



ANNUAL INFORMATION FORM
FOR HYDRO ONE LIMITED
FOR THE YEAR ENDED DECEMBER 31, 2015

March 22, 2016

TABLE OF CONTENTS

GLOSSARY	1
PRESENTATION OF INFORMATION.....	3
FORWARD-LOOKING INFORMATION.....	3
ELECTRICITY INDUSTRY OVERVIEW	6
General Overview	6
Overview of an Electricity System.....	6
THE ELECTRICITY INDUSTRY IN ONTARIO.....	6
Regulation of Transmission and Distribution.....	6
Transmission	7
Distribution	8
Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry.....	8
RATE-REGULATED UTILITIES	11
Rate Applications in Ontario	11
CORPORATE STRUCTURE	12
Incorporation and Office	12
Corporate Structure and Subsidiaries	12
GENERAL DEVELOPMENT OF THE BUSINESS	14
Incorporation	14
Completion of Initial Public Offering and Acquisition of Hydro One Inc.	14
Spin-off of Hydro One Brampton Networks Inc.	14
Recapitalization of Hydro One Networks Inc. and Dividend to the Province	15
Agreement to Acquire Great Lakes Power Transmission LP.....	15
BUSINESS OF HYDRO ONE.....	15
Business Segments	15
Transmission Business	15
Distribution Business	19
Other Business	23
Review of Operations and Auditor General’s Report.....	24
First Nations and Métis Communities.....	24
Outsourced Services.....	24
Employees	25
Health, Safety and Environmental Management.....	25
Environmental Regulation.....	25
Insurance	26
Reorganizations.....	27
RISK FACTORS	27
DIVIDENDS.....	27
Dividend Policy.....	27
Dividend Reinvestment Plan	27
DESCRIPTION OF CAPITAL STRUCTURE.....	27
General Description of Capital Structure	27
Common Shares	28
Preferred Shares	28
CREDIT RATINGS	29
MARKET FOR SECURITIES.....	30
Trading Price and Volume	30

TABLE OF CONTENTS

Prior Sales of Unlisted Securities	30
DIRECTORS AND OFFICERS.....	30
Directors and Executive Officers	30
Information Regarding Certain Directors and Executive Officers	33
Corporate Cease Trade Orders and Bankruptcies	33
Penalties or Sanctions.....	34
Conflicts of Interest	34
Indebtedness of Directors and Executive Officers	34
AUDIT COMMITTEE.....	34
Relevant Education and Experience	34
Pre-Approval Policies and Procedures	36
Auditors' Fees	36
PROMOTERS	36
AGREEMENTS WITH PRINCIPAL SHAREHOLDER.....	37
Governance Agreement.....	37
Registration Rights Agreement	42
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	42
Relationships with the Province and Other Parties	43
MATERIAL CONTRACTS	44
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	45
INTEREST OF EXPERTS	45
TRANSFER AGENT AND REGISTRAR	45
ADDITIONAL INFORMATION.....	45
SCHEDULE "A" – HYDRO ONE LIMITED AUDIT COMMITTEE MANDATE	46

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.

“**Annual MD&A**” means management’s discussion and analysis for Hydro One Limited for the year ended December 31, 2015, as filed on SEDAR under Hydro One Limited’s profile at www.sedar.com.

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

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

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

“**Council**” has the meaning given to such term set out under “The Electricity Industry in Ontario - Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry - Premier’s Advisory Council on Government Assets”.

“**Electricity Act**” means the *Electricity Act, 1998* (Ontario).

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

“**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 Limited**” has the meaning given to such term set out under “Presentation of Information”.

“**Hydro One Inc.**” has the meaning given to such term set out under “Presentation of Information”.

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

“**kW**” means kilowatt.

“**management**” has the meaning given to such term set out under “Presentation of Information”.

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

“**NERC**” has the meaning given to such term set out under “The Electricity Industry in Ontario – Regulation of Transmission and Distribution – IESO”.

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

“**NPCC**” has the meaning given to such term set out under “The Electricity Industry in Ontario – Regulation of Transmission and Distribution – IESO”.

“**OBCA**” means the *Business Corporations Act* (Ontario).

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

“**Ontario**” or the “**province**” has the meaning given to such term set out under “Presentation of Information”.

“**Ontario Energy Board Act**” means the *Ontario Energy Board Act, 1998* (Ontario).

“**PCB**” means polychlorinated biphenyls.

“**Province**” has the meaning given to such term set out 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 such term set out 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* (Canada).

“**RRFE**” has the meaning given to such term set out under “Business of Hydro One – Distribution Business – Regulation – Distribution Rates”.

“**Share Ownership Restrictions**” has the meaning given to such term set out under “The Electricity Industry in Ontario - Recent Policy Changes, and Legislative Amendments Affecting the Electricity Industry – Legislative Amendments Specific to Hydro One – 10% Ownership Restriction”.

“**shares**” has the meaning given to such term set out under “Agreements with Principal Shareholder – Registration Rights Agreement – Demand Registration”.

“**Special Board Resolution**” has the meaning given to such term set out 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 such term set out under “Agreements with Principal Shareholder – Governance Agreement – Governance Matters – Nomination of Directors – Independence”.

“**trust assets**” has the meaning given to such term set out under “Interests of Management and Others in Material Transactions – Relationships with the Province and Other Parties – Transfer Orders”.

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

“**TWh**” means terawatt-hours.

“**Underwriting Agreement**” has the meaning given to such term set out under “Material Contracts”.

“**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, 2015.

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, 2015, 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”.

This annual information form refers to certain terms commonly used in the electricity industry, such as “**rate-regulated**”, “**rate base**” and “**return on equity**”. For a description of these terms, see “Rate-Regulated Utilities”. 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.

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: projected future capital expenditures and the nature of those capital expenditures; expectations regarding allowed return on equity; expectations regarding the ability of the Company to recover expenditures in future rates; expectations regarding Hydro One’s current and anticipated plans for sustaining and development capital expenditures for its distribution and transmission systems; expectations regarding Hydro One’s expected load growth and the impact of Hydro One’s conservation and demand management requirements and targets; expectations regarding the ability to negotiate collective agreements consistent with rate orders and to maintain stable outsourcing arrangements; Hydro One’s relationship with the Province and the Province’s investment in Hydro One; expectations regarding the Governance Agreement and other agreements with the Province; 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; 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; 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; continuing exemptive relief being granted by the Canadian securities regulatory authorities for Hydro One Limited’s preparation of its financial statements in accordance with U.S. GAAP or Hydro One Limited, otherwise being eligible under Canadian securities laws to prepare its financial statements in accordance with U.S. GAAP; a stable regulatory environment; and no significant event occurring outside the ordinary course of business of Hydro One. These assumptions are based on information currently available to Hydro One, including information obtained by Hydro One 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 and financial condition 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 significant share ownership and other relationships with the Province, including potential conflicts of interest that may arise between the Company, 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 previously granted regulatory approvals may be subsequently challenged, appealed or overturned;
- 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 by the Company’s facilities to the effects of severe weather conditions, natural disasters or other unexpected occurrences for which the Company is uninsured or to 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;

- the risks related to the Company’s workforce 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;
- risks 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;
- changes in benefits and changes in actuarial assumptions;
- 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 and post-retirement benefits costs;
- the potential that Hydro One may incur significant expenses to replace some or all of the functions currently outsourced if either of the Company’s agreements with Inergi LP or Brookfield Global Integrated Solutions 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 you that the above list of factors is not exclusive. 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

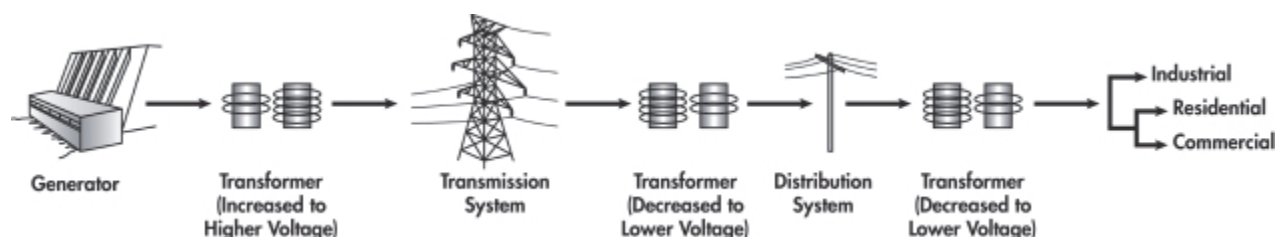
General Overview

The electricity industry is made up of businesses that generate, transmit, distribute and sell electricity. 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 together 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.

Ontario Energy Board

The OEB is an independent and impartial public 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 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 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.

IESO

The IESO manages the operation and reliability of Ontario's bulk power system and administers the wholesale electricity market. It is governed by a board whose chair and directors are appointed by the Province. In 2015, the IESO merged with the Ontario Power Authority and assumed responsibility for integrated medium and long-term power system planning in Ontario. 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, governed by the *National Energy Board Act* (Canada) and 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 96% 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 larger North American system known as the 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 low voltage power lines to end users. In Ontario, 72 local distribution companies currently provide electricity to approximately five million customers. The distribution industry in Ontario is fragmented, with the 15 largest local distribution companies accounting for approximately 78% of the province's five million customers.

Through its wholly-owned subsidiary Hydro One Inc., Hydro One owns the largest local distribution company in Ontario, with approximately 1.3 million 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, businesses and institutions such as governments, schools and hospitals.

Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry

Premier's Advisory Council on Government Assets

In April 2014, the Province formed the Premier's Advisory Council on Government Assets (the "**Council**"). The mandate of the Council was to review certain provincially-owned assets, including Ontario Power Generation Inc. and Hydro One Inc., and to recommend ways to maximize their value to the people of Ontario. In its final electricity sector report released in April 2015, the Council recommended, among other things, that the Province should proceed with a partial sale of its interest in Hydro One Inc. to create a growth-oriented company centred in Ontario. The Council recommended that the partial sale occur by way of a public offering, with approximately 15% of the shares of Hydro One Inc. to be initially offered to the market. The Council recommended that the Province indicate an intention to reduce its ownership to 40% over time, to retain that level of ownership interest, and further that the balance should be widely held with no other individual shareholder having more than a 10% holding. The Council separately recommended proceeding with a sale or merger of the Province's interest in Hydro One Brampton Networks Inc. to or with other local distribution companies in Ontario in order to act as a catalyst for consolidation and to strengthen competition in the electricity distribution sector.

In response to the Council's recommendations, the Province proceeded to indirectly broaden the ownership of Hydro One Inc. through the initial public offering of shares in Hydro One Limited. Prior to this initial public offering, numerous steps occurred including the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One Inc. The Province also announced that it would proceed with the sale or merger of Hydro One Brampton Networks Inc. In anticipation of that transaction, on August 31, 2015, all of the issued and outstanding shares of Hydro One Brampton Networks Inc. were transferred to a company wholly-owned by the Province. See "General Development of the Business – Spin-off of Hydro One Brampton Networks Inc."

The Council also recommended time-limited tax incentives to promote consolidation in the distribution sector. These tax incentives were included in the 2015 Ontario Budget, which announced a reduction in the transfer tax rate from 33% to 22%, an exemption from transfer tax for distributors with fewer than 30,000 customers and an exemption from the capital gains portion of the departure tax. These changes apply for the period beginning January 1, 2016, and ending December 31, 2018.

Legislative Amendments Generally

In 2015, legislative amendments were proposed which will affect the transmission and distribution sector of the electricity industry in Ontario. Bills 112 and 135 were introduced into the Legislative Assembly of Ontario in June 2015 and October 2015, respectively. Bill 112 received Royal Assent in December 2015 and Bill 135 has not yet received Royal Assent. The bills amend or propose to amend, as applicable, various sections of the *Energy Consumer Protection Act* (Ontario), the Ontario Energy Board Act, the Electricity Act and the *Green Energy Act, 2009* (Ontario).

Bill 112, among other things, enhances consumer protection and reliability, increases scope for local distribution companies and their affiliates to expand business activities, enhances oversight of utility transactions, expands the OEB's emergency powers, and enhances the OEB's authority to continue to protect electricity ratepayers with respect to electricity retailer contracts. Bill 112 also allows the Minister of Energy to declare the construction, expansion or reinforcement of a particular electricity transmission line as a needed priority project.

Bill 135 would amend 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 the OEB would be guided by such plans' objectives in exercising its powers and performing its duties. The plans may require the IESO to enter into contracts to procure or develop, among other things, transmission systems or any part of such systems. Once the IESO has commenced the procurement process, the OEB would be prohibited from granting leave to construct except where the applicant is the party with whom the IESO has entered into a contract for the development or construction of the transmission project. Bill 135 would also prohibit new feed-in tariff programs, but would grandfather existing ones.

Legislative Amendments Specific to Hydro One

Background

In furtherance of the Council's report in April 2015 to broaden the ownership of Hydro One, the Province made various amendments to statutes impacting Hydro One in order to facilitate the initial public offering of Hydro One.

Specifically:

- In June 2015, amendments to various Ontario statutes came into force to transition the Company from oversight by various officers of the Legislative Assembly of Ontario. See “– Statutory Oversight and Transitional Provisions for Officers of the Assembly” below.
- In June 2015, amendments to the Electricity Act came into force which require Hydro One to appoint an ombudsman for the Company. See “– Ombudsman” below.
- In August 2015, amendments to the Electricity Act came into force, which requires the Company'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, adds 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.

Statutory Oversight and Transitional Provisions for Officers of the Assembly

In June 2015, 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. In

addition, the Company's obligations to provide financial information to the Province for the Province's public reporting purposes were limited under the *Financial Administration Act* (Ontario) and the *Auditor General Act* (Ontario). The Auditor General of Ontario, the Financial Accountability Officer, the Information and Privacy Commissioner and the Provincial Ombudsman continued to exercise certain of their powers with respect to the Company in certain limited circumstances until December 4, 2015. The Information and Privacy Commissioner may issue certain orders until June 4, 2016.

Ombudsman

The Electricity Act requires the Company to appoint 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 together with, among other things, the ombudsman's other duties and responsibilities. On October 22, 2015, the board of directors of Hydro One announced the appointment of Fiona Crean to the role of Ombudsman for the Company. Her appointment was effective as of November 17, 2015.

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, 2015, the Province owned approximately 84% of Hydro One Limited's common shares. The Province has indicated that it intends to sell further common shares over time, until it holds approximately 40% of Hydro One Limited. For more information, see the Annual MD&A under the heading "Risk Management and Risk Factors".

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".

RATE-REGULATED UTILITIES

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. 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 are currently determined based on a cost-of-service model, while distribution rates are generally determined using a performance-based model.

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.

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.

These models are reviewed and modified by the OEB from time to time. In 2015, the OEB initiated a discussion to develop a framework for the application of performance-based principles to transmitters. In February 2016, the OEB issued a new set of filing requirements for transmission applications, reflecting these principles.

Transmission Rates (Cost-of-Service Model)

A transmitter applies to the OEB for approval of its revenue requirement for each year covered by its rate application (typically two years in total). The revenue requirement for each year covers the anticipated costs of providing the service for that year and an amount that represents the allowable return on equity approved by the OEB. In 2015, the OEB initiated a discussion to develop a framework for the application of RRFE principles to transmitters, and in February 2016, issued a new set of filing requirements for transmitters.

Cost of Service (\$)	+	Return on Equity (\$)	=	Revenue Requirement (\$)
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Distribution Rates (Performance-Based Model)

A utility applies to the OEB to have its cost of service reviewed as part of its application for distribution rates. The process for applying for distribution revenue requirements differs from the process for applying for transmission revenue requirements in a number of ways, including:

- the period covered by a distribution rate application is typically at least five years;

- the utility applies for the approval of its revenue requirement only for the first year covered by the rate decision;
- the revenue requirement for each of the subsequent years is determined based on a formula that accounts for inflation and certain productivity factors set by the regulator; and
- the utility is permitted 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, thereby allowing 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.

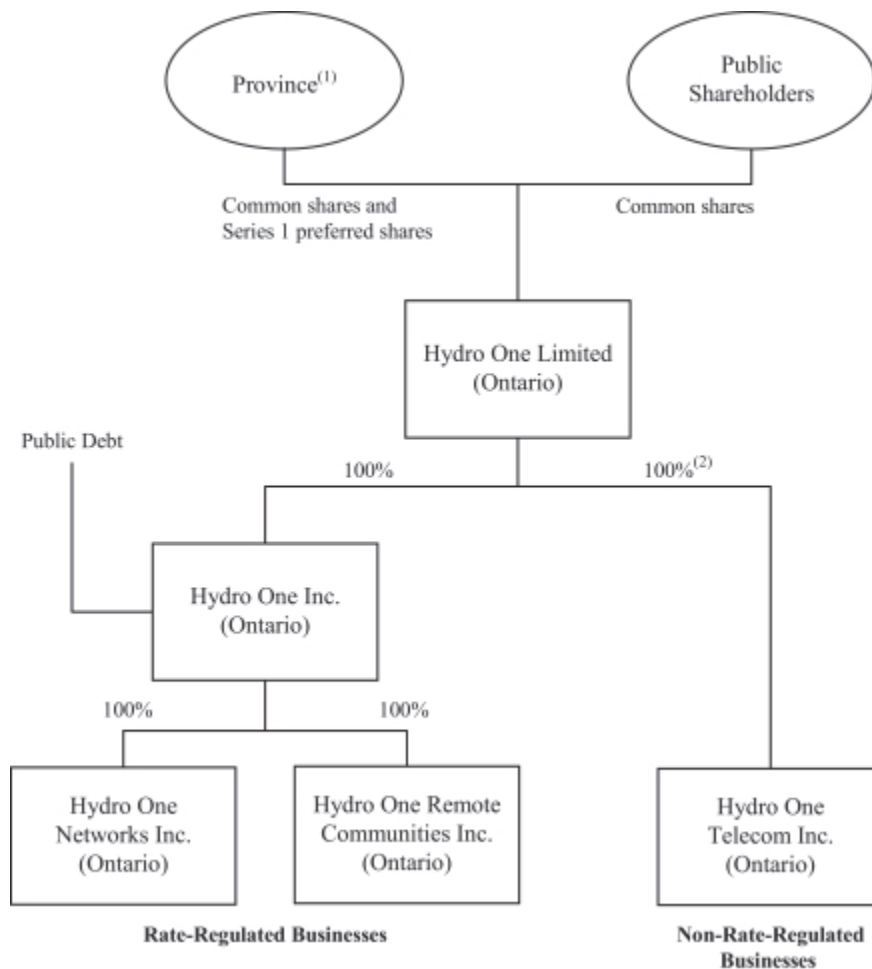
On October 30, 2015, the articles of Hydro One Limited were amended to authorize the creation of an unlimited number of Series 1 preferred shares and an unlimited number of Series 2 preferred shares, with the Series 1 preferred shares to be issued to the Province.

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, 2015, the Province owned approximately 84% 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.

GENERAL DEVELOPMENT OF THE BUSINESS

The following key events occurred in 2015 and early 2016 in respect of Hydro One.

Incorporation

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

Completion of Initial Public Offering and Acquisition of Hydro One Inc.

On November 5, 2015, Hydro One Limited completed its initial public offering 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 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 of \$167,075,000. Hydro One Limited did not receive any proceeds from the initial public offering.

Prior to the closing of the initial public offering, 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.

Spin-off of Hydro One Brampton Networks Inc.

On August 31, 2015, a dividend was paid to the Province by transferring all of the issued and outstanding shares of Hydro One Brampton Networks Inc. and inter-company indebtedness owed to Hydro One by Hydro One Brampton Networks Inc. to a company wholly owned by the Province. As of that date, Hydro One no longer owned any of the shares or indebtedness of Hydro One Brampton Networks Inc. and will not be a participant in or receive any proceeds from any future sale or transaction involving Hydro One Brampton Networks Inc.

Hydro One continues to provide certain management, administrative and smart meter network services to Hydro One Brampton Networks Inc. pursuant to service level agreements. These agreements will terminate no later than December 31, 2019, or the date on which the Province disposes of its interest in Hydro One Brampton Networks Inc., except in the case of the smart meter network services agreement, which is anticipated to continue for a transition period after the Province disposes of its interest in Hydro One Brampton Networks Inc.

Recapitalization of Hydro One Networks Inc. and Dividend to the Province

On October 30, 2015, steps were taken to recapitalize Hydro One's subsidiary, Hydro One Networks Inc., and pay a dividend to the Province in the amount of \$800 million.

Agreement to Acquire Great Lakes Power Transmission LP

On January 28, 2016, Hydro One Inc. reached an agreement to acquire from Brookfield Infrastructure Holdings (Canada) Inc. various entities that own and control Great Lakes Power Transmission LP, an Ontario regulated electricity transmission business. For a description of the acquisition of Great Lakes Power Transmission LP, see the Annual MD&A under the subheading "Other Developments – Acquisitions".

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 \$24.3 billion in assets and 2015 revenues of over \$6.5 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., a wholly-owned subsidiary of Hydro One Limited. Hydro One Inc. 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 29,000 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 (telecommunications). 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 96% of Ontario's transmission capacity based on revenue approved by the OEB. This includes the Company's 66% interest in B2M Limited Partnership, a limited partnership between Hydro One and the Saugeen Ojibway Nation, which owns most of the assets relating to specific Bruce-to-Milton transmission line assets. Hydro One's transmission business represented approximately 50% of its total assets as at December 31, 2015, and accounted for approximately 50% of its total revenue in 2015, net of purchased power and 51% of its total revenue in

2014, net of purchased power. All of the Company's transmission business is carried out by its wholly-owned subsidiary Hydro One Inc., through its wholly-owned Hydro One Networks Inc., except for the portion of its business held through B2M Limited Partnership, which Hydro One controls.

The Company's transmission business is one of the largest in North America and is a rate-regulated business that earns revenues mainly from charging transmission rates that are subject to approval by the OEB. The Company's transmission rates are determined based on a cost-of-service 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 export revenues associated with transmitting excess generation 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, with the exception of the Sault Ste. Marie, James Bay and Fort Erie areas, and transported approximately 137.0 TWh of energy throughout the province in 2015. Hydro One's transmission customers consist of 47 local distribution companies (including Hydro One's own distribution business) and 90 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 119 generators in Ontario and electricity sourced from outside the province through interties.

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 \$12,066 million as at December 31, 2015 and include transmission stations, transmission lines, a control centre and telecommunications facilities. Hydro One has approximately 292 transmission stations and approximately 29,000 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 274 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 high-voltage transmission lines and related equipment, such as the steel support structures, conductors and foundations, while Hydro One owns the transmission stations that connect to the lines. 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 special telecommunications systems that are necessary 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.

Regulation

Transmission Rate Setting

As discussed under “Rate-Regulated Utilities”, transmission rates in Ontario are currently determined based on a cost-of-service model. The OEB sets transmission rates based on a two-step process.

First, all transmitters, including Hydro One, apply to the OEB for the approval of their revenue requirements, which cover the transmitters’ cost of service for providing transmission services and allowed return on equity. Once approved by the OEB, transmission revenue requirements generally cover the subsequent two-year period with an acknowledged adjustment to occur in the second year to update for the then current cost of debt and return on equity.

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.

Applications to the OEB for the approval of a transmitter’s revenue requirements use a forward test year. A transmitter earns more revenues from transmission rates when peak electricity demand is higher than forecast in its rate application, and conversely earns less revenue from transmission rates when peak electricity demand is lower than forecast in its rate application.

Recent Transmission Rate Applications

Hydro One Networks Inc. and B2M Limited Partnership make separate applications for the approval of their revenue requirements for transmission services based on a cost of service model.

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. 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 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%. Hydro One Networks Inc. plans to submit a transmission rate application for 2017-2018 rates in the second quarter of 2016.

In March 2015, B2M Limited Partnership filed an application for revenue requirements covering the 2015 to 2019 period. B2M Limited Partnership has requested revenue requirements of \$39 million for 2015, \$36 million for 2016, \$37 million for 2017, \$38 million for 2018 and \$37 million for 2019. In December 2015, the OEB approved B2M Limited Partnership’s application substantially as filed. For more information, see the Annual MD&A under the subheading “Regulation – B2M LP”.

Reliability Standards for Transmission

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, both of which are industry organizations involved in promoting and improving the reliability of transmission networks in North America. These reliability standards are enforced by both the IESO and the National Energy Board.

Among its standards, the NERC has also established and continues to issue revised requirements to ensure that utilities and other users, owners and operators of the bulk electricity system in North America have appropriate procedures in place to protect critical infrastructure from cyber-attacks. Hydro One's physical, electronic and information security processes 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 the NERC's updated and revised standards. Hydro One anticipates that these costs will be incurred annually over a number of years and will be recovered in rates.

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 19 of the 21 designated regions. The completion of the first cycle of regional plans is expected over the next two years. Once a plan is finalized and approved by the OEB, the transmitter responsible for each region will implement the recommended transmission investments and distributors in the region will implement the recommended distribution investments in their respective service territories.

In conducting the 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.

If enacted, Bill 135 may cause modifications to the above-described regional planning process. See "The Electricity Industry in Ontario - Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry – Legislative Amendments Generally" for more information.

Capital Expenditures

The Company's transmission capital expenditure plan is designed to address Ontario's changing generation profile, accommodate load growth in areas throughout Ontario and support the expected increase in renewable energy generation. Additionally, this plan seeks to sustain or improve 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's capital expenditure plans are included in Hydro One's applications to the OEB for transmission rates.

Investments in Hydro One's existing infrastructure are critical to maintain the safety, reliability and integrity of its transmission network. The Company incurs both sustaining capital expenditures and development capital expenditures required to upgrade or enhance Hydro One's system capabilities and networks. Sustaining capital expenditures are those investments required to replace or refurbish lines or station components to ensure that existing transmission assets function as originally designed. Development capital expenditures include those investments required to develop and build 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 expects that it will be required to make significant investments in its existing infrastructure over the long term. The Company anticipates that it will spend approximately \$920 million to \$1,020 million per year over the next five years on capital expenditures relating to its transmission business. For more information on future capital expenditures, see the Annual MD&A under the subheading “Capital Investments – Future Capital Investments”.

Hydro One’s plans to maintain, refurbish or replace existing assets on the basis of maintenance standards, transmission asset condition assessments and end-of-service life criteria specific to each type of asset. Priorities are assigned to each type of investment based on the risks that it mitigates.

The Company engages with various stakeholders, including its customers, to determine the need, timing and technical solutions for new connection and transmission facilities or upgrades, as well as with affected communities and parties who may be impacted by the project. The Company also engages with First Nations and Métis communities whose rights may be affected as part of the project development process for new or upgraded transmission lines.

Competitive Conditions

The Company’s operations are currently limited to Ontario, where the Company operates and maintains substantially all of Ontario’s 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. Management believes that Hydro One is well-positioned to pursue the development of such facilities although, if enacted, Bill 135 could cause a change to the competitive process in Ontario by allowing for the selection of a transmitter outside the existing competitive process. See “The Electricity Industry in Ontario – Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry – Legislative Amendments Generally” 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.

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 38% of its total assets as at December 31, 2015, and accounted for approximately 48% of its total revenue in 2015, net of purchased power and 47% of its total revenue in 2014, 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, 2015, Hydro One's distribution assets were \$9,213 million. Hydro One's current distribution business no longer includes the business of Hydro One Brampton Networks Inc. as on August 31, 2015, all of the issued and outstanding shares of Hydro One Brampton Networks Inc. were transferred to a company wholly-owned by the Province. See "General Development of the Business – Spin-off of Hydro One Brampton Networks Inc." for additional detail concerning the transfer and related transactions.

Business

Hydro One delivers electricity through its distribution network to approximately 1.3 million residential and business customers, most of whom are located in rural areas, as well as 55 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 was designed to service a rural territory. Because 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, Hydro One's distribution system was not designed 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 would generally be expected to be inherently lower than that of local distribution companies which service urban territories. 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 preventive power outage and restoration activities.

The Company completed the acquisitions of Norfolk Power in 2014, and Haldimand Hydro and Woodstock Hydro in 2015, increasing the Company's customer base by approximately five percent.

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 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 electrical transmission, distribution and other similar services in Canada and in the United States.

Hydro One is committed to continuously improving customer service. This includes specific, measurable commitments to customers that encompass all areas of service. The Company implemented a new billing system in 2013 as part of a larger initiative to adopt a new enterprise management platform. Following initial implementation disruptions, Hydro One's billing system is now stable and outperforming its previous system in terms of timeliness, accuracy and reliability. Better processes have also been implemented for addressing and resolving billing issues in a timely manner. For 2015, "billing accuracy", as defined by the OEB, was 98.59% against Hydro One's target of 98%, and the Company's internal measure of billing quality was 99.7% against a target of 99.0%. The Company continues to pursue further improvements.

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, 2015, there were approximately 13,400 small, mid-size and large embedded generators connected to Hydro One's distribution network, including approximately 12,600 generators with capacities of up to 10 kW. As at December 31, 2015, Hydro One also had approximately 1,600 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.

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 "RRFE". Under the RRFE, distributors in Ontario may choose one of three rate-setting methods, depending on their capital requirements: 4th Generation Incentive Rate-Setting, Custom Incentive Rate-Setting, or Annual Incentive Rate-Setting Index.

The RRFE 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 is lowering its cost of service over the period covered by the rate decision due to efficiency or productivity improvