez has acted in the capacity of Chief Financial Officer following Mr. Vels' resignation on May 19, 2017 until Mr. Paul Dobson became Chief Financial Officer on March 1, 2018.

This CD&A pertains to Hydro One and its subsidiaries, including Hydro One Inc.

iii. Hydro One's Approach to Compensation

The following section discusses the compensation structure, programs and significant elements of compensation for the company's NEOs.

1. Benchmarking and Pay Positioning for Named Executive Officers

The target total direct compensation for 2017 for all executives, including the NEOs, was set by the board, taking a range of factors into account, including its stated compensation philosophy to be at or around the median of the relevant peer group as well as comparing executives' compensation relative to each other. Actual compensation

takes into consideration each individual's performance as well as skills and experience as benchmarked through an extensive executive search process. Each role requires a high level of skill and proven experience with large, complex publicly traded enterprises, either as an executive with, or an advisor to, such enterprises. For details on the NEOs' 2017 target total direct compensation and actual compensation, see their individual compensation profiles starting on page 70.

The company's compensation philosophy is to provide total compensation opportunities that are competitive in the context of relevant peer groups for various management levels.

Prior to the initial public offering, the company identified a primary reference group consisting of the four largest utilities listed on the TSX plus four other TSX listed companies within the broader energy industry of comparable size and scope of operations to Hydro One. These eight companies are listed in the following table:

Utility and Broader Energy Industry Compensation Peer Group

Utility Peers	Broader Energy Peers
AltaGas Ltd.	ATCO Ltd.
Emera Incorporated	Inter Pipeline Ltd.
Fortis Inc.	Keyera Corp.
Pembina Pipeline Corporation	TransAlta Corporation

This utility and broader energy industry compensation peer group was used to determine the target total direct compensation for the

President and CEO and Chief Financial Officer at the time of their hire in 2015 and for 2016.

For purposes of determining the 2017 compensation for Hydro One's named executive officers, the company used a primary reference group consisting of the following 19 Canadian-based entities, reporting in the heavy industrial sector, with a large unionized workforce, a pay-for-performance culture, and many engineering/technologist job positions. This executive compensation peer group reflects the broader range of companies with which Hydro One competes for talent and was originally adopted in 2016 for the NEOs, other than the President and CEO and Chief Financial Officer. Having completed two strong fiscal years since the IPO and given the status of our transformation, in 2017, the company extended the use of this broader compensation peer group to the President and CEO and Chief Financial Officer positions.

Primary Compensation Reference Peer Group

Core Utility Peers	Other - Asset Intensive Companies
AltaGas Ltd.	Agrium Inc. (now known as Nutrien Ltd.)
ATCO Ltd.	Air Canada
Emera Incorporated	Canadian National Railway Company
Fortis Inc.	Canadian Pacific Railway Ltd.
Inter Pipeline Ltd.	Canadian Tire Corporation, Limited
Keyera Corp.	CGI Group Inc.
Pembina Pipeline Corporation	National Bank of Canada
TransAlta Corporation	Rogers Communications Inc.
TransCanada Corporation	SNC Lavalin Group Inc.
	Telus Corporation

In selecting this compensation peer group, the company considered scoping criteria that are reflective of the size, scale and complexity of Hydro One's businesses, including revenues, assets, market capitalization and enterprise value. Companies were

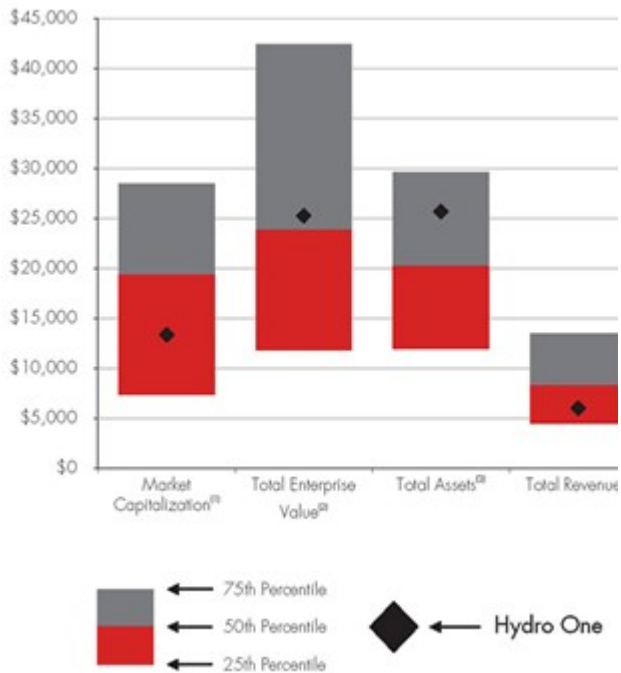
selected generally based on a range of approximately 0.5x to 2.0x Hydro One's positioning on the criteria set out in the chart on the next page at the time of selection.

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\$MM, CAD



Notes:

- 1 As at December 31, 2017. "Market Capitalization" is calculated based on the number of common shares outstanding multiplied by the closing share price and "Total Enterprise Value" is calculated based on Market Capitalization, plus net debt.
- 2 The Market Capitalization of Hydro One was approximately \$13 Billion and its Total Enterprise Value was approximately \$25 Billion as at December 31, 2017.
- 3 The last 12 months' total assets and total revenues are calculated as at December 31, 2017.
- 4 Information in this chart was prepared by Willis Towers Watson using data from S&P Capital IQ.

2. Components of Compensation

Hydro One's compensation structure includes base salary, an annual short term incentive, a long term incentive and benefits.

The table below describes the components of compensation for the named executive officers:

Component	Form	Objectives	
Fixed	Base Salary	Cash	<ul style="list-style-type: none"> Attract and retain highly qualified and experience executives. Provide a predictable and steady income.
		Annual base salaries are based on job function, individual performance and experience and market competitiveness	
	Pension	D CPP for the NEOs and new hires ⁽¹⁾	<ul style="list-style-type: none"> Provide market-competitive, sustainable retirement arrangements to attract and retain talent.
Benefits	Group health, life and disability benefits	<ul style="list-style-type: none"> The NEOs participate in benefit programs and flexible benefits plans available to all employees. 	

Variable	Short Term Incentive	Cash - executives can choose to receive some or all in the form of deferred share units (<i>management DSUs</i>) available under the management deferred share unit plan	<ul style="list-style-type: none"> Motivate and reward achievement of annual business and financial performance objectives. Align individual performance and rewards with corporate objectives.
	Long Term Incentive	PSUs and RSUs Award is made as a percentage of base salary	<ul style="list-style-type: none"> Motivate and align executives with long term strategy and shareholders' interests. Encourage sustained long-term performance. Balance short- and long-term results focus.
	Non-Union Employee Share Ownership Plan (ESOP)	Market-purchased shares acquired by payroll deduction up to a maximum 6% of base salary with a 50% company match ⁽²⁾	<ul style="list-style-type: none"> Encourage share ownership and increase alignment with shareholders' interests.

Notes:

¹ The existing registered DBPP for management and non-union employees which was originally established on December 31, 1999 by Hydro One Inc., the company's wholly owned subsidiary, was closed to new non-union employees effective September 30, 2015. The NEOs and other new non-union employees hired on or after July 1, 2015 who were not eligible to join the DBPP as of September 30, 2015 participate in the DCPD effective January 1, 2016. Existing non-union employees who were eligible members of the DBPP as of September 30, 2015 continue to participate in the existing DBPP. For further details on the existing DBPP, see "Defined Benefit Registered Pension Plan" starting on page 86.

² In 2015, the company also introduced share grant plans for qualifying union-represented employees. While these plans do not affect Hydro One's executives (including the NEOs) or non-union employees, they increase the alignment of eligible unionized employees in the success of Hydro One. In addition, the company also introduced a Society Represented Employee Share Ownership Plan (*Society ESOP Plan*) to enable certain eligible employees that are represented by the Society of United Professionals (*Society-represented employees*) to acquire common shares of the company in a convenient and regular method through payroll deduction. The eligible Society-represented employees are permitted to contribute a maximum of 4% of their base salary with a company match of 25%. The vesting period for the Society ESOP Plan is 2 years. In addition, the eligible Society-represented employees can only participate in either the share grant plan or the Society ESOP Plan, but not both.

For further details on these plans, see "Share Grant Plans for Certain Members of the Power Workers' Union and the Society of United Professionals" starting on page 95.

3. About the Short Term Incentive Plan

Hydro One's short term incentive plan is designed to, among other things:

- reward participants for achievement of annual corporate and individual performance goals, and
- focus participants on the drivers of value creation.

The company's short term incentive plan is available to all full time non-union employees, including executives. Provided below is a summary of the components of the short term incentive plan.

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Component of the Short Term Incentive Plan	Impact on Award
How the award is determined	<p>The amount of the award is a function of the executive's incentive target, corporate performance and his or her individual performance.</p> <p>For NEOs, awards are weighted 80% on the achievement of corporate goals and 20% on achievement of individual goals.</p>
Corporate performance	<p>Corporate performance is based on financial and non-financial measures to drive company performance as detailed in the Corporate Scorecard.</p> <p><i>Financial Measures</i></p> <ul style="list-style-type: none"> • Net Income - to increase shareholder value by increasing earnings • Productivity Savings - to increase shareholder value by decreasing operating, maintenance and administration (OM&A) and capital related costs <p><i>Non-Financial Measures</i></p> <ul style="list-style-type: none"> • Health and Safety - to reinforce the importance of keeping our employees and customers safe • Customer-related Measures - to align employees with customer interests • Work Program Accomplishments - to align employees with regulatory and customer goals <p>See page 65 for more information about the performance measures and results related to the company's Corporate Scorecard.</p>
Individual performance	<p>Individual performance is assessed based on the achievement of corporate aligned performance objectives with a focus on delivering differentiated rewards to top performers. See each NEO's compensation profile starting on page 70.</p>
Range of awards	<p>Awards may range from 0 to 200% of target short term incentive based on the corporate and individual performance.</p>
Human Resources Committee/Board Judgment	<p>The human resources committee considers whether adjustments are necessary or appropriate to reflect events occurring during the performance period.</p>
Payout	<p>Cash or, at the option of an eligible executive, management DSUs. Management DSUs are fully vested and accrue dividend equivalents when dividends are paid on the common shares and are redeemable for cash at the prevailing market price of the common shares upon settlement after the executive ceases to be employed.</p>
Clawbacks	<p>Amounts can be forfeited or clawed back under certain conditions.</p>

The STIP payout is calculated based on the following formula. Each of the elements of STIP calculation is described in more detail below.



For further details on the short term incentive awards made to the NEOs, see "NEOs 2017 Compensation Profiles" below starting on page 70.

4. About the Long Term Incentive Plan

Hydro One's long term incentive plan is designed to, among other things:

- reward executives for longer term value creation;
- attract and retain highly qualified and experienced talent; and
- foster alignment with shareholder interests.

The company's long term incentive plan was introduced in 2015 with the first grants made in early 2016. It is available to executives and certain non-union employees of Hydro One and its subsidiaries as determined by the human resources committee. Non-employee directors are not eligible to participate. Awards under the LTIP are expected to be settled in common shares from treasury. Provided below is a summary of the components of the LTIP as implemented by the human resources committee in respect of specific grants under the LTIP in 2017.

Types of Awards

PSUs: An award that entitles the participant to receive common share(s) in the future subject to the achievement of specified performance criteria.

RSUs: An award that entitles the participant to receive one common share in the future, subject to continued employment during the vesting period.

In 2017, the allocation of PSUs for executives was increased to 60% of the long term incentive award and RSUs decreased to 40%. This resulted in a higher at-risk element of compensation as it increases the proportion of incentives subject to performance measures. In 2016, this value was divided equally between PSUs and RSUs.

While none of the following have been granted, the LTIP also allows for the grant of options, share appreciation rights, restricted shares, deferred share units and other share based awards at the discretion of the human resources committee. At its December 8, 2017 meeting, the board approved the awarding of stock options to certain eligible employees commencing in 2018. The 2018 LTIP grant for these eligible employees (including NEOs) will be comprised of 50% PSUs, 25% RSUs and 25% stock options.

Vesting

Unless otherwise determined by the human resources committee:

PSUs: Awards granted in 2017 vest at the end of the three year performance period (December 31, 2019), subject to a performance multiplier of 0 to 200% based on achievement of specific performance measures.

RSUs: Awards granted in 2017 vest on December 31, 2019 assuming the individual has remained employed by the company or its subsidiaries through such date.

Dividend Equivalents

Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement.

Performance Measures

Three year average earnings per share (EPS): Each PSU granted in 2017 is subject to achieving certain performance thresholds for the three-year average EPS for the period from January 1, 2017 to December 31, 2019 (the performance period). In respect of the performance thresholds, below a certain performance threshold, no PSUs will vest. At the target performance threshold, the PSUs vest at the target level of 100% and will entitle the holder to one common share for each PSU granted. At or above the maximum performance threshold, the PSUs vest at the maximum level of 200% and will entitle the holder to two common shares for each PSU granted. Between performance thresholds, PSUs are earned on an interpolated basis.

Dividend rate: If the average dividend rate for any rolling 12 months during the performance period falls below the annualized quarterly dividend rate at the time of grant, no PSUs will vest regardless of whether the EPS performance thresholds are met.

PSU Calculation:

The above is summarized in the following illustration:



* Actual payout results are subject to the board's review of the audited financial statements and approval of the payout percentage

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Range of Awards	Awards may range from 0 to 200% of target.
Human Resources	For PSUs, the human resources committee considers whether adjustments are necessary or appropriate to reflect
Committee/Board Judgment	events occurring during the performance period.
Clawbacks	Amounts can be forfeited or clawed back under certain conditions.

For further details respecting the key terms and conditions of the LTIP, see “ - Long Term Incentive Plan” starting on page 91.

- align the interests of non-union employees with shareholder interests; and
- increase employee awareness and interest in Hydro One performance.

5. Non-Union Employee Share Ownership Plan

Hydro One strongly supports share ownership by its employees and, accordingly, offers an employee share ownership plan (ESOP) for non-union employees. The plan provides participants with the opportunity to acquire common shares purchased on the market through payroll deduction. It is designed to:

- promote an ownership mentality amongst non-union employees;

All regular non-union employees not represented by a union who have completed at least six months of continuous service with the company or its subsidiaries prior to the date of enrollment in the plan are eligible to participate. Provided below is a summary of the components of the non-union employee share ownership plan.

Source of shares	Shares are purchased on the market at prevailing prices (non-dilutive).
Employee contribution	Up to 6% of base salary, through payroll deduction.
Employer match	Hydro One matches 50% of the employee contribution up to a maximum of \$25,000 per year.
Vesting	All shares purchased with contributions vest immediately.

As at March 14, 2018, approximately 84% of eligible non-union employees were enrolled in Hydro One’s non-union employee share ownership plan.

D. 2017 Performance Based Compensation Determination

i. 2017 Corporate Performance

Payouts under the STIP for 2017 were based on Hydro One’s performance against a balanced corporate scorecard. Hydro One’s balanced corporate scorecard, established at the beginning of 2017, consisted of 5 corporate goals with 9 underlying performance measures and targets. In measuring the company’s performance against the targets, the human resources committee reviewed management’s assessment of Hydro One’s performance

against each pre-established measure, and based on this and, using its informed judgment, approved or modified (as appropriate) the ultimate score for each performance measure and the aggregate corporate score.

The following table sets out Hydro One’s corporate performance measures and results for 2017. Based on the company’s results, the human resources committee recommended, and the board approved, an overall corporate performance multiplier equal to 128.9% of the target.

2017 Performance Levels										
Corporate Goal	Performance Measure	Measurement	% Weight	Threshold	Target	Maximum	Actual	Result	Achievement	
Health and Safety	Recordable Incidents	Incidents per 200,000 hours	10.0	% 1.6	1.1	1.0	1.2	< Target	(1)	0% (1)
Work Program	Reliability - Transmission (Tx) average length of unplanned interruptions to multi-circuit supplied delivery points	Minutes per Delivery Point	6.25	% 10.0	9.6	9.2	5.4	> Maximum		200%
	Reliability - Distribution (Dx) average length of outages in hours that a customer experiences	Hours per Customer	6.25	% 7.8	7.5	7.2	7.9	< Threshold		0%
	Tx In Service Additions Delivery Accuracy	Variance (%) to approved budget of \$931 Million (Tx Application)	6.25	% +/- 7	% +/-5	% +/-2	% 872	(2)	< Target	67%
	Dx In Service Additions Delivery Accuracy	Variance (%) to approved budget of \$663 Million	6.25	% +/- 6%	+/- 4%	+/-2	% 681	> Target		164.5%
Net Income	Net Income to Common Shareholders	\$Million	30.0	% 615	665	715	694	(3)	> Target	(3) 157.5%
Productivity	Productivity Savings (Capital and OM&A) - Tier 1 savings only	Savings in \$Million	10.0	% 64.3	70.6	77.7	89.5	> Maximum		200%
Customer	Dx Satisfaction - Improve overall Small and Residential Dx customer satisfaction	Customer Satisfaction as measured by independent third party surveys	12.5	% 70	% 72	% 75	% 71.1	%	< Target	77.5%
	Tx Satisfaction - Improve overall Large Tx customer satisfaction		12.5	% 80	% 82	% 85	% 88.3	%	> Maximum	200%
STIP Corporate Scorecard Result										128.9%

(1) Actual achievement was 90% of target. In accordance with plan terms, Health and Safety achievement is reduced by 50% in the event of an employee death. However, due to the aviation accident in 2017, management reduced this achievement to 0%.

(2) The Tx In Service Additions approved by the Ontario Energy Board (OEB) was \$868 Million; actual results were within 0.5% of this approved amount and no adjustments were made to reflect this in the STIP results.

(3) Net income has been normalized for the Avista transaction. Pre-normalized net income attributable to common shareholders is \$658 Million.

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In making this determination, the board approved management's recommendation to reduce the Health and Safety achievement to 0% as a result of the catastrophic aviation accident in 2017. The board also applied its discretion and excluded one-time acquisition costs related to the Avista transaction from net income for purposes of the short-term incentive plan results.

As illustrated by the chart above, the company successfully delivered on its financial and operating plans with key accomplishments including:

- strong transmission reliability duration results as measured by the System Average Interruption Duration Index (SAIDI) primarily due to less defective equipment interruptions offset by distribution reliability results below target due to storms in the latter half of 2017,
- effective and disciplined management of key infrastructure investments ("in service additions") within the OEB approved budget tolerance,
- net income (normalized for Avista one-time acquisition costs) above target attributed to lower vegetation

management costs, lower corporate common costs, lower volume of lines and stations maintenance work and lower depreciation and financing costs, all of which mitigated the lower transmission peak load and distribution consumption driven by mild weather in the first half of 2017 and OEB disallowances of budgeted transmission revenue requirements,

- productivity savings 27% above target largely driven by initiatives led by the Operations team such as "move-to-mobile", fleet and supply chain initiatives, and
- significantly improved customer satisfaction results for transmission customers (7% above target) attributable to renewed commitment to customer advocacy and enhanced reporting for large customers.

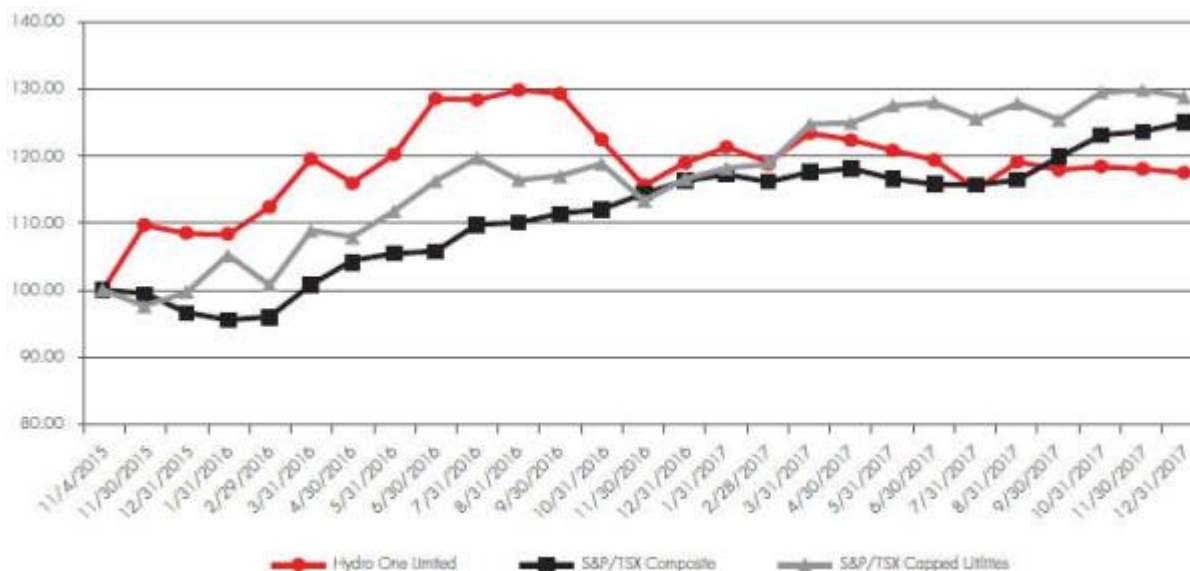
Individual performance which was considered in determining a portion of STIP payments to each NEO is summarized under each of the NEO's compensation profiles starting on page 70.

ii. Share Performance

The following graph compares the total cumulative return of a shareholder who invested \$100 in Hydro One's common shares from the closing of the company's initial public offering on November 5, 2015 (using the initial public offering price of

\$20.50) to December 31, 2017, with that of the S&P/TSX Composite Index and S&P/TSX Capped Utilities Index and the trend in total compensation awarded to our NEOs over the same period.⁽¹⁾

Comparison of 26 Month Cumulative Total Return
Assumes Initial Investment of \$100



Note:

¹ Hydro One became a reporting issuer on October 29, 2015. The price of Hydro One's common shares on closing of the initial public offering before markets opened on November 5, 2015 was the IPO price of \$20.50. This price is compared to the closing prices of the S&P/TSX Composite Index and S&P/TSX Capped Utilities Index on November 4, 2015.

The returns on Hydro One's shares decreased in the last quarter of 2016 largely due to the resulting impacts from the Ontario Energy Board's reduction in allowed Return on Equity from 9.19% to 8.78% and the 10-year Canada bond yield increase from 0.95% to 1.81%. The company narrowly underperformed the S&P/TSX Composite Index and the S&P/TSX Capped Utilities Index in the last quarter of 2017. The Province's relatively large secondary sale of Hydro One shares in May 2017 had a negative impact on the share price. In addition, we experienced a number of industry challenges that put downward pressure on share price performance: (i) lower regulated return on equity that impacted transmission and distribution revenues, (ii) extended unseasonably milder weather reduced load volume and therefore revenue, (iii) the current rising interest rate environment, (iv) the uncertainty of regulatory approvals across multiple jurisdictions, related to the Avista transaction, and (v) an unexpected Deferred Tax Asset decision by the Ontario Energy Board. That said, Hydro One materially moderated the impact of these headwinds in a

disciplined approach focused on delivering value to shareholders and closed the year with a very strong fourth quarter performance.

The 2016 and 2017 LTIP performance share unit awards are strongly aligned with the organization's performance through their three year average earnings per share performance measure. As a result, NEOs compensation which is heavily weighted to long-term incentives is closely aligned with that of shareholders during the three year performance period.

The shareholder price and dividend growth do not accurately reflect the value provided by the NEOs towards the company's long-term strategy. While a portion of the compensation of the NEOs is performance-based, the continuing evolution of the company's level of maturity as a public company makes it difficult to correlate compensation to the trends shown in the above performance graph. The leadership team has made significant transformational changes in its evolution to a strong performing

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public company. The human resources committee has confidence that the President and CEO, along with his executive team, will successfully lead the company to deliver on its long-term strategy and to generate sustainable value for the company and its shareholders.

The committee and board have taken a longer-term view on management compensation. Specifically, providing competitive compensation is critical to attract, retain and motivate the leadership talent required to deliver on Hydro One's long term strategic plan and complex transformation. We believe the benefits of this

investment will be realized by stakeholders over time. The committee is very cognizant of the need to carefully monitor the compensation program and ensuring it is delivering its intended results.

While it is still relative early in the transformation of Hydro One, during 2018, the committee will be considering the appropriateness of including performance measures such as relative total shareholder return or other specific relative performance measures within the long-term incentive plan.

iii. Compensation Cost

Compensation Cost of NEOs as % of Net Income

The following table shows the total compensation for the NEOs of the company for 2017, 2016 and 2015 as a proportion of net income of the company.

	2017(2)	2016	2015(1)
Reported net income (\$000s)	\$682,000	\$746,000	\$713,000
Aggregate NEO compensation as reported in the summary compensation table (\$000s)	\$14,209	\$11,714	\$4,536
Cost of NEO compensation as a % of net income	2.08%	1.57%	0.64%

Notes

- 1 The compensation cost for NEOs in 2015 was significantly lower due in part to compensation being pro-rated for Mr. Schmidt and Mr Vels for the length of their respective service in that year. Compensation was also prorated in 2016 for Messrs. Kiraly, Pugliese and Scarlett reflecting their partial year of service in that year.
- 2 The compensation cost for NEOs in 2017 includes the LTIP grant of \$945,022 for Mr. Vels which was forfeited as he resigned on May 19th, 2017.

It is important to note that as a result of the Ontario Energy Board's decision issued in response to the company's 2017-2018 transmission rate application, the amount of transformation-related compensation expenses recovered from ratepayers was adjusted to the 2015 pre-IPO amount, adjusted for inflation. These costs include compensation for the board of directors and the executive vice president positions (including the NEOs). For these NEOs' positions, the portion of compensation beyond the pre-IPO level is paid from the earnings of the company and not recovered in rates.

Aggregate Dilutive Impact of Equity-Based Compensation Arrangements

The following table shows the aggregate dilutive impact of our equity-based compensation arrangements.

	2017	2016	2015
Overhang - number of common shares available for issuance under all equity-based compensation arrangements as a percentage of the weighted average number of outstanding common shares for the relevant year ⁽¹⁾	2.67 %	2.82 %	3.49 %
Dilution - number of common shares issuable pursuant to outstanding awards as a percentage of the weighted average number of outstanding common shares for the relevant year ⁽²⁾⁽³⁾	0.95 %	0.98 %	1.09 %
Burn rate - number of common shares issuable pursuant to awards granted during the year as a percentage of the weighted average number of outstanding common shares for the relevant year ⁽³⁾	0.078%	0.081%	1.091%

Notes:

- ¹ The weighted average number of outstanding common shares during the last three years were as follows: 496,272,733 common shares for the year ended December 31, 2015, 595,000,000 common shares for the year ended December 31, 2016 and 595,287,586 common shares for the year ended December 31, 2017.
- ² In connection with the company's initial public offering, rights to receive an aggregate of 5,412,354 common shares were granted to certain employees represented by the Power Workers' Union and the Society of United Professionals pursuant to two share grant plans. At December 31, 2016 rights to receive an aggregate of 5,334,415 common shares remained outstanding. At December 31, 2017 rights to receive an aggregate of 4,825,732 common shares remained outstanding. For further details, see " - Share Grant Plans for Certain Members of the Power Workers' Union and the Society of United Professionals" starting on page 95.
- ³ LTIP awards consisting of PSUs and RSUs granted in 2016 and outstanding at December 31, 2016 represent 484,750 common shares issuable (after giving effect to certain forfeitures), assuming all PSUs vest at 100% of their target and all RSUs vest in full. LTIP awards consisting of PSUs and RSUs granted in 2017 represent 463,210 common shares issuable (after giving effect to certain forfeitures) and the total LTIP awards outstanding at December 31, 2017 represent 823,410 common shares issuable (after giving effect to certain forfeitures), assuming all PSUs vest at 100% of their target and all RSUs vest in full. The terms of the PSUs provide that depending on the achievement of certain performance measures, they may vest at 200% of their target.

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E. NEOs Biographies and Compensation Profiles

i. NEOs 2017 Compensation Profiles

Below are the 2017 compensation profiles for our named executive officers.

President and CEO

Mayo Schmidt, 60



Mr. Mayo Schmidt is the President and Chief Executive Officer of Hydro One. Prior to joining Hydro One, Mr. Schmidt served as President and Chief Executive Officer at Viterra Inc., a global food ingredients company operating in 14 countries providing critical nutritional food ingredients to over 50 countries. Early in his career, Mr. Schmidt held a number of key management positions of increasing responsibility at General Mills, Inc. until he joined ConAgra as President of their Canadian operations and spearheaded ConAgra’s expansion into Canada. In 2007, he led the consolidation of Canada’s agriculture sector which included the acquisition of Agricare United, following which he led the acquisition of ABB, Australia’s leading agriculture corporation growing Viterra Inc. from a \$200 Million market capitalization to finally a sale in 2012 for over \$7.5 Billion. Mr. Schmidt currently sits on the Board of Directors of Nutrien Ltd. and is also Chairman of its Governance Committee. He is a member of Harvard University Private and Public, Scientific, Academic and Consumer Food Policy Group, and is on Washburn University’s Foundation board of Trustees. Mr. Schmidt received his Honorary Doctorate of Commerce from Washburn in 2016 and his B.B.A. from Washburn in 1980.

President and CEO
Toronto, Ontario, Canada



2017 Target Total Direct Compensation -

Mr. Schmidt’s total target direct compensation was increased on May 4, 2017 as detailed below as a reflection of his performance since joining Hydro One in September 2015 and to align with compensation that is market competitive.

	January 1 to May 3, 2017	May 4 to December 31, 2017	Blended 2017 Target Compensation
Base Salary	\$850,000	\$1,200,000	\$1,082,054
Short Term Incentive	\$765,000 (90% of base salary)	\$1,320,000 (110% of base salary)	\$1,132,972
Long Term Incentive	\$2,380,000 (280% of base salary)	\$3,960,000 (330% of base salary)	\$3,427,562
Target Total Direct Compensation	\$3,995,000	\$6,480,000	\$5,642,588

2017 Performance

Mr. Schmidt’s short-term incentive award was 128% of his target opportunity, which represents a corporate performance multiplier of 128.9% (bearing an 80% weighting) and an individual performance multiplier of 124.3% (bearing a 20% weighting). This individual performance multiplier was based on the board’s assessment of Mr. Schmidt’s performance against his individual pre-defined scorecard. Mr. Schmidt reduced the health and safety components of the scorecards for all leaders to zero as a result of an aviation accident.

Mr. Schmidt continued to lead the company through its transformation and in 2017 delivered numerous significant achievements. He was awarded the 2017 Ontario Energy Association Leader of the Year Award.

In the first quarter of 2017, Mr. Schmidt led the development of a board-approved corporate strategy which culminated in the company-wide launch of a Purpose statement, set of core values and new strategic direction. The corporate strategy is a roadmap to optimizing the core business and pursuing innovation, diversification and disciplined growth. It prepares the company to meet evolving customer expectations and changing market dynamics in the utility industry. Safety continues to be the most important value in this organization and the company remains committed to achieving a world-class safety record. The organization experienced a tragic event on December 14 and a number of electrical contact incidents in 2017. There is a deep commitment in the company towards a stated objective of a journey to zero with the CEO’s personal engagement in every facet. The team is implementing strategies and procedures to effect cultural change across the organization.

As detailed under the "Share Performance" section starting on page 67, with rising interest rates and lower regulated return on equity that impacted transmission and distribution revenues, Hydro One, like many utilities, faced increasing pressure on its stock price. Hydro One's Total Shareholder Return for 2017 was approximately -1%. Under Mr. Schmidt's leadership, however, the company materially moderated the impact of these headwinds in a disciplined approach. Strong progress was achieved in executing against the corporate strategy. Mr. Schmidt led the successful management of operational and cost efficiency initiatives that delivered approximately \$89.5 Million in productivity savings in 2017 offsetting a weather related loss of income for three quarters which returned to normal in the fourth quarter. Mr. Schmidt established the company as an industry leader in customer advocacy by working with his leadership team to launch the Winter Relief Program and by collaborating with the Province to develop and carry out the Fair Hydro Plan and administering the Affordability Fund. He shaped a customer-centric culture that contributed to a 5% improvement over 2016 results in distribution customer satisfaction. Mr. Schmidt led the company through a five-year incentive rate application for the distribution business and successfully announced the acquisition of Avista which, when approved, positions the company to achieve scale, an innovation platform, a leadership position in a growing region, regulatory and asset diversification. Furthermore, Mr. Schmidt demonstrated a high level of personal engagement with key stakeholders including the Indigenous community leaders, provincial leadership, regulatory agencies, shareholders and the financial community. In 2017, the organization experienced much improved relations with the Indigenous communities it serves with an expectation of a deep commitment for continued relationship building. The positive relationships Mr. Schmidt and his leadership team built with Indigenous leadership resulted in signed memoranda of understanding with each of the Six Nations and the Mississaugas of the New Credit that will see joint ownership of the assets related to the Niagara Reinforcement Project.

In 2017, Mr. Schmidt also focused on building a market leading team of professionals ensuring a strong fit and complement for the company's culture. In addition, Mr. Schmidt and his leadership team undertook a detailed succession planning and talent review designed to identify high potential and diverse future leaders.

Actual Compensation - Mr. Schmidt's total direct compensation was increased on May 4, 2017 as described above. His actual compensation reflects this change, as well as his performance.

	2015 (pro-rated)	2016	2017
Base Salary	\$281,154	\$850,000	\$1,082,054
Short Term Incentive	\$253,038	\$1,170,000(1)	\$1,450,000(1)
Long Term Incentive	\$787,231	\$2,379,948(2)	\$3,542,265(2)
Total direct compensation	\$1,321,423	\$4,399,948	\$6,074,319

Number of common shares owned as at December 31, 2017: 17,768

Number of PSUs as at December 31, 2017: 142,157

Number of RSUs as at December 31, 2017: 111,730

Number of management DSUs as at December 31, 2017: 50,041

Status under share ownership guidelines (3): On target

Mr. Schmidt's equity ownership is presented below as of December 31, 2017.

Value of common shares(\$)(4)		Value of RSUs and Management DSUs(\$)(4)		Total value for share ownership requirements(\$)(5)	As a multiple of base salary	Value of PSUs(\$)(4)(6)	Total value of equity holdings(\$)(4)
ESOP	Non-ESOP	RSUs	DSUs				
148,390	251,390	2,687,453	1,199,324	4,286,557	3.57x	3,414,030	7,700,587

Notes:

- Mr. Schmidt's 2017 short term incentive award was calculated based on pro-rated salary amounts for the year. For 2016, Mr. Schmidt was granted a short term incentive award of \$1,170,000 representing a full year payout of 153% of his target opportunity. Mr. Schmidt elected to take 100% of his 2016 short term incentive award in management DSUs.
- In 2017, Mr. Schmidt was granted long term equity incentive awards with an aggregate value on the date of grant of \$3,542,265 (subject to rounding) and said award was calculated based on pro-rated salary amounts for the year. These awards were granted in the form of 88,890 PSUs and 59,260 RSUs. Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. In 2016, Mr. Schmidt was granted long term equity incentive awards with an aggregate value on the date of grant of \$2,379,948 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 48,950 PSUs and 48,950 RSUs. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount for Mr. Schmidt in 2016 was \$61,942. The dividend equivalent amount earned in 2017 for the PSUs and RSUs granted in both 2016 and 2017 (excluding management DSUs) was \$179,269.
- Mr. Schmidt has until November 5, 2020 (five years from the closing date of the initial public offering of Hydro One's shares) to meet the share ownership requirements.
- Values are based on the acquisition cost per share of the common shares on the date of purchase, the original grant value (for PSUs, RSUs and management DSUs), dividend equivalents earned to date and assumes the PSUs vest at 100% of their target and the RSUs vest in full. Management DSUs are fully vested and accrue dividend equivalents when dividends are paid on the common shares and are redeemable for cash at the then prevailing market price of the common shares upon settlement after the NEO ceases to be employed. The value of management DSUs for Mr. Schmidt was calculated on the grant date by dividing (a) the amount of his annual incentive payout (less any pension contributions) to be paid in management DSUs by (b) the market price of our common shares, with fractions computed to three decimal places (decimal places are not shown). In 2017, Mr. Schmidt earned \$32,396 in dividend equivalents on his 2016 management DSUs.
- For purposes of the share ownership requirements, value is calculated using the original grant value (for RSUs and the acquisition cost (for common shares and management DSUs). Based on the \$22.40 share price as at December 29, 2017, the total value is \$4,021,673 which represents a 3.35 multiple of base salary.
- PSUs are not included in calculating compliance with the share ownership requirements.

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CFO

Michael Vels, 55



Former Chief Financial Officer
Palgrave, Ontario, Canada

Michael Vels was Hydro One’s Chief Financial Officer from July 1, 2015 until his resignation on May 19, 2017.

Before joining Hydro One, Mr. Vels was the Chief Financial Officer for Maple Leaf Foods Inc. Mr. Vels had over 20 years of experience with Maple Leaf Foods Inc. where he was responsible for leading organizational change, multiple capital market transactions, business acquisitions and divestitures, information technology transformations and restructurings. He also served on the board of directors of Maple Leaf Foods Inc.’s public traded subsidiary, Canada Bread Company, Limited. Mr. Vels led complex multi-divisional finance teams, information solutions and communications and investor relations functions and has considerable experience with mergers, acquisitions and divestitures. He currently serves on the Board of Directors of Canada’s National Ballet School.

Mr. Vels earned a Bachelor of Accountancy from the University of Witwatersrand, in Johannesburg, South Africa. He is a Chartered Accountant (South African Institute of Chartered Accountants) and he has earned his ICD.D (Institute of Corporate Directors) designation.

As CFO, Mr. Vels was responsible for finance and treasury, regulatory, information technology, risk and pensions, and supporting the President and CEO and the board to achieve transformational change at Hydro One and implement its strategic objectives.



2017 Target Total Direct Compensation -

Mr. Vels’ target total direct compensation was increased effective January 1, 2017 as detailed below.

Base Salary	\$525,000
Short Term Incentive	\$367,500 (70% of base salary)
Long Term Incentive	\$945,000 (180% of base salary)
Target Total Direct Compensation	\$1,837,500

2017 Performance

As Mr. Vels resigned on May 19, 2017, he was not eligible for any STIP in respect of 2017.

Actual Compensation - Mr. Vels’ base salary of \$500,000 as at December 31, 2016 was increased to \$525,000 effective January 1, 2017 and remained at this amount until the date of his resignation on May 19, 2017. As Mr. Vels resigned on May 19, 2017, his long term incentive awards from 2016 and 2017 and his short term incentive award for 2017 were forfeited.

	2015 (pro-rated)	2016	2017 (pro-rated)
Base Salary	\$253,846	\$500,000	\$ 199,931
Short Term Incentive	\$152,308	\$447,444 (1)	\$0 (1)
Long Term Incentive(2)	\$355,385	\$700,128	\$945,022
Total direct compensation	\$761,539	\$ 1,647,572	\$ 1,144,953

Status under Share Ownership Guidelines (3): N/A

The equity ownership information for Mr. Vels is not applicable as he is no longer an officer of Hydro One.

Value of Common shares(\$)		Value of RSUs and Management DSUs(\$)		Total value for share ownership requirements(\$) ⁽³⁾	As a multiple of base salary	Value of PSUs(\$)	Total value of equity holdings(\$)
ESOP	Non-ESOP	RSUs	DSUs				
	N/A		N/A		N/A	N/A	N/A

Notes:

- ¹ For 2016, Mr. Vels was granted a short term incentive award of \$447,444 representing a full year payout of 149% of his target opportunity. As Mr. Vels resigned on May 19, 2017, he was not eligible for a short term incentive award in respect of 2017.
- ² In 2017, Mr. Vels was granted long term equity incentive awards with an aggregate value on the date of grant of \$945,022 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 23,380 PSUs and 15,590 RSUs. Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount earned in 2017 (for the PSUs and RSUs granted in both 2016 and 2017 (excluding management DSUs) was \$6,205. In 2016, Mr. Vels was granted long term equity incentive awards with an aggregate value on the date of grant of \$700,128 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 14,400 PSUs and 14,400 RSUs. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount for Mr. Vels for 2016 was \$18,221. All unvested awards expired on the date of Mr. Vels' resignation (May 19, 2017) per the terms of the LTIP; accordingly, his long term incentive awards for 2016 and 2017 were forfeited. For 2015 only, in place of his long term incentive, Mr. Vels received a cash payment in respect of his target long term incentive award of 140% of base salary and a payment in respect of his target short term incentive award of 60% of base salary, in each case pro-rated from his July 1, 2015 start date.
- ³ The share ownership requirements ceased to apply to Mr. Vels when he resigned on May 19, 2017.

3
EXECUTIVE COMPENSATION



SVP, Finance (Acting in the capacity of Chief Financial Officer)

Chris Lopez, 43



Effective November 14, 2016, Mr. Lopez was appointed as Senior Vice President of Finance, bringing almost 17 years of progressive experience in the utilities industry in Canada and Australia. Prior to joining Hydro One, Mr. Lopez was the Vice President, Corporate Planning and Mergers & Acquisitions at TransAlta Corporation from 2011 to 2015. Prior to that, Mr. Lopez was Director of Operations Finance at TransAlta in Calgary from 2007 to 2011, and he held senior financial roles up to and including Country Financial Controller for TransAlta in Australia, from 1999 to 2007. Mr. Lopez worked as a Senior Financial Accountant with Rio Tinto Iron Ore, in Australia from 1997 to 1999.

Mr. Lopez received a Bachelor of Business degree from Edith Cowan University in 1996, and a Chartered Accountant designation in Australia in 1999. He received a graduate diploma in corporate governance and directorships from the Australian Institute of Company Directors in 2007.

SVP, Finance (Acting in the capacity of Chief Financial Officer)
Toronto, Ontario, Canada



2017 Target Total Direct Compensation -

As detailed below, Mr. Lopez' s target total direct compensation was increased effective April 1, 2017.

	January 1 to March 31, 2017	April 1 to December 31, 2017	Blended 2017 Target Compensation
Base Salary	\$300,000	\$313,500	\$310,170
Short Term Incentive	\$120,000 (40% of base salary)	\$125,400 (40% of base salary)	\$124,068
Long Term Incentive	\$255,000 (85% of base salary)	\$255,000 (85% of base salary)	\$255,000
Target Total Direct Compensation	\$675,000	\$693,900	\$689,238

2017 Performance

Mr. Lopez' s short-term incentive award was 129.7% of his target opportunity, which represents a corporate performance multiplier of 128.9% (bearing an 80% weighting) and an individual performance multiplier of 133% (bearing a 20% weighting).

Mr. Lopez was accountable for leading the management of financial governance and reporting, treasury management, taxation and planning and analysis before stepping up into the acting role of Chief Financial Officer for the second half of 2017 following the departure of Michael Vels.

Mr. Lopez successfully delivered against his individual objectives. He demonstrated strong leadership and financial management through the \$6.7 Billion cash acquisition of Avista. His team was instrumental to the assessment and execution of the \$1.4 Billion deal-contingent foreign exchange forward contract to convert the proceeds from Hydro One' s convertible debt offering in July 2017 into USD to finance the acquisition.

In 2017, the company improved its reporting and investment planning processes. Under Mr. Lopez' s leadership, the Finance group undertook several projects to simplify and advance data governance, financial and operational reporting which were key to the achievement of our financial and business results this year. The improvements to monthly operational reports, automation of external reporting and communicating the value and quality of the information reported have enabled timely and effective business decisions. Examples include productivity savings of approximately \$89.5 Million achieved in 2017, in service capital additions accuracy, enhanced allocation and management of overhead and corporate common costs. Mr. Lopez also led the development of a financial system roadmap designed to modernize reporting systems and processes over the next 24 months.

Actual Compensation - Mr. Lopez' s base salary of \$300,000 as at December 31, 2016 was increased to \$313,500 on April 1, 2017.

	2015	2016 (pro-rated)	2017
Base Salary	N/A	\$39,344	\$310,170
Short Term Incentive	N/A	\$22,227 (1)	\$162,678(1)
Long Term Incentive	N/A	N/A (2)	\$255,110(2)
Total direct compensation	N/A	\$61,571	\$727,958

Number of common shares owned as at December 31, 2017: 672

Number of PSUs as at December 31, 2017: 6,494

Number of RSUs as at December 31, 2017: 4,333

Status under share ownership guidelines (3): On target

Mr. Lopez' s equity ownership is presented below as of December 31, 2017 except for management DSUs granted in 2018 in respect of 2017 STIP.

Value of common shares\$(4)	Value of RSUs and Management DSUs\$(4)		Total value for share ownership requirements\$(5)	As a multiple of base salary	Value of PSUs\$(4)(6)	Total value of equity holdings\$(4)	
	ESOP	Non-ESOP					RSUs
15,192	0	104,897	153,272	273,361	0.87x	157,221	430,582

Notes:

- For 2016, Mr. Lopez was granted a short term incentive award of \$22,227 representing a payout of 141.2% of his target opportunity pro-rated for the length of his service in 2016. In 2017, Mr. Lopez elected to take 100% of his short term incentive award in management DSUs and his short term incentive award was calculated based on pro-rated salary amounts for the year.
- In 2017, Mr. Lopez was granted long term equity incentive awards with an aggregate value on the date of grant of \$255,110 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 6,310 PSUs and 4,210 RSUs. Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount earned in 2017 (for the PSUs and RSUs granted in both 2016 and 2017 (excluding management DSUs) was \$7,009. Consistent with the terms of his employment agreement, Mr. Lopez was not granted any long term equity incentive awards for 2016.
- Mr. Lopez has until November 14, 2021 (five years from the effective date of his appointment) to meet the share ownership requirements.
- Values are based on the acquisition cost per share of the common shares on the date of purchase, the original grant value (for PSUs, RSUs and management DSUs), dividend equivalents earned to date and assumes the PSUs vest at 100% of their target and the RSUs vest in full. Management DSUs are fully vested and accrue dividend equivalents when dividends are paid on the common shares and are redeemable for cash at the then prevailing market price of the common shares upon settlement after the NEO ceases to be employed. The value of management DSUs for Mr. Lopez was calculated on the grant date by dividing (a) the amount of his annual incentive payout (less any pension contributions) to be paid in management DSUs by (b) the market price of our common shares, with fractions computed to three decimal places (decimal places are not shown).
- For purposes of the share ownership requirements, value is calculated using the original grant value (for RSUs) and the acquisition cost (for common shares and management DSUs). Based on the \$22.40 share price as at December 29, 2017, the total value is \$276,683 which represents an 0.88 multiple of base salary.
- PSUs are not included in calculating compliance with the share ownership requirements.

3 EXECUTIVE COMPENSATION



Chief Operating Officer

Gregory Kiraly, 53



Chief Operating Officer
Toronto, Ontario, Canada

Effective September 12, 2016, Gregory Kiraly was appointed to the role of Chief Operating Officer (COO) of Hydro One.

Prior to joining Hydro One in 2016, Mr. Kiraly served as senior vice president of Electric Transmission and Distribution at Pacific Gas and Electric Company (PG&E) in San Francisco, which delivers safe and reliable energy to more than 16 million customers in northern and central California. Since joining PG&E in 2008, Mr. Kiraly led efforts that achieved the lowest employee injury rates ever, seven straight years of record electric reliability, and over \$500 Million in productivity improvements and efficiency savings. Before PG&E, Mr. Kiraly held executive-level positions in energy delivery at Commonwealth Edison (Exelon) in Chicago and leadership positions in both gas and electric distribution at Public Service Electric and Gas Company in Newark, New Jersey.

Mr. Kiraly holds a bachelor's degree in industrial engineering from New Jersey Institute of Technology and a master's of business administration in finance from Seton Hall University. He is also a graduate of Harvard University's Advanced Management Program.



2017 Target Total Direct Compensation -

Mr. Kiraly's target total direct compensation has remained unchanged since his date of hire in 2016.

Base Salary	\$550,000
Short Term Incentive	\$385,000 (70% of base salary)
Long Term Incentive	\$1,072,500 (195% of base salary)
Target Total Direct Compensation	\$2,007,500

2017 Performance

Mr. Kiraly's short-term incentive award was 129.9% of his target opportunity, which represents a corporate performance multiplier of 128.9% (bearing an 80% weighting) and an individual performance multiplier of 134% (bearing a 20% weighting). As with Mr. Schmidt, Mr. Kiraly's individual results reflect management's decision to reduce the health and safety component of his individual scorecard to zero due to the aviation accident.

As Chief Operating Officer, Mr. Kiraly oversees the complete transmission and distribution value chain including Planning, Engineering, Construction, Operations, Maintenance, and Forestry; Shared Services functions including Facilities, Real Estate, Fleet, and Procurement; and the Telecom and Remote Communities subsidiaries. Mr. Kiraly is leading the operational transformation of Hydro One with a focus on "operational excellence" and a renewed commitment to providing safe, reliable, and affordable power to its customers. During his first full year as Chief Operating Officer, Mr. Kiraly has restructured the operations organization and re-staffed his executive leadership team. A new operating model has been developed and implemented, with a comprehensive leadership and governance structure that drives accountability for significantly improved results. With the tragic aviation accident in the last month of the year and a number of electrical contact incidents preceding it, Mr. Kiraly and his team are focused on achieving world-class safety performance through an integrated approach of the application of safety management system principles and employee engagement.

In 2017, Mr. Kiraly and his team continued to refine and execute comprehensive process changes that reflect best practices regarding capital work execution. The process changes included advanced project engineering and design; a new cost estimating system; a stage gate approval process; and an investment planning process that includes a comprehensive risk assessment process which results in a more objective, fact-based assessment of capital investment alternatives and capital allocation. These process changes have resulted in a reduction of variability in project over/under runs and has produced two successive years of "on target" execution of the transmission capital work portfolio of just under \$1 Billion annually.

Mr. Kiraly and his team drove major operational improvements resulting in approximately \$78.9 Million of the \$89.5 Million corporate-wide productivity savings achieved in 2017. In addition, Mr. Kiraly's team contributed to meaningful operating and capital cost reductions. Major technology projects have been implemented including a new field mobility platform that automates the scheduling, dispatch and general work management producing \$15 Million in annual savings and the installation of a telematics system on 5,000 fleet vehicles has resulted in a 10% reduction in fleet vehicles and equipment. Mr. Kiraly is also overseeing the development of a Grid Modernization strategy and plan that will maintain transmission reliability as top quartile, dramatically improve distribution reliability, enable technology, and provide greater customer choice. In order to address the impacts caused by multiple storms in the last half of the year and the ongoing need to improve distribution system reliability, Mr. Kiraly and his team developed and began implementation of two initiatives in 2017 - a new, best-in-class, transformational vegetation management program and the automation of the distribution grid.

Actual Compensation - Mr. Kiraly's base salary of \$550,000 as at December 31, 2017 has remained unchanged since his date of hire in 2016.

	2015	2016 (pro-rated)	2017
Base Salary	N/A	\$169,230	\$550,000
Short Term Incentive	N/A	\$166,363 (1)	\$500,000
Long Term Incentive	N/A	\$1,072,744 (2)	\$1,072,577(2)
Total direct compensation	N/A	\$1,408,337	\$2,122,577

Number of common shares owned as at December 31, 2017: 0

Number of PSUs as at December 31, 2017: 48,959

Number of RSUs as at December 31, 2017: 39,850

Status under share ownership guidelines (3): On target

Mr. Kiraly's equity ownership is presented below as of December 31, 2017.

Value of common shares\$(4)		Value of RSUs and Management DSUs\$(4)		Total value for share ownership requirements\$(5)	As a multiple of base salary	Value of PSUs\$(4)(6)	Total value of equity holdings\$(4)
ESOP	Non-ESOP	RSUs	DSUs				
0	0	995,837	0	995,837	1.81x	1,216,346	2,212,183

Notes:

1 For 2016, Mr. Kiraly was granted a short term incentive award of \$166,363 representing a payout of 142% of his target opportunity pro-rated for the length of his service in 2016.

2 In 2017, Mr. Kiraly was granted long term equity incentive awards with an aggregate value on the date of grant of \$1,072,577 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 26,540 PSUs and 17,690 RSUs. Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount earned in 2017 (for the PSUs and RSUs granted in both 2016 and 2017 (excluding management DSUs) was \$66,861. In 2016, Mr. Kiraly was granted long term equity incentive awards with an aggregate value on the date of grant of \$1,072,744 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 20,830 PSUs and 20,830 RSUs. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount for Mr. Kiraly for 2016 was \$9,690.

3 Mr. Kiraly has until September 12, 2021 (five years from the effective date of his appointment) to meet the share ownership requirements.

4 Values are based on the acquisition cost per share of the common shares on the date of purchase, the original grant value (for PSUs and RSUs), dividend equivalents earned to date and assumes the PSUs vest at 100% of their target and the RSUs vest in full.

5 For purposes of the share ownership requirements, value is calculated using the original grant value (for RSUs) and the acquisition cost (for common shares). Based on the \$22.40 share price as at December 29, 2017, the total value is \$892,645 which represents an 1.62 multiple of base salary.

6 PSUs are not included in calculating compliance with the share ownership requirements.

3
EXECUTIVE COMPENSATION



EVP, Customer Care and Corporate Affairs

Ferio Pugliese, 49



EVP, Customer Care and Corporate Affairs
Toronto, Ontario, Canada

Effective September 9, 2016, Mr. Ferio Pugliese was appointed to the role of Executive Vice President, Customer Care and Corporate Affairs of Hydro One.

Prior to his appointment, Mr. Pugliese held progressively senior leadership roles in hospitality, pulp and paper and airline industries with responsibility for human resources, operations and customer service. Since 2007, Mr. Pugliese was a member of the Executive Leadership team at Westjet Airlines serving as WestJet’s Executive Vice President People, Culture and Inflight Services and in 2013 led the launch and successful operation of the company’s regional airline as President of WestJet Encore. WestJet Encore was recognized for having the continent’s top on-time performance for regional airlines in 2015. Mr. Pugliese is highly recognized as a market leader in customer service and brings expertise in building and leading a winning culture focused on serving customers and communities.

Mr. Pugliese was recognized by Caldwell Partners as one of Canada’s Top 40 under 40 in 2007. He holds a Master of Arts degree in Adult Education from Central Michigan University, an Honours Bachelor of Arts degree in Social Science and an Honours Bachelor of Commerce degree from the University of Windsor.



2017 Target Total Direct Compensation -

Mr. Pugliese’s target total direct compensation has remained unchanged since his date of hire in 2016.

Base Salary	\$525,000
Short Term Incentive	\$367,500 (70% of base salary)
Long Term Incentive	\$945,000 (180% of base salary)
Target Total Direct Compensation	\$1,837,500

2017 Performance

Mr. Pugliese’s short-term incentive award was 130.6% of his target opportunity, which represents a corporate performance multiplier of 128.9% (bearing an 80% weighting) and an individual performance multiplier of 137.5% (bearing a 20% weighting).

As Executive Vice President, Customer Care and Corporate Affairs, Mr. Pugliese has responsibility for the company’s customer care strategy, Indigenous relations, government relations, marketing and branding.

In 2017, under Mr. Pugliese’s leadership, his team delivered the following improvements to the business. Customer satisfaction with Hydro One’s distribution customers increased to 71% overall. While this increase represents 1% below target due mainly to customers’ dissatisfaction with electricity rates, overall it represents the highest customer satisfaction rate in four years and a 5% improvement over 2016 results due to strong operational performance. Customer satisfaction with Hydro One’s transmission customers increased to 87% overall which represents a 10% improvement over 2016 results. The contact centre received 2.5 million calls in 2017, of which 82% were answered within 30 seconds. Furthermore, overall call volumes also declined 11% from 2016, which is a reflection of the improved health in the underlying collections and billing operations, along with continued investments in digital technologies. Billing Accuracy surpassed the Ontario Energy Board requirements of 98% and is the highest in company history, exceeding 99%; Hydro One’s improved policies and practices have resulted in significant customer benefits and the largest reduction in overdue accounts receivable in the company’s history with a decrease of \$45 Million since the end of 2016; customer disconnections for non-payment has declined nearly 60%; bad debt expense was 25% below budget; the team interacted with over 1,400 First Nation customers face-to-face across the province to advance Hydro One’s relationships with First Nation customers; and the company met its 2017 conservation and demand management energy savings targets.

Mr. Pugliese and his team worked collaboratively with two unions to bring over 400 contact centre employees in-house in 2018 which will deliver improved service quality, agent flexibility and cost efficiency. Hydro One’s Contact Centre was also the first electricity service provider in Ontario to open to customers on Saturdays. Mr. Pugliese also led his team to introduce a redesigned bill based on customer feedback and unencumbered

by existing regulations. Furthermore, the company's Winter Relief program was well received in 2016 and was mandated across the province in 2017, whereby the Ontario Energy Board issued a decision and order banning licensed electricity distributors from disconnecting homes for non-payment during the winter. In order to address affordability, Mr. Pugliese's team also eliminated all security deposits for residential customers, reduced security deposit requirements for businesses, and returned over \$12 Million to customers.

Actual Compensation - Mr. Pugliese's base salary of \$525,000 as at December 31, 2017 has remained unchanged since his date of hire in 2016.

	2015	2016 (pro-rated)	2017
Base Salary	N/A	\$163,557	\$525,000
Short term incentive	N/A	\$163,093 (1)	\$480,000
Long Term Incentive	N/A	\$945,152 (2)	\$945,022 (2)
Special Awards - STIP	N/A	\$192,787 (3)	N/A
Special Awards - LTIP	N/A	\$1,399,802 (3)	N/A
Total direct compensation	N/A	\$2,864,391	\$1,950,022

Number of common shares owned as at December 31, 2017: 7,932

Number of PSUs as at December 31, 2017: 70,956

Number of RSUs as at December 31, 2017: 48,942

Status under share ownership guidelines (4): On target

Mr. Pugliese's equity ownership is presented below as of December 31, 2017.

Value of common shares(\$)(5)		Value of RSUs and Management DSUs(\$)(5)		Total value for share ownership requirements(\$)(6)	As a multiple of base salary	Value of PSUs(\$)(5)(7)	Total value of equity holdings(\$)(5)
ESOP	Non-ESOP	Management RSUs	DSUs				
34,819	155,104	1,239,387	0	1,429,310	2.72x	1,795,526	3,224,836

Notes:

1 For 2016, Mr. Pugliese was granted a short term incentive award of \$163,093 representing a payout of 142% of his target opportunity pro-rated for the length of his service in 2016.

2 In 2017, Mr. Pugliese was granted long term equity incentive awards with an aggregate value on the date of grant of \$945,022 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 23,380 PSUs and 15,590 RSUs. Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount earned in 2017 (for the PSUs and RSUs granted in both 2016 and 2017 (excluding management DSUs) was \$94,887. In 2016, Mr. Pugliese was granted long term equity incentive awards with an aggregate value on the date of grant consistent with the terms of his employment agreement. These awards were granted in the form of 18,190 PSUs and 18,190 RSUs.

3 In recognition of the forfeited short-term incentive plan payment as a result of his departure from his former employer, Mr. Pugliese received a one-time attraction incentive payment of \$192,787 to reflect the pro-rated portion of the bonus earned at target at his previous employer. This payment was made at the same time the Hydro One 2016 STIP payment was processed in early 2017. In addition, in recognition of the estimated LTIP value forfeited from his previous employer, Mr. Pugliese received the following attraction incentive equity awards in 2016:

a one-time award of PSUs equivalent to \$699,901 (subject to rounding and in the form of 26,940 PSUs) with vesting at December 31, 2018 (performance period: January 1, 2016 to December 31, 2018) and contingent on the standard terms and conditions of the other PSUs granted in 2016, including earnings per share relative to the performance targets and maintenance of the annualized dividend rate at a minimum level;

a one-time award of RSUs equivalent to \$699,901 (subject to rounding and in the form of 26,940 RSUs) with vesting as follows: 50% vested May 2017 (13,825 shares (including dividend equivalents) with a value of on vesting of \$329,948 and 50% vest May 2018.

Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. All equity incentive amounts granted to Mr. Pugliese exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The total dividend equivalent amount for Mr. Pugliese for 2016 was \$21,180.

4 Mr. Pugliese has until September 9, 2021 (five years from the effective date of his appointment) to meet the share ownership requirements.

5 Values are based on the acquisition cost per share of the common shares on the date of purchase, the original grant value (for PSUs and RSUs), dividend equivalents earned to date and assumes the PSUs vest at 100% of their target and the RSUs vest in full.

6 For purposes of the share ownership requirements, value is calculated using the original grant value (for RSUs) and the acquisition cost (for common shares). Based on the \$22.40 share price as of December 29, 2017, the total value is \$1,275,301 which represents an 2.43 multiple of base salary.

7 PSUs are not included in calculating compliance with the share ownership requirements.

3
EXECUTIVE COMPENSATION



EVP and Chief Legal Officer

James Scarlett, 64



Effective September 1, 2016, Mr. James Scarlett was appointed as Executive Vice President and Chief Legal Officer of Hydro One.

Prior to joining Hydro One, Mr. Scarlett was a Senior Partner at Torys LLP. He joined Torys in March 2000 and held a number of leadership roles at the firm, including head of Torys' Capital Markets Group, Mining Group and International Business Development Strategy. Mr. Scarlett was also a member of the firm's Executive Committee from 2009-2015. Prior to joining Torys, Mr. Scarlett was a partner at another major Canadian law firm. While at that firm Mr. Scarlett held leadership roles as head of its Corporate Group, Securities Group and as a member of its Board. Mr. Scarlett was also seconded to the Ontario Securities Commission in 1987 and was appointed as the first Director of Capital Markets in 1988, a position he held until his return to private law practice in 1990.

Mr. Scarlett earned his law degree (J.D.) from the University of Toronto in 1981 and his Bachelor of Commerce Degree from the University of McGill in 1975. In 2015, Mr. Scarlett earned his ICD.D (Institute of Corporate Directors) designation.

EVP and Chief Legal Officer
Toronto, Ontario, Canada



2017 Target Total Direct Compensation -

Mr. Scarlett's target total direct compensation has remained unchanged since his date of hire in 2016.

Base Salary	\$500,000
Short Term Incentive	\$350,000 (70% of base salary)
Long Term Incentive	\$900,000 (180% of base salary)
Target Total Direct Compensation	\$1,750,000

2017 Performance

Mr. Scarlett's short-term incentive award was 132.9% of his target opportunity, which represents a corporate performance multiplier of 128.9% (bearing an 80% weighting) and an individual performance multiplier of 149% (bearing a 20% weighting).

As Executive Vice President and Chief Legal Officer, Mr. Scarlett has responsibility for the company's legal department and participates and leads a number of strategic initiatives. As well, Mr. Scarlett acts as the executive team's trusted advisor on a range of issues.

In 2017, Mr. Scarlett led the successful negotiation and execution of the Hydro One/Avista merger agreement. He initiated and continues to lead Hydro One's efforts regarding the regulatory approval process associated with the merger. Mr. Scarlett also played a key role in activities related to acquisitions of local distribution companies.

Upon Mr. Vels' resignation as Chief Financial Officer, Mr. Scarlett assumed the day to day oversight of the company's Regulatory Affairs and Risk portfolios. This included leading the process for seeking a review and variance of the Ontario Energy Board's decision regarding the treatment of the company's deferred tax asset. Mr. Scarlett also led the development of the company's internal fraud risk management program and provided leadership on certain code of conduct matters.

In 2017, Mr. Scarlett restructured the company's legal department and renegotiated arrangements with external counsel resulting in savings of approximately \$540,000. In addition, in respect of the Avista transaction, Mr. Scarlett arranged for cost reductions of external legal fees of approximately \$500,000. Mr. Scarlett was successful in delivering on other cost reduction initiatives related to information technology savings and the repatriation of the Contact Centre previously run by its major service provider, Inergi LP.

Actual Compensation - Mr. Scarlett's base salary of \$500,000 as at December 31, 2017 has remained unchanged since his date of hire in 2016.

	2015	2016 (pro-rated)	2017
Base Salary	N/A	\$167,307	\$500,000
Short Term Incentive	N/A	\$166,227 (1)	\$465,220 (1)
Long Term Incentive	N/A	\$899,888 (2)	\$900,160 (2)
Total direct compensation	N/A	\$1,233,422	\$1,865,380

Number of common shares owned as at December 31, 2017: 1,442

Number of PSUs as at December 31, 2017: 40,771

Number of RSUs as at December 31, 2017: 33,135

Status under share ownership guidelines (3)

Mr. Scarlett's equity ownership is presented below as of December 31, 2017 except for management DSUs granted in 2018 in respect of 2017 STIP.

Value of common shares (\$)(4)		Value of RSUs and Management DSUs(\$)(4)		Total value for share ownership requirements (\$)(5)	As a multiple of base salary	Value of PSUs (\$)(4)(6)	Total value of equity holdings (\$)(4)
ESOP	NON-ESOP	RSUs	Management DSUs				
33,161	0	835,370	456,130	1,324,661	2.65x	1,020,250	2,344,911

Notes:

- For 2016, Mr. Scarlett was granted a short term incentive award of \$166,227 representing a payout of 142% of his target opportunity pro-rated for the length of his service in 2016. In 2017, Mr. Scarlett elected to take 100% of his short term incentive award in management DSUs.
- In 2017, Mr. Scarlett was granted long term equity incentive awards with an aggregate value on the date of grant of \$900,160 consistent with the terms of his employment agreement (subject to rounding). These awards were granted in the form of 22,270 PSUs and 14,850 RSUs. Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount earned in 2017 (for the PSUs and RSUs granted in both 2016 and 2017 (excluding management DSUs) was \$55,572. In 2016, Mr. Scarlett was granted long term equity incentive awards with an aggregate value on the date of grant of \$899,888 consistent with the terms of his employment agreement. These awards were granted in the form of 17,180 PSUs and 17,180 RSUs. The amounts shown exclude dividend equivalent amounts earned on the PSUs and RSUs granted. The dividend equivalent amount for Mr. Scarlett for 2016 was \$8,128.
- Mr. Scarlett has until September 1, 2021 (five years from the effective date of his appointment) to meet the share ownership requirements.
- Values are based on the acquisition cost per share of the common shares on the date of purchase, the original grant value (for PSUs and RSUs), dividend equivalents earned to date and assumes the PSUs vest at 100% of their target and RSUs vest in full.
- For purposes of the share ownership requirements, value is calculated using the original grant value (for RSUs) and the acquisition cost (for common shares and management DSUs). Based on the \$22.40 share price as of December 29, 2017, the total value is \$1,264,317 which represents a 2.53 multiple of base salary.
- PSUs are not included in calculating compliance with the share ownership requirements.

3 EXECUTIVE COMPENSATION



EXECUTIVE COMPENSATION

ii. Summary Compensation Table

The following table sets out the compensation earned by the NEOs during the fiscal years 2015, 2016 and 2017, as applicable.

Name and Principal position	Year	Salary (\$)(1)	Share based awards (\$)(3)(4)	Option based awards (\$)	Annual incentive Plans (\$)(5)	Non-equity incentive plan compensation (\$)		All other compensation (\$)(2)(13)	Total Compensation (\$)
						Long term incentive Plans (\$)	Pension Value (\$)		
Mayo Schmidt President and Chief Executive Officer	2017	1,082,054	3,542,265	N/A	1,450,000	N/A	89,423	25,980	6,189,722
	2016	850,000	2,379,948	N/A	1,170,000	N/A	64,024 (11)	20,081	4,484,053
	2015	281,154	0	N/A	253,038 (8)	0	0 (10)	825,187 (8)(10)	1,359,379
Michael Vels Former Chief Financial Officer (14)	2017	199,931	945,022	N/A	N/A	N/A	28,950	7,335	1,181,238
	2016	500,000	700,128	N/A	447,444	N/A	37,869 (11)	13,873	1,699,314
	2015	253,846	0	N/A	152,308 (9)	0	0 (10)	389,654 (9)(10)	795,808
Chris Lopez SVP, Finance (Acting in the capacity of Chief Financial Officer)(12)	2017	310,170	255,110	N/A	162,678	N/A	19,903	5,064	752,925
	2016	39,344	0	N/A	22,227	N/A	1,592	0	63,163
Gregory Kiraly Chief Operating Officer	2017	550,000	1,072,577	N/A	500,000	N/A	42,981	N/A	2,165,558
	2016	169,230	1,072,744	N/A	166,363	N/A	8,630	N/A	1,416,967
Ferio Pugliese EVP, Customer Care and Corporate Affairs	2017	525,000	945,022	N/A	480,000	N/A	41,285	11,509	2,002,816
	2016	163,557	2,344,954(7)	N/A	163,093	N/A	7,955	192,787 (6)	2,872,346
James Scarlett EVP and Chief Legal Officer	2017	500,000	900,160	N/A	465,220	N/A	39,973	10,961	1,916,314
	2016	167,307	899,888	N/A	166,227	N/A	8,653	N/A	1,242,075

Notes:

- 1 Base salaries presented are actual amounts earned for fiscal years 2015, 2016 and 2017, as applicable. For the NEOs, they represent pro-rated amounts of their respective annual base salaries for 2015 or 2016, as applicable, depending on the year they joined the company: Mr. Schmidt - \$850,000 (2015), Mr. Vels - \$500,000 (2015), Mr. Gregory Kiraly - \$550,000 (2016), Mr. Ferio Pugliese - \$525,000 (2016), Mr. James Scarlett - \$500,000 (2016), and Mr. Chris Lopez - \$300,000 (2016). For 2017, the annual base salaries represent the pro-rated amounts for Mr. Schmidt, with a salary of \$850,000 from January 1, 2017 to May 3, 2017 and a salary of \$1,200,000 from May 4, 2017 to December 31, 2017 and Mr. Lopez with a salary of \$300,000 from January 1, 2017 to March 31, 2017 and a salary of \$313,500 from April 1, 2017 to December 31, 2017.
- 2 None of the NEOs are entitled to perquisites or other personal benefits which, in the aggregate, are worth more than \$50,000 or 10% of their annualized base salary for each of 2015, 2016 and 2017.
- 3 Each NEO is eligible to receive an annual LTIP award consistent with market practices and quantum for comparative companies as defined by the board. The mix of instruments which will comprise the LTIP award will be determined annually and may vary from year to year at the board's discretion. In 2016, each NEO other than Mr. Lopez was eligible to receive an LTIP award as a percentage of base salary divided equally between PSUs and RSUs (the PSUs and RSUs collectively referred to as the "Awards"). In 2017, PSUs and RSUs represented 60% and 40% of the LTIP award respectively. The number of PSUs and RSUs granted pursuant to the Awards were determined by reference to the closing price of the common shares of the company on the grant date of the Awards. For Mr. Schmidt, the 2017 LTIP award was 280% of pro-rated base salary from January 1, 2017 to May 3, 2017 and 330% of pro-rated base salary from May 4, 2017 to December 31, 2017). Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The amounts shown exclude dividend equivalent amounts earned on the PSUs, RSUs and management DSUs, as applicable. The dividend equivalent amounts for the NEOs in 2016 and 2017 were as follows: Mr. Schmidt - \$61,942 (2016), \$179,269 (2017); Mr. Vels - \$18,221 (2016), \$6,205 (2017); Mr. Lopez - \$0 (2016), \$7,009 (2017); Mr. Kiraly - \$9,690 (2016), \$66,861 (2017); Mr. Pugliese - \$21,180 (2016), \$94,887 (2017); Mr. Scarlett - \$8,128 (2016), \$55,572 (2017).

- 4 The dollar amounts represent the fair value of the awards on the grant date determined as a percentage of base salary (subject to rounding). The fair value of the PSUs and RSUs was determined by multiplying the number of units granted by the closing price of the common shares on the date of grant. As noted, the value of the awards is determined as a percentage of base salary, which is established based on benchmarking data. In 2016, the awards were an equal allocation of PSUs and RSUs. In 2017, PSUs and RSUs represented 60% and 40% of the LTIP award respectively.
- 5 The short term incentive awards are attributed to the noted financial year, are based on a percentage of base salary and are paid by April 1 of the following year. Executives can elect to receive up to 100% of the short term incentive awards in management DSUs. For Mr. Schmidt and Mr. Lopez, their 2017 LTIP award was calculated based on pro-rated salary amounts for the year. In 2017, Mr. Lopez and Mr. Scarlett elected to take 100% of their short term incentive award in management DSUs. In 2016, Mr. Schmidt elected to take 100% of his short term incentive award in management DSUs. Mr. Pugliese, Mr. Kiraly, Mr. Scarlett and Mr. Lopez were not eligible to make such an election in 2016. Each NEO, other than Messrs. Schmidt and Vels, were granted a short term incentive award pro-rated for the length of his service in 2016.
- 6 In recognition of the forfeited short-term incentive plan payment as a result of his departure from his former employer, Mr. Pugliese received a one-time attraction incentive payment to reflect the pro-rated portion of the bonus earned at target at his previous employer. This payment was made at the same time the Hydro One 2016 STIP payment was processed in early 2017.
- 7 In recognition of the estimated LTIP value forfeited from his previous employer, Mr. Pugliese received the following attraction incentive equity awards:
- a one-time award of 2016 PSUs equivalent to \$699,901 (subject to rounding) with vesting at December 31, 2018 (performance period: January 1, 2016 to December 31, 2018) and contingent on the standard terms and conditions of the 2016 PSUs, including earnings per share relative to the performance targets and maintenance of the annualized dividend rate at a minimum level; and
 - a one-time award of 2016 RSUs equivalent to \$699,901 (subject to rounding) with vesting as follows: 50% vested May 2017 (13,825 shares (including dividend equivalents) with a value on vesting of \$329,948) and 50% vest May 2018.
- Both PSUs and RSUs accrue dividend equivalents and are settled in common shares in accordance with the performance results and/or vesting requirement. The above dollar amounts exclude dividend equivalents.
- 8 For 2015 only, in place of his long term incentive, Mr. Schmidt received a cash payment in respect of his target long term incentive award of 280% of base salary and a payment in respect of his target short term incentive award of 90% of base salary, in each case pro-rated from his September 3, 2015 start date.
- 9 For 2015 only, in place of his long term incentive, Mr. Vels received a cash payment in respect of his target long term incentive award of 140% of base salary and a payment in respect of his target short term incentive award of 60% of base salary, in each case pro-rated from his July 1, 2015 start date.
- 10 Messrs. Schmidt and Vels did not participate in the Hydro One DBPP in 2015. In lieu of the contribution to the Hydro One DCP, Messrs. Schmidt and Vels received a cash payment representing the contribution Hydro One would otherwise have made to the DCP. This cash payment was \$37,956 for Mr. Schmidt and \$34,269 for Mr. Vels and is included under "All other compensation".
- 11 For Messrs. Schmidt and Vels, the amounts in 2016 include after tax dollars moved to a registered retirement savings plan for their benefit.
- 12 Following Mr. Vels resignation on May 19, 2017, Mr. Lopez has acted in the capacity of CFO. Mr. Lopez's base salary of \$300,000 as at December 31, 2016 was increased to \$313,500 on April 1, 2017. Mr. Lopez did not receive any long term incentive for 2016.
- 13 All NEOs, except Mr. Kiraly, participate in the non-union ESOP. Amounts include the employer contribution to ESOP on behalf of the NEO. For Mr. Schmidt and Mr. Vels, the amounts in this column for 2017 represent the company's contributions to the ESOP made in 2017 as well as a contribution made in respect of December 2016 but settled in January 2017.
- 14 Following Mr. Vels resignation on May 19, 2017, his long term incentive awards from 2016 and 2017 and his short term incentive award for 2017 were forfeited.

Outstanding Share-Based Awards and Option-Based Awards

The following chart provides details regarding outstanding option and share-based awards for the NEOs as of December 31, 2017 (based on the acquisition cost and dividend equivalents earned up to December 31, 2017) except with respect to management DSUs granted in 2018 to Mr. Lopez and Mr. Scarlett in respect of 2017 STIP:

Name	Option-based Awards(1)				Share-based Awards		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)(3)	Market or payout value of share-based awards that have not vested (\$)(3)	Market or payout value of vested share-based awards not paid out or distributed(4) (\$)(4)
Mayo Schmidt	N/A	N/A	N/A	N/A	253,887	6,101,483	1,199,324
Michael Vels(2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chris Lopez	N/A	N/A	N/A	N/A	10,827	262,119	153,272
Gregory Kiraly	N/A	N/A	N/A	N/A	88,808	2,212,183	N/A
Ferio Pugliese(5)	N/A	N/A	N/A	N/A	118,678	3,034,913	N/A
James Scarlett	N/A	N/A	N/A	N/A	73,906	1,855,620	456,130

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Notes:

- 1 The human resources committee has not granted any option-based awards in 2017, however, on December 8, 2017, the board approved that option-based awards will be awarded to eligible employees commencing in 2018.
- 2 Upon his resignation on May 19, 2017, Mr. Vels forfeited all of his unvested RSUs and PSUs.
- 3 Amounts include all PSUs and RSUs granted since 2016, including dividend equivalents. The amounts assume PSUs vest at target.
- 4 Total represents the aggregate value of short term incentive awards the NEO voluntarily elected to receive as management DSUs, and the dividend equivalents earned as additional management DSUs.
- 5 In recognition of the estimated LTIP value forfeited from his previous employer, Mr. Pugliese received the following attraction incentive equity awards in 2016:
 - a. a one-time award of PSUs equivalent to \$699,901 (subject to rounding and in the form of 26,940 PSUs) with vesting at December 31, 2018 (performance period: January 1, 2016 to December 31, 2018) and contingent on the standard terms and conditions of the other PSUs granted in 2016, including earnings per share relative to the performance targets and maintenance of the annualized dividend rate at a minimum level; and
 - b. a one-time award of RSUs equivalent to \$699,901 (subject to rounding and in the form of 26,940 RSUs) with vesting as follows: 50% vested May 2017 (13,825 shares, including dividend equivalents, with a value on vesting of \$329,948) and 50% vest May 2018.

iii. Incentive Plan Awards - Value Vested or Earned during the Year

Name and Principal Position	Option-based awards - Value vested during the year (\$)(1)	Share-based awards - Value vested during the year (\$)(2)	Non-equity incentive plan compensation - value earned during the year (\$)(3)
Mayo Schmidt <i>President and Chief Executive Officer</i>	N/A	N/A	1,450,000
Michael Vels <i>Former Chief Financial Officer</i>	N/A	N/A	N/A
Chris Lopez <i>SVP, Finance (Acting in the capacity of Chief Financial Officer)</i>	N/A	153,272	162,678
Gregory Kiraly <i>Chief Operating Officer</i>	N/A	N/A	500,000
Ferio Pugliese <i>EVP, Customer Care and Corporate Affairs</i>	N/A	329,948	480,000
James Scarlett <i>EVP and Chief Legal Officer</i>	N/A	456,130	465,220

Notes:

- 1 The human resources committee has not granted any option-based awards in 2017, however, on December 8, 2017, the board approved the awarding of option-based awards to certain eligible employees commencing in 2018.
- 2 The value of share-based awards that vested, if any, during the fiscal year includes dividend equivalents earned on these awards during the period. Total, except in respect of Mr. Pugliese, represents the aggregate value of short term incentive awards (less any pension contributions) the NEO voluntarily elected to receive as management DSUs, and the dividend equivalents earned as additional management DSUs. Mr. Pugliese had 13,825 RSUs (including dividend equivalents) vest with a value on vesting of \$329,948)
- 3 This column includes the full amount of the short term incentive awards even if a NEO elected to receive all or a portion as management DSUs.

F. Retirement Benefits:

i. Defined Contribution Pension Plan

All of the named executive officers participate in the Hydro One DCP. Hydro One's DCP is designed to:

- attract and retain employees;
- result in lower and more stable cost over time compared to the Hydro One DBPP; and
- promote sharing of retirement savings responsibility between Hydro One and its employees.

A summary of the key terms of the Hydro One DCPP is presented below:

Eligibility	All new non-union hires on or after September 30, 2015. All of the named executive officers participate in the DCPP.
Employee contribution	Mandatory contribution of a minimum of 4% of pensionable earnings and a maximum contribution of 6% of pensionable earnings, subject to the limit outlined under the "Supplemental plan" below.
Employer match	Employee contributions are matched by Hydro One.
Pensionable earnings	Base salary plus actual short term incentive (but not exceeding 50% of base salary).
Supplemental plan	Once the total employee and employer contributions for the calendar year has reached the maximum contribution level permissible under a registered pension plan, as per the <i>Income Tax Act</i> (Canada), employee contributions cease. Notional employer contributions are allocated to a notional supplemental pension plan account for the employee's benefit. The notional supplemental pension plan was approved by the board on December 8, 2017 and replaces a non-registered saving plan in which employer contributions were made on an after-tax basis.

The following table summarizes the pension information for the NEOs participating in the Hydro One DCPP as at December 31, 2017:(1)

Name	Accumulated value at start of year (\$)	Compensatory (\$)	Accumulated value at year end (\$)
Mayo Schmidt <i>President & CEO</i>	66,495	89,423	162,729
Michael Vels <i>Former Chief Financial Officer</i>	41,117	28,950	76,962 (2)
Chris Lopez <i>SVP, Finance (Acting in the capacity of Chief Financial Officer)</i>	1,601	19,903	22,471
Gregory Kiraly <i>Chief Operating Officer</i>	8,724	42,981	53,855
Ferio Pugliese <i>EVP, Customer Care and Corporate Affairs</i>	8,070	41,285	51,615
James Scarlett <i>EVP and Chief Legal Officer</i>	8,948	39,973	52,574

Note:

1 In respect of the NEOs, the totals include after tax amounts made to a non-registered savings plan for their benefit.

2 The accumulated value for Mr. Vels is as at his date of resignation, May 19, 2017.

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ii. Defined Benefit Registered Pension Plan

Hydro One Inc., the company's wholly owned subsidiary, established a contributory defined benefit registered pension plan (DBPP) on December 31, 1999. Hydro One Inc. manages and invests the assets and liabilities of the pension fund as plan sponsor and administrator of the plan. Hydro One Inc. has closed participation in the Hydro One DBPP to new non-union hires effective September 30, 2015. Non-union employees who were eligible members of the DBPP as of September 30, 2015 continue to participate in the DBPP.

The DBPP provides a benefit, in respect of all years of service, which is based on each plan member's highest average earnings at the time of his or her termination or retirement. The value of the increase or decrease in the present value of the defined benefit obligation is affected by differences between actual compensation for the year and the earnings increase assumptions for the year, assumed at the end of the prior year. When the actual earnings increase is not in line with the assumed level, it impacts the total defined benefit obligation in respect of past service. If the expected highest average earnings

based on the most recent information is lower than the highest average earnings based on the prior year estimate, it results in a decrease in the defined benefit obligation.

None of the current NEOs participate in the Hydro One DBPP. The NEOs and other new non-union employees hired on or after July 1, 2015 who were not eligible to join the DBPP as of September 30, 2015 participate in the DCPD effective January 1, 2016.

iii. DBPP Supplementary Pension Plan Benefits

Hydro One's supplementary pension plan (the *supplementary pension plan*) provides benefits that are in excess of *Income Tax Act* (Canada) limits and that cannot be provided under the DBPP. The supplementary pension plan is unfunded and the benefits from this plan are paid from general revenues. Hydro One Inc.'s obligations to participants under the supplementary pension plan are secured by a letter of credit.

None of the current NEOs participate in the supplementary pension plan.

G. Termination and Change of Control Benefits:

Each of the NEOs is a party to an employment agreement with Hydro One governing the terms of their employment. The following table sets out the entitlements of the NEOs under various termination scenarios:

Compensation element	Resignation(1)	Retirement(2)	Termination without cause(3)(7)	Termination without Cause following change in control (double trigger)(4)(5)(8)	Termination with cause
Severance	None	None	2 x aggregate of base salary plus lower of (i) average annual bonus for the prior 3 years and (ii) target bonus for the year of termination	Same as termination without cause	None
Base Salary	Base Salary ends	Base Salary ends	Base Salary ends	Base Salary ends	Base Salary ends
Annual Incentive	Award forfeited	Award forfeited	Award forfeited	Award forfeited	Award forfeited
RSUs	Unvested awards are forfeited	Continue to vest according to schedule	Unvested awards expire on date of termination except if termination occurs within 24 months following a change in control(6)	Consequences depend on circumstances of change in control(6)	Award forfeited
PSUs	Unvested awards are forfeited	Continue to vest according to schedule	Unvested awards expire on date of termination except if termination occurs within 24 months following a change in control(6)	Consequences depend on circumstances of change in control(6)	Award forfeited
Pension	Entitled to accrued pension	Entitled to accrued pension	Entitled to accrued pension	Entitled to accrued pension	Entitled to accrued pension
Options and Share Appreciation Rights	Unvested awards are forfeited	Continue to vest according to schedule	Unvested awards expire on date of termination except if termination occurs within 24 months following a change in control(6)	Consequences depend on circumstances of change in control(6)	Award Forfeited
Group health and welfare	Benefits end	Benefits end	Continue for up to 24 months	Continue for up to 24 months	Benefits end

Notes:

- 1 The President and CEO and the CFO may voluntarily resign their employment at any time by giving the board 6 months' written notice, while the other NEOs must give the board 3 months written notice.
- 2 An executive is considered to have 'retired' if the executive has given six months prior notice with the approval of the board, complies with such conditions as the board may require in connection with its approval and as may be reasonably required to facilitate transitional matters and is paid no cash severance payment or retirement allowance or equivalent. If these criteria are not satisfied, the termination of employment will be treated as a resignation, and the appropriate termination provisions will apply.
- 3 Payment of such amounts are conditional upon delivery of a full and final release document to the company and compliance with post-employment covenants respecting any applicable non-competition, non-solicitation and non-disparagement and maintaining the confidentiality of Hydro One's confidential information.
- 4 Treatment only applies to termination by the company without cause or by the executive with good reason within 24 months following a change in control and only applies to awards made prior to the change in control. There is no entitlement to any benefit upon a change in control without a termination of employment. "Good reason" means a material change in title, responsibilities or authority or a material reduction in base salary or in short term and long term incentive opportunity.

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⁵ A 'change in control' will occur in the following circumstances:

- (a) more than 50% of the outstanding voting securities of the company are acquired;
- (b) all or substantially all of the assets of the company are sold, assigned or transferred other than to a wholly owned subsidiary;
- (c) an acquisition of the company via merger, amalgamation, consolidation, statutory arrangement or otherwise or the dissolution or liquidation of the company;
- (d) individuals who at the beginning of any two-year period constitute the board cease to constitute a majority of the board during such two-year period excluding any individuals whose service ceased due to death;
- (e) pursuant to its rights in the governance agreement, the Province of Ontario replaces the entire Board (other than the CEO) and, in its discretion, the Chair of the Board;
- (f) a change is made to an Ontario law or regulation that:
 - (i) both (A) expressly states that it applies either (1) to Hydro One or an affiliate or (2) companies in the electrical transmission and/or distribution business generally but has a disproportionate effect on Hydro One and its affiliates as a whole, and (B) would materially adversely affect the ability of Hydro One to achieve any corporate performance measures set out in any outstanding awards; or
 - (ii) imposes limits on the quantum of compensation that may be paid to non-union employees of Hydro One or its affiliates other than restrictions established for rate approval or other purposes which do not restrict amounts actually paid; or
- (g) the board passes a resolution confirming that a change in control has occurred.

As a result of limitations on the ownership of the company's shares under the *Electricity Act* (Ontario), there would have to be an amendment to such statute for a change in control to occur in certain circumstances. Subparagraphs (d) to (f) above and paragraph 6(ii) below represent amendments to the LTIP that were approved by the board on November 10, 2017 and confirmed by the TSX on December 28, 2017.

⁶ If within 24 months following a change in control, the executive's employment is terminated by the company without cause then, without any action by the plan administrator:

- (i) if the change in control is one of the circumstances set out in paragraphs (a) to (c) or (g) of the definition of change in control, noted in footnote (5) above, the prior awards held by the executive on the change in control (the "Affected Awards") shall continue to vest and be settled or exercised in accordance with their terms; and
- (ii) if the change in control is one of the circumstances set out in paragraphs (d) to (f) of the definition of change in control noted in footnote (5) above, the Affected Awards shall vest and become realizable or payable as of the termination date, and for this purpose any performance goals assigned to any such Affected Awards shall be deemed to have been met at 100% of the specified target level of performance for such performance goals and each such Affected Award that is an option or share appreciation right shall continue to be exercisable until, and will expire on, the earlier of its expiry date and 90 days following the termination date.

⁷ Mr. Lopez is entitled to 1 x aggregate of base salary plus lower of (i) average annual bonus for the prior 3 years and (ii) target bonus for the year of termination provided that if Mr. Lopez has not worked 3 full calendar years at termination, Mr. Lopez will only be entitled to (ii). Mr. Lopez's group health and welfare will continue for 12 months.

⁸ Not applicable to Mr. Lopez.

For a summary of other terms and conditions of the LTIP, please refer to page 91.

The NEOs are not eligible for incremental payments or benefits except that all NEOs other than Mr. Lopez are entitled to incremental payments or benefits in the event of a termination by the company without cause or a resignation by the executive for good reason, both within 24 months following a change in control. The table below shows the incremental payments that would be made to the company's NEOs, if such events had occurred on December 31, 2017.

Name(1)	Resignation (\$)	Retirement (\$)	Termination Without Cause (\$)(2)	Termination without Cause after Change in Control (double trigger) (\$)(3)	Termination with Cause (\$)
Mayo Schmidt President and Chief Executive Officer	0	0	5,040,000	10,727,069	0
Chris Lopez(4) SVP, Finance (Acting in the capacity of Chief Financial Officer)	0	0	N/A	N/A	0
Gregory Kiraly Chief Operating Officer	0	0	1,870,000	3,859,319	0
Ferio Pugliese EVP, Customer Care and Corporate Affairs	0	0	1,785,000	4,470,706	0
James Scarlett EVP and Chief Legal Officer	0	0	1,700,000	3,555,620	0

Notes:

1 Mr. Vels resigned on May 19, 2017 and therefore has not been included in the above table.

2 Severance payments are calculated based on annualized salary and the target short term incentive for the fiscal year 2017.

3 Termination without cause as a result of a change in control (double trigger) payments as if the event had occurred on December 31, 2017.

4 Mr. Lopez is not entitled to incremental payments or benefits in the event of a termination by the company without cause within 24 months following a change in control or in the event of a resignation for good reason within 24 months following a change in control.

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H. Appendices:

i. Securities Authorized For Issue Under Equity Compensation Plans

The following table provides a summary as of December 31, 2017, of the security based compensation plans pursuant to which equity securities of Hydro One may be issued.

Plan Category	Equity Compensation Plan	Number of securities to be issued upon exercise of outstanding options, warrants and rights (A)	Weighted-average exercise price of outstanding options, warrants and rights (\$) (B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A)) (C)
Equity compensation plans approved by shareholders	N/A	N/A	N/A	N/A
Equity compensation plans not approved by shareholders ⁽²⁾	Long Term Incentive Plan	823,410 ⁽¹⁾	N/A	11,061,490 ⁽¹⁾⁽²⁾
	Power Workers' Union Share Grant Plan ⁽⁴⁾	3,469,689 ⁽³⁾	20.50	0 ⁽³⁾
	Society of United Professionals Share Grant Plan ⁽⁴⁾	1,356,043 ⁽³⁾	20.50	0 ⁽³⁾
Total		5,649,142	N/A	11,061,490

Notes:

¹ Assumes for this purpose, PSUs vest at 100% of target.

² As at December 31, 2017, 15,100 common shares (approximately .003% of the 595,386,711 issued and outstanding common shares as at December 31, 2017) have been issued under the Long Term Incentive Plan.

³ As at December 31, 2017, 371,611 common shares have been issued under the Power Workers' Union Share Grant Plan (0.062% of the 595,386,711 issued and outstanding common shares as at December 31, 2017) and 3,469,689 common shares remain available for issuance (0.58% of the 595,386,711 issued and outstanding common shares as at December 31, 2017) after giving effect to certain forfeitures. No common shares have been issued under the Society of United Professionals Share Grant Plan to date and 1,356,043 common shares remain available for issuance (0.23% of the 595,386,711 issued and outstanding common shares as at December 31, 2017) after giving effect to certain forfeitures.

⁴ The number of common shares to which the eligible employees represented by the Power Workers Union and the Society of United Professionals are entitled to under the Grant Plans is determined as a percentage of salary and the price at which the Province agreed to sell the shares as reflected in the final prospectus of the initial public offering.

ii. Long Term Incentive Plan

A summary of the key terms of the LTIP are presented below:

Types of Awards	<p><i>PSUs and RSUs.</i> (See pages 61 and 63 for details)</p> <p><i>Restricted shares.</i> A restricted share award is an award of common shares subject to forfeiture restrictions.</p> <p><i>DSUs.</i> A DSU is an award that entitles the participant to receive common shares following termination of employment or service with the company. DSUs may be subject to performance conditions or other vesting conditions.</p> <p>While none of the following have been granted, the LTIP also contemplates the possibility of grants of:</p> <p><i>Options.</i> An option is the right to acquire a common share on a future date on payment of the exercise price. The exercise price of an option may not be less than the fair market value of a common share on the date of grant. The term of an option may not exceed 10 years, unless extended due to the existence of a company trading blackout period. The human resources committee has not granted any option-based awards in 2017, however, on December 8, 2017, the board approved that option-based awards will be awarded to eligible employees in 2018.</p> <p><i>SARs.</i> A share appreciation right (SAR) is the right to receive common shares equal in value to the appreciation in the value of a common share over a period. The base price against which a SAR is to be measured may not be less than the fair market value of a common share on the date of grant. An option and a SAR may be granted in tandem, in which event the SAR will vest and be exercisable on the same dates as the related option and the exercise of the option results in the surrender of the SAR, and vice versa. The term of a SAR may not exceed 10 years, unless extended due to the existence of a company trading blackout period.</p> <p><i>Other awards.</i> Other awards are awards that are convertible into or otherwise based on the common shares.</p>
Eligibility	<p>Employees and consultants of Hydro One and its affiliates as determined by the human resources committee.</p> <p>Non-employee directors on the board are not eligible.</p>
Maximum No. of Shares Authorized	<p>11,900,000 common shares or approximately 2% of the issued and outstanding shares. Within that limit the maximum number of common shares which may be issued as PSUs, RSUs or DSUs is 4,760,000 common shares (or approximately 0.8% of the issued and outstanding shares as of December 31, 2017).</p> <p>If an award expires without exercise, is cancelled, forfeited or terminated or otherwise is settled without the issuance of common shares, common shares which were issuable under the award will be available for future grants. Common shares issued under awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition will not reduce the number of shares available for awards under the LTIP unless otherwise required by law or stock exchange rule.</p>
Insider Limits	<p>Under the LTIP and any other Hydro One security based compensation arrangements:</p> <ul style="list-style-type: none">• maximum number of common shares issuable to insiders at any time is 10% of the outstanding common shares.• maximum number of common shares issuable to insiders within any one year period is 10% of the outstanding common shares.
Company trading blackout periods	<p>If an award is scheduled to expire during, or within five business days after, a company trading blackout period restricting employees from trading in common shares, then the award shall expire ten business days after such restricted trading period expires.</p>

3 EXECUTIVE COMPENSATION



Death & Disability	Unless otherwise determined by the human resources committee, a pro rata portion of the next instalment of the award due to vest shall immediately vest, based on the number of days elapsed since the last instalment vested compared to the period from the last vesting date to the next vesting date (or if none have vested, the date of grant). Any performance targets are deemed to have been met at 100% of the target performance level. Vested awards subject to exercise will remain exercisable for 90 days, or the award's normal expiration date if earlier.
Retirement	<p>Unless otherwise determined by the human resources committee, all unvested awards continue to vest and are settled and exercised in accordance with their terms.</p> <p>"Retirement" means:</p> <p>(a) If the employee:</p> <ol style="list-style-type: none">i. is the CEO or reports directly to the CEO, the retirement has been approved by the board and the employee complies with such conditions as the board may require, andii. is not i above, the employee has reached age 65 or reached age 55 with a minimum of 10 years of service or such lesser age and/or service thresholds as the human resources committee may determine; <p>(b) the employee has given formal notice of their intention to retire six months in advance or such lesser period as the human resources committee may approve;</p> <p>(c) no cash severance payment or retirement allowance or equivalent is paid; and</p> <p>(d) the employee has complied with such transitional activities as may be reasonably required by Hydro One until the date the individual has ceased active employment.</p>
Resignation	Unless otherwise determined by the human resources committee, all unvested awards are forfeited. Vested awards subject to exercise will remain exercisable for 90 days, or the award's normal expiration date if earlier.
Termination For Cause	All awards, whether vested or unvested, are forfeited and cancelled.
Termination Without Cause	Unless otherwise determined by the human resources committee and except if termination occurs within 24 months following a change in control, all unvested awards are forfeited. Vested awards subject to exercise will remain exercisable for 90 days, or the award's normal expiration date if earlier.
Termination Without Cause Within 24 Months Following a Change in Control	<p>If within 24 months following a change in control, the executive's employment is terminated by the company without cause then, without any action by the plan administrator:</p> <ol style="list-style-type: none">(i) if the change in control is one of the circumstances set out in paragraphs (a) to (c) or (g) of the definition of change in control, noted in footnote (5) to the Termination and Change of Control Benefits table above, the Affected Awards (as defined in footnote (6) to the Termination and Change of Control Benefits table above) shall continue to vest and be settled or exercised in accordance with their terms; and(ii) if the change in control is one of the circumstances set out in paragraphs (d) to (f) of the definition of change in control noted in footnote (5) to the Termination and Change of Control Benefits table above, 1) the Affected Awards shall vest and become exercisable, realizable or payable as of the termination date, 2) any performance goals assigned to any such Affected Awards shall be deemed to have been met at 100% of the specified target level of performance for such performance goals and 3) any Affected Award that is an Option or SAR shall continue to be exercisable until, and will expire on, the earlier of its expiry date and 90 days following the termination date.

Change in Control	The human resources committee may provide for the conversion or exchange of outstanding awards for new awards or other securities of substantially equivalent value (or greater value) in any entity participating in or resulting from the change in control, or, for the accelerated vesting or delivery of shares under awards, or for a cash-out of outstanding awards.
Definition of Change in Control	<p>Subject to certain exceptions, means:</p> <ul style="list-style-type: none"> (a) more than 50% of the outstanding voting securities of the company are acquired; (b) all or substantially all of the assets of the company are sold, assigned or transferred, other than to a wholly owned subsidiary; (c) an acquisition of the company via merger, amalgamation, consolidation, statutory arrangement or otherwise or the dissolution or liquidation of the company; (d) individuals who at the beginning of any two-year period constitute the Board cease to constitute a majority of the Board, excluding any individuals whose service ceased due to death during such two-year period;(1) (e) pursuant to its rights in the governance agreement, the Province of Ontario replaces the entire board (other than the CEO) and, in its discretion, the Chair of the board;(1) (f) a change is made to an Ontario law or regulation that: <ul style="list-style-type: none"> (i) both (A) expressly states that it applies either (1) to Hydro One or an affiliate or (2) companies in the electrical transmission and/or distribution business generally but has a disproportionate effect on Hydro One and its affiliates as a whole, and (B) would materially adversely affect the ability of Hydro One to achieve any corporate performance measures set out in any outstanding awards; or (ii) imposes limits on the quantum of compensation that may be paid to non-union employees of Hydro One or its affiliates other than restrictions established for rate approval or other purposes which do not restrict amounts actually paid; (1) or (g) the board passes a resolution confirming that a change in control has occurred. <p>As a result of limitations on the ownership of the company' s shares under the Electricity Act (Ontario), there would have to be an amendment to such statute for a change in control to occur in certain circumstances. Subparagraphs (d) to (f) above and paragraph 6(ii) below represent amendments to the LTIP that were approved by the board on November 10, 2017 and confirmed by the TSX on December 28, 2017.</p>
Assignability	Options are generally not assignable or transferable. Other awards may be assigned to a 'permitted assign' (as defined under Canadian securities law), which includes a spouse, registered retirement savings plan, registered retirement income fund or personal holding company.
Discretion	The human resources committee can accelerate vesting or exercisability of an award. The human resources committee may adjust performance objectives in an objectively determinable manner to reflect events occurring during the performance period that affect the applicable performance objective.
Clawback	The human resources committee may provide that an award may be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any clawback, recoupment or similar policy adopted by the company or as otherwise required by law or applicable stock exchange listing standards.
Adjustments	The human resources committee may make adjustments as it determines in its sole discretion to the terms of any award, the number and type of securities issuable under the award and the number of common shares issuable under the LTIP in the event of a subdivision or consolidation of common shares or any similar capital reorganization, or a payment of a stock dividend (other than a stock dividend that is in lieu of a cash dividend), or in the event of an amalgamation, combination, arrangement, merger or other transaction or reorganization of the company that does not constitute a change in control.

3
EXECUTIVE COMPENSATION



Amendment

The human resources committee may amend the LTIP or outstanding awards, or terminate the LTIP as to future grants of awards, except that a change that would affect materially and adversely an employee's rights under the award is subject to the employee's consent unless expressly provided in the LTIP or the terms of the award at the time of grant.

Shareholder approval is required for any amendment that:

- (a) increases the number of common shares available for issuance under the LTIP or increases the limits on awards to insiders (except with respect to the adjustments described above),
- (b) permits non-employee directors to receive awards,
- (c) reduces the exercise price of an award (including by cancelling an award and reissuing an award to the same participant with a lower exercise price) except pursuant to the provisions of the LTIP which permit the human resources committee to make equitable adjustments in the event of transactions affecting the company or its capital,
- (d) extends the term of any award beyond its original expiration date (except where the expiration date would have fallen within a company blackout period or within 5 business days thereof),
- (e) permits an award to be exercisable or settled beyond 10 years from its grant date (except where the expiration date would have fallen within a company blackout period),
- (f) permits awards to be transferred other than to a "permitted assign" (as defined under Canadian securities law) or for normal estate settlement purposes, or
- (g) deletes or reduces the range of amendments which require shareholder approval.

Note:

¹ Represents a change to the LTIP which was approved by the board on November 10, 2017 and confirmed by the TSX on December 28, 2017.

The above description of the LTIP is summary in nature and is qualified in its entirety to the text of the LTIP.

iii. Share Grant Plans for Certain Members of the Power Workers' Union and the Society of United Professionals

A summary of the key terms of the share grant plans referenced above is provided below:

	Power Workers' Union Share Grant Plan	Society of United Professionals Share Grant Plan
Benefit	Right to receive common shares on April 1 of each year for up to a specified number of years beginning April 1, 2017.	Right to receive common shares on April 1 of each year for up to a specified number of years beginning April 1, 2018.
Eligibility	Employees represented by the Power Workers Union and contributing to the Hydro One DBPP as of April 1, 2015	Employees represented by the Society of United Professionals and contributing to the Hydro One DBPP as of September 1, 2015
Maximum No. of Shares Authorized	3,981,763 common shares (0.67% of the outstanding common shares as of December 31, 2017)	1,434,686 common shares (0.24% of the outstanding common shares as of December 31, 2017)
Schedule for Delivery of Shares	<p>Each participant received a schedule setting out the shares to be delivered on each date subject to the participant's continuous employment, which schedule provided that the last delivery date would be the first to occur of:</p> <ul style="list-style-type: none"> • April 1, 2028; • the date the employee has greater than 35 years of pensionable service under the Hydro One defined benefit pension plan; and • the date the employee must, due to age, cease contributing to such plan under the current provisions of the <i>Income Tax Act</i> (Canada) 	<p>Each participant received a schedule setting out the shares to be delivered on each date subject to the participant's continuous employment, which schedule provided that the last delivery date would be the first to occur of:</p> <ul style="list-style-type: none"> • April 1, 2029; • the date the employee has greater than 35 years of pensionable service under the Hydro One defined benefit pension plan; and • the date the employee must, due to age, cease contributing to such plan under the current provisions of the <i>Income Tax Act</i> (Canada)
Termination of employment	Delivery of common shares ceases if participant has not been an employee continuously from April 1, 2015.	Delivery of common shares ceases if participant has not been an employee continuously from September 1, 2015.
Assignability Amendment	<p>Right to receive common shares is non-assignable Board may amend the plan at any time subject to the consent of the Power Workers' Union and provided that an amendment that would prejudice the right of a participant to be delivered common shares is subject to the participant's consent. Shareholder approval is required for any amendment that:</p> <ul style="list-style-type: none"> a) increases the number of common shares reserved for issuance under the plan, b) permits non-employee directors to participate, c) allows equity-based awards other than grants of common shares to be made under the plan, or d) amends the amendment provisions other than to add additional matters requiring shareholder approval. 	<p>Right to receive common shares is non-assignable Board may amend the plan at any time subject to the consent of the Society of United Professionals and provided that an amendment that would prejudice the right of a participant to be delivered common shares is subject to the participant's consent. Shareholder approval is required for any amendment that:</p> <ul style="list-style-type: none"> a) increases the number of common shares reserved for issuance under the plan, b) permits non-employee directors to participate, c) allows equity-based awards other than grants of common shares to be made under the plan, or d) amends the amendment provisions other than to add additional matters requiring shareholder approval.

The above description of the share grant plans is summary in nature and is qualified in its entirety to the text of each share grant plan.

3 EXECUTIVE COMPENSATION



Other Information

Directors' and Officers' Liability Insurance

Hydro One carries the following types of directors' and officers' liability insurance: (i) traditional directors' and officers' insurance (the *traditional policy*) which has a total policy limit of \$200 Million in the aggregate, including defence costs; and (ii) public offering of securities directors' and officers' liability insurance (the *public offering of securities policy*) which has a total policy limit of \$200 Million in the aggregate, including defence costs. Under these policies, Hydro One and its subsidiaries are reimbursed for payments made under indemnity provisions on behalf of directors and officers for actual or alleged wrongful acts committed in their insured capacity, subject to all the terms, conditions and exclusions of the policies. Each policy has a \$100,000 deductible for indemnifiable claims. The 2017 premium costs for these policies, exclusive of taxes, are as follows:

(i) approximately \$349,809 for the traditional policy; and
(ii) approximately \$133,063 (annualized portion of the total premium cost over the life of the policy) for the public offering of securities policy.

Indebtedness of Directors, Officers and Employees

No director, executive officer, employee, former director, former executive officer or former employee or associate of any director or executive officer of Hydro One or any of its subsidiaries had any outstanding indebtedness to Hydro One or any of its subsidiaries except routine indebtedness or had any indebtedness that was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Hydro One or any of its subsidiaries.

Interest of Informed Persons in Material Transactions

Other than as noted below and elsewhere in this circular, there are no material interests, direct or indirect, of any director or executive officer of the company, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of Hydro One's common shares, or any associate or affiliate of any of the foregoing persons, in any transaction since the commencement of the company's most recently completed financial

year before the date hereof that has materially affected or is reasonably expected to materially affect the company.

In connection with the initial public offering, on November 5, 2015, the company entered into: (i) the governance agreement with the Province; and (ii) a registration rights agreement (the *registration rights agreement*) with the Province granting the Province certain rights with respect to future sales of common shares owned by the Province.

Interest of Certain Persons in Matters to be Acted Upon

Other than the election of directors of Hydro One or as otherwise set out in this circular, no director or executive officer of the company, or any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the meeting.

Shareholder Proposals and Nominations

A shareholder intending to submit a proposal at an annual meeting of shareholders of the company must comply with the applicable requirements of the *Business Corporations Act* (Ontario) and the company's by-laws. Any proposal to be considered at the 2018 annual meeting of the company must be received by the Corporate Secretary of Hydro One by no later than March 16, 2019.

Shareholders who wish to nominate candidates for election as directors must provide timely notice in writing to the Corporate Secretary, Hydro One Limited, 483 Bay Street, South Tower, 8th Floor Reception, Toronto, Ontario, Canada M5G 2P5 and include the information set forth in the company's by-laws. The notice must be made not less than 30 days (40 days where notice and access is to be used) prior to the date of the annual meeting of shareholders in 2018. See the company's by-laws for complete details on the procedures to be followed. The company's by-laws are available under Hydro One's profile on SEDAR at www.sedar.com

Other Business

Management does not currently know of any matters to be brought before the meeting other than those set forth in the notice accompanying this circular.

Additional Information

Additional information relating to Hydro One is available under Hydro One's profile on SEDAR at www.sedar.com and on our website at www.HydroOne.com. For additional details concerning the governance agreement and the registration rights agreement, please refer to Hydro One's annual information form which is available under Hydro One's profile on SEDAR at www.sedar.com. Additional financial information is provided in the consolidated financial statements and notes to the consolidated

financial statements and management's discussion and analysis of Hydro One for 2017. Shareholders may request copies of Hydro One's financial statements and management's discussion and analysis by sending a request in writing to:

483 Bay Street
c/o Corporate Secretary of Hydro One Limited
8th Floor, South Tower
Toronto, Ontario
M5G 2P5



Schedule “A” Hydro One Limited Mandate for the Board of Directors

The board of directors (the “Board”) of Hydro One Limited (including its subsidiaries, the “Company”) is elected by the shareholders and is responsible for overseeing the business and affairs of the Company. The Board seeks to discharge such responsibility by reviewing, discussing and approving the Company’s strategic planning and organizational structure and supervising management, all with a view to preserving and enhancing the business of the Company and its underlying value.

Responsibilities

While the Board maintains oversight of the Company’s operations, it delegates to the Chief Executive Officer and senior management of the Company the responsibility for day-to-day management of the Company. The Board discharges its oversight responsibilities both directly and through its committees, the Audit Committee, the Governance Committee, the Human Resources Committee and the Health, Safety, Environment and Indigenous Peoples Committee. In addition to these regular committees, the Board may appoint *ad hoc* committees periodically to address specific matters.

The Board’s primary roles are overseeing both corporate performance and the quality, depth and continuity of management required to meet the Company’s strategic objectives. Other principal duties include:

Culture of Integrity

1. supporting a corporate culture of integrity and responsible stewardship.
2. satisfying itself, to the extent feasible, as to the integrity of the Chief Executive Officer and other executive officers, and that

such individuals promote a culture of integrity throughout the Company.

Capital and Financial Structure

3. approving the capital and financial structure of the Company.
4. approving the declaration and payment of dividends.

Strategic Planning

5. overseeing and reviewing, questioning and approving the mission and vision of the Company as well as its strategy, objectives and goals, taking into account the opportunities available to the Company, the potential risks it faces, and the Company’s risk appetite.
6. reviewing, providing input on, and approving the budget and business, financial and strategic plans proposed by management to enable the Company to reach its objectives and goals.
7. adopting processes for monitoring the Company’s performance and progress toward its strategic and operational goals.

Risk Management

8. overseeing the Company’s enterprise risk management system for effectively identifying, monitoring and managing the risks it faces with a view to achieving a proper balance between the risks incurred and potential returns and the long term sustainability of the Company.
9. approving policies and procedures designed to ensure that the Company operates responsibly and in compliance with applicable laws and regulations.

Regulatory

10. overseeing and reviewing material regulatory matters relating to the business of the Company.

Appointment and Oversight of Management

11. approving the appointment of, and if necessary removing and replacing, the Chief Executive Officer, approving his or her compensation and approving succession plans for the Chief Executive Officer.
12. overseeing the process for appointment, removal and replacement of all other executive officers, their compensation and the succession planning processes of the Company.
13. delegating to senior management the authority for expenditures and transactions, subject to specified limits beyond which Board approval would be required.

Corporate Governance

14. approving the Company' s approach to corporate governance, having regard to the Governance Agreement between the Company and the Province of Ontario (as amended, revised or replaced from time to time, the "Governance Agreement"), including the Board' s mandate, committee mandates, committee appointments, corporate governance guidelines, position descriptions for the Board Chair and of the committee chairs and director compensation and protection.
15. overseeing structures and procedures to enable the Board to exercise independent judgement.

16. overseeing succession-planning for the Board, orientation and educational opportunities for directors and the regular assessment of the effectiveness of the Board as a whole, each committee, the Board Chair, each Committee Chair, and each individual director.
17. delegating to Board committees oversight of specific matters, but except for the authority of the Governance Committee over the management and oversight of the director nomination process pursuant to the Governance Agreement, otherwise retaining ultimate responsibility for those delegated matters.
18. enforcing Board policy respecting confidentiality of the Company' s proprietary information and Board deliberations.

Communications and Reporting

19. monitoring and supporting investor relations activities and reporting annually to shareholders on the Board' s exercise of its oversight responsibilities for the preceding year.
20. reviewing communications plans for shareholders, employees, customers, financial analysts, governments and regulatory authorities, the media and other stakeholders, as well as processes to ensure the timely, accurate and complete disclosure of developments that have a significant and material impact on the Company.
21. overseeing the accurate disclosure and reporting of the financial performance of the Company to shareholders, other security holders and regulators on a timely and regular basis.
22. assessing the Company' s stakeholder engagement policies and practices including systems to accommodate feedback from shareholders and other stakeholders.

Approved by the Board on February 13, 2018.

How to Contact Us

Investors Hydro One Investor Relations
483 Bay Street, South Tower, 7th Floor
Toronto, Ontario, Canada M5G 2P5
Email: investor.relations@HydroOne.com

Customers Hydro One Networks Inc.
P.O. Box 5700,
Markham, Ontario, Canada L3R 1C8

Billing and Service Inquiries:
Tel: 1-888-664-9376
Fax: 1-888-625-4401 (Toll-Free) or 905-944-3251
Email: CustomerCommunications@HydroOne.com

Report an Emergency (24 hours):
Tel: 1-800-434-1235

Shareholders Computershare Trust Company of Canada
changes in share registration 100 University Avenue, 8th floor
address changes Toronto, Ontario, Canada M5J 2Y1
dividend information Tel: 1-800-564-6253 or 514-982-7555
lost share certificates Fax: 1-888-453-0330 or 416-263-9394
estate transfers Email: service@computershare.com
duplicate mailings

Independent directors Chair of the Board
c/o the Corporate Secretary
483 Bay Street,
South Tower, 8th Floor Reception
Toronto, Ontario, Canada M5G 2P5
Email: CorporateSecretary@HydroOne.com

Executive compensation matters Chair of the Human Resources Committee
c/o the Corporate Secretary
483 Bay Street,
South Tower, 8th Floor Reception
Toronto, Ontario, Canada M5G 2P5
Email: CorporateSecretary@HydroOne.com

Reminder about shareholder mailings

We announce our financial results by media release, and our financial statements and management's discussion and analysis (MD&A) are available on our website (www.HydroOne.com).

If you are a shareholder and want to receive paper copies of our interim financial statements and related MD&A and/or our annual financial statements and related MD&A in 2017, you must mark the request box at the bottom of your proxy form (registered shareholders) or voting instruction form (beneficial shareholders).

Find the information you need on-line

Stay current with the latest Hydro One investor information and sign up for email alerts by visiting www.HydroOne.com/Investor-Relations.

hydroOne

www.HydroOne.com

HYDRO ONE LIMITED

Unaudited Pro Forma Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2018 and for the year ended December 31, 2017

June 8, 2018

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Hydro One Limited (“Hydro One” or the “Corporation”), Olympus Holding Corp., Olympus Corp. and Avista Corporation (“Avista”) entered into an agreement and plan of merger dated as of July 19, 2017 (the “Merger Agreement”). Pursuant to the Merger Agreement, Hydro One will indirectly acquire Avista (the “Merger”) for US\$53 (approximately C\$68 at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018) per Avista common share for an aggregate purchase price of approximately US\$5,476 million (approximately C\$7,056 million at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018), comprised of an equity purchase of approximately US\$3,480 million (approximately C\$4,484 million at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018) and the assumption of approximately US\$1,996 million of Avista’s outstanding debt (approximately C\$2,572 million at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018).

Since the acquisition is to be paid in U.S. dollars, the actual amount paid, when measured in Canadian dollars may vary with a change to the exchange rate. Hydro One has entered into a forward currency contract to partially mitigate the foreign exchange fluctuation risk.

The accompanying unaudited *pro forma* condensed consolidated financial statements give effect to the proposed acquisition by Hydro One of Avista under the acquisition method of accounting. The unaudited *pro forma* condensed consolidated balance sheet gives effect to the Merger as if it had closed on March 31, 2018. The unaudited *pro forma* consolidated statements of operations for the year ended December 31, 2017 and the three months ended March 31, 2018 give effect to the Merger as if it had closed on January 1, 2017.

The following unaudited *pro forma* condensed consolidated financial statements are based on Avista’s historical unaudited consolidated financial statements as at and for the three months ended March 31, 2018 and audited consolidated financial statements for the year ended December 31, 2017 and Hydro One’s historical unaudited consolidated financial statements as at and for the three months ended March 31, 2018 and audited consolidated financial statements for the year ended December 31, 2017 and present the effects of the Merger on the combined historical financial statements of Hydro One and Avista. The unaudited *pro forma* condensed consolidated financial statements should be read together with the notes to the unaudited *pro forma* condensed consolidated financial statements and the historical financial statements of Hydro One and Avista.

The unaudited *pro forma* condensed consolidated financial statements (referred to herein as the *pro forma* financial information) are presented for illustrative purposes only and do not include, among other things, estimated cost synergies, adjustments related to restructuring or integration activities, further acquisitions or disposals not yet known or probable, or impacts of Merger-related change in control provisions that are currently not factually supportable and/or probable of occurring. The *pro forma* financial information has been prepared based upon available information and certain assumptions that Hydro One believes are reasonable in the circumstances, as described in the notes to the unaudited *pro forma* condensed consolidated financial statements.

Additionally, the *pro forma* financial information presented, including allocation of the estimated purchase price, is based on preliminary estimates of fair values of assets to be acquired and liabilities assumed. The actual amounts of acquired assets and assumed liabilities in the condensed consolidated financial statements upon the closing of the Merger will depend on a number of factors, including the impact of additional information available, foreign exchange rates and the amount of net assets of Avista on the closing date of the Merger. Therefore, the actual purchase adjustments will differ from those used to prepare the *pro forma* financial information, and the differences may be material. For example, the final purchase price allocation is dependent on, among other things, the finalization of asset and liability valuations. This final valuation will be based on the actual net tangible and intangible assets and liabilities of Avista that exist as of the closing date of the Merger. Any final adjustments may change the allocation of purchase price, which could affect the fair values assigned to the assets and liabilities, and may result in a change to goodwill, depreciation and amortization expenses and earnings per share.

The *pro forma* financial information is presented for informational purposes only and is not necessarily indicative of what Hydro One’s actual financial condition or results of operations would have been had the Merger been completed on the date indicated, nor does it purport to project Hydro One’s future financial position or results of operations for any future periods or as of any future date. Accordingly, the combined business, assets, results of operations and financial condition may differ significantly from those indicated.

Hydro One Limited
Unaudited Pro Forma Consolidated Balance Sheet
As at March 31, 2018
(millions of Canadian dollars) (unaudited)

	<u>Hydro One Limited</u>	<u>* Avista Corporation</u>	<u>Adjustments</u>	<u>Note</u>	<u>Hydro One Limited Pro Forma Consolidated</u>
Assets					
Current assets:					
Cash and cash equivalents	28	34	3,326	3 (C),(J)	
			400	3 (C),(J)	
			977	3 (B),(J)	
			(4,484)	3 (A),(J)	
			(160)	3 (D),(J)	
			(30)	3 (I)	91
Accounts receivable	588	217			805
Due from related parties	243				243
Other current assets	143	147			290
	<u>1,002</u>	<u>398</u>	<u>29</u>		<u>1,429</u>
Property, plant and equipment	20,069	5,693			25,762
Other long-term assets:					
Regulatory assets	3,105	769	151	3 (H)	4,025
Deferred income tax assets	918		20	3 (B),(G)	938
Intangible assets	365				365
Goodwill	325	74	(74)	3 (A)	2,617
			2,292	3 (A)	
Other assets	5	133			138
	<u>24,787</u>	<u>6,669</u>	<u>2,389</u>		<u>33,845</u>
Total assets	<u>25,789</u>	<u>7,067</u>	<u>2,418</u>		<u>35,274</u>

* Translated from US\$ to C\$. See Note 5

Hydro One Limited
Unaudited Pro Forma Consolidated Balance Sheet
As at March 31, 2018
(millions of Canadian dollars) (unaudited)

(Continued)

	<u>Hydro One Limited</u>	<u>*Avista Corporation</u>	<u>Adjustments</u>	<u>Note</u>	<u>Hydro One Limited Pro Forma Consolidated</u>
Liabilities					
Current liabilities:					
Short-term notes payable	989	64	400	3 (C)	1,453
Long-term debt payable within one year	981	354			1,335
Accounts payable and other current liabilities	911	444			1,355
Due to related parties	37				37
	<u>2,918</u>	<u>862</u>	<u>400</u>		<u>4,180</u>
Long term liabilities:					
Long-term debt	9,085	1,988	3,326	3 (C)	14,550
			151	3 (H)	
Convertible Debentures	488		(488)	3 (B)	
Regulatory liabilities	160	1,008			1,168
Deferred income tax liabilities	72	599			671
Other long-term liabilities	2,718	344			3,062
	<u>12,523</u>	<u>3,939</u>	<u>2,989</u>		<u>19,451</u>
Total liabilities	<u>15,441</u>	<u>4,801</u>	<u>3,389</u>		<u>23,631</u>
Noncontrolling interest subject to redemption	21				21
Equity					
Common shares	5,631	1,458	1,502	3 (B)	7,133
			(1,458)	3 (E)	
Preferred shares	418				418
Additional paid-in capital	55		92	3 (B)	
			7	3 (I)	154
Retained earnings	4,181	820	(17)	3 (B)	3,875
			(92)	3 (B)	
			(37)	3 (I)	
			(820)	3 (E)	
			(160)	3 (D)	
Accumulated other comprehensive loss	(7)	(12)	12	3 (E)	(7)
Shareholders' equity	10,278	2,266	(970)		11,573
Noncontrolling interest	49				49
Total equity	<u>10,327</u>	<u>2,266</u>	<u>(970)</u>		<u>11,622</u>
Total liabilities and equity	<u>25,789</u>	<u>7,067</u>	<u>2,418</u>		<u>35,274</u>

* Translated from US\$ to C\$. See Note 5

Hydro One Limited
Unaudited Pro Forma Consolidated Statement of Operations
For the three months ended March 31, 2018
(millions of Canadian dollars, except earnings per share) (unaudited)

	Hydro One Limited	** Avista Corporation	Adjustments	Note	Hydro One Limited Pro Forma Consolidated
Revenues					
Distribution	1,145				1,145
Transmission	421				421
Utility revenues		509			509
Other	10	9			19
	1,576	518			2,094
Costs					
*Purchased power	751	196			947
Operation, maintenance and administration	270	147	(3)	3 (D)	414
Depreciation and amortization	197	57			254
Other expense (income)-net		6			6
	1,218	406	(3)		1,621
Income before financing charges and income taxes					
	358	112	3		473
Financing charges	88	30	48	3 (B),(F)	166
Income before income taxes	270	82	(45)		307
Income taxes	42	14	(9)	3 (G)	47
Net income	228	68	(36)		260
Basic earnings per share	\$ 0.37				\$ 0.38
Diluted earnings per share	\$ 0.37				\$ 0.38

* Includes the cost of purchased natural gas for Avista Corporation

** Translated from US\$ to C\$. See Note 5

Hydro One Limited
Unaudited Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2017
(millions of Canadian dollars, except earnings per share) (unaudited)

	Hydro One Limited	** Avista Corporation	Adjustments	Note	Hydro One Limited Pro Forma Consolidated
Revenues					
Distribution	4,366				4,366
Transmission	1,578				1,578
Utility revenues		1,848			1,848
Other	46	29			75
	5,990	1,877			7,867
Costs					
* Purchased power	2,875	681			3,556
Operation, maintenance and administration	1,066	604	(39)	3 (D)	1,631
Depreciation and amortization	817	223			1,040
Other expense (income)-net		(9)			(9)
	4,758	1,499	(39)		6,218
Income before financing charges and income taxes					
	1,232	378	39		1,649
Financing charges	439	121	118	3 (B),(F)	678
Income before income taxes	793	257	(79)		971
Income taxes	111	107	(23)	3 (G)	195
Net income	682	150	(56)		776
Other comprehensive income	1				1
Comprehensive income	683				777
Basic earnings per share	\$ 1.11				\$ 1.13
Diluted earnings per share	\$ 1.10				\$ 1.13

* Includes the cost of purchased natural gas for Avista Corporation

** Translated from US\$ to C\$. See Note 5

1. DESCRIPTION OF THE ACQUISITION

Hydro One, Olympus Holding Corp., Olympus Corp. and Avista entered into an agreement and plan of merger dated as of July 19, 2017 (the “Merger Agreement”). Pursuant to the Merger Agreement, Hydro One will indirectly acquire Avista (the “Merger”) for US\$53 (approximately C\$68 at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018) per Avista common share for an aggregate purchase price of approximately US\$5,476 million (approximately C\$7,056 million at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018), comprised of an equity purchase of approximately US\$3,480 million (approximately C\$4,484 million at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018) and the assumption of approximately US\$1,996 million of Avista’s outstanding debt (approximately C\$2,572 million at the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018).

The accompanying *pro forma* financial information assumes that at closing, the Merger will be financed through the net proceeds from a C\$1.54 billion common share equity issuance as further described below, with the balance funded through long-term debt as further described below.

The common share equity is assumed to be issued through the conversion of the 4% convertible unsecured subordinated debentures (“Debentures”) represented by instalment receipts that were issued by the Corporation on August 9, 2017 and that are convertible into common shares of Hydro One at a conversion price of C\$21.40 per common share. Hydro One also proposes to issue long term debt in the amount of US\$2.6 billion (approximately C\$3.35 billion) maturing over 5, 10 and 30 years respectively.

The accompanying *pro forma* financial information assumes that the Debentures are issued and immediately converted in full into Hydro One common shares at the assumed closing date of the Merger. Therefore, the accompanying *pro forma* financial information does not recognize interest costs associated with the Debentures. Hydro One anticipates that the closing of the Merger will occur in the second half of 2018. As a result, the Company has included the cost of financing the Debentures as a *pro-forma* adjustment. Due to many factors, including the timing of regulatory approvals, the estimated closing period is subject to change which may change the amount of interest expense incurred on the Debentures and the related income tax recovery. Interest costs associated with the Debentures are expected to be funded through operating cash flows.

2. BASIS OF PRESENTATION

The accompanying *pro forma* financial information gives effect to the proposed acquisition by Hydro One of Avista. The accompanying *pro forma* financial information has been prepared by management of Hydro One and is derived from the unaudited and audited consolidated financial statements of Hydro One as at and for the three months ended March 31, 2018 and for the year ended December 31, 2017, respectively, and the unaudited and audited consolidated financial statements of Avista as at and for the three months ended March 31, 2018 and for the year ended December 31, 2017, respectively.

The accompanying *pro forma* financial information uses accounting policies that are consistent with those disclosed in Hydro One’s and Avista’s audited consolidated financial statements as at and for the year ended December 31, 2017 and unaudited consolidated financial statements as at and for the three months ended March 31, 2018 and were prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”). The accompanying unaudited *pro forma* consolidated balance sheet and unaudited *pro forma* consolidated statements of operations reflect the Merger as if it had closed on March 31, 2018 and January 1, 2017, respectively. The accompanying unaudited *pro forma* consolidated financial statements may not be indicative of the results that would have been achieved if the transactions reflected therein had been completed on the dates indicated or the results which may be obtained in the future. For instance, the actual purchase price allocation will reflect the fair values, at the purchase date, of the assets acquired and liabilities assumed based upon Hydro One’s evaluation of such assets and liabilities following the closing of the Merger and, accordingly, the final purchase price allocation may differ materially from the preliminary allocation reflected herein.

The accompanying *pro forma* financial information should be read in conjunction with the description of the Merger and the proposed financing thereof contained in documents filed by Hydro One with the securities regulatory authorities in Canada; the most recent audited and unaudited consolidated financial statements of Avista, including the notes thereto; and the most recent audited and unaudited consolidated financial statements of Hydro One, including the notes thereto, all of which have been filed by Hydro One with the securities regulatory authorities in Canada.

Certain amounts in the historical financial statements of Avista have been reclassified in the unaudited *pro forma* balance sheet and statements of operations to reflect the presentation classifications in Hydro One's consolidated financial statements. In addition the historical financial statements of Avista have been translated from U.S. dollars to Canadian dollars to conform to the presentation currency of Hydro One.

Management believes the underlying assumptions used for the preparation of the *pro forma* financial information provide a reasonable basis for presenting the significant financial effect directly attributable to the Merger. The *pro forma* adjustments used to prepare the *pro forma* financial information are tentative and are based on currently available financial information and certain estimates and assumptions. The actual adjustments to the consolidated financial statements will depend on a number of factors. Therefore, it is expected that the actual adjustments will differ from the *pro forma* adjustments used to prepare the *pro forma* financial information, and the differences may be material.

The *pro forma* financial information presents the combined effect on the historical statements and provides the following resulting information:

Historical Information of Hydro One and Avista	Historical Dates and Giving Effect	Resulting Information
Unaudited consolidated balance sheet	As of March 31, 2018	Unaudited <i>pro forma</i> condensed consolidated balance sheet, referred to as the unaudited <i>pro forma</i> balance sheet
Audited consolidated statement of operations for the year ended December 31, 2017 and unaudited consolidated interim statement of operations for the three months ended March 31, 2018	For the year ended December 31, 2017; and for the three months ended March 31, 2018	Unaudited <i>pro forma</i> condensed consolidated statement of operations, referred to as the unaudited <i>pro forma</i> statements of operations Fair value adjustments to net assets acquired at March 31, 2018 have been applied to the assumed Merger date of January 1, 2017 for purposes of the unaudited <i>pro forma</i> statements of operations (see note 3)

Amounts in the notes to the unaudited *pro forma* consolidated financial statements are stated in Canadian dollars, unless otherwise indicated. The accompanying *pro forma* financial information may not be indicative of the results that would have been achieved if the transactions reflected herein had been completed on the dates indicated or the results which may be obtained in the future.

3. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

A. *Pro forma* Purchase Price and Purchase Price Allocation

At the date of preparation of this *pro forma* financial information, certain *pro forma* adjustments have been made as identified herein; however, the fair values of Avista's identifiable assets and liabilities to be assumed and the full impact of applying acquisition accounting have not been fully determined. After reflecting the *pro forma* adjustments made herein, the excess of the purchase price consideration over the adjusted book values of Avista's identifiable net assets has been presented as goodwill. The Merger consideration in the unaudited *pro forma* financial information is based on the agreed net purchase price of US \$53 per share (approximately C\$68 using the exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018). Since the acquisition is to be paid in U.S. dollars, the actual amount paid, when measured in Canadian dollars will vary. The assumed financing structure and partial mitigation of the foreign exchange fluctuation risk is outlined below.

Avista is a public utility subject to regulation by state utility commissions. The retail electric and natural gas operations are subject to the jurisdiction of various regulatory bodies, including the U.S. Federal Energy Regulatory Commission (FERC) for licensing of hydroelectric generation resources, and for electric transmission services and wholesale sales. The revenues and earnings approved by the utility commissions are based on regulated rates of return that are applied to historic values of the regulated assets. Therefore, no fair value adjustments are expected to be made to property, plant and equipment and intangible assets with respect to the regulated entities of Avista because all economic benefits and obligations associated with regulated assets beyond regulated thresholds accrue to Avista's customers.

The following is the estimated net purchase price, estimated net funding requirements and assumed financing structure for the Merger. These estimates have been reflected in the accompanying unaudited *pro forma* financial information.

	Using exchange rates in effect on March 31, 2018 (in millions of Canadian dollars)
Estimated Net Purchase Price	
Estimated net purchase price, before assumed debt	4,484
Assumed debt of Avista	<u>2,572</u>
Estimated purchase price	7,056
Estimated Net Funding Requirements	
Estimated net purchase price before assumed long-term debt	4,484
Assumed debt of Avista	2,572
Common share issuance costs and interest make whole payment (Note 3 (B))	77
Net interest (after tax) paid on convertible debentures (Note 3 (B))	26
Long term debt issuance costs (Note 3 (C))	24
Estimated (after tax) transaction costs (Note 3 (D))	160
Fair value of Avista share-based payments settled in cash (Note 3 (I))	<u>30</u>
Estimated net funding requirements	7,373
Assumed Financing Structure	
Assumed debt of Avista	2,572
Gross proceeds from Convertible Debentures converted to common shares (Note 3 (B))	1,540
Issuance of long term debt (Note 3 (C))	3,350
(Excess) cash (Note 3 (J))	<u>(89)</u>
	<u>7,373</u>

This estimated purchase price is based on Avista's outstanding shares at the purchase price of US\$53 per share converted at a foreign exchange rate of C\$1.2884 = US\$1.00 on March 31, 2018. The purchase price used for the purposes of calculating *pro forma* adjustments is based on exchange rates as described in Note 5 below and will differ from this amount when exchange rates change. Hydro One entered into a forward currency contract in October, 2017 to partially mitigate the foreign exchange fluctuation risk of the purchase price that is denominated in U.S. dollars.

Goodwill from the acquisition of Avista of C\$2,292 is calculated as the difference between the net purchase price of C\$4,484 million and the estimated fair value of the net assets acquired of C\$2,192 million.

- B. Assumed financing for the Merger contemplates the issuance, through the exercise of conversion rights under the Debentures, of approximately 72 million common shares of Hydro One at C\$21.40 per share for gross proceeds of approximately C\$1.54 billion, which includes a base offering of approximately 65 million common shares for proceeds of C\$1.4 billion plus the over-allotment of approximately 7 million common shares that was exercised for proceeds of C\$0.14 billion. Underwriting costs are 3.5% of gross proceeds in the aggregate which is approximately C\$54 million and will result in a corresponding deferred tax asset of approximately C\$14 million based on Hydro One's Canadian statutory income tax rate of 26.5%.

Hydro One completed the sale of the Debentures on August 9, 2017 on an instalment basis. The initial instalment was paid with gross proceeds of C\$513 million and net proceeds of C\$486 million after payment of half the aggregate underwriter fees of C\$27 million. The convertible debentures balance of C\$488 million on the unaudited consolidated balance sheet of Hydro One as at March 31, 2018 is net of the unamortized debt issuance costs of C\$25 million.

Upon conversion of the Debentures from the initial instalment and the issuance of all the common shares of approximately C\$1.54 billion, as if the Merger had closed on March 31, 2018, the remaining underwriting fees, for an additional C\$27 million and a make-whole interest payment of C\$23 million would be paid in cash. The terms of the make-whole payment does not extend beyond the anniversary date of August 9, 2018 and therefore would not be incurred as an expense if the transaction closed after August 9, 2018.

Since the cash proceeds from the initial instalment were received on August 9, 2017, the *pro forma* adjustment to cash only reflects the incremental cash proceeds on March 31, 2018 of C\$977 million, which is also net of the remaining underwriting fees as well as the make-whole payment. The *pro forma* adjustment to common shares of approximately \$1.502 billion is net of the after tax underwriting fees of approximately \$38 million and is reflected by the *pro forma* adjustment as incremental cash proceeds of C\$977 million, the first instalment payment of \$488 million, the recognition of a deferred tax asset of \$20 million and a resulting impact to retained earnings of \$17 million.

The Debentures contained a beneficial conversion feature at the time of issuance due to the conversion feature being in the money on the commitment date. The conversion feature is contingent on triggering of the final instalment payment at which time it becomes exercisable. *Pro forma* adjustment in the amount of C\$92 million has been included to reflect the beneficial conversion feature, assuming the date for payment of the final instalment was the assumed Merger date of March 31, 2018.

Net interest costs since August 9, 2017 of C\$36 million (and related tax effects of C\$10 million) associated with the Debentures have already been paid and reflected in the historical financial results of Hydro One. *Pro forma* adjustments have been included with the unaudited *pro forma* condensed consolidated statement of operations for the year ended December 31, 2017 and for the three months ended March 31, 2018 to remove the historical after tax interest costs incurred that reflect the assumed conversion of the Debentures into Hydro One common shares as if the Merger had closed on January 1, 2017.

- C. Financing for the Merger includes the assumed issuance of long term debt maturing over 5, 10 and 30 years respectively for gross proceeds of approximately C\$3.35B. Debt issuance costs in the aggregate of approximately C\$24 million have been recognized as a direct deduction to the long term debt. The maturity dates and other terms of the debt are current estimates only and will not be known until the debt is issued and could vary significantly from what is proposed based on many factors including market conditions.

While assumed financing for the Merger is comprised of the Debentures and long term debt as previously described, the assumed Merger on March 31, 2018 is estimated to require short-term borrowing via issuance of commercial paper of approximately C\$400 million, given the cash and cash equivalents balance on this date. This additional commercial paper issuance is expected to be termed-out subsequently, which is not reflected as an adjustment in the *pro forma* financial information.

- D. Transaction costs not yet incurred are estimated at approximately C\$120 million and are composed of estimated investment banking, advisory, accounting and legal fees, bridge financing costs, an Avista foundation donation that is considered to be directly related to the acquisition, and real estate transfer taxes. Change in control payments to employees are approximately C\$50 million and represent estimated change in control liabilities as a result of the Merger. These transaction related costs and the change in control payments in aggregate of approximately C\$170 million (after tax of C\$160 million) and are assumed to be paid in cash based on estimates by Hydro One management. These costs have been included as a *pro forma* adjustment to cash and retained earnings on the unaudited *pro forma* balance sheet. They are not reflected in the unaudited *pro forma* statement of earnings on the basis that these expenses are directly attributable to the Merger of Avista and are non-recurring in nature.

Pro forma adjustments to the statement of earnings include removal of the non-recurring historical transaction costs from operation, maintenance and administration of C\$39 million and C\$3 million for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively.

- E. Elimination of Avista's historical outstanding common shares, retained earnings and accumulated other comprehensive income as of March 31, 2018.
- F. Interest expense on the Company's proposed issuance of long-term debt described in Note 3(C) above of C\$143 million and C\$35 million for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively.

Pro forma adjustments to finance charges includes removal of the historical net interest costs on the Debentures as described in Note 3(B) of C\$22 million and C\$14 million for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively.

In October, 2017, Hydro One also entered into a deal-contingent foreign exchange forward contract to convert C\$1.4 billion to U.S. dollars at an agreed upon Canadian dollar forward rate per 1.00 U.S. dollars to economically mitigate a portion of the foreign exchange fluctuation risk on the purchase price that is denominated in U.S. dollars. *Pro forma* adjustments to finance charges includes removal of the associated loss from this hedging contract of C\$3 million and the gain of C\$27 million for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively.

- G. Income taxes applicable to the *pro forma* adjustments for items with tax effect in the Canadian entities are calculated at the average tax rate of 26.50%. Income taxes applicable to the *pro forma* adjustments for items with tax effect in the U.S. entities are calculated at the average tax rates of 36.69% and 23.05% for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively.
- H. Hydro One has recorded an adjustment to the fair value of Avista's long term debt and recorded a regulatory offset of C\$151 million in Regulatory Assets for the portion of the fair value adjustment to long-term debt held within regulated operations. Hydro One views the regulatory offset upon consummation of the acquisition as a proxy for the regulatory asset that would be recorded in the event such debt was extinguished at an amount higher than the carrying value.
- I. As described in the Merger Agreement, Hydro One agreed to exchange certain of Avista's outstanding share-based compensation awards partially settled as a cash payment and the remainder settled by conversion to equivalent Hydro One share-based compensation awards. Each award was measured at fair value on the date of the Merger with an aggregate value of C\$37 million.
- J. Excess cash of C\$89 million is after accounting for the net cash proceeds of C\$460 million (C\$486 million net of the after tax interest payments of C\$26 million) that is already reflected in the historical financial statements of Hydro One as described in Note 3(B). The aggregate *pro forma* adjustments to cash and cash equivalents of C\$29 million on the unaudited *pro forma* consolidated balance sheet represents the excess cash of C\$89 million, net of the C\$460 million already received, plus the C\$400 million of short term borrowing as described in Note 3 (C).

4. PRO FORMA SHARES OUTSTANDING

Earnings per common share is calculated by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding.

The calculation of the *pro forma* earnings per common share, for the three months ended March 31, 2018 and for the year ended December 31, 2017, reflect the dilutive effects of the assumed conversion of the Debentures and the assumed issuance of approximately 2 million of Hydro One's common shares arising from stock based compensation awards, as if the issuance of the common shares arising from outstanding stock based compensation awards had taken place on January 1, 2017. The basic and diluted earnings per common share and basic and diluted weighted average number of common shares outstanding for the *pro forma* reporting period is determined as follows:

	For the year ended December 31, 2017	For the three months ended March 31, 2018
<i>(Canadian dollars; Number of shares in millions)</i>		
Earnings per common share	\$ 1.13	\$ 0.38
Diluted earnings per common share	\$ 1.13	\$ 0.38
Shares outstanding		
Weighted average shares of Hydro One Limited - basic	595	595
Debenture converted common shares outstanding - basic	72	72
<i>Pro forma</i> weighted average shares outstanding - basic	667	667
<i>Effect of dilutive options and other stock based compensation awards</i>	2	2
<i>Pro forma</i> diluted weighted average shares of Hydro One Limited	669	669

5. CURRENCY TRANSLATION AND CLASSIFICATION ADJUSTMENTS

The assets and liabilities of Avista, which has a US\$ reporting and functional currency, are translated at the exchange rate of C\$1.2884 = US\$1.00 which was the rate published by Bloomberg as at March 31, 2018. Revenues and expenses in Avista's statement of operations are translated to Canadian dollars using the rates published by Bloomberg at an average exchange rate of C\$1.2648 = US\$1.00 for the three months ended March 31, 2018 and C\$1.2983 = US\$1.00 for the year ended December 31, 2017.

Reclassifications were made to align the presentation of Avista's financial statement amounts with Hydro One's financial statement amounts in the accompanying unaudited *pro forma* financial information. No material differences in accounting policies under US GAAP have been identified; however, a more detailed analysis will be completed after the Merger.

Avista Corporation
Pro forma Consolidated Balance Sheet Reclassifications
As at March 31, 2018
Unaudited

(in millions)	Avista Historical (USD)	Foreign Exchange Impact	Avista Historical (CAD)	Reclassifications (CAD)	Amount after Reclassification (CAD)	
Assets						
Current Assets:						
Cash and cash equivalents	26	8	34		34	
Accounts and notes receivable	169	48	217		217	
Regulatory asset for energy commodity derivatives	21	6	27	(27)		(1)
Materials and supplies, fuel stock and stored natural gas	49	14	63	(63)		(1)
Other current assets	45	12	57	90		(1)
Total current assets	310	88	398		398	
Property, plant and equipment				5,693		(2)
Net Utility Property:						
Utility plant in service	5,882	1,697	7,579	(7,579)		(2)
Construction work in progress	165	48	213	(213)		(2)
Total	6,047	1,745	7,792	(7,792)		
Less: Accumulated depreciation and amortization	(1,629)	(470)	(2,099)	2,099		(2)
Total net utility property	4,418	1,275	5,693	(5,693)		
Other Non-current Assets:						
Regulatory assets				769		(3)
Other assets				133		(4)
Investment in affiliated trusts	12	3	15	(15)		(4)
Goodwill	58	16	74		74	
Other property and investments-net and other non-current assets	92	26	118	(118)		(4)
Total other non-current assets	162	45	207	769		976
Deferred Charges:						
Regulatory assets for deferred income tax	90	27	117	(117)		(3)
Regulatory assets for pensions and other postretirement benefits	206	60	266	(266)		(3)
Other regulatory assets	129	37	166	(166)		(3)
Regulatory assets for interest rate swaps	151	44	195	(195)		(3)
Non-current regulatory asset for energy commodity derivatives	9	3	12	(12)		(3)
Other deferred charges	10	3	13	(13)		(3)
Total deferred charges	595	174	769	(769)		
Total assets	5,485	1,582	7,067		7,067	

- 1 Regulatory asset for energy commodity derivatives plus materials, supplies, fuel stock and stored natural gas of \$90 million to Other current assets
- 2 Net utility property of \$5,693 million to Property, plant and equipment
- 3 Deferred charges of \$769 million to Regulatory assets
- 4 Investment in affiliates trusts and other property and investments-net and other non-current assets of \$133 million to Other assets

Avista Corporation
Pro forma Consolidated Balance Sheet Reclassifications
As at March 31, 2018
Unaudited

(Continued)

(in millions)	Avista Historical (USD)	Foreign Exchange Impact	Avista Historical (CAD)	Reclassifications (CAD)	Amount after Reclassification (CAD)	
Current liabilities:						
Accounts payable	67	20	87	357	444	(5)
Current portion of long-term debt and capital leases	275	79	354		354	
Short-term borrowings	50	14	64		64	
Energy commodity derivative liabilities	10	3	13	(13)		(5)
Income taxes payable	16	4	20	(20)		(5)
Accrued interest	30	9	39	(39)		(5)
Accrued taxes other than income taxes	45	13	58	(58)		(5)
Deferred natural gas costs	31	9	40	(40)		(5)
Current portion of pensions and other postretirement benefits	11	3	14	(14)		(5)
Current unsettled interest rate swap derivative liabilities	25	7	32	(32)		(5)
Current regulatory liability for excess deferred income taxes	26	8	34	(34)		(5)
Other current liabilities	83	24	107	(107)		(5)
Total current liabilities	669	193	862		862	
Long-term debt and capital leases	1,491	431	1,922		1,922	
Long-term debt to affiliated trusts	52	14	66		66	
Long-term regulatory liabilities				1,008	1,008	(6),(7),(9)
Regulatory liability for utility plant retirement costs	288	83	371	(371)		(9)
Pensions and other postretirement benefits	200	58	258	(258)		(8)
Deferred income taxes	465	134	599		599	
Regulatory liability for excess deferred income taxes	414	119	533	(533)		(7)
Other non-current liabilities, regulatory liabilities and deferred credits	148	42	190	154	344	(6),(8)
Total liabilities	3,727	1,074	4,801		4,801	
Equity:						
Avista Corporation Shareholders' Equity:						
Common stock	1,132	326	1,458		1,458	
Accumulated other comprehensive loss	(10)	(2)	(12)		(12)	
Retained earnings	636	184	820		820	
Total Avista Corporation shareholders' equity	1,758	508	2,266		2,266	
Total equity	1,758	508	2,266		2,266	
Total liabilities and equity	5,485	1,582	7,067		7,067	

5 Current liabilities of \$357 million to Accounts payable and other current liabilities

6 Other non-current liabilities, regulatory liabilities and deferred credits of \$104 million to Long-term regulatory liabilities

7 Regulatory liability for excess deferred income taxes of \$533 million to Long-term regulatory liabilities

8 Pensions and other postretirement benefits of \$258 million to Other long-term liabilities

9 Regulatory liability for utility plant retirement costs of \$371 million to Long-term regulatory liabilities

Avista Corporation
Pro forma Consolidated Statement of Operations Reclassifications
For the three month period ended March 31, 2018
Unaudited

(in millions)	Avista Historical (USD)	Foreign Exchange Impact	Avista Historical (CAD)	Reclasses (CAD)	Amount after Reclassification	
Operating Revenues:						
Other				9	9	(1)
Utility revenues	402	107	509		509	
Non-utility revenues	7	2	9	(9)		(1)
Total operating revenues	409	109	518		518	
Operating Expenses:						
Purchased power				196	196	(2)
Operating, maintenance and administration				147	147	(2)
Depreciation and amortization				57	57	(2)
Other expense				6	6	(4)
Utility operating expenses:						
Resource costs	154	42	196	(196)		(2)
Other operating expenses	78	21	99	(99)		(2)
Depreciation and amortization	45	12	57	(57)		(2)
Taxes other than income taxes	31	8	39	(39)		(2)
Non-utility operating expenses:						
Other operating expenses	7	2	9	(9)		(2)
Total operating expenses	315	85	400	6	406	
Income from operations	94	24	118	(6)	112	
Finance charges				30	30	(3)
Interest expense	25	6	31	(31)		(3)
Capitalized interest	(1)		(1)	1		(3)
Other expense (income)-net	4	2	6	(6)		(4)
Income before income taxes	66	16	82		82	
Income tax expense	11	3	14		14	
Net income	55	13	68		68	

- 1 Non-utility revenues of \$9 million to other revenue
- 2 Utility operating expenses and non-utility operating expenses of \$400 million to operating expenses
- 3 Net interest of \$30 million to finance charges
- 4 Other expense (income)-net of \$6 million to operating expenses

Avista Corporation
Pro forma Consolidated Statement of Operations Reclassifications
For the year ended December 31, 2017
Unaudited

(in millions)	Avista Historical (USD)	Foreign Exchange Impact	Avista Historical (CAD)	Reclassifications (CAD)	Amount after Reclassification	
Operating Revenues:						
Other				29	29	(1)
Utility revenues	1,423	425	1,848		1,848	
Non-utility revenues	23	6	29	(29)		(1)
Total operating revenues	1,446	431	1,877		1,877	
Operating Expenses:						
Purchased power				681	681	(2)
Operating, maintenance and administration				604	604	(2)
Depreciation and amortization				223	223	(2)
Other income-net				(9)	(9)	(4)
Utility operating expenses:						
Resource costs	525	156	681	(681)		(2)
Other operating expenses	332	100	432	(432)		(2)
Depreciation and amortization	171	51	222	(222)		(2)
Taxes other than income taxes	107	32	139	(139)		(2)
Non-utility operating expenses:						
Other operating expenses	25	8	33	(33)		(2)
Depreciation and amortization	1		1	(1)		(2)
Total operating expenses	1,161	347	1,508	(9)	1,499	
Income from operations	285	84	369	9	378	
Finance charges				121	121	(3)
Interest expense	95	29	124	(124)		(3)
Interest expense to affiliated trusts	1		1	(1)		(3)
Capitalized interest	(3)	(1)	(4)	4		(3)
Other expense (income)	(7)	(2)	(9)	9		(4)
Income before income taxes	199	58	257		257	
Income tax expense	83	24	107		107	
Net income	116	34	150		150	

- 1 Non-utility revenues of \$29 million to other revenue
- 2 Utility operating expenses and non-utility operating expenses of \$1,508 million to operating expenses
- 3 Net interest of \$121 million to finance charges
- 4 Other expense (income) of \$9 million to operating expenses

The Board of Directors

Hydro One Limited

We consent to the use of our audit report dated February 12, 2018, on the financial statements of Hydro One Limited, which comprise the consolidated balance sheets at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, which are incorporated by reference in the short form base shelf prospectus which is part of the Registration Statement on Form F-10.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 8, 2018

Toronto, Canada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statement on Form F-10 of Hydro One Holdings Limited and Hydro One Limited of our report dated February 20, 2018, relating to the financial statements of Avista Corporation, appearing in the Current Report on Form 6-K of Hydro One Limited filed on June 8, 2018.

We also consent to the reference to us under the heading “Auditors” in the prospectus included in this Registration Statement.

/s/ Deloitte & Touche LLP

Seattle, Washington

June 8, 2018

INDENTURE

by and among

HYDRO ONE HOLDINGS LIMITED

as the Issuer

AND

HYDRO ONE LIMITED

as the Guarantor

AND

COMPUTERSHARE TRUST COMPANY, N.A.

as the U.S. Trustee

AND

COMPUTERSHARE TRUST COMPANY OF CANADA

as the Canadian Co-Trustee

Dated as of June 8, 2018

CERTAIN SECTIONS OF THIS INDENTURE RELATING TO SECTIONS 310 THROUGH 318, INCLUSIVE, OF THE TRUST
INDENTURE ACT OF 1939, AS AMENDED:

<u>Trust Indenture Act Section</u>		<u>Indenture Section</u>
Section 310	(a)(1)	6.9
	(a)(2)	6.9
	(a)(3)	6.9
	(a)(4)	Not Applicable
	(a)(5)	6.9
	(b)	6.8
		6.10
Section 311	(a)	6.13
	(b)	6.13
Section 312	(a)	7.1
		7.2
	(b)	7.2
	(c)	7.2
Section 313	(a)	7.3
	(b)	7.3
	(c)	7.3
	(d)	7.3
Section 314	(a)	7.4
	(a)(4)	1.1
		10.5
	(b)	Not Applicable
	(c)(1)	1.2
	(c)(2)	1.2
	(c)(3)	Not Applicable
	(d)	Not Applicable
	(e)	1.2
Section 315	(a)	6.1
	(b)	6.2
	(c)	6.1
	(d)	6.1
	(e)	5.14
Section 316	(a)	1.1
	(a)(1)(A)	5.12
	(a)(1)(B)	5.13
	(a)(2)	Not Applicable
	(b)	5.8
	(c)	1.4
Section 317	(a)(1)	5.3
	(a)(2)	5.4
	(b)	10.4
Section 318	(a)	1.7

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of this Indenture.

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INDENTURE, dated as of June 8, 2018, by and among (i) HYDRO ONE HOLDINGS LIMITED, a corporation duly organized and existing under the laws of the Province of Ontario (herein called the “**Corporation**”), having its principal office at 483 Bay Street, 8th Floor, South Tower, Toronto, Ontario M5G 2P5, (ii) HYDRO ONE LIMITED, a corporation duly organized and existing under the laws of the Province of Ontario (herein called the “**Guarantor**”), having its principal office at 483 Bay Street, 8th Floor, South Tower, Toronto, Ontario M5G 2P5, (iii) COMPUTERSHARE TRUST COMPANY, N.A., as the United States trustee, paying agent, registrar and transfer agent (herein called the “**U.S. Trustee**”) and (iv) COMPUTERSHARE TRUST COMPANY OF CANADA, as the Canadian trustee (herein called the “**Canadian Co-Trustee**”). The U.S. Trustee and the Canadian Co-Trustee are each also individually referred to in this Indenture as a “**Trustee**” and collectively, as the “**Trustees**”.

RECITALS OF THE CORPORATION

The Corporation has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the “**Securities**”), to be issued in one or more series as in this Indenture provided.

The Guarantor has duly authorized the execution and delivery of this Indenture to provide for the guarantee of the obligations of the Corporation under this Indenture and the Securities (the “**Guarantee**”).

All things necessary to make this Indenture a valid agreement of the Corporation and the Guarantor, in accordance with its terms, have been done.

NOW THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE 1 DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

1.1 Definitions

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein

expressly provided, the term “generally accepted accounting principles” with respect to any computation required or permitted hereunder shall mean such accounting principles which are recognized as being generally accepted in Canada, if the Corporation is then preparing its financial statements in accordance with such principles, or accounting principles which are recognized as being generally accepted in the United States, if the Corporation is then preparing its financial statements in accordance with such principles;

(4) “including” means including, without limitation;

(5) unless the context otherwise requires, any reference to an “Article” or a “Section” refers to an Article or a Section, as the case may be, of this Indenture; and

(6) the words “herein” “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

“**Act**” when used with respect to any Holder, has the meaning specified in Section 1.4.

“**Additional Amounts**” has the meaning specified in Section 10.2.

“**Additional Securities**” has the meaning specified in Section 3.3.

“**Affiliate**” means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “**control**” means, when used with respect to any specified Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing.

“**Applicable Procedures**” means, with respect to any transaction involving a Global Security or beneficial interest therein, the rules and procedures of the Depository, Euroclear and Clearstream, in each case, to the extent applicable to such transaction and as in effect from time to time.

“**Authenticating Agent**” means any Person authorized by the U.S. Trustee pursuant to Section 6.14 to act on behalf of the U.S. Trustee to authenticate Securities of one or more series.

“**Authorized Denomination**” has the meaning specified in Section 3.2.

“**Authorized Officers**” has the meaning specified in Section 1.5.

“**Board of Directors**” means, with respect to the Corporation or the Guarantor, as the case may be, its board of directors or any committee thereof duly authorized to act on behalf of such board of directors.

“**Board Resolution**” means a copy of a resolution certified by an officer of the Corporation or the Guarantor, as the case may be, to have been duly adopted by the applicable Board of Directors and to be in full force and effect on the date of such certification, and delivered to the U.S. Trustee.

“**Business Day**” means a day other than (i) a Saturday or a Sunday, (ii) a day on which banking institutions in New York City, New York or Toronto, Ontario are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Corporate Trust Office of a Trustee is closed for business.

“**Canadian Co-Trustee**” means the Person named as the “Canadian Co-Trustee” in the first paragraph of this Indenture until a successor Canadian Co-Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter shall mean or include each Person who is then a Canadian Co-Trustee hereunder, unless there has ceased to be a Canadian Co-Trustee under this Indenture.

“**Canadian Trust Indenture Legislation**” means, at any time, statutory provisions relating to trust indentures and the rights, duties and obligations of trustees under trust indentures and of bodies corporate issuing or guaranteeing debt obligations under trust indentures to the extent that such provisions are at such time in force and applicable to this Indenture, and at the date of this Indenture includes the applicable provisions of the *Loan and Trust Corporations Act* (Ontario), the *Trust and Loan Companies Act* (Canada) and the *Business Corporations Act* (Ontario) and any statute that may be substituted therefor, as from time to time amended, and any other statute of Canada or a province thereof, including the regulations under any such statute.

“**Change in Tax Law**” has the meaning specified in Section 11.7.

“**Clearstream**” means Clearstream Banking, S.A, or its successor.

“**Commission**” means the United States Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

“**Company Request**” or “**Company Order**” means a written request or order signed in the name of the Corporation by any one officer or director of the Corporation, and delivered to the U.S. Trustee.

“**Corporate Trust Office**” means the office of a Trustee designated by such Trustee at which at any particular time its corporate trust business shall be administered, which office on the date hereof is located at 8472 Lucent Blvd., Suite 225, Highlands Ranch, CO 80129 in the case of the U.S. Trustee and at 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1 in the case of the Canadian Co-Trustee.

“**Corporation**” means the Person named as the “Corporation” in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter shall mean such successor Person.

“**corporation**” includes corporations, associations, companies, limited liability companies, unlimited liability companies, joint-stock companies and business trusts.

“**Covenant Defeasance**” has the meaning specified in Section 12.3.

“**Currency**” means any currency or currencies, composite currency or currency unit or currency units issued by the government of one or more countries or by any recognized confederation or association of such governments.

“**Custodian**” means the custodian appointed by DTC, or any successor Person thereto, with respect to any Global Security, and shall initially be the U.S. Trustee.

“**Defaulted Interest**” has the meaning specified in Section 3.8.

“**Defeasance**” has the meaning specified in Section 12.2.

“**Definitive Security**” means a certificated Security registered in the name of the Holder thereof and issued in accordance with Section 3.6 and substantially in a form as shall be established by or pursuant to a Board Resolution of the Corporation or in one or more indentures supplemental hereto.

“**Depository**” means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depository for such Securities as contemplated by Section 3.1.

“**DTC**” means The Depository Trust Company, or its successor.

“**Euroclear**” means Euroclear Bank, S.A./N.V., as operator of the Euroclear system, or its successor.

“**Event of Default**” has the meaning specified in Section 5.1.

“**Exchange Act**” means the United States Securities Exchange Act of 1934 and any statute successor thereto, in each case, as amended from time to time.

“**Expiration Date**” has the meaning specified in Section 1.4.

“**First Currency**” has the meaning specified in Section 1.16.

“**Global Security**” means a Security that evidences all or part of the Securities of any series which is issued to a Depository or a nominee thereof for such series in accordance with Section 3.1(20).

“**Government Obligation**” means (1) any security which is (i) a direct obligation of the United States of America or the government which issued the foreign Currency in which the applicable Securities referred to in Section 4.1 or Article 12, as applicable, are payable, for the payment of which its full faith and credit is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America or such government which issued the foreign Currency in which the applicable Securities are payable, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America or such other government, which, in either of subclause (1)(i) or (1)(ii), is not callable or redeemable at the option of the issuer thereof, and (2) any depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any

Government Obligation which is specified in clause (1) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

“**Guarantee**” means the guarantee of the Guarantor as provided in Article 14 and as may be endorsed on a Security authenticated and delivered pursuant to this Indenture and which shall include the provisions set forth in Article 14 and all other obligations and covenants of the Guarantor contained in this Indenture and any Securities.

“**Guarantor**” means the Person named as “Guarantor” in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter shall mean such successor Person.

“**Holder**” means a Person in whose name a Security is registered in the Register.

“**Indenture**” means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term “Indenture” shall also include the terms of particular series of Securities established as contemplated by Section 3.1.

“**Indenture Obligations**” has the meaning specified in Section 14.1.

“**Instructions**” has the meaning specified in Section 1.5.

“**interest**” means, when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, interest payable after Maturity at the rate prescribed in such Original Issue Discount Security.

“**Interest Payment Date**” means, when used with respect to any Security, the Stated Maturity of an installment of interest on such Security.

“**Judgment Currency**” has the meaning specified in Section 1.15.

“**Maturity**” means, when used with respect to any Security, the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

“**Minimum Authorized Denomination**” has the meaning specified in Section 3.2.

“**MJDS**” means the U.S./Canada Multijurisdictional Disclosure System adopted by the Commission and Canadian securities regulators.

“**Notice of Default**” means a written notice of the kind specified in Section 5.1(3).

“**Officer’s Certificate**” means a certificate signed by any officer of the Corporation or the Guarantor, as the case may be, and delivered to the U.S. Trustee on behalf of the Corporation or the Guarantor, as the case may be, without personal liability.

“**Opinion of Counsel**” means a written opinion of counsel, who may be counsel for the Corporation or the Guarantor, as the case may be, or other counsel, including an employee of the Corporation or the Guarantor, as the case may be, who shall be reasonably acceptable to the U.S. Trustee.

“**Original Issue Discount Security**” means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.2.

“**Original Securities**” has the meaning specified in Section 3.3.

“**Other Currency**” has the meaning specified in Section 1.16.

“**Outstanding**” means, when used with respect to Securities, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(1) Securities theretofore cancelled by the U.S. Trustee or delivered to the U.S. Trustee for cancellation;

(2) Securities, or portions thereof, for whose payment or redemption the necessary amount of money or money’s worth has been theretofore deposited with the U.S. Trustee or any Paying Agent, other than the Corporation or the Guarantor, in trust or set aside and segregated in trust by the Corporation or the Guarantor (if the Corporation or the Guarantor shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the U.S. Trustee has been made; and

(3) Securities as to which Defeasance has been effected pursuant to Section 12.2,

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder as of any date, (i) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding for such purpose shall be equal to the amount of the principal thereof which would be, or shall have been declared to be, due and payable as of such date upon acceleration of the Maturity thereof to such date pursuant to Section 5.2, (ii) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by Section 3.1, (iii) the principal amount of a Security denominated in one or more foreign Currencies which shall

be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 3.1, of the principal amount of such Security (or, in the case of a Security described in Clause (i) or (ii) above, of the amount determined as provided in such Clause), and (iv) Securities owned by the Corporation, the Guarantor or any other obligor upon the Securities or any Affiliate of the Corporation, the Guarantor or of such other obligor, whether of record or beneficially, shall be disregarded and deemed not to be Outstanding, except that, in determining whether a Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Securities which such Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the U.S. Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Corporation, the Guarantor or any other obligor upon the Securities or any Affiliate of the Corporation, the Guarantor or of such other obligor.

"Paying Agent" means the U.S. Trustee and any other Person authorized by the Corporation to pay the principal of, or any premium, Additional Amounts or interest on, any Securities on behalf of the Corporation.

"Periodic Offering" means an offering of Securities of a series from time to time the specific terms of which Securities, including the rate or rates of interest or formula for determining the rate or rates of interest thereon, if any, the Stated Maturity or Maturities thereof and the redemption provisions, if any, with respect thereto, are to be determined by the Corporation upon the issuance of such Securities.

"Person" means any individual, corporation, partnership, limited liability company, unlimited liability company or corporation, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment" means, when used with respect to the Securities of any series, the place or places where the principal of, and any premium, Additional Amounts and interest on, the Securities of that series are payable as specified as contemplated by Section 3.1.

"Predecessor Security" means, with respect to a particular Security, every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.7 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as such mutilated, destroyed, lost or stolen Security.

"Privacy Laws" has the meaning specified in Section 6.17.

"rate(s) of exchange" has the meaning specified in Section 1.15.

"Redemption Date" means, when used with respect to any Security to be redeemed, the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price" means, when used with respect to any Security to be redeemed, the price at which it is to be redeemed pursuant to this Indenture.

“**Register**” and “**Registrar**” have the respective meanings specified in Section 3.4.

“**Regular Record Date**” means, with respect to the interest payable on any Interest Payment Date on the Securities of any series, the date specified for that purpose as contemplated by Section 3.1.

“**Relevant Taxing Jurisdiction**” has the meaning specified in Section 10.2.

“**Required Currency**” has the meaning specified in Section 1.15.

“**Responsible Officer**” means, when used with respect to either Trustee, an officer of such Trustee in its Corporate Trust Office having direct responsibility for the administration of this Indenture, and also, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of such officer’s knowledge of, and familiarity with, the particular subject.

“**Securities**” has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

“**Securities Act**” means the United States Securities Act of 1933 and any statute successor thereto, in each case, as amended from time to time.

“**Special Record Date**” means, with respect to the payment of any Defaulted Interest on the Securities of any series, a date fixed by the U.S. Trustee pursuant to Section 3.8.

“**Stated Maturity**” means, when used with respect to any Security or any installment of principal thereof or interest thereon, the date specified in such Security as the date on which the principal of such Security or such installment of principal or interest is due and payable, in the case of such principal, as such date may be advanced or extended as provided pursuant to the terms of such Security and this Indenture.

“**Taxes**” has the meaning specified in Section 10.2.

“**Tax Redemption Date**” has the meaning specified in Section 11.7.

“**Trust Indenture Act**” means the United States Trust Indenture Act of 1939 as in force at the date of this Indenture; provided, however, that in the event the United States Trust Indenture Act of 1939 is amended after such date, it shall mean, to the extent required by any such amendment, the United States Trust Indenture Act of 1939 as so amended.

“**Trust Indenture Legislation**” means the Trust Indenture Act and, if there is at the relevant time a Canadian Co-Trustee hereunder, the Canadian Trust Indenture Legislation.

“**Trustee**” or “**Trustees**” means the Person named as the “U.S. Trustee” and the “Canadian Co-Trustee” in the first paragraph of this instrument until a successor of either Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter shall mean or include each Person who is then a Trustee hereunder. If the Canadian Co-Trustee resigns or is removed and, pursuant to Section 6.10, the Corporation is not required to appoint a successor

Trustee to the Canadian Co-Trustee, then “**Trustee**”, “**Trustees**” and any reference to “**the Trustees**” shall mean the U.S. Trustee.

“**U.S. Trustee**” means the Person named as the “U.S. Trustee” in the first paragraph of this instrument until a successor U.S. Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter shall mean or include each Person who is then a U.S. Trustee hereunder.

“**Writing**” has the meaning specified in Section 6.15.

1.2 Compliance Certificates and Opinions.

Upon any application or request by the Corporation or the Guarantor to either Trustee to take any action under any provision of this Indenture, the Corporation or the Guarantor shall furnish to the applicable Trustee such certificates and opinions as may be required under the Trust Indenture Legislation. Each such certificate or opinion shall be given in the form of an Officer’s Certificate, if to be given by an officer of the Corporation or the Guarantor, as the case may be, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Legislation and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such individual, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of such individual, such condition or covenant has been complied with.

1.3 Form of Documents Delivered to Trustees.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Corporation or the Guarantor, as the case may be, may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should

know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Corporation or the Guarantor, as the case may be, stating that the information with respect to such factual matters is in the possession of the Corporation or the Guarantor, as the case may be, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Any certificate or opinion of an officer of the Corporation or the Guarantor, as the case may be, may be based, insofar as it relates to accounting matters, upon a certificate or opinion of, or representations by, an accountant or firm of accountants, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the accounting matters upon which such certificate or opinion may be based are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever, subsequent to the receipt by either Trustee of any Board Resolution, Officer' s Certificate, Opinion of Counsel or other document or instrument, a clerical, typographical or other inadvertent or unintentional error or omission shall be discovered therein, a new document or instrument may be substituted therefor in corrected form with the same force and effect as if originally filed in the corrected form and, irrespective of the date or dates of the actual execution and delivery thereof, such substitute document or instrument shall be deemed to have been executed and delivered as of the date or dates required with respect to the document or instrument for which it is substituted. Anything in this Indenture to the contrary notwithstanding, if any such corrective document or instrument indicates that action has been taken by or at the request of the Corporation or the Guarantor, as the case may be, which could not have been taken had the original document or instrument not contained such error or omission, the action so taken shall not be invalidated or otherwise rendered ineffective but shall be and remain in full force and effect, except to the extent that such action was a result of wilful misconduct or bad faith. Without limiting the generality of the foregoing, any Securities issued under the authority of such defective document or instrument shall nevertheless be the valid obligations of the Corporation and the Guarantor entitled to the benefits of this Indenture equally and ratably with all other Outstanding Securities, except as aforesaid.

1.4 Acts of Holders; Record Dates.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of the Outstanding Securities of all series or one or more series, as the case may be, may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument is, or instruments are, delivered to a Trustee and, where it is hereby expressly required, to the Corporation and the Guarantor. Such instrument or

instruments, and the action embodied therein and evidenced thereby, are herein sometimes referred to as the “Act” of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and, subject to Section 6.1, conclusive in favor of the Trustees, the Corporation and the Guarantor, if made in the manner provided in this Section 1.4.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by a signer acting in a capacity other than his or her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his or her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which a Trustee deems sufficient.

The ownership of Securities held by any Person, and the date of holding the same, shall be proved by the Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustees, the Corporation or the Guarantor in reliance thereon, whether or not notation of such action is made upon such Security.

The Corporation may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of all series or one or more series, as the case may be, entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such series; provided that the Corporation may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series’ on such record date, and no other Holders, shall be entitled to take or revoke the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series’ on such record date. Nothing in this paragraph shall be construed to prevent the Corporation from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph, whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect, and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series’ on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Corporation, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the U.S. Trustee in writing in the manner set forth in Section 1.5 and to each Holder of Securities of the relevant series’ in the manner set forth in Section 1.6.

The U.S. Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of all series or one or more series, as the case may be, entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 5.2, (iii) any request to institute proceedings referred to in Section 5.7(2) or (iv) any direction referred to in Section 5.12, in each case, with respect to Securities of all series or one or more series, as the case may be. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series' on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction or to revoke the same, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series' on such record date. Nothing in this paragraph shall be construed to prevent the U.S. Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph, whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect, and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series' on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the U.S. Trustee, at the Corporation's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be sent to the Corporation and the Guarantor in writing in the manner set forth in Section 1.5 and to each Holder of Securities of the relevant series' in the manner set forth in Section 1.6.

With respect to any record date set pursuant to this Section 1.4, the party hereto which sets such record date may designate any day as the applicable "**Expiration Date**" and from time to time may change such Expiration Date to any earlier or later day; provided that no such change shall be effective unless notice of such proposed new Expiration Date is given in writing to (i) in the case of a record date set by the Corporation, the U.S. Trustee and (ii) in the case of a record date set by the U.S. Trustee, the Corporation and the Guarantor, and in each case, to each Holder of Securities of the relevant series' in the manner set forth in Section 1.6, on or prior to the applicable existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section 1.4, the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents, each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

1.5 Notices, Etc., to the U.S. Trustee, the Corporation and the Guarantor.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(1) the U.S. Trustee by any Holder, the Corporation or the Guarantor shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the U.S. Trustee at its Corporate Trust Office, Attention: Corporate Trust Dept. - Hydro One Holdings Limited, with a copy to the Canadian Co-Trustee (which delivery shall not constitute notice herein), or

(2) the Corporation or the Guarantor by the U.S. Trustee or by any Holder shall be sufficient for every purpose hereunder, unless otherwise herein expressly provided, if in writing and mailed, first-class postage prepaid, or sent by overnight courier, to the Corporation or the Guarantor, as the case may be, addressed to it at its principal office at 483 Bay Street, 8th Floor, South Tower, Toronto, Ontario M5G 2P5, Attention: Chief Financial Officer, or at any other address previously furnished in writing to the U.S. Trustee by the Corporation or the Guarantor, as the case may be.

The U.S. Trustee shall have the right to accept and act upon instructions, including funds transfer instructions given pursuant to this Indenture and delivered using electronic means (“**Instructions**”); provided, however, that the Corporation and the Guarantor shall provide to the U.S. Trustee an incumbency certificate listing officers with the authority to provide such Instructions on behalf of the Corporation or the Guarantor, as the case may be (the “**Authorized Officers**”) and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Corporation or the Guarantor, as the case may be, whenever a person is to be added or deleted from the listing. If the Corporation or the Guarantor elects to give Instructions to the U.S. Trustee using electronic means and the U.S. Trustee in its discretion elects to act upon such Instructions, the U.S. Trustee’s understanding of such Instructions shall be deemed controlling. Each of the Corporation and the Guarantor understands and agrees that the U.S. Trustee cannot determine the identity of the actual sender of such Instructions and that the U.S. Trustee may conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the U.S. Trustee have been sent by such Authorized Officer. Each of the Corporation and the Guarantor shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the U.S. Trustee and that the Corporation, the Guarantor and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and authentication keys upon receipt by the Corporation and/or the Guarantor, as applicable. The U.S. Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the U.S. Trustee’s reliance upon, and compliance with, such Instructions notwithstanding that such directions may conflict or be inconsistent with a subsequent written instruction. Each of the Corporation and the Guarantor agrees: (i) to assume all risks arising out of the use of electronic means to submit Instructions to the U.S. Trustee, including the risk of the U.S. Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the U.S. Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Corporation or the Guarantor, as applicable; (iii) that the security procedures, if any, to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the U.S. Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

1.6 Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event by the Corporation, the Guarantor or the U.S. Trustee, such notice shall be sufficiently given, unless otherwise herein expressly provided, if in writing and mailed, first-class postage prepaid, or sent by overnight courier, to each Holder affected by such event, at his or her address as it appears in the Register, or sent electronically through the Applicable Procedures of the Depositary, not later than the latest date, if any, and not earlier than the earliest date, if any, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, courier or sent electronically, neither the failure to mail, courier or send such notice, nor any defect in any notice so mailed, couriered or sent, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Upon the occurrence of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, by courier or by electronic transmission, then such notification as shall be made with the approval of the U.S. Trustee (not to be unreasonably withheld, conditioned or delayed) shall constitute a sufficient notification for every purpose hereunder.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the U.S. Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

1.7 Conflict with Trust Indenture Legislation.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Legislation which is applicable to this Indenture and/or which is required thereunder to be a part of and govern this Indenture, the Trust Indenture Legislation provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Legislation which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

1.8 Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

1.9 Successors and Assigns.

All covenants and agreements in this Indenture by each of the Corporation and the Guarantor shall bind its successors and assigns, whether so expressed or not.

1.10 Separability Clause

In case any provision in this Indenture or in any of the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

1.11 Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto, any Authenticating Agent, any Paying Agent, any Registrar and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

1.12 Governing Law; Waiver of Trial by Jury.

This Indenture, the Guarantee and the Securities shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof. This Indenture is subject to the provisions of the Trust Indenture Legislation that are required to be part of this Indenture and shall, to the extent applicable, be governed by such provisions. Notwithstanding the preceding sentence of this Section 1.12, the exercise, performance or discharge by the Canadian Co-Trustee of any of its rights, powers, duties or responsibilities hereunder shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Each of the Corporation, the Guarantor, the Trustees and any Holder by its acceptance of any Securities irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of, or relating to, this Indenture, the Guarantee, the Securities or the transactions contemplated hereby.

1.13 Consent to Jurisdiction and Service of Process.

Each of the Corporation and the Guarantor submits to the non-exclusive jurisdiction of any New York State or federal court sitting in New York City over any suit, action or proceeding arising out of or relating to this Indenture, any Security or the Guarantee. Each of the Corporation and the Guarantor irrevocably waives, to the fullest extent permitted by law, any objection that it may have to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. Each of the Corporation and the Guarantor agrees that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding upon the Corporation and/or the Guarantor, as the case may be, and may be enforced in the courts of Canada, or any other courts to the jurisdiction of which the Corporation or the Guarantor, as the case may be, is subject, by a suit upon such judgment, provided that service of process is effected upon the Corporation or the Guarantor, as the case may be, in the manner specified in the following paragraph or as otherwise permitted by law; provided, however, that neither the Corporation nor the Guarantor waives, and the foregoing provisions of this sentence shall not constitute or be deemed to constitute a waiver of, (i) any right to appeal any such judgment, to seek any stay or otherwise to seek reconsideration or review of any such judgment or (ii) any stay of execution or levy pending an appeal from, or a suit, action or proceeding for reconsideration or review of, any such judgment.

As long as any Securities remain outstanding, each of the Corporation and the Guarantor will at all times have an authorized agent in the Borough of Manhattan, New York City upon whom process may be served in any legal action or proceeding arising out of or relating to the Indenture,

the Guarantee or any Security. Service of process upon such agent and written notice of such service mailed or delivered to the Corporation and/or the Guarantor, as the case may be, shall to the extent permitted by law, be deemed in every respect effective service of process upon the Corporation and/or the Guarantor, as the case may be, in any such legal action or proceeding. Each of the Corporation and the Guarantor shall appoint in one or more indentures supplemental hereto, on or prior to the issuance of Securities of any series, or the Guarantee in respect thereof, an agent for such purpose with respect to such series, and covenants and agrees that service of process in any such legal action or proceeding may be made upon it at the office of such agent at the address provided, or at such other address or to such other agent in the Borough of Manhattan, New York City as the Corporation or the Guarantor, as the case may be, may designate in a written notice to the U.S. Trustee.

Each of the Corporation and the Guarantor hereby consents to process being served in any suit, action or proceeding of the nature referred to in the preceding paragraphs by service upon such agent together with the mailing of a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to their principal office at 483 Bay Street, 8th Floor, South Tower, Toronto, Ontario M5G 2P5, Attention: Chief Financial Officer, or to any other address of which the Corporation or the Guarantor, as the case may be, shall have given written notice to the U.S. Trustee. Each of the Corporation and the Guarantor irrevocably waives, to the fullest extent permitted by law, all claim or error by reason of any such service, but does not waive any right to assert lack of subject matter jurisdiction, and agrees that such service (i) shall be deemed in every respect effective service of process upon the Corporation and/or the Guarantor, as the case may be, in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by law, be taken and held to be valid personal service upon and personal delivery to the Corporation and/or the Guarantor, as the case may be.

Nothing in this Section 1.13 shall affect the right of the Trustees or any Holder to serve process in any manner permitted by law or limit the right of the Trustees to bring proceedings against the Corporation and/or the Guarantor in the courts of any jurisdiction or jurisdictions.

1.14 Legal Holidays.

In any case where any Interest Payment Date, Redemption Date, Stated Maturity or Maturity of any Security shall not be a Business Day at any Place of Payment, then, notwithstanding any other provision of this Indenture or of any of the Securities other than a provision in the Securities of any series which specifically states that such provision shall apply in lieu of this Section 1.14, payment of principal, premium, Additional Amounts or interest need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date, Redemption Date, or at the Stated Maturity or Maturity; provided that, unless specified in respect of the Securities of any series pursuant to Section 3.1, no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, Stated Maturity or Maturity, as the case may be.

1.15 Conversion of Currency.

Each of the Corporation and the Guarantor covenants and agrees that the following provisions shall apply to conversion of Currency in the case of the Securities, the Guarantee and this Indenture to the fullest extent permitted by applicable law:

(1)

(A) If for the purposes of obtaining judgment in, or enforcing the judgment of, any court in any country, it becomes necessary to convert into any Currency (the “**Judgment Currency**”) an amount due or contingently due in the Currency of the Securities of any series, the Guarantee and this Indenture (the “**Required Currency**”), then the conversion shall be made at the rate of exchange prevailing on the Business Day before the day on which a final judgment which is not appealable or is not appealed is given or the order of enforcement is made, as the case may be, unless a court shall otherwise determine; and

(B) If there is a change in the rate of exchange prevailing between the Business Day before the day on which the judgment referred to in (A) above is given or an order of enforcement is made, as the case may be, or such other date as a court shall determine, and the date of receipt of the amount due, the Corporation or the Guarantor, as the case may be, shall pay such additional, or, as the case may be, such lesser, amount, if any, as may be necessary so that the amount paid in the Judgment Currency when converted at the rate of exchange prevailing on the date of receipt will produce the amount in the Required Currency originally due.

(2) In the event of the winding-up of the Corporation or the Guarantor at any time while any amount or damages owing under the Securities, the Guarantee and this Indenture, or any judgment or order rendered in respect thereof, shall remain outstanding, the Corporation or the Guarantor, as the case may be, shall indemnify and hold the Holders of Securities and the Trustees harmless against any deficiency arising or resulting from any variation in rates of exchange between (A) the date as of which the equivalent of the amount in the Required Currency due or contingently due under the Securities, the Guarantee and this Indenture, other than under this Section 1.15(2), is calculated for the purposes of such winding-up and (B) the final date for the filing of proofs of claim in such winding-up. For the purpose of this Section 1.15(2), the final date for the filing of proofs of claim in the winding-up of the Corporation or the Guarantor, as the case may be, shall be the date fixed by the liquidator or otherwise in accordance with the relevant provisions of applicable law as being the latest practicable date as at which liabilities of the Corporation or the Guarantor, as the case may be, may be ascertained for such winding-up prior to payment by the liquidator or otherwise in respect thereto.

(3) The obligations contained in Sections 1.15(1)(B) and 1.15(2) shall constitute separate and independent obligations of the Corporation or the Guarantor, as the case may be, from its other obligations under the Securities, the Guarantee and this Indenture, shall give rise to separate and independent causes of action against the Corporation and the Guarantor, shall apply irrespective of any waiver or extension granted by any Holder or the applicable Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order or the

filing of any proof of claim in the winding-up of the Corporation or the Guarantor for a liquidated sum in respect of amounts due hereunder, other than under Section 1.15(2) above, or under any such judgment or order. Any such deficiency as aforesaid shall be deemed to constitute a loss suffered by the Holders or the applicable Trustee, as the case may be, and no proof or evidence of any actual loss shall be required by the Corporation, the Guarantor or the applicable liquidator. In the case of Section 1.15(2) above, the amount of such deficiency shall not be deemed to be reduced by any variation in rates of exchange occurring between the said final date and the date of any liquidating distribution.

(4) The term “**rate(s) of exchange**” shall mean: (i) in the case that either the Required Currency or the Judgment Currency is in Canadian dollars, the Bank of Canada daily average exchange rate for purchases on the relevant date of the Required Currency with the Judgment Currency, as reported on the “Daily Exchange Rates” page of the website of the Bank of Canada, or by such other means of reporting the Bank of Canada daily average exchange rate as may be agreed upon by each of the parties to this Indenture; or (ii) in all other cases, the rate at which in accordance with normal banking procedures the U.S. Trustee could purchase, in the City of New York, the Required Currency with the Judgment Currency on the relevant date, and, in each case, includes any premiums and costs of exchange payable.

1.16 Currency Equivalent.

Except as otherwise provided in this Indenture, for purposes of the construction of the terms of this Indenture or of the Securities, in the event that any amount is stated herein in the Currency of one nation or bloc (the “**First Currency**”), as of any date such amount shall also be deemed to represent the amount in the Currency of any other relevant nation or bloc (the “**Other Currency**”) which is required to purchase such amount in the First Currency (i) at the Bank of Canada daily average exchange rate as reported on the “Daily Exchange Rates” page of the website of the Bank of Canada, or by such other means of reporting the Bank of Canada daily average exchange rate as may be agreed upon by each of the parties to this Indenture or (ii) if the Bank of Canada daily average exchange rate is not available, in accordance with normal banking procedures in the City of New York, in each case, on the date of determination.

1.17 No Security Interest Created.

Unless expressly provided for in one or more supplements to this Indenture entered into pursuant to the terms of this Indenture, nothing in this Indenture, the Securities or the Guarantee shall be construed to constitute a security interest under the *Uniform Commercial Code*, *Personal Property Security Act* or similar legislation, as now or hereafter enacted and in effect in any jurisdiction where property of the Corporation or the Guarantor is or may be located.

1.18 Currency.

Unless otherwise indicated in this Indenture, any Security, the Guarantee or any indenture supplemental hereto, all amounts referenced herein are in U.S. dollars.

ARTICLE 2
SECURITY FORMS

2.1 Forms Generally.

The Securities of each series shall be in substantially the form as shall be established by or pursuant to a Board Resolution of the Corporation or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depository therefor or as may, consistently herewith, be determined by the officer(s) executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by an officer of the Corporation and delivered to the U.S. Trustee at or prior to the delivery of the Company Order contemplated by Section 3.3 for the authentication and delivery of such Securities.

Any Definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Any Global Security will represent such of the Outstanding Securities as will be specified therein and each Global Security shall provide that it represents the aggregate principal amount of outstanding Securities from time to time endorsed thereon and that the aggregate principal amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Security to reflect the amount of any increase or decrease in the aggregate principal amount represented thereby will be made by the U.S. Trustee or the Custodian, at the direction of the U.S. Trustee, in accordance with instructions given by the Holder thereof. Any Global Security may also be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

2.2 Form of Legends.

Each Global Security will bear a legend in substantially the following form and/or such other legends as the Depository may require from time to time:

“THIS GLOBAL SECURITY IS HELD BY THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS SECURITY) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (1) THIS GLOBAL SECURITY MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 3.6(1) OF THE INDENTURE, (2) THIS GLOBAL SECURITY MAY BE DELIVERED TO THE U.S. TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 3.10 OF THE INDENTURE AND (3) THIS GLOBAL SECURITY MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF THE CORPORATION. UNLESS AND UNTIL IT IS

EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) (“DTC”), TO THE CORPORATION OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.”

If Securities are sold to purchasers in Canada on a “private placement” basis exempt from the prospectus requirements of applicable securities laws, the applicable Global Security or Definitive Security shall bear the legend in substantially the following form:

“IN CANADA, UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE [**DATE WHICH IS FOUR MONTHS AND ONE DAY FROM THE DATE OF ISSUANCE OF APPLICABLE SECURITY TO BE INSERTED HERE**].”

2.3 Form of U.S. Trustee’ s Certificate of Authentication.

Subject to Section 6.14, the U.S. Trustee’ s certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

COMPUTERSHARE TRUST COMPANY,

N/A, as U.S. Trustee

By: _____
Authorized Signatory

ARTICLE 3
THE SECURITIES

3.1 Amount Unlimited: Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series and each such series shall rank *pari passu* with each other series without discrimination, preference or priority, regardless of the actual date of issue, and with all other unsecured and unsubordinated indebtedness of the Corporation or the Guarantor. There shall be established in one or more Board Resolutions of the Corporation or pursuant to authority granted by one or more Board Resolutions of the Corporation and, subject to Section 3.3, set forth below, or determined in the manner provided in, an Officer's Certificate of the Corporation, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series, any or all of the following, as applicable:

(1) the title of the Securities of the series, which shall distinguish the Securities of the series from Securities of any other series;

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture, except for Securities authenticated and delivered upon registration of, transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 3.4, 3.6, 3.7, 9.6 or 11.6 and except for any Securities which, pursuant to Section 3.3, are deemed never to have been authenticated and delivered hereunder;

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security, or any Predecessor Security is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of any Securities of the series is payable or the method by which such date shall be determined and the right, if any, to shorten or extend the date on which the principal of any Securities of the series is payable and the conditions to any such change;

(5) the rate or rates at which any Securities of the series shall bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates from which any such interest shall accrue, or the method by which such date or dates shall be determined, the Interest Payment Dates on which any such interest shall be payable, the manner, if any, of determination of such Interest Payment Dates and the Regular Record Date, if any, for any such interest payable on any Interest Payment Date;

(6) the right, if any, to extend the interest payment periods and the terms of such extension or extensions;

(7) the place or places, if any, other than the Corporate Trust Office, where the principal of, and any premium, Additional Amounts and interest on, any Securities of the series shall be

payable and whether, if acceptable to the U.S. Trustee, any principal of such Securities shall be payable without presentation or surrender thereof;

(8) the period or periods within which, or the date or dates on which, the price or prices at which and the other terms and conditions upon which any Securities of the series may be redeemed, in whole or in part, at the option of the Corporation;

(9) the obligation, if any, of the Corporation to redeem or purchase any Securities of the series pursuant to any sinking fund, purchase fund or analogous provisions or at the option of the Holder thereof, the period or periods within which, the price or prices at which and the other terms and conditions upon which any Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation and any other provisions related to such redemption or purchase pursuant to such sinking fund or otherwise;

(10) if other than denominations of \$2,000 and any integral multiple of \$1,000 in excess thereof, the denominations in which any Securities of the series shall be issuable;

(11) if other than the U.S. Trustee, the identity of each Registrar, Authenticating Agent and/or Paying Agent;

(12) if the amount of principal of, or any premium, Additional Amounts or interest on, any Securities of the series may be determined with reference to an index or pursuant to a formula, the manner in which such amounts shall be determined;

(13) if other than the Currency of the United States of America, the Currency in which the principal of, or any premium, Additional Amounts or interest on, any Securities of the series shall be payable and the manner of determining the equivalent thereof in the Currency of the United States of America for any purpose, including for purposes of the definition of Outstanding in Section 1.1;

(14) if the principal of, or any premium, Additional Amounts or interest on, any Securities of the series is to be payable, at the election of the Corporation or the Holder thereof, in one or more Currencies other than the Currency of the United States of America, the Currency in which the principal of, or any premium, Additional Amounts or interest on, such Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

(15) if other than the entire principal amount thereof, the portion of the principal amount of any Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 5.2;

(16) whether, under what circumstances and the Currency in which the Corporation and/or the Guarantor will pay Additional Amounts as contemplated by Section 10.2 on the Securities of the series to any Holder, including any modification to the definition of such term, in respect of any tax, assessment or governmental charge and, if so, whether the Corporation and/or the Guarantor will have the option to redeem such Securities rather than pay such Additional Amounts, and the terms of any such option;

(17) the application, if any, of Section 10.2 and all or any portion of Article 11 to the Securities of that series;

(18) if the principal amount payable at the Stated Maturity of any Securities of the series will not be determinable as of any one or more dates prior to the Stated Maturity, the amount which shall be deemed to be the principal amount of such Securities as of any such date for any purpose thereunder or hereunder, including the principal amount thereof which shall be due and payable upon any Maturity other than the Stated Maturity or which shall be deemed to be Outstanding as of any date prior to the Stated Maturity, or, in any such case, the manner in which such amount deemed to be the principal amount shall be determined;

(19) if either or both of Sections 12.2 and 12.3 will not apply to any Securities of the series;

(20) if applicable, that any Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositary or Depositaries for such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of that set forth in Section 2.2 and any circumstances in addition to or in lieu of those set forth in Section 3.6 in which Global Securities may be exchanged for Definitive Securities;

(21) any transfer and exchange provisions of the Securities of the series;

(22) any addition, modification or deletion of any Events of Default or covenants provided with respect to any Securities of the series and any change in the right of the U.S. Trustee or the requisite Holders of such Securities to declare the principal amount thereof due and payable pursuant to Section 5.2;

(23) any addition, modification or deletion in the covenants set forth in Article 10 which applies to Securities of the series; and

(24) any other terms of the series, which may amend, supplement, modify or delete any provision of this Indenture insofar as it applies to such series, which are not inconsistent with the requirements of the Trust Indenture Legislation.

All Securities of any one series shall be substantially identical except, subject to Section 3.3, as may otherwise be provided in or pursuant to the Board Resolution referred to above and set forth or determined in the manner provided in the Officer' s Certificate referred to above or in any applicable indenture supplemental hereto. Not all Securities of any one series need to be issued on the same date, and, unless otherwise provided, a series may be reopened for issuances of additional Securities of such series without the consent of any Holders thereof.

If any of the terms of the series are established by action taken pursuant to one or more Board Resolutions, such Board Resolutions, or a certified copy thereof, shall be delivered to the U.S. Trustee at or prior to the delivery of the Officer' s Certificate setting forth the terms or the manner of determining the terms of the series.

With respect to Securities of a series offered in a Periodic Offering, the Board Resolution or action taken pursuant thereto, Officer's Certificate or supplemental indenture referred to above may provide general terms or parameters for Securities of such series and provide either that the specific terms of particular Securities of such series shall be specified in a Company Order or that such terms shall be determined by the Corporation in accordance with other procedures specified in a Company Order as contemplated by the third paragraph of Section 3.3.

Notwithstanding Section 3.1(2) and unless otherwise expressly provided with respect to a series of Securities, the aggregate principal amount of a series of Securities may be increased and additional Securities of such series may be issued up to the maximum aggregate principal amount authorized, if any, with respect to such series as increased without the consent of any Holder thereof.

3.2 Denominations.

The Securities of each series shall be issuable only in such denominations as shall be specified as contemplated by Section 3.1. In the absence of any such specified denomination with respect to the Securities of any series, the Securities of such series, shall be issuable in denominations of \$2,000 (the "**Minimum Authorized Denomination**") and any integral multiple of \$1,000 in excess thereof (the "**Authorized Denomination**").

3.3 Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Corporation by any officer of the Corporation. The signature of any officer of the Corporation on the Securities may be manual or by facsimile or electronic signature and may be imprinted or otherwise reproduced on the Securities.

Securities bearing the manual or facsimile or electronic signature of any individual who was at any time a proper officer of the Corporation shall bind the Corporation, notwithstanding that such individual has ceased to hold such office(s) prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Corporation may deliver Securities of any series executed by the Corporation to the U.S. Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the U.S. Trustee, in accordance with the Company Order shall authenticate and deliver such Securities, provided, however, that in the case of Securities offered in a Periodic Offering, the U.S. Trustee shall authenticate and deliver such Securities from time to time in accordance with such other procedures, including the receipt by the U.S. Trustee of oral or electronic instructions from the Corporation or its duly authorized agents, promptly confirmed in writing, acceptable to the U.S. Trustee as may be specified by or pursuant to a Company Order delivered to the U.S. Trustee prior to the time of the first authentication of Securities of such series.

If the form or terms of the Securities of the series have been established by or pursuant to one or more Board Resolutions of the Corporation as permitted by Sections 2.1 and 3.1, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in

relation to such Securities, the U.S. Trustee shall be entitled to receive, and, subject to Section 6.1, shall be fully protected in relying upon, an Opinion of Counsel of the Corporation stating:

(1) if the form of such Securities has been established by or pursuant to one or more Board Resolutions of the Corporation as permitted by Section 2.1, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been, or in the case of Securities of a series offered in a Periodic Offering, will be, established by or pursuant to Board Resolutions of the Corporation as permitted by Section 3.1, that such terms have been, or in the case of Securities of a series offered in a Periodic Offering, will be, established in conformity with the provisions of this Indenture, subject, in the case of Securities of a series offered in a Periodic Offering, to any conditions specified in such Opinion of Counsel of the Corporation; and

(3) that such Securities, when authenticated and delivered by the U.S. Trustee and issued by the Corporation in the manner and subject to any conditions specified in such Opinion of Counsel of the Corporation, will constitute valid and legally binding obligations of the Corporation enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights, to general equity principles and to such other qualifications as such counsel shall conclude do not materially affect the rights of Holders of such Securities.

If such form or terms have been so established, the U.S. Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the U.S. Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the U.S. Trustee.

Notwithstanding the provisions of Section 3.1 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officer's Certificate otherwise required pursuant to Section 3.1 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the authentication of each Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

With respect to Securities of a series offered in a Periodic Offering, the U.S. Trustee may rely, as to the authorization by the Corporation of any of such Securities, the form and terms thereof and the legality, validity, binding effect and enforceability thereof, upon the Opinion of Counsel of the Corporation and the other documents delivered pursuant to Sections 2.1 and 3.1 and this Section 3.3, as applicable, in connection with the first authentication of Securities of such series.

Each Security shall be dated the date of its authentication or, in the case of the original issuance of the Securities of a series, the date of original issuance of such Securities. If any additional Securities of a series ("**Additional Securities**") issued after the date of original issuance of Securities of such series ("**Original Securities**") are not fungible with such Original Securities for U.S. or Canadian federal income tax purposes, then such Additional Securities shall be issued with a separate CUSIP or ISIN number so that they are distinguishable from the Original Securities.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the U.S. Trustee by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Corporation, and the Corporation shall deliver such Security to the U.S. Trustee for cancellation as provided in Section 3.10, stating that such Security has never been issued and sold by the Corporation, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

3.4 Temporary Securities

Pending the preparation of definitive Securities of any series, the Corporation may execute, and upon Company Order the U.S. Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officer executing such Securities may determine, as evidenced by such officer's execution of such Securities.

If temporary Securities of any series are issued, the Corporation will cause the definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Corporation in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Corporation shall execute and the U.S. Trustee shall authenticate and deliver in exchange therefore one or more definitive Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

3.5 Registrar and Paying Agent

The U.S. Trustee is hereby appointed a security registrar for the purpose of registering Securities and transfers of Securities as herein provided (each such registrar, a “**Registrar**”) and the Corporation hereby designates the Corporate Trust Office of the U.S. Trustee as the office where Securities may be presented for payment. The Registrar will keep a register (the “**Register**”) of the Securities and of their transfer and exchange. The Corporation may appoint one or more co-registrars and one or more additional paying agents. The Corporation may change any Registrar or Paying Agent without notice to any Holder. The Corporation will notify the U.S. Trustee in writing of the name and address of any Paying Agent or Registrar not a party to this Indenture. If the Corporation fails to appoint or maintain another entity as Registrar or Paying Agent, the U.S. Trustee shall act as such. The Corporation or any of its subsidiaries may act as Registrar or Paying Agent.

The Corporation hereby appoints DTC to act as the initial Depository with respect to the Global Securities.

The Corporation hereby appoints the U.S. Trustee to act as the initial Registrar, Paying Agent and Custodian with respect to the Global Securities.

3.6 Transfer and Exchange of Global Securities.

(1) A Global Security may not be transferred except as a whole by the Depository to a nominee of the Depository, by a nominee of the Depository to the Depository or to another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository. All Global Securities will be exchanged by the Corporation for Definitive Securities if:

(A) the Corporation delivers to the U.S. Trustee notice from the Depository that it is unwilling or unable to continue to act as Depository or that it is no longer a clearing agency registered under the Exchange Act and, in either case, a successor Depository is not appointed by the Corporation within 120 days after the date of such notice from the Depository;

(B) the Corporation in its sole discretion determines that the Global Securities, in whole but not in part, should be exchanged for Definitive Securities and delivers a written notice to such effect to the U.S. Trustee; or

(C) there has occurred and is continuing a default or Event of Default with respect to the Securities.

Upon the occurrence of either of the preceding events in subclause 3.6(1)(A) or 3.6(1)(B) above, Definitive Securities shall be issued in such names as the Depository shall instruct the U.S. Trustee. Global Securities also may be exchanged or replaced, in whole or in part, as provided in Section 3.7. Every Security authenticated and delivered, in exchange for, or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section 3.6, Section 3.7, Section 9.6, Section 11.6 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security. A Global Security may not be exchanged for another Security other than as provided in this Section 3.6(1).

(2) To permit registrations of transfers and exchanges, the Corporation will execute and the U.S. Trustee will authenticate Global Securities and Definitive Securities upon receipt of an Authentication Order in accordance with Section 3.3 or at the Registrar' s request.

(3) No service charge will be made to a Holder of a beneficial interest in a Global Security or to a Holder of a Definitive Security for any registration of transfer or exchange, but the Corporation and the U.S. Trustee may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith, other than any such transfer taxes or similar governmental charge payable upon exchange or transfer pursuant to Section 11.6.

(4) All Global Securities and Definitive Securities issued upon any registration of transfer or exchange of Global Securities or Definitive Securities will be the valid obligations of

the Corporation, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Global Securities or Definitive Securities surrendered upon such registration of transfer or exchange.

(5) Neither the Registrar nor the Corporation will be required:

(A) to issue, to register the transfer of or to exchange any Securities during a period beginning at the opening of business five days before the day of any selection of Securities for redemption under Article 11 and ending at the close of business on the day of selection;

(B) to register the transfer of or to exchange any Security selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part; or

(C) to register the transfer of or to exchange a Security between a record date and the next succeeding interest payment date.

(6) Prior to due presentment for the registration of a transfer of any Security, the U.S. Trustee, any Authenticating Agent, the Corporation and the Guarantor may deem and treat the Person in whose name any Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Securities and for all other purposes, and none of the U.S. Trustee, any Authenticating Agent, the Corporation or the Guarantor shall be affected by notice to the contrary.

3.7 Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated but otherwise identifiable Security is surrendered to the U.S. Trustee, the Corporation shall execute and the U.S. Trustee shall authenticate and deliver in exchange therefor a replacement Security of the same series and of like tenor and principal amount and evidencing the same indebtedness and having endorsed thereon a Guarantee executed by the Guarantor and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Corporation and to the U.S. Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and the Guarantor and any agent of each of them harmless, then, in the absence of notice to the Corporation, the Guarantor or the U.S. Trustee that such Security has been acquired by a "protected purchaser" (as defined in the uniform commercial code), the Corporation shall execute and the U.S. Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a replacement Security of the same series and of like tenor and principal amount and evidencing the same indebtedness and having endorsed thereon a Guarantee executed by the Guarantor and bearing a number not contemporaneously outstanding.

Notwithstanding the provisions of the previous two paragraphs, in case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Corporation in its discretion may, instead of issuing a replacement Security, pay such Security.

Upon the issuance of any replacement Security under this Section 3.7, the Corporation may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses, including the fees and expenses of the U.S. Trustee, connected therewith.

Every replacement Security of any series and the Guarantee endorsed thereon issued pursuant to this Section 3.7 in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Corporation and the Guarantor, respectively, whether or not the mutilated, destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section 3.7, as amended or supplemented pursuant to Section 3.1 of this Indenture with respect to a particular series or generally, are exclusive and shall preclude, to the extent lawful, all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

3.8 Payment of Interest; Interest Rights Preserved.

Except as otherwise provided as contemplated by Section 3.1 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security, or any Predecessor Security, is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Corporation maintained for such purpose pursuant to Section 10.3.

Except as otherwise provided as contemplated by Section 3.1 with respect to any series of Securities, any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called “**Defaulted Interest**”) shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest shall be paid by the Corporation, at its election in each case, as provided in subclause 3.8(1) or 3.8(2) below:

(1) The Corporation may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series, or their respective Predecessor Securities, are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner:

(A) the Corporation shall notify the U.S. Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Corporation shall deposit with the U.S. Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the U.S. Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest;

(B) thereupon the U.S. Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days

prior to the date of the proposed payment and not less than 10 days after the receipt by the U.S. Trustee of the notice of the proposed payment;

(C) the U.S. Trustee shall promptly notify the Corporation of such Special Record Date and, in the name and at the expense of the Corporation, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of Securities of such series in the manner set forth in Section 1.6, not less than 10 days prior to such Special Record Date; and

(D) notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so sent, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series, or their respective Predecessor Securities, are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following subclause 3.8(2).

(2) The Corporation may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner consistent with the requirements of any securities exchange, if any, on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Corporation to the U.S. Trustee of the proposed payment pursuant to this subclause 3.8(2), such manner of payment shall be deemed practicable by the U.S. Trustee.

Subject to Section 3.6 and the foregoing provisions of this Section 3.8, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

3.9 Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Corporation, the Guarantor, the U.S. Trustee and any agent of the Corporation, the Guarantor or the U.S. Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of, and any premium, Additional Amounts and, subject to Section 3.8, any interest on, such Security and for all other purposes whatsoever, whether or not such Security be overdue, and none of the Corporation, the Guarantor, the U.S. Trustee or any agent of the Corporation, the Guarantor or the U.S. Trustee shall be affected by notice to the contrary.

None of the Corporation, the Guarantor, the Trustees or any agent of the Corporation, the Guarantor or the Trustees shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interest of a Security in global form or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Notwithstanding the foregoing, with respect to any Global Security, nothing herein shall prevent the Corporation, the Guarantor, the U.S. Trustee or any agent of the Corporation, the Guarantor or the U.S. Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or its nominee, as a Holder, with respect to such Global

Security or impair, as between such Depository and owners of beneficial interests in such Global Security, the operation of customary practices governing the exercise of the rights of such Depository or its nominee as Holder of such Global Security.

3.10 Cancellation.

Except as otherwise contemplated by Section 3.1 with respect to any series of Securities, all Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the U.S. Trustee, be delivered to the U.S. Trustee and shall be promptly cancelled by it. The Corporation may at any time deliver to the U.S. Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Corporation may have acquired in any manner whatsoever, and may deliver to the U.S. Trustee for cancellation any Securities previously authenticated hereunder which the Corporation has not issued and sold, and all Securities so delivered shall be promptly cancelled by the U.S. Trustee.

No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section 3.10, except as expressly permitted by this Indenture. All cancelled Securities held by the U.S. Trustee shall be disposed of by the U.S. Trustee in accordance with their respective customary practices.

3.11 Computation of Interest.

Except as otherwise specified as contemplated by Section 3.1 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months. For disclosure purposes under the *Interest Act* (Canada), whenever in this Indenture or any Securities issued hereunder interest at a specified rate is to be calculated on the basis of a period less than a calendar year, the yearly rate of interest to which such rate is equivalent is such rate multiplied by the actual number of days in the relevant calendar year and divided by the number of days in such period.

3.12 CUSIP Numbers, ISIN, etc.

The Corporation in issuing the Securities may use “CUSIP” numbers, “ISINs” and “Common Code” numbers, in each case, if then generally in use, and, if so, the U.S. Trustee shall use “CUSIP” numbers, “ISINs” and “Common Code” numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Corporation shall notify the U.S. Trustee in writing of any change in any “CUSIP” numbers, “ISINs” or “Common Code” numbers applicable to the Securities.

ARTICLE 4
SATISFACTION AND DISCHARGE

4.1 Satisfaction and Discharge

This Indenture shall upon Company Request cease to be of further effect with respect to any series of Securities specified in such Company Request, except as to any surviving rights of transfer or exchange of Securities herein expressly provided for, any right of Holders of Outstanding Securities to receive payments in respect of the principal of, or any premium, Additional Amounts or interest on, such Securities when such payments are due, and the rights of the Trustees with respect to regular payment and indemnity which also shall survive, and the Trustees, at the expense of the Corporation, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture as to such series, when:

(1) either

(A) all Securities of such series theretofore authenticated and delivered, other than (i) Securities which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.7 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Corporation and thereafter repaid to the Corporation or discharged from such trust, as provided in Section 10.4, have been delivered to the U.S. Trustee for cancellation; or

(B) all Securities of such series, not theretofore delivered to the U.S. Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) if redeemable at the option of the Corporation, are to be called for redemption within one year under arrangements satisfactory to the U.S. Trustee for the giving of notice of redemption by the U.S. Trustee in the name, and at the expense, of the Corporation,

and the Corporation, in the case of subclause 4.1(1)(B)(i), 4.1(1)(B)(ii) or 4.1(1)(B)(iii) above, has deposited or caused to be deposited with the U.S. Trustee as trust funds in trust for the purpose: (I) money in an amount; (II) Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than the due date of any payment, money in an amount; or (III) a combination thereof, sufficient, in the case of subclause (II) or (III), in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the U.S. Trustee, to pay and discharge, and which shall be applied by the U.S. Trustee to pay and discharge, the entire indebtedness on such Securities not theretofore delivered to the U.S. Trustee for cancellation, for principal and any premium, Additional Amounts and interest to the date of such deposit in the case of

Securities which have become due and payable or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Corporation or the Guarantor has paid or caused to be paid all other sums payable hereunder by the Corporation or the Guarantor, as the case may be; and

(3) the Corporation has delivered to the U.S. Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, each of the obligations of the Corporation to the Trustees under Section 6.7, the obligations of the U.S. Trustee to any Authenticating Agent under Section 6.14 and, if money shall have been deposited with the U.S. Trustee pursuant to subclause 4.1(1)(B), the obligations of the U.S. Trustee under Section 4.2 and the last paragraph of Section 10.4, shall survive.

4.2 Application of Trust Money.

Subject to the provisions of the last paragraph of Section 10.4, all money deposited with the U.S. Trustee pursuant to Section 4.1 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent, including the Corporation or the Guarantor acting as its own Paying Agent, as the U.S. Trustee may determine, to the Persons entitled thereto, of the principal and any premium, Additional Amounts and interest for whose payment such money has been deposited with the U.S. Trustee.

The Corporation and the Guarantor shall pay and indemnify the U.S. Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to Section 4.1 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Notwithstanding anything in this Article 4 to the contrary, the U.S. Trustee shall deliver or pay to the Corporation from time to time upon Company Request any money or Government Obligations held by either of them as provided in Section 4.1 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the U.S. Trustee (in case Government Obligations are held by the U.S. Trustee as provided in Section 4.1), are in excess of the amount thereof which would then be required to be deposited to effect the satisfaction and discharge of this Indenture.

ARTICLE 5 REMEDIES

5.1 Event of Default

“**Event of Default**” means, wherever used herein with respect to Securities of any series, any one of the following events, whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body,

unless such event is inapplicable to a particular series or is specifically deleted or modified in or pursuant to a supplemental indenture, Board Resolution or Officer' s Certificate establishing the terms of such series pursuant to Section 3.1:

(1) default in the payment of any interest (including Additional Amounts) upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; provided, however, that if the Corporation is permitted by the terms of the Securities of such series to defer the payment in question, the date on which such payment is due and payable shall be the date on which the Corporation is required to make payment following such deferral, if such deferral has been elected pursuant to the terms of the Securities; or

(2) default in the payment of the principal of, or any premium or Additional Amounts, if any, on any Security of that series at its Maturity, and continuance of such default for a period of three Business Days; or

(3) default in the performance, or breach, of any covenant of the Corporation or the Guarantor in this Indenture, other than a covenant or a default in whose performance or whose breach is elsewhere in this Section 5.1 specifically dealt with or which has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series, and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Corporation and the Guarantor by either Trustee (with a copy to the other Trustee), or to the Corporation, the Guarantor and the Trustees by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a Notice of Default hereunder, unless the U.S. Trustee, or the U.S. Trustee and the Holders of a principal amount of Securities of such series not less than the principal amount of Securities the Holders of which gave such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the U.S. Trustee, or the U.S. Trustee and the Holders of such principal amount of Securities of such series, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Corporation or the Guarantor within such period and is being diligently pursued; or

(4) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Corporation or the Guarantor in an involuntary case or proceeding under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangements Act* (Canada) or other applicable United States federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Corporation or the Guarantor a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Corporation or the Guarantor under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangements Act* (Canada) or other applicable United States federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Corporation, the Guarantor or of any substantial part of the Corporation' s or the Guarantor' s property, or ordering the winding-up or liquidation of the Corporation' s or the Guarantor' s affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(5) the commencement by the Corporation or the Guarantor of a voluntary case or proceeding under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or other United States federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Corporation or the Guarantor in an involuntary case or proceeding under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or other applicable United States federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief thereunder, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Corporation or the Guarantor or of any substantial part of the Corporation's or the Guarantor's property, or the making by the Corporation or the Guarantor of an assignment for the benefit of creditors, or the admission by the Corporation or the Guarantor in writing of the Corporation's or the Guarantor's inability to pay the Corporation's or the Guarantor's debts generally as they become due, or the authorization of any such action by the Board of Directors of the Corporation or the Guarantor; or

(6) the Guarantee ceases to be in full force and effect, other than in accordance with the terms of such Guarantee, or the Guarantor denies or disaffirms its obligations under such Guarantee; or

(7) any other Event of Default provided with respect to Securities of that series.

5.2 Acceleration of Maturity; Rescission and Annulment.

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then, in every such case, the U.S. Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount of all the Securities of that series, or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof, premium, Additional Amounts and any interest thereon to be due and payable immediately, by a notice in writing to the Corporation and the Guarantor, and to the U.S. Trustee if given by Holders, and upon any such declaration, such principal amount or specified amount, premium, Additional Amounts and any interest thereon shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the U.S. Trustee as hereinafter provided in this Article 5, the Event of Default giving rise to such declaration of acceleration shall, without further act, be deemed to have been waived, and such declaration and its consequences shall, without further act, be deemed to have been rescinded and annulled, if:

(1) the Corporation or the Guarantor has paid or deposited with the U.S. Trustee a sum sufficient to pay:

(A) all overdue interest on all Securities of that series;

(B) the principal of, and any premium and Additional Amounts on, any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities;

(C) to the extent that payment of such interest is lawful, interest on overdue interest at the rate or rates prescribed therefor in such Securities; and

(D) all sums paid or advanced by the Trustees hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustees and their agents and counsels; and

(2) all Events of Default with respect to Securities of that series or of all series, as the case may be, other than the non-payment of principal amount, premium, Additional Amounts or interest on Securities of that series or of all series, as the case may be, which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

5.3 Collection of Indebtedness and Suits for Enforcement by Trustee.

The Corporation and the Guarantor covenant that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of, or premium or Additional Amounts, if any, on any Security at the Maturity thereof and such default continues for a period of three Business Days,

then they will, upon demand of the U.S. Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium, Additional Amounts and interest and, to the fullest extent that payment of such interest is legally enforceable, interest on any overdue principal, premium and Additional Amounts and on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of each of the Trustees and their agents and counsels.

If an Event of Default with respect to Securities of any series or of all series, as the case may be, occurs and is continuing, either Trustee may in its discretion proceed to protect and enforce the rights of the Trustees and the rights of the Holders of Securities of such series or of all series, as the case may be, by such appropriate judicial proceedings as such Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any

covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

5.4 Trustees May File Proofs of Claim.

In case of any judicial proceeding relative to the Corporation, the Guarantor, any other obligor upon the Securities, or the property or creditors of the Corporation, the Guarantor or any other obligor under the Securities, the Trustees, irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the U.S. Trustee shall have made any demand on the Corporation or the Guarantor for the payment of overdue premium, Additional Amounts or interest, shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Legislation in order to have claims of the Holders and the Trustees allowed in any such proceeding. In particular, the U.S. Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same, and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the U.S. Trustee and, in the event that the U.S. Trustee shall consent to the making of such payments directly to the Holders, to pay to the U.S. Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of each of the U.S. Trustee and its agents and counsels, and any other amounts due to either Trustee under Section 6.7.

No provision of this Indenture shall be deemed to authorize the Trustees to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the Guarantee or the rights of any Holder thereof or to authorize the Trustees to vote in respect of the claim of any Holder in any such proceeding; provided, however, that the Trustees may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

5.5 Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture, the Securities or the Guarantee may be prosecuted and enforced by the Trustees, or either of them, without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by either or both Trustees shall be brought in its or their own name as trustee(s) of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of each of the Trustees and their respective agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

5.6 Application of Money Collected.

Any money collected by the U.S. Trustee pursuant to this Article 5 shall be applied in the following order, at the date or dates fixed by the U.S. Trustee and, in case of the distribution of such money on account of principal or any premium, Additional Amounts or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and

upon surrender thereof if fully paid: (1) first, to the payment of all amounts due to the Trustees under Section 6.7; (2) second, to the payment of the amounts then due and unpaid for principal of, and any premium, Additional Amounts and interest, including interest on interest, if any, on, the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium, Additional Amounts and interest, respectively; and (3) third, to the payment of the balance, if any, to the Corporation or any other Person or Persons legally entitled thereto.

5.7 Limitation on Suits.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, the Securities or the Guarantee or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(1) such Holder has previously given written notice to a Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than a majority in principal amount of the Outstanding Securities of that series shall have made written request to such Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to such Trustee indemnity reasonably satisfactory to it, against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) for 60 days after its receipt of such notice, request and offer of indemnity, such Trustee has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to such Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Outstanding Securities of such affected series, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders of the Outstanding Securities of such affected series. For purposes of clarity, it is hereby understood and agreed that an Event of Default described in clause (1) or (2) of Section 5.1 with respect to the Securities of any series shall, for purposes of this Section 5.7 be deemed to affect only such series of Securities.

5.8 Unconditional Right of Holders to Receive Principal, Premium, Additional Amounts and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of, and any

premium and Additional Amounts and, subject to Section 3.8, interest on, such Security on the respective Stated Maturities expressed in such Security or, in the case of redemption, on the Redemption Date, and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

5.9 Restoration of Rights and Remedies.

If either Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to such Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Corporation, the Guarantor, the Trustees and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustees and the Holders shall continue as though no such proceeding had been instituted.

5.10 Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.7, no right or remedy herein conferred upon or reserved to the Trustees or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

5.11 Delay or Omission Not Waiver.

No delay or omission of the Trustees or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article 5 or by law to the Trustees or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustees or by the Holders, as the case may be.

5.12 Control by Holders.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to any Trustee, or exercising any trust or power conferred on any Trustee, with respect to the Securities of such series or the Guarantee in respect thereof; provided that

- (1) such direction shall not be in conflict with any rule of law or with this Indenture,
- (2) the Trustees may take any other action deemed proper by the Trustees which is consistent with such direction, and

(3) subject to the provisions of Section 6.1, each of the Trustees shall have the right to decline to follow any such direction if such Trustee in good faith shall, by a Responsible Officer of such Trustee, determine that the proceeding so directed would involve the Trustee in personal liability.

5.13 Waiver of Past Defaults.

Subject to Section 5.2, the Holders of not less than a majority in principal amount of the Outstanding Securities of all series with respect to which any default under the Indenture shall have occurred and be continuing, voting together as a single class if more than one series, may, on behalf of the Holders of all Securities of all such series, waive such past default under the Indenture and its consequences, except a default:

(1) in the payment of the principal of, or any premium, Additional Amounts or interest on, any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article 9 cannot be modified or amended without the consent of the Holder of each Outstanding Security of the series affected.

Upon any such waiver, such default shall cease to exist and be deemed not to have occurred, and any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon. For purposes of clarity, it is hereby understood and agreed that an Event of Default described in clause (1) or (2) of Section 5.1 with respect to the Securities of any series shall, for purposes of this Section 5.13, be deemed to affect only such series of Securities.

5.14 Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against either or both of the Trustees for any action taken, suffered or omitted by it or them as a Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Legislation; provided that neither this Section 5.14 nor the Trust Indenture Legislation shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Corporation, the Guarantor or either or both Trustees.

5.15 Waiver of Stay or Extension Laws.

Each of the Corporation and the Guarantor covenants, to the extent that it may lawfully do so, that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture, and each of the Corporation and the Guarantor, to the extent that it may lawfully do so, hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the

execution of any power herein granted to the Trustees, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 6 THE TRUSTEES

6.1 Certain Duties and Responsibilities

(1) The duties and responsibilities of the Trustees shall be as provided by the Trust Indenture Legislation.

(2) Subject to clause (1) of this Section 6.1, in the event an Event of Default has occurred and is continuing with respect to a series of Securities of which a Responsible Officer of the U.S. Trustee (with a copy to a Responsible Officer of the Canadian Co-Trustee) has received written notification in accordance with the provisions of this Indenture, the U.S. Trustee will, with respect to the Securities of such series, exercise such of the rights and powers vested in it under this Indenture and use the same degree of care and skill in its exercise, that a prudent Person would exercise or use in the circumstances in the conduct of its own affairs.

(3) Except during the continuance of an Event of Default with respect to the Securities of any series:

(A) the Trustees undertake to perform such duties and only such duties as are specifically set forth in this Indenture and applicable to the respective Trustee and no implied covenants or obligations shall be read into this Indenture against the Trustees; and

(B) in the absence of bad faith on their part, the Trustees may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustees and conforming to the requirements of this Indenture. However, the Trustees shall examine such certificates and opinions to determine whether or not they conform to the requirements of this Indenture, but, for greater certainty, need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein, and shall be entitled to seek advice from legal counsel in relation thereto.

(4) Each of the Trustees will not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(A) this Section 6.1(4) shall not be construed to limit the effect of Section 6.1(2);

(B) a Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that such Trustee was negligent in ascertaining the pertinent facts; and

(C) a Trustee shall not be liable with respect to any action it takes or omits to take with respect to Securities of any series in good faith in accordance with a direction received by it pursuant to Section 5.12.

(5) The Trustees shall not be deemed to have notice or any actual knowledge of any matter, including defaults or Events of Default, unless written notice thereof is received by a Responsible Officer of the U.S. Trustee (with a copy to a Responsible Officer of the Canadian Co-Trustee) in accordance with this Indenture and such notice clearly references the Securities, the Corporation, the Guarantor or this Indenture.

(6) Every provision of this Indenture, as applicable, that in any way relates to the Trustees is subject to Section 6.1(2), Section 6.1(3), Section 6.1(4) and Section 6.1(7).

(7) No provision of this Indenture shall require either of the Trustees to expend or risk its own funds or otherwise incur liability in the performance of any of its duties hereunder.

(8) No provision of this Indenture shall require the Trustees to take or omit to take any action under this Indenture or take any action at the request or direction of Holders if it has grounds for believing that repayment of such funds is not assured to it or it does not receive an agreement in writing from such Holders for full indemnity and security satisfactory to it in its discretion against any loss, liability or expense which might be incurred by it in compliance with such request or direction nor shall the Trustees be required to do anything which is illegal or contrary to applicable laws or this Indenture. Neither Trustee shall be liable to the Holders if prevented or delayed in performing any of its obligations or discretionary functions under this Indenture by (i) any present or future law applicable to it, (ii) any governmental or regulatory authority or (iii) any circumstances beyond its control.

(9) A Trustee shall not be liable for interest on any money received by it except as such Trustee may agree in writing with the Corporation.

(10) Money held in trust by the U.S. Trustee need not be segregated from other funds except to the extent required by law.

(11) The Trustees will, save as expressly otherwise provided herein, have absolute and uncontrolled discretion as to the exercise or non-exercise of their functions and will not be responsible, save as expressly provided herein, for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from their exercise or non-exercise but, whenever the Trustees are under the provisions of this Indenture, the Securities or the Guarantee bound to act at the request or direction of the Holders, the Trustees shall nevertheless not be so bound unless first indemnified or secured to their satisfaction against all actions, proceedings, claims and demands to which they may render themselves liable and all costs, charges, damages, expenses and liabilities which they may incur by so doing.

6.2 Notice of Defaults

If a default occurs hereunder with respect to Securities of any series, and a Responsible Officer of the U.S. Trustee has been provided with written notification of such default (with a copy to the Canadian Co-Trustee), the Trustees shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Legislation. For the purpose of Section 6.1 and this Section 6.2, the term “**default**” means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

6.3 Certain Rights of Trustees.

Subject to the provisions of Section 6.1:

(1) the Trustees may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Corporation mentioned herein shall be sufficiently evidenced by a Company Request or Company Order or as otherwise expressly provided herein, and any resolution of the Board of Directors of the Corporation shall be sufficiently evidenced by a Board Resolution of the Corporation;

(3) whenever in the administration of this Indenture the Trustees shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, each Trustee, unless other evidence be herein specifically prescribed, may, in the absence of bad faith on its part, rely upon an Officer' s Certificate;

(4) the Trustees may consult with counsel, an investment banker or an accountant of their selection and the advice of such counsel, investment banker or accountant or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by them hereunder in good faith and in reliance thereon;

(5) subject to the provisions of the Indenture relating to the duties of the Trustees in case an Event of Default occurs and is continuing, the Trustees shall be under no obligation to exercise any of the rights or powers vested in them by this Indenture at the request or direction of any of the Holders of Securities of any series pursuant to this Indenture, unless such Holders shall have offered to the Trustees security or indemnity, reasonably satisfactory to each, against the costs, expenses and liabilities which might be incurred by them in compliance with such request or direction;

(6) the Trustees shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustees, in their discretion, may make such further inquiry or investigation into such facts or matters as they may see fit, and, if the Trustees shall determine to make such further inquiry or investigation, they shall be entitled, at reasonable times previously notified to the Corporation and the Guarantor, to examine the relevant books, records and premises of the Corporation and the Guarantor, personally or by agent or attorney;

(7) the Trustees may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustees shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by either of them hereunder;

(8) in no event shall the Trustees be responsible or liable for special, indirect, incidental, punitive or consequential loss or damage of any kind whatsoever, including lost profits,

even if the Trustees or either of them have been advised of the likelihood of such loss or damage and regardless of the form of action;

(9) in no event shall the Trustees be responsible or liable for any failure or delay in the performance of their obligations under this Indenture arising out of or caused by, directly or indirectly, forces beyond its reasonable control, including strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software or hardware) services;

(10) the permissive rights of the Trustees to take the actions permitted by this Indenture will not be construed as an obligation or duty to do so;

(11) prior to the occurrence of an Event of Default of which a Responsible Officer of a Trustee shall have actual knowledge, and after the curing of all such Events of Default which may have occurred, the duties and obligations of the Trustees shall be determined solely by the express provisions of this Indenture and the Trustees shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustees;

(12) the Trustees shall have no duty to inquire as to the performance of the Corporation and the Guarantor with respect to the covenants contained herein. The Trustees may assume without inquiry in the absence of written notice to the contrary that each of the Corporation and the Guarantor is duly complying with its obligations contained in this Indenture required to be performed and observed by it, and that no Default or Event of Default or other event which would require repayment of the Securities has occurred;

(13) either Trustee may request that the Corporation and/or the Guarantor deliver an Officer' s Certificate setting forth the names of the individuals and titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officer' s Certificate may be signed by any Person authorized to sign an Officer' s Certificate, including any Person specified as so authorized in any such certificate previously delivered and not superseded; and

(14) the Trustees shall not have any obligation or duty to monitor, determine or inquire as to compliance, and shall not be responsible or liable for compliance with restrictions on transfer, exchange, redemption, purchase or repurchase, as applicable, of minimum denominations imposed under this Indenture or under applicable law or regulation with respect to any transfer, exchange, redemption, purchase or repurchase, as applicable, of any interest in any Securities, but may in their sole discretion, choose to do so.

6.4 Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except a Trustee' s certificate of authentication, shall be taken as the statements of the Corporation and the Guarantor, and neither the Trustees nor any Authenticating Agent assumes any responsibility for their correctness. The Trustees make no representations as to the validity or sufficiency of this Indenture or of the Securities, except that each of the Trustees represents that it is duly authorized to execute and deliver this Indenture and perform its obligations hereunder. In addition, the U.S. Trustee

represents and warrants that the statements made by it in a Statement of Eligibility on Form T-1 supplied to the Corporation are true and accurate, subject to the qualifications set forth therein. Neither the U.S. Trustee nor any Authenticating Agent shall be accountable for the use or application by the Corporation of Securities or the proceeds thereof.

6.5 May Hold Securities.

Either Trustee, any Authenticating Agent, any Paying Agent, any Registrar or any other agent of the Corporation, the Guarantor or of a Trustee, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 6.8 and 6.13, may otherwise deal with the Corporation with the same rights it would have if it were not a Trustee, Authenticating Agent, Paying Agent, Registrar or such other agent.

6.6 Money Held in Trust.

Money held by either the U.S. Trustee or any Paying Agent in trust hereunder need not be segregated from other funds except to the extent required by law. Neither the U.S. Trustee nor any Paying Agent shall be under any liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Corporation.

6.7 Compensation and Reimbursement.

Each of the Corporation and the Guarantor agrees, jointly and severally:

(1) to pay to the Trustees from time to time such compensation as shall be agreed to in writing between the Corporation and the Trustees for all services rendered by them hereunder, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust;

(2) except as otherwise expressly provided herein, to reimburse the Trustees upon their request for all reasonable expenses, disbursements and advances incurred or made by either Trustee in accordance with any provision of this Indenture, including the reasonable compensation and the expenses and disbursements of its agents and counsel subject to prior agreement by the Corporation, except any such expense, disbursement or advance as may be attributable to its negligence, willful misconduct or bad faith; and

(3) to indemnify the Trustees for, and to hold them harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on their part arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending themselves against any claim or liability (whether asserted by any Holder, the Corporation, the Guarantor or otherwise) and of enforcing the terms of this Indenture (including, but not limited to, any indemnification provided hereunder) in connection with the exercise or performance of any of their powers or duties hereunder.

As security for the performance of the obligations of the Corporation under this Section 6.7, the Trustees shall have a lien prior to the Securities upon all property and funds held by them hereunder for any amount owing to them or any predecessor of either such Trustee pursuant to this

Section 6.7, except with respect to funds held in trust for the benefit of the Holders of particular Securities.

Without limiting any rights available to the Trustees under applicable law, when either Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.1(4) or Section 5.1(5), the expenses, including the reasonable charges and expenses of their counsel, and the compensation for the services are intended to constitute expenses of administration under any applicable U.S. or Canadian federal, state or provincial bankruptcy, insolvency or other similar law.

The provisions of this Section 6.7 shall survive the satisfaction, discharge or termination of this Indenture and the resignation or removal of the Trustees.

The rights, protections, powers, immunities and indemnities afforded to the Trustees under this Indenture shall be afforded to any other trustee, any Paying Agent, any Registrar, any Authenticating Agent or any Custodian appointed hereunder.

6.8 Conflicting Interests.

If a Trustee has or shall acquire a conflicting interest or material conflict of interest within the meaning of any Trust Indenture Legislation, such Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Legislation and this Indenture. To the extent permitted by the Trust Indenture Legislation, a Trustee shall not be deemed to have a conflicting interest or material conflict of interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series. The Trustees represent and warrant to the Corporation and the Guarantor that they have no conflicting interest or material conflict of interest within the meaning of any Trust Indenture Legislation.

6.9 Corporate Trustee Required; Eligibility.

There shall at all times be a U.S. Trustee hereunder with respect to the Securities of each series, which may be the U.S. Trustee hereunder for Securities of one or more other series. Each U.S. Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus (together with its affiliates) of at least \$50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section 6.9 and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. No obligor of any Securities under this Indenture or Person directly or indirectly controlling, controlled by, or under common control with such obligor shall serve as Trustee. In case at any time the U.S. Trustee shall cease to be eligible in accordance with the provisions of this Section 6.9, such U.S. Trustee shall resign immediately in the manner and with the effect specified in Section 6.10.

For so long as required by the Canadian Trust Indenture Legislation, there shall be a Canadian Co-Trustee under this Indenture. The Canadian Co-Trustee shall at all times be a corporation organized under the

laws of Canada or any province thereof and authorized under the laws of the Province of Ontario to carry on trust business therein and be registered under Section 3 of the *Trust and Loan Companies Act* (Canada). If at any time the Canadian Co-Trustee shall cease to be eligible in accordance with this Section 6.9, it shall resign immediately in the manner and with the effect hereinafter specified in Section 6.10.

6.10 Resignation and Removal; Appointment of Successor.

No resignation or removal of either Trustee and no appointment of a successor Trustee pursuant to this Article 6 shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 6.11.

Either Trustee may resign at any time with respect to the Indenture and the Securities of one or more series, as applicable, by giving written notice thereof to the Corporation. If the instrument of acceptance by a successor Trustee required by Section 6.11 shall not have been delivered to such Trustee within 30 days after the giving of such notice of resignation, a court of competent jurisdiction may appoint a successor Trustee with respect to the Securities of such series in accordance with the terms of this Section 6.10.

Either Trustee may be removed at any time with respect to the Securities of any series (i) by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to such Trustee and to the Corporation or (ii) by the Corporation by Officer' s Certificate delivered to such Trustee.

If at any time:

(1) either Trustee shall fail to comply with Section 6.8 after written request therefor by the Corporation or by any Holder who has been a *bona fide* Holder of a Security for at least six months; or

(2) either Trustee shall cease to be eligible under Section 6.9 and shall fail to resign after written request therefor by the Corporation or by any Holder who has been a *bona fide* Holder of a Security for at least six months; or

(3) either Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of such Trustee or of its property shall be appointed or any public officer shall take charge or control of such Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Corporation by a Board Resolution may remove such Trustee with respect to all Securities or the Securities of such series, or (B) subject to Section 5.14, any Holder who has been a *bona fide* Holder of a Security for at least six months may, on behalf of himself or herself and all others similarly situated, petition any court of competent jurisdiction for the removal of such Trustee with respect to all Securities of such series and the appointment of a successor Trustee or Trustees.

If either Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of U.S. Trustee or the Canadian Co-Trustee for any cause, with respect to the Securities of one or more series, then the Corporation, by a Board Resolution, shall promptly

appoint a successor Trustee or Trustees with respect to the Securities of that or those series, it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be at most one U.S. Trustee and one Canadian Co-Trustee with respect to the Securities of any particular series, and shall comply with the applicable requirements of Section 6.11. If, within 60 days after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Corporation and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 6.11, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Corporation. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Corporation or the Holders and accepted appointment in the manner required by Section 6.11 within 60 days after such resignation, removal or incapability, or the occurrence of such vacancy, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, or either Trustee may, at the expense of the Corporation, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Corporation shall give notice of each resignation and each removal of a Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 1.6. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

If a Canadian Co-Trustee under this Indenture is no longer required by the Canadian Trust Indenture Legislation, then the Corporation, by a Board Resolution, may remove the Canadian Co-Trustee after giving 30 days' prior written notice to the Trustees. For the avoidance of doubt, the Canadian Co-Trustee is acting hereunder solely to satisfy the requirements of the Canadian Trust Indenture Legislation and is not acting as Paying Agent, Registrar or Transfer Agent for the Securities issued.

6.11 Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Corporation, the Guarantor and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Corporation, the Guarantor or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers, protections, immunities, indemnities and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more, but not all, series, the Corporation, the Guarantor, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which: (i) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, protections, immunities, indemnities, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; (ii) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, protections, immunities, indemnities, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee; and (iii) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by multiple Trustees, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, except as otherwise provided in this Indenture, and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered, except as otherwise provided in this Indenture, by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, protections, immunities, indemnities, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Corporation, the Guarantor or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Corporation and the Guarantor shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers, protections, immunities, indemnities and trusts referred to in the first or second preceding paragraph of this Section 6.11, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article 6.

6.12 Merger, Amalgamation, Conversion, Consolidation or Succession to Business.

Any Person into which either Trustee may be merged, arranged, amalgamated or converted or with which it may be consolidated, or any Person resulting from any merger, arrangement, amalgamation, conversion or consolidation to which such Trustee shall be a party, or any Person succeeding to all or substantially all the corporate trust business of either Trustee, shall be the successor of such Trustee hereunder, provided that such Person shall be otherwise qualified and eligible under this Article 6, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated but not delivered by the U.S. Trustee then in office, any successor by merger, arrangement, amalgamation, conversion or consolidation to such authenticating U.S. Trustee shall be deemed to have adopted

such authentication and shall deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities without the execution or filing of any paper or any further act on the part of any of the parties hereto.

6.13 Preferential Collection of Claims Against Corporation and the Guarantor.

If and when a Trustee shall be or become a creditor of the Corporation, the Guarantor or any other obligor upon the Securities, such Trustee shall be subject to the provisions of the applicable Trust Indenture Legislation regarding the collection of claims against the Corporation, the Guarantor or any such other obligor.

6.14 Appointment of Authenticating Agent.

The U.S. Trustee may appoint one or more Authenticating Agents acceptable to the Corporation with respect to one or more series of Securities which shall be authorized to act on behalf of the U.S. Trustee to authenticate Securities of such series and the U.S. Trustee shall give written notice of such appointment to all Holders of Securities of the series with respect to which such Authenticating Agent will serve. Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the U.S. Trustee hereunder. Any such appointment shall be evidenced by an instrument in writing signed by a Responsible Officer of the U.S. Trustee, and a copy of such instrument shall be promptly furnished to the Corporation and the Guarantor. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the U.S. Trustee or the U.S. Trustee's certificates of authentication, such reference shall be deemed to include authentication and delivery on behalf of the U.S. Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the U.S. Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Corporation and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof, the District of Columbia or the laws of Canada or any province thereof, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus (together with its Affiliates) of not less than \$50,000,000 and subject to supervision or examination by federal or state authority or Canadian federal or provincial authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 6.14, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 6.14, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section 6.14.

Any Person into which an Authenticating Agent may be merged, arranged, amalgamated or converted or with which it may be consolidated, or any corporation resulting from any merger, arrangement, amalgamation, conversion or consolidation to which such Authenticating Agent shall be a party, or any Person succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided that such corporation shall be otherwise eligible under this Section 6.14, without the execution or filing of any paper or any further act on the part of the U.S. Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the U.S. Trustee and to the Corporation. The U.S. Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Corporation. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 6.14, the U.S. Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Corporation and shall give notice of such appointment in the manner provided in Section 1.6 to all Holders of Securities of the series with respect to which such Authenticating Agent will serve. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section 6.14.

The Corporation agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section 6.14.

If an appointment with respect to one or more series is made pursuant to this Section 6.14, the Securities of such series may have endorsed thereon, in addition to the U.S. Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

[NAME OF AUTHENTICATING AGENT],
as Authenticating Agent

By: _____

By: _____

6.15 Third Party

The Corporation hereby represents to the Canadian Co-Trustee that any account to be opened by, or interest to be held by, the Canadian Co-Trustee in connection with this Indenture, for or to the credit of the Corporation, either:

(1) is not intended to be used by or on behalf of any third party; or

(2) is intended to be used by or on behalf of a third party, in which case, the Corporation hereto agrees to complete and execute forthwith a declaration in the Canadian Co-Trustee's prescribed form as to the particulars of such third party.

6.16 Not Bound to Act

The Canadian Co-Trustee shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Canadian Co-Trustee, in its sole judgment, determines that such act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Canadian Co-Trustee, in its sole judgment, determine at any time that its acting under this Indenture has resulted in its being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 30 days' written notice to the Corporation, notwithstanding the provisions of Section 6.10 of this Indenture, provided that:

- (1) the Canadian Co-Trustee's written notice shall describe the circumstances of such non-compliance; and
- (2) if such circumstances are rectified to the Canadian Co-Trustee's satisfaction within such 30 day period, then such resignation shall not be effective.

6.17 Privacy (Canadian Co-Trustee)

The parties acknowledge that federal and/or provincial legislation that addresses the protection of individuals' personal information (collectively, "Privacy Laws") applies to obligations and activities under this Indenture. Despite any other provision of this Indenture, none of the Corporation, the Guarantor or the Canadian Co-Trustee shall take or direct any action that would contravene or cause the others to contravene, applicable Privacy Laws. The Corporation shall, prior to transferring or causing to be transferred personal information to the Canadian Co-Trustee, obtain and retain required consents of the relevant individuals to the collection, use and disclosure of their personal information, or shall have determined that such consents either have previously been given upon which the parties can rely or are not required under Privacy Laws. The Canadian Co-Trustee shall use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws. Specifically, the Canadian Co-Trustee agrees: (1) to have a designated chief privacy officer; (2) to maintain policies and procedures to protect personal information and to receive and respond to any privacy complaint or inquiry; (3) to use personal information solely for the purposes of providing its services under or ancillary to this Indenture and not to use it for any other purpose except with the consent of or direction from the Corporation or the individual involved; (4) not to sell or otherwise improperly disclose personal information to any third party; and (5) to employ administrative, physical and technological safeguards to reasonably secure and protect personal information against loss, theft, or unauthorized access, use or modification.

6.18 Joint Trustees.

The rights, powers, duties and obligations conferred and imposed upon the Trustees are conferred and imposed upon and shall be exercised and performed by the U.S. Trustee and the Canadian Co-Trustee individually, as set forth explicitly herein, and neither Trustee shall be liable or responsible for the acts or omissions of the other Trustee. Any written notice, request, direction, certificate, instruction, opinion or other document (each such document for purposes of this

Section 6.18, a “**Writing**”) delivered pursuant to any provisions of this Indenture shall be delivered to the U.S. Trustee (with a copy to the Canadian Co-Trustee).

ARTICLE 7
HOLDERS’ LISTS AND REPORTS BY TRUSTEES, CORPORATION AND
GUARANTOR

7.1 Corporation to Furnish Names and Addresses of Holders.

The Corporation will furnish or cause to be furnished to the Trustees:

(1) semi-annually within 15 days after each Regular Record Date, a list, in such form as the Trustees may reasonably require, of the names and addresses of the Holders of Securities of each series as of such Regular Record Date; and

(2) at such other times as either Trustee may reasonably request in writing, within 30 days after the receipt by the Corporation of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

provided, however, that so long as a Trustee is the Registrar, no such list shall be required to be furnished to such Trustee. If a Trustee shall no longer be the Registrar, such Trustee shall be entitled to rely on the most recent such list provided or available to it without liability therefor.

7.2 Preservation of Information; Communications to Holders.

The Trustees shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustees as provided in Section 7.1 and the names and addresses of Holders received by the U.S. Trustee in its capacity as Registrar. The Trustees may destroy any list furnished to them as provided in Section 7.1 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities or the Guarantee, and the corresponding rights and obligations of the Trustees, shall be as provided by the Trust Indenture Legislation.

Every Holder of Securities, by receiving and holding the same, agrees with the Corporation, the Guarantor and the Trustees that none of the Corporation, the Guarantor or the Trustees or any agent of any of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Legislation.

7.3 Reports by U.S. Trustee.

The U.S. Trustee shall transmit to Holders such reports concerning the U.S. Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Legislation at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the U.S. Trustee shall, within 60 days after each May 15 following the date of this

Indenture, deliver to Holders a brief report, dated as of May 15, which complies with the provisions of Section 313(a) of the Trust Indenture Act.

A copy of each such report shall, at the time of such transmission to Holders, be filed by the U.S. Trustee with each stock exchange upon which any Securities of any series are listed, if applicable. The Corporation will promptly notify the U.S. Trustee when any Securities are listed on any stock exchange.

7.4 Reports by Corporation and the Guarantor.

(1) The Corporation shall supply to Holders and the U.S. Trustee, in each case at the Corporation's own expense, copies of the annual reports and quarterly reports of the Guarantor and of any information, documents or reports that the Guarantor is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act within 15 days after the same is filed with the Commission or pursuant to applicable Trust Indenture Legislation at the times and in the manner provided pursuant to such Trust Indenture Legislation. Notwithstanding the foregoing, such reports, information or documents shall be deemed supplied to Holders and the U.S. Trustee pursuant to this Section 7.4(1) if such reports, information or documents have been filed by the Guarantor with the Commission. The U.S. Trustee shall have no responsibility to determine if and when any such reports, information or documents have been filed by the Guarantor with the Commission. Delivery of these reports, information and documents to the U.S. Trustee is for informational purposes only and the U.S. Trustee's receipt of any such report will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Corporation's compliance with any of its covenants hereunder, as to which the U.S. Trustee is entitled to rely exclusively on Officer's Certificates.

(2) Notwithstanding that the Guarantor may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or otherwise report on an annual and quarterly basis on forms provided for such annual and quarterly reporting pursuant to rules and regulations promulgated by the Commission, the Corporation shall supply to Holders and the U.S. Trustee:

(A) all annual and quarterly financial statements that the Guarantor would have filed with the Commission on Form 40-F and Form 6-K pursuant to Section 13 or Section 15(d) of the Exchange Act as if the Guarantor was required, as an MJDS-eligible issuer, to file with the Commission such financial statements; provided, however, that such financial statements shall be substantially in the form prescribed or permitted (including pursuant to any exemption granted by applicable regulatory authorities) by applicable Canadian regulatory authorities for Canadian public reporting companies and, with respect to the annual financial statements only, including a report thereon by the Guarantor's certified independent accountants, plus, in each case, a Management's Discussion and Analysis of the Guarantor that describes its financial condition and results of operations on a consolidated basis; and

(B) all current reports that would be required to be filed with the Commission on Form 6-K if the Guarantor were required to file such reports.

For the avoidance of doubt, none of the above reporting requirements shall be construed to require such financial statements or reports that would not otherwise be required to be filed by foreign private issuers subject to MJDS.

Notwithstanding the foregoing, such statements, reports and information shall be deemed supplied to Holders and the U.S. Trustee pursuant to this Section 7.4 if such statements, reports and information have been posted on the Guarantor's public website under "Investor Relations" or a similar heading.

ARTICLE 8 CONSOLIDATION, AMALGAMATION, ARRANGEMENT, MERGER, CONVEYANCE OR TRANSFER

8.1 Corporation and Guarantor May Consolidate, Etc., on Certain Terms.

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation, merger, arrangement or amalgamation of the Corporation or the Guarantor with or into any other Person or Persons, whether or not affiliated with the Corporation or the Guarantor, as the case may be, or successive consolidations, mergers, arrangements or amalgamations in which the Corporation, the Guarantor or any of their successors shall be a party, or shall prevent any conveyance or transfer of the properties and assets of the Corporation or the Guarantor as an entirety or substantially as an entirety to any other Person, whether or not affiliated with the Corporation or the Guarantor, as the case may be, lawfully entitled to acquire the same; provided, however, that each of the Corporation and the Guarantor hereby covenants and agrees, that:

(1) if an Event of Default has occurred and is continuing, it will not enter into any agreement for any such consolidation, merger, arrangement, amalgamation, conveyance or transfer; and

(2) upon any such consolidation, merger, arrangement, amalgamation, conveyance or transfer, (i) the due and punctual payment of the principal of, and premium, Additional Amounts and interest on, all of the Securities, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed by the Corporation or the Guarantor, as the case may be, shall be expressly assumed, by indenture supplemental hereto, in form reasonably satisfactory to the Trustees, executed and delivered to the Trustees by the Person (if other than the Corporation or the Guarantor) formed by such consolidation, or into which the Corporation or the Guarantor, as the case may be, shall have been merged, arranged or amalgamated, or by the Person which shall have acquired such properties and assets, and (ii) the Corporation or the Guarantor, as the case may be, shall deliver to the Trustees an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, arrangement, amalgamation, conveyance or transfer and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this 8.1 and that all conditions precedent herein provided for relating to such transaction have been complied with.

8.2 Successor Substituted.

Upon any consolidation, merger, arrangement or amalgamation of the Corporation or the Guarantor with or into any other Person or Persons or any conveyance or transfer of the properties

and assets of the Corporation or the Guarantor as an entirety or substantially as an entirety in accordance with Section 8.1, the successor Person formed by such consolidation, arrangement or amalgamation or into which the Corporation or the Guarantor, as the case may be, is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Corporation or the Guarantor, as the case may be, under this Indenture with the same effect as if such successor Person had been named as the Corporation or Guarantor, as the case may be, herein, and thereafter the predecessor Person shall be relieved of all obligations and covenants under this Indenture, the Securities and/or the Guarantee, as the case may be, so long as the covenants of this Article 8 have been complied with.

ARTICLE 9 SUPPLEMENTAL INDENTURES

9.1 Supplemental Indentures Without Consent of Holders.

Each of the Corporation and the Guarantor, when authorized by a Board Resolution, and the Trustees, at any time and from time to time, without the consent of any Holders, may enter into one or more indentures supplemental hereto, in form reasonably satisfactory to the Trustees, for any of the following purposes:

(1) to evidence the succession of another Person to the Corporation or the Guarantor, as the case may be, and the assumption by any such successor of the covenants of the Corporation or the Guarantor herein and in the Securities and the Guarantee; or

(2) to add to the covenants of the Corporation and/or the Guarantor for the benefit of the Holders of all or any series of Securities, and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series, or to surrender any right or power herein conferred upon the Corporation or the Guarantor; or

(3) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities, and if such additional Events of Default are to be for the benefit of less than all series of Securities, stating that such additional Events of Default are expressly being included solely for the benefit of such series; or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities; provided that any such addition, change or elimination: (A) shall neither (i) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (ii) modify the rights of the Holder of any such Security with respect to such provision; and (B) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities of any series; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 2.1 and 3.1; or

(8) to effect or maintain, or otherwise comply with the requirements of the Commission in connection with the qualification of this Indenture under the Trust Indenture Act; or

(9) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by multiple Trustees pursuant to the requirements of Section 6.11 or the removal of one or more of the Trustees pursuant to Section 6.10;

(10) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture; provided that such action pursuant to this clause (10) shall not adversely affect the interests of Holders of Securities of any series in any material respect; or

(11) to make any other change that does not adversely affect the interests of Holders of Securities of any series in any material respect.

9.2 Supplemental Indentures With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of all series affected by such supplemental indenture, voting together as a single class, by Act of said Holders delivered to the Corporation, the Guarantor and the Trustees, the Corporation and the Guarantor, when authorized by a Board Resolution, and the Trustees may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture, or modifying in any manner the rights of the Holders of Securities under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security; or

(2) reduce the principal amount on any of the Securities of such series; or

(3) reduce the rate of interest on any of the Securities of such series; or

(4) reduce any premium payable upon the redemption of any of the Securities of such series; or

(5) change any obligation of the Corporation or the Guarantor to pay Additional Amounts contemplated by Section 10.2; or

(6) reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 5.2; or

(7) change the Currency in which the principal, and any premium, Additional Amounts or interest thereon is payable; or

(8) impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof, or, in the case of redemption, on or after the Redemption Date; or

(9) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture; or

(10) modify any of the provisions of this Section 9.2, Section 5.13 or Section 10.5, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to “the Trustees” and concomitant changes in this Section 9.2 and Section 10.5, or the deletion of this proviso, in accordance with the requirements of Sections 6.10 and 9.1(9)).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section 9.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

9.3 Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article 9 or the modifications thereby of the trusts created by this Indenture, the Trustees shall be entitled to receive, and, subject to Section 6.1, shall be fully protected in relying upon, in addition to the documents required by Section 1.2, an Opinion of Counsel and an Officer’s Certificate each stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. Each Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee’s own rights, powers, protections, indemnities, duties or immunities under this Indenture or otherwise.

9.4 Effect of Supplemental Indentures

Upon the execution of any supplemental indenture under this Article 9, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this

Indenture for all purposes, and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

9.5 Conformity with Trust Indenture Legislation.

Every supplemental indenture executed pursuant to this Article 9 shall conform to the requirements of the Trust Indenture Legislation.

9.6 Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article 9 may, and shall if required by the U.S. Trustee, bear a notation in form approved by the U.S. Trustee as to any matter provided for in such supplemental indenture. Alternatively, the Corporation may, at its option, prepare and execute new Securities of any series authenticated and delivered after the execution of any supplemental indenture with such modifications as are necessary to conform, in the opinion of the U.S. Trustee, to any matter provided for in such supplemental indenture, and such new Securities shall be authenticated and delivered by the U.S. Trustee in exchange for the Outstanding Securities of such series.

ARTICLE 10 COVENANTS

10.1 Payment of Principal, Premium, Additional Amounts and Interest.

The Corporation covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of, and any premium, Additional Amounts and interest on, the Securities of that series in accordance with the terms of the Securities and this Indenture.

10.2 Payment of Taxes

Except as otherwise specified as contemplated by Section 3.1 for Securities of any series, all payments that the Corporation makes under or with respect to the Securities of any series or the Guarantor makes under or with respect to the Guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charges, including penalties, interest and other similar liabilities related thereto, of whatever nature (collectively, “**Taxes**”) imposed or levied by or on behalf of Canada or any other jurisdiction in which the Corporation or the Guarantor is incorporated, organized or otherwise resident or engaged in or carrying on business for tax purposes or from or through which the Corporation or the Guarantor makes any payment on the Securities of such series, or by any political subdivision or taxing authority or agency thereof or therein (each, a “**Relevant Taxing Jurisdiction**”), unless withholding or deduction is then required by law. If the Corporation, the Guarantor or any other applicable withholding agent is required to withhold or deduct any amount for or on account of Taxes of a Relevant Taxing Jurisdiction from any payment made under or with respect to the Securities of any series or the Guarantee in respect thereof, the Corporation or the Guarantor, as the case may be, will pay to each Holder of such Securities as additional interest such additional amounts (“**Additional Amounts**”) as may be necessary to ensure that the net amount received by each Holder or beneficial owner of the Securities of such series after such withholding or deduction, including any withholding or deduction attributable to

the Additional Amounts, will be not less than the amount the Holder or beneficial owner would have received if such Taxes had not been required to be withheld or deducted.

However, no Additional Amounts will be payable in respect or on account of:

(1) any Taxes that would not have been imposed or levied but for a present or former connection, including citizenship, nationality, residence, domicile, incorporation, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within such Relevant Taxing Jurisdiction, between such Holder or beneficial owner, or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, such Holder or beneficial owner, if such Holder or beneficial owner is an estate, trust, partnership, limited liability company or corporation, and the Relevant Taxing Jurisdiction, other than any connection arising solely from the acquisition, ownership or disposition of the Securities of any series, the receipt of payments under or with respect to the Securities of any series, or the exercise or enforcement of rights under or with respect to the Securities of any series or this Indenture;

(2) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner of Securities of any series, following the Corporation's or the Guarantor's reasonable written request addressed to the Holder, and made at a time that would enable the Holder or beneficial owner acting reasonably to comply with that request, and in all events at least 30 calendar days before the relevant date on which payment under or with respect to the Securities of such series is due and payable, to comply with any certification or identification requirements, whether required or imposed by statute, regulation or administrative practice of a Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction, including a certification that the Holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction, but, in each case, only to the extent that the Holder or beneficial owner, as the case may be, is legally eligible to provide such certification;

(3) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(4) any Tax which is payable otherwise than by deduction or withholding from payments made under or with respect to the Securities of any series;

(5) any Canadian withholding Taxes paid or payable by reason of (A) the Holder, beneficial owner or other recipient of the amount not dealing at arm's length with the Corporation or the Guarantor for the purposes of the *Income Tax Act* (Canada), or (B) the Holder or beneficial owner being, or not dealing at arm's length with, a "specified shareholder" of the Corporation or the Guarantor for the purposes of subsection 18(5) of the *Income Tax Act* (Canada);

(6) any Tax imposed on or with respect to any payment by the Corporation or the Guarantor to the Holder if such Holder is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had the beneficiary, partner or other beneficial owner directly held the Securities of any series;

(7) any Tax that is imposed or levied by reason of the presentation, where presentation is required in order to receive payment, of the Securities of a series for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the beneficial owner or Holder thereof would have been entitled to Additional Amounts had the Securities been presented for payment on any date during such 30 day period;

(8) any Tax that is imposed or levied on or with respect to a Security of a series presented for payment on behalf of a Holder or beneficial owner who would have been able to avoid such withholding or deduction by presenting the relevant Security of such series to another paying agent in a member state of the European Union;

(9) any Taxes to the extent such Taxes are directly attributable to the failure of the holder or beneficial owner to qualify for an exemption from U.S. federal withholding tax with respect to payments of interest pursuant to an applicable income tax treaty to which the United States is a party or pursuant to the "portfolio interest" exemption as defined in Section 871(h) or 881(c), as applicable, of the Internal Revenue Code, in each case, as such treaty or section was in effect on the issuance date (determined without regard to the requirement that such holder or beneficial owner provide the applicable Internal Revenue Service Form W-8); or

(10) any Taxes imposed pursuant to Sections 1471 through 1474 of the Internal Revenue Code as of the issuance date (and any amended or successor version that is substantially comparable), any regulations or other official guidance thereunder or agreements (including any intergovernmental agreements or any laws, rules or practices implementing such intergovernmental agreements) entered into in connection therewith.

In addition, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

(1) Notwithstanding clause (4) above, where Tax is payable pursuant to Section 803 of the Regulations under the *Income Tax Act* (Canada) by a Holder or beneficial owner of the Securities in respect of any amount payable under the Securities to the Holder, other than by reason of a transfer of the Securities to a person resident in Canada with whom the transferor does not deal at arm's length for the purposes of such Act, but no Additional Amount is paid in respect of such Tax, the Corporation or the Guarantor, as the case may be, will pay to such Holder an amount equal to such Tax within 45 days after receiving from the Holder a notice containing reasonable particulars of the Tax so payable; provided, that such Holder or beneficial owner would have been entitled to receive Additional Amounts on account of such Tax but for the fact that it is payable otherwise than by deduction or withholding from payments made under or with respect to the Securities.

(2) The Corporation or the Guarantor, as the case may be, if the Corporation or the Guarantor, as the case may be, is an applicable withholding agent, or is otherwise required to withhold amounts under applicable law, will (A) make such withholding or deduction required by applicable law and (B) remit the full amount deducted or withheld to the relevant taxing authority in accordance with applicable law.

(3) At least 30 calendar days prior to each date on which any payment under or with respect to the Securities of any series is due and payable, if the Corporation or the Guarantor, as the case may be, will be obligated to pay Additional Amounts with respect to such payment, unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Securities of such series is due and payable, in which case it will be promptly thereafter, the Corporation or the Guarantor, as the case may be, will deliver to the U.S. Trustee an Officer's Certificate stating that such Additional Amounts will be payable and the amounts so payable and will set forth such other information, other than the identities of Holders and beneficial owners, necessary to enable the U.S. Trustee or Paying Agent to pay such Additional Amounts to Holders and beneficial owners on the relevant payment date. The U.S. Trustee will make such payments in the same manner as any other payments on the Securities of such series. The Corporation or the Guarantor, as the case may be, will provide the U.S. Trustee with documentation reasonably satisfactory to the U.S. Trustee evidencing payment of such Additional Amounts.

(4) The Corporation or the Guarantor, as the case may be, will take reasonable efforts to furnish to the U.S. Trustee or a Holder within a reasonable time certified copies of tax receipts or other evidence of the payment by the Corporation or the Guarantor, as the case may be, of any Taxes imposed or levied by a Relevant Taxing Jurisdiction.

(5) The Corporation or the Guarantor, as the case may be, will pay any present or future stamp, issue, registration, court documentation, excise or property taxes or other similar taxes, charges and duties, including interest, additions to tax and penalties with respect thereto, imposed by any Relevant Taxing Jurisdiction in respect of the receipt of any payment under or with respect to the Securities of any series, the execution, issue, delivery or registration of the Securities of such series or this Indenture or any other document or instrument referred to thereunder and any such taxes, charges, duties or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Securities of such series or this Indenture or any such other document or instrument following the occurrence of any Event of Default with respect to the Securities of such series. The Corporation or the Guarantor, as the case may be, will not, however, pay such amounts that are imposed on or result from a sale or other transfer or disposition by a Holder or beneficial owner of a Security.

(6) The preceding provisions will survive any termination, defeasance or discharge of this Indenture and shall apply *mutatis mutandis* to any jurisdiction in which any successor person to the Corporation is organized, incorporated or otherwise resident or engaged in or carrying on business for tax purposes and any political subdivision or taxing authority or agency thereof or therein.

10.3 Maintenance of Office or Agency.

The Corporation will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Corporation in respect of the Securities of that series and this Indenture may be served. The Guarantor will maintain an office or agency in the City of

New York where notices and demands to or upon the Guarantor in respect of the Securities of that series and this Indenture may be served.

The Corporation and the Guarantor will give prompt written notice to the Trustees of the location, and any change in the location, of such office or agency. If at any time the Corporation or the Guarantor shall fail to maintain any such required office or agency or shall fail to furnish the Trustees with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the U.S. Trustee (with a copy to the Canadian Co-Trustee), and each of the Corporation and the Guarantor hereby appoints each of the Trustees as its agent to receive all such presentations, surrenders, notices and demands.

The Corporation may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Corporation of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Corporation will give prompt written notice to the Trustees of any such designation or rescission and of any change in the location of any such other office or agency.

10.4 Money for Securities Payments to Be Held in Trust.

If either the Corporation or the Guarantor shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of, or any premium, Additional Amounts or interest on, any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium, Additional Amounts and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the U.S. Trustee of its action or failure so to act.

Whenever the Corporation shall have one or more Paying Agents for any series of Securities, it will, on or prior to each due date of the principal of, or any premium, Additional Amounts or interest on, any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Legislation, and unless such Paying Agent is the U.S. Trustee, the Corporation will promptly notify the U.S. Trustee of its action or failure so to act.

The Corporation will cause each Paying Agent for any series of Securities other than the U.S. Trustee to execute and deliver to the U.S. Trustee an instrument in which such Paying Agent shall agree with the U.S. Trustee, subject to the provisions of this Section 10.4, that such Paying Agent will:

- (1) comply with the provisions of the Trust Indenture Legislation applicable to it as a Paying Agent; and
- (2) during the continuance of any default by the Corporation, the Guarantor or any other obligor upon the Securities of that series in the making of any payment in respect of the Securities of that series, upon the written request of the U.S. Trustee, forthwith pay to the U.S.

Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Corporation may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the U.S. Trustee all sums held in trust hereunder by the Corporation or such Paying Agent, such sums to be held by the U.S. Trustee upon the same trusts as those upon which such sums were held by the Corporation or such Paying Agent, and, upon such payment by any Paying Agent to the U.S. Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Unless otherwise specified pursuant to Section 3.1 in respect of the Securities of any series, any money deposited with the U.S. Trustee or any Paying Agent, or then held by the Corporation or the Guarantor, in trust for the payment of the principal of, or any premium, Additional Amounts or interest on, any Security of any series and remaining unclaimed for two years after such principal, premium, Additional Amounts or interest has become due and payable shall be paid to the Corporation or the Guarantor, as the case may be, on Company Request, or, if then held by the Corporation or Guarantor, shall be discharged from such trust, and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Corporation or the Guarantor, as the case may be, for payment thereof, and all liability of the U.S. Trustee or such Paying Agent with respect to such trust money, and all liability of the Corporation or the Guarantor, as the case may be, as trustee thereof, shall thereupon cease; provided, however, that the U.S. Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Corporation cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, New York and the City of Toronto, Ontario, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Corporation or the Guarantor, as the case may be.

10.5 Statement by Officers as to Default.

The Corporation and the Guarantor will deliver to the Trustees, within 120 days after the end of each calendar year or on or before such other day in each calendar year as the Corporation, the Guarantor and the Trustees may from time to time agree upon, an Officer's Certificate, stating whether or not to the best knowledge of the signers thereof the Corporation or the Guarantor, as the case may be, is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture, without regard to any period of grace or requirement of notice provided hereunder, and, if the Corporation or the Guarantor shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

10.6 Company Existence.

Subject to Article 8, each of the Corporation and the Guarantor will do or cause to be done all things necessary to preserve and keep in full force and effect its existence (corporate or other) and the rights (charter and statutory) and franchises of the Corporation or the Guarantor, as the case may be; provided, however, that the Corporation or the Guarantor, as the case may be, shall

not be required to preserve any such right or franchise if the Corporation or the Guarantor, as the case may be, shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Corporation or the Guarantor, as the case may be, and its subsidiaries, taken as a whole.

10.7 Waiver of Certain Covenants.

Except as otherwise specified as contemplated by Section 3.1 for Securities of any series, the Corporation and the Guarantor may, with respect to the Securities of any series, omit in any particular instance to comply with any term, provision or condition set forth in any covenant provided pursuant to Sections 3.1(22), 9.1(2) or 9.1(7) for the benefit of the Holders of such series if before the time for such compliance the Holders of not less than a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Corporation and the Guarantor and the duties of the U.S. Trustee in respect of any such term, provision or condition shall remain in full force and effect. The Corporation or the Guarantor will promptly notify the U.S. Trustee in writing of any such waiver or the revocation of any such waiver.

ARTICLE 11 REDEMPTION OF SECURITIES

11.1 Applicability of Article.

Unless, pursuant to Section 3.1, provision is made that Sections 11.2 through 11.6 shall apply to the Securities of the applicable series, then Sections 11.2 through 11.6 shall not apply to the Securities of such series.

11.2 Election to Redeem; Notice to U.S. Trustee

The election of the Corporation to redeem any Securities shall be evidenced by a Board Resolution of the Corporation or in another manner specified as contemplated by Section 3.1 for such Securities. In case of any redemption at the election of the Corporation, the Corporation shall, at least 45 days prior to the Redemption Date fixed by the Corporation, unless a shorter notice shall be reasonably satisfactory to the U.S. Trustee, notify the U.S. Trustee of such Redemption Date, of the principal amount of Securities of such series to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities (i) prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, or (ii) pursuant to an election of the Corporation which is subject to a condition specified in the terms of such Securities or elsewhere in this Indenture, the Corporation shall furnish the U.S. Trustee with an Officer's Certificate evidencing compliance with each such restriction or condition.

11.3 Selection by U.S. Trustee of Securities to Be Redeemed.

If less than all the Securities of any series are to be redeemed, unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security, the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the U.S. Trustee, from the Outstanding Securities of such series not previously called for redemption, in accordance with the Applicable Procedures of the Depositary; provided that the unredeemed portion of the principal amount of any Security shall be in an Authorized Denomination, which shall not be less than the Minimum Authorized Denomination, for such Security.

The U.S. Trustee shall promptly notify the Corporation and the Guarantor in writing of the Securities selected for redemption as aforesaid and, in the case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an Authorized Denomination, which shall not be less than the Minimum Authorized Denomination, for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

11.4 Notice of Redemption.

Except as otherwise specified as contemplated by Section 3.1 for Securities of any series, notice of redemption shall be delivered not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at the address appearing in the Register.

All notices of redemption shall state:

(1) the Redemption Date;

(2) the Redemption Price or, if not then ascertainable, the manner of calculation thereof;

(3) if less than all the Outstanding Securities of any series and of a specified tenor consisting of more than a single Security are to be redeemed, the identification, and, in the case of partial redemption of any such Securities, the principal amounts, of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series and of a specified tenor consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed;

(4) that on the Redemption Date the Redemption Price, together with accrued interest, if any, to the Redemption Date, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date;

(5) the place or places where each such Security is to be surrendered for payment of the Redemption Price and accrued interest, if any, unless it shall have been specified as contemplated by Section 3.1 with respect to such Securities that such surrender shall not be required;

(6) the “CUSIP” number, “ISIN” or “Common Code” number, if any, printed on the Securities being redeemed; and

(7) such other matters as the Corporation shall deem desirable or appropriate.

Unless otherwise specified with respect to any Securities in accordance with Section 3.1, with respect to any redemption of Securities at the election of the Corporation, unless, upon the giving of notice of such redemption, Defeasance shall have been effected with respect to such Securities pursuant to Section 12.2, such notice may state that such redemption shall be conditional upon the receipt by the U.S. Trustee or the Paying Agent(s) for such Securities, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of, and any premium, Additional Amounts and interest on, such Securities and that if such money shall not have been so received such notice shall be of no force or effect and the Corporation shall not be required to redeem such Securities. In the event that such notice of redemption contains such a condition and such money is not so received, the redemption shall not be made and within a reasonable time thereafter notice shall be given, in the manner in which the notice of redemption was given, that such money was not so received and such redemption was not required to be made, and the U.S. Trustee or Paying Agent(s) for the Securities otherwise to have been redeemed shall promptly return to the Holders thereof any of such Securities which had been surrendered for payment upon such redemption.

Notice of redemption of Securities to be redeemed at the election of the Corporation, and any notice of non-satisfaction of redemption as aforesaid, shall be given by the Corporation or, at the Corporation’s request, by the U.S. Trustee in the name and at the expense of the Corporation. Subject to the preceding paragraph, any such notice of redemption shall be irrevocable.

11.5 Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, and the conditions, if any, set forth in such notice having been satisfied, the Securities or portions thereof so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date, unless, in the case of an unconditional notice of redemption, the Corporation shall default in the payment of the Redemption Price and accrued interest, if any, such Securities or portions thereof, if interest-bearing, shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security or portion thereof shall be paid by the Corporation at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that no such surrender shall be a condition to such payment if so specified as contemplated by Section 3.1 with respect to such Security, and provided further

that, unless otherwise specified as contemplated by Section 3.1, installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.8.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium and Additional Amounts shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

11.6 Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor, with, if the Corporation or the U.S. Trustee so require, due endorsement by, or a written instrument of transfer in form satisfactory to the Corporation and the U.S. Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing, and the Corporation shall execute, and the U.S. Trustee or the Authenticating Agent, shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

11.7 Tax Redemption.

Except as otherwise specified as contemplated by Section 3.1 for Securities of any series, the Corporation may, at its option, redeem the Securities of any series, in whole but not in part, at any time upon not less than 30 days' nor more than 60 days' written notice to the Holders, which notice shall be given in accordance with Section 11.4, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the date fixed for redemption (a "**Tax Redemption Date**"), premium, if any, and all Additional Amounts, if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if the Corporation determines that the Corporation is, or on the next date on which any amount would be payable in respect of the Securities of such series, would be obligated to pay Additional Amounts in respect of the Securities of such series pursuant to the terms and conditions thereof, which the Corporation cannot avoid by the use of reasonable measures available to it, including making payment through a payment agent located in another jurisdiction, as a result of:

(1) any change in, or amendment to, the laws or any regulations or rulings promulgated thereunder of any Relevant Taxing Jurisdiction affecting taxation which becomes effective on or after the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under this Indenture; or

(2) any change in, or amendment to, the official application, administration, or interpretation of the laws, regulations or rulings of any Relevant Taxing Jurisdiction, including by virtue of a holding, judgment, or order by a court of competent jurisdiction or change in published practice or revenue guidance, on or after the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the

date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under this Indenture (each of the foregoing clauses (1) and (2), a “**Change in Tax Law**”),

provided that the Corporation will also deliver to the U.S. Trustee an Opinion of Counsel stating that the Corporation would be obligated to pay Additional Amounts as a result of a Change in Tax Law. Notwithstanding the foregoing, the Corporation may not redeem the Securities of any series under this Section 11.7 if the Change in Tax Law obliging the Corporation to pay Additional Amounts was (i) officially announced by the Relevant Taxing Jurisdiction’s tax authority or a court, including, for the avoidance of doubt, an announcement by or on behalf of the Minister of Finance (Canada) or any provincial or territorial counterpart or (ii) validly enacted into law by the Relevant Taxing Jurisdiction, in each case, prior to the issuance date or, in the case of a Relevant Taxing Jurisdiction that did not become a Relevant Taxing Jurisdiction until after the issuance date, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under this Indenture.

This Section 11.7 shall apply *mutatis mutandis* to any successor Person, after such successor Person becomes a party to this Indenture, with respect to a Change in Tax Law occurring after the time such successor Person becomes a party to this Indenture.

ARTICLE 12 DEFEASANCE OF COVENANT DEFEASANCE

12.1 Applicability of Article.

Unless, pursuant to Section 3.1, provision is made that either or both of (i) defeasance of any Securities or any series of Securities under Section 12.2 and (ii) covenant defeasance of any Securities or any series of Securities under Section 12.3, shall not apply to such Securities of a series, then the provisions of either or both of Sections 12.2 and Section 12.3, as the case may be, together with Sections 12.4 and 12.5, shall be applicable to the Outstanding Securities of such series upon compliance with the conditions set forth below in this Article 12.

12.2 Defeasance and Discharge

Each of the Corporation and the Guarantor may cause itself to be discharged from its obligations with respect to any Securities or any series of Securities on and after the date the conditions set forth in Section 12.4 are satisfied (hereinafter called “**Defeasance**”). For this purpose, such Defeasance means that the Corporation and the Guarantor shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and the Guarantee, respectively, and to have satisfied all its other obligations under such Securities and the Guarantee, respectively, and this Indenture insofar as such Securities and the Guarantee are concerned, and the Trustees, at the expense of the Corporation, shall execute proper instruments acknowledging the same, subject to the following which shall survive until otherwise terminated or discharged hereunder:

(1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 12.4 and as more fully set forth in Section 12.4, payments in respect of the

principal of, and any premium, Additional Amounts and interest on, such Securities when payments are due;

(2) the Corporation's and, if applicable, the Guarantor's obligations with respect to such Securities under Sections 3.5, 3.6, 10.2, 10.3 and 10.4 and with respect to the Trustees under Section 6.7;

(3) the rights, powers, protections, indemnities, trusts, duties and immunities of the Trustees hereunder; and

(4) this Article 12.

Subject to compliance with this Article 12, Defeasance with respect to any Securities or any series of Securities is permitted under this Section 12.2 notwithstanding the prior exercise by the Corporation or the Guarantor of its rights under Section 12.3 with respect to such Securities. Following a Defeasance, payment of such Securities may not be accelerated because of an Event of Default.

12.3 Covenant Defeasance

Each of the Corporation and the Guarantor may cause itself to be released from its obligations under any covenants provided pursuant to Sections 3.1(22), 9.1(2), 9.1(6) or 9.1(7) with respect to any Securities or any series of Securities and the Guarantee in respect thereof, in each case, for the benefit of the Holders of such Securities and the occurrence of any event specified in Section 5.1(3) (with respect to any such covenants provided pursuant to Section 3.1(22), 9.1(2), 9.1(6) or 9.1(7) shall be deemed not to be or result in an Event of Default with respect to such Securities and the Guarantee in respect thereof as provided in this Section 12.3, in each case, on and after the date the conditions set forth in Section 12.4 are satisfied (hereinafter called "**Covenant Defeasance**"). For this purpose, such Covenant Defeasance means that, with respect to such Securities and the Guarantee in respect thereof, the Corporation and the Guarantor may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section, to the extent so specified in the case of Section 5.1(3), whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document, but the remainder of this Indenture and such Securities and the Guarantee in respect thereof shall be unaffected thereby.

12.4 Conditions to Defeasance or Covenant Defeasance.

The following shall each be a condition precedent to the application of Section 12.2 or Section 12.3 to any Securities or any series of Securities, as the case may be:

(1) the Corporation shall have irrevocably deposited or caused to be deposited with the U.S. Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities: (A) money in an amount, or (B) Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than the due date of any payment, money in an amount, or (C) a combination thereof, sufficient, in the

case of (B) or (C), in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the U.S. Trustee, to pay and discharge, and which shall be applied by the U.S. Trustee to pay and discharge, the principal of, and any premium, Additional Amounts and interest on, such Securities on the applicable Stated Maturities or on any Redemption Date established pursuant to Section 12.4(3) below, in accordance with the terms of this Indenture and such Securities;

(2) no event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 5.1(4) and 5.1(5), at any time on or prior to the 90th day after the date of such deposit, it being understood that this condition shall not be deemed satisfied until after such 90th day;

(3) if the Securities are to be redeemed prior to the applicable Stated Maturity, other than from mandatory sinking fund payments or analogous payments, notice of such redemption shall have been duly given pursuant to this Indenture or provision therefor satisfactory to the U.S. Trustee shall have been made; and

(4) the Corporation shall have delivered to the U.S. Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

12.5 Deposited Money and Government Obligations to Be Held in Trust; Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 10.4, all money and Government Obligations, including the proceeds thereof, deposited with the U.S. Trustee pursuant to Section 12.4 in respect of any Securities shall be held in trust and applied by the U.S. Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent, including the Corporation or the Guarantor acting as its own Paying Agent, as the U.S. Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium, Additional Amounts and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Corporation and the Guarantor shall pay and indemnify the U.S. Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to Section 12.4 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Notwithstanding anything in this Article 12 to the contrary, the U.S. Trustee shall deliver or pay to the Corporation or the Guarantor, as the case may be, from time to time upon Company Request, any money or Government Obligations held by it as provided in Section 12.4 with respect to any Securities which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the U.S. Trustee, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

12.6 Reinstatement.

If and for so long as the U.S. Trustee is unable to apply any money or Government Obligations held in trust pursuant to Section 10.4, Section 12.4 or Section 12.5 by reason of any legal proceeding or by reason of any order or judgment of any court or government agency enjoining, restraining or otherwise prohibiting such application, the Corporation's and the Guarantor's obligations with respect to this Indenture, the Securities and the Guarantee will be reinstated as though no such deposit in trust had been made. If the Corporation or the Guarantor makes any payment of principal of or interest on any Securities because of the reinstatement of its obligations, it will be subrogated to the rights of the Holders of such Securities to receive such payment from the money or Government Obligations held in trust.

ARTICLE 13 IMMUNITY OF INCORPORATORS, SHAREHOLDERS, OFFICERS AND DIRECTORS

13.1 Indenture and Securities Solely Corporate Obligations.

No recourse for the payment of the principal of, or any premium, Additional Amounts or interest on, any Security, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Corporation or the Guarantor in this Indenture or in any supplemental indenture, or in any Security or Guarantee, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer, director or employee, as such, past, present or future, of the Corporation, the Guarantor or of any successor corporation, either directly or through the Corporation, the Guarantor or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Securities and the Guarantee in respect thereof.

ARTICLE 14 GUARANTEE OF SECURITIES

14.1 Unconditional Guarantee.

Subject to this Article 14, for value received, the Guarantor hereby fully, irrevocably, unconditionally and absolutely guarantees to the Holders and to the Trustees the due and punctual payment of the principal of, or any premium, Additional Amounts or interest on, the Securities, and all other amounts due and payable under this Indenture and the Securities by the Corporation, including all costs and expenses (including reasonable legal fees and disbursements) incurred by the Trustees or the Holders in connection with the enforcement of this Indenture, the Securities and the Guarantee (collectively, the "**Indenture Obligations**"), when and as such principal, premium, Additional Amounts, interest and such other amounts shall become due and payable, whether at the Stated Maturity, upon redemption or by declaration of acceleration or otherwise, according to the terms of the Securities and this Indenture. Without limiting the generality of the foregoing, the Guarantor's liability shall extend to all amounts that constitute part of the Indenture

Obligations and would be owed by the Corporation under this Indenture and the Securities but for the fact that they are unenforceable, reduced, limited, impaired, suspended or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Corporation. The Guarantor agrees that this is a guarantee of payment and not a guarantee of collection.

Failing payment when due of any amount guaranteed pursuant to the Guarantee, for whatever reason, the Guarantor will be obligated to pay the same immediately to the U.S. Trustee, without set-off or counterclaim or other reduction whatsoever, whether for taxes, withholding or otherwise, except as would otherwise be available to the Corporation. The Guarantee is intended to be a general, unsecured, senior obligation of the Guarantor and to rank *pari passu* in right of payment with all indebtedness of the Guarantor that is not, by its terms, expressly subordinated in right of payment to the Guarantee of the Guarantor. The Guarantor hereby agrees that its obligations hereunder shall be full, irrevocable, unconditional and absolute, irrespective of the validity, regularity or enforceability of the obligations and liabilities of any other obligor with respect to the Securities, the Guarantee or this Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder with respect to any provisions hereof or thereof with respect to the same, the recovery of any judgment against the Corporation, or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of the Guarantor.

The Guarantor hereby agrees that in the event of a default in payment of the principal of, or premium, Additional Amounts or interest on, the Securities of any series or any other amounts payable under this Indenture and such Securities by the Corporation, whether at the Stated Maturity, upon redemption or by declaration of acceleration or otherwise, legal proceedings may be instituted by either Trustee on behalf of the Holders or, subject to Section 5.6, by the Holders, on the terms and conditions set forth in this Indenture, directly against the Guarantor to enforce the Guarantee of such series without first proceeding against the Corporation.

To the fullest extent permitted by applicable law, the obligations of the Guarantor under this Article 14 shall be as aforesaid full, irrevocable, unconditional and absolute and shall not be impaired, modified, discharged, released or limited by any occurrence or condition whatsoever, including (i) any compromise, settlement, release, waiver, renewal, extension, indulgence or modification of, or any change in, any of the obligations and liabilities of any other obligor with respect to the Securities contained in any of the Securities or this Indenture, (ii) any impairment, modification, release or limitation of the liability of the Corporation or any of its estates in bankruptcy, or any remedy for the enforcement thereof, resulting from the operation of any present or future provision of any applicable U.S. or Canadian federal, state or provincial bankruptcy, insolvency or other similar law, or any similar foreign law for the relief from, or otherwise affecting creditors, or other statute or from the decision of any court, (iii) the assertion or exercise by the Corporation, the Guarantor or a Trustee of any rights or remedies under any of the Securities or this Indenture or its delay in or failure to assert or exercise any such rights or remedies, (iv) the assignment or the purported assignment of any property as security for any of the Securities, including all or any part of the rights of the Corporation or the Guarantor under this Indenture, (v) the extension of the time for payment by the Corporation or the Guarantor of any payments or other sums or any part thereof owing or payable under any of the terms and provisions of any of the Securities or this Indenture or of the time for performance by the Corporation or the Guarantor of any other obligations under or arising out of any such terms and provisions or the extension or

the renewal of any thereof, (vi) the modification or amendment, whether material or otherwise, of any duty, agreement or obligation set forth in this Indenture of any other obligor with respect to the Securities, (vii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting, the Corporation or any of its assets, or the disaffirmance of any of the Securities, the Guarantee or this Indenture in any such proceeding, (viii) the release or discharge of the Corporation or the Guarantor from the performance or observance of any agreement, covenant, term or condition contained in any of such instruments by operation of law, (ix) the unenforceability of any of the obligations of any of the other obligors under the Securities, the Guarantee or this Indenture, (x) any change in the name, business, capital structure, corporate or comparable existence, or ownership of the Corporation or the Guarantor, or (xi) subject to Article 6 and Article 8, any amalgamation, merger, consolidation or reorganization of the Corporation, the Guarantor or the Trustees, or any continuance of the Corporation, the Guarantor or the Trustees from the statute under which it now or hereafter exists to another statute, whether under the laws of the same jurisdiction or another jurisdiction; or (xii) any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, a surety or the Guarantor.

The Guarantor hereby (i) waives diligence, presentment, demand of payment, notice of acceptance, filing of claims with a court in the event of the merger, arrangement, amalgamation, insolvency or bankruptcy of the Corporation and all demands and notices whatsoever, (ii) acknowledges that any agreement, instrument or document evidencing the Guarantee may be transferred and that the benefit of its obligations hereunder shall extend to each holder of any agreement, instrument or document evidencing the Guarantee without notice to the Guarantor and (iii) covenants that the Guarantee will not be discharged except by complete performance of the Guarantee or of the obligations guaranteed thereby. The Guarantor further agrees that if at any time all or any part of any payment theretofore applied by any Person to the Guarantee is, or must be, rescinded or returned for any reason whatsoever, including the reorganization of the Guarantor, the Guarantee shall, to the extent that such payment is or must be rescinded or returned, be deemed to have continued in existence notwithstanding such application, and the Guarantee shall continue to be effective or be reinstated, as the case may be, as though such application had not been made.

The Guarantor shall be subrogated to all rights of the Holders and the Trustees against the Corporation in respect of any amounts paid by the Guarantor pursuant to the provisions of this Indenture; provided, however, that the Guarantor shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation with respect to any of the Securities until all of the Securities and the Guarantee thereof shall have been paid in full or discharged.

The Guarantor and, by its acceptance of Securities of any series, each Holder of such series of Securities hereby confirm that it is the intention of all such parties that the Guarantee of the Guarantor not constitute a fraudulent transfer or conveyance for purposes of applicable U.S. or Canadian federal, state or provincial bankruptcy, insolvency or other similar laws, or any similar foreign law for the relief from, or otherwise affecting creditors, the *Uniform Fraudulent Conveyance Act*, the *Uniform Fraudulent Transfer Act* or any similar U.S., Canadian, provincial or state laws to the extent applicable to the Guarantee. Until such time as the Securities of such

series are paid in full, the Guarantor hereby waives all rights of subrogation or contribution, whether arising by contract or operation of law, including any such right arising under applicable U.S. or Canadian federal, state or provincial bankruptcy, insolvency or other similar laws, or any similar foreign law for the relief from, or otherwise affecting creditors, or otherwise by reason of any payment by it pursuant to the provisions of this Article 14.

No failure to exercise and no delay in exercising, on the part of either Trustee or the Holders, any right, power, privilege or remedy under this Article 14 shall operate as a waiver thereof, nor shall any single or partial exercise of any rights, power, privilege or remedy preclude any other or further exercise thereof, or the exercise of any other rights, powers, privileges or remedies. The rights and remedies herein provided for are cumulative and not exclusive of any rights or remedies provided in law or equity. Nothing contained in this Article 14 shall limit the right of either Trustee or the Holders to take any action to accelerate the Maturity of the Securities of any series pursuant to Article 5 or to pursue any rights or remedies hereunder or under applicable law.

The Guarantor acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by this Indenture and that the Guarantee and waivers pursuant to the Guarantee are knowingly made in contemplation of such benefits.

14.2 Execution and Delivery of Notation of Guarantee.

To further evidence the Guarantee, the Guarantor hereby agrees that a notation of the Guarantee may be endorsed on each Security authenticated and delivered by the U.S. Trustee and that such notation shall be executed by either manual or facsimile signature by any director or officer of the Guarantor. The Guarantor hereby agrees that the Guarantee shall remain in full force and effect notwithstanding any failure to endorse on each Security a notation of the Guarantee.

If any officer or director of the Guarantor whose signature is on this Indenture or a Security no longer holds that office at the time the U.S. Trustee authenticates such Security or at any time thereafter, the Guarantee by the Guarantor shall be valid nevertheless.

The delivery of any Security by the U.S. Trustee, after the authentication thereof hereunder, shall constitute due delivery of the Guarantee set forth in this Indenture on behalf of the Guarantor.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

HYDRO ONE HOLDINGS LIMITED

By: /s/ Ali Suleman
Name: Ali Suleman
Title: Treasurer

HYDRO ONE LIMITED

By: /s/ Ali Suleman
Name: Ali Suleman
Title: Authorized Signatory

**COMPUTERSHARE TRUST COMPANY,
N.A., as U.S. Trustee**

By: /s/ Rose Stroud
Name: Rose Stroud
Title: Trust Officer

**COMPUTERSHARE TRUST COMPANY
OF CANADA, as Canadian Co-Trustee**

By: /s/ Lisa M. Kudo
Name: Lisa M. Kudo
Title: Corporate Trust Officer

By: /s/ Danny Snider
Name: Danny Snider
Title: Corporate Trust Officer

[Signature page to Indenture]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM T-1
STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY OF A
TRUSTEE PURSUANT TO SECTION 305(b)(2) [____]

COMPUTERSHARE TRUST COMPANY,
NATIONAL ASSOCIATION

(Exact name of trustee as specified in its charter)

National Banking Association

(Jurisdiction of incorporation or organization if not a
U.S. national bank)

04-3401714

(I.R.S. Employer Identification Number)

250 Royall Street, Canton, MA

(Address of principal executive offices)

02021

(Zip Code)

Rose Stroud, Trust Officer
8742 Lucent Boulevard, Suite 225
Highlands Ranch, CO 80129
(416) 263-9445

(Name, address and telephone number of agent for services)

HYDRO ONE HOLDINGS LIMITED and
HYDRO ONE LIMITED

(Exact name of each obligor as specified in its charter)

Ontario, Canada

(State or other jurisdiction of
incorporation or organization)

Not Applicable

(I.R.S. Employer Identification Number)

483 Bay Street
South Tower, 8th Floor
Toronto, Ontario
Canada

(Address of principal executive offices)

M5G 2P5

(Zip Code)

Debt Securities
Guarantee of Debt Securities

(Title of the indenture securities)

Item 1. General Information. Furnish the following information as to the trustee:

- (a) Name and address of each examining or supervising authority to which it is subject.

Comptroller of the Currency
340 Madison Avenue, 4th Floor
New York, NY 10017-2613

- (b) Whether it is authorized to exercise corporate trust powers.

The trustee is authorized to exercise corporate trust powers.

Item 2. Affiliations with the obligor. If the obligor is an affiliate of the trustee, describe such affiliation.

None.

Item 16. List of exhibits. List below all exhibits filed as a part of this statement of eligibility.

1. A copy of the articles of association of the trustee. (See Exhibit 1 to Form T-1 filed with Registration Statement No. 333-179383)
2. A copy of the certificate of authority of the trustee to commence business. (See Exhibit 2 to Form T-1 filed with Registration Statement No. 333-179383)
3. See exhibits 1 and 2.
4. A copy of the existing bylaws of the trustee, as now in effect. (See Exhibit 4 to Form T-1 filed with Registration Statement No. 333-179383)
6. The consent of the Trustee required by Section 321(b) of the Act.
7. A copy of the latest report of condition of the trustee published pursuant to law or the requirements of its supervising or examining authority.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939 the trustee, Computershare Trust Company, National Association, a national banking association, organized and existing under the laws of the United States, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Highlands Ranch, and State of Colorado, on the 8th day of June, 2018.

**COMPUTERSHARE TRUST COMPANY,
NATIONAL ASSOCIATION**

By: /s/ Rose Stroud

Name: Rose Stroud

Title: Trust Officer

CONSENT OF THE TRUSTEE

Pursuant to the requirements of Section 321 (b) of the Trust Indenture Act of 1939, and in connection with the proposed issue of the debt securities of Hydro One Holdings Limited and Hydro One Limited, Computershare Trust Company, National Association hereby consents that reports of examinations by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon request therefore.

**COMPUTERSHARE TRUST COMPANY,
NATIONAL ASSOCIATION**

By: /s/ Rose Stroud

Name: Rose Stroud

Title: Trust Officer

Highlands Ranch, Colorado

June 8, 2018

STATEMENT OF FINANCIAL CONDITION

EXHIBIT 7

Consolidated Report of Condition of

COMPUTERSHARE TRUST COMPANY, NATIONAL ASSOCIATION

250 Royall Street, Canton, MA 02021
at the close of business December 31, 2017.**ASSETS**

Dollar Amounts In Thousands

Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	-0-
Interest-bearing balances	-0-
Securities:	
Held-to-maturity securities	-0-
Available-for-sale securities	16,778
Federal funds sold and securities purchased under agreements to resell:	
Federal funds sold in domestic offices	-0-
Securities purchased under agreements to resell	-0-
Loans and lease financing receivables:	
Loans and leases held for sale	-0-
Loans and leases, net of unearned income	-0-
LESS: Allowance for loan and lease losses	-0-
Loans and leases, net of unearned income and allowance	-0-
Trading assets	-0-
Premises and fixed assets (including capitalized leases)	-0-
Other real estate owned	-0-
Investments in unconsolidated subsidiaries and associated companies	-0-
Direct and indirect investments in real estate ventures	-0-
Intangible assets:	
Goodwill	7,756
Other intangible assets	-0-
Other assets	763
Total assets	<u>25,297</u>

LIABILITIES

Deposits:

In domestic offices	-0-
Noninterest-bearing	-0-
Interest-bearing	-0-

Federal funds purchased and securities sold under agreements to repurchase:

Federal funds purchased in domestic offices	-0-
Securities sold under agreements to repurchase	-0-

Trading liabilities	-0-
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Other borrowed money:

(includes mortgage indebtedness and obligations under capitalized leases)	-0-
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Not applicable

Not applicable

Subordinated notes and debentures	-0-
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Other liabilities

	<u>2,012</u>
Total liabilities	<u><u>2,012</u></u>

EQUITY CAPITAL

Perpetual preferred stock and related surplus	0
Common stock	500
Surplus (exclude all surplus related to preferred stock)	18,894
Retained earnings	3,891
Accumulated other comprehensive income	-0-
Other equity capital components	-0-
Total bank equity capital	23,285
Noncontrolling (minority) interests in consolidated subsidiaries	-0-
Total equity capital	<u>23,285</u>
Total liabilities and equity capital	<u><u>25,297</u></u>

I, Robert G. Marshall, Assistant Controller of the above named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

Robert G. Marshall
Assistant Controller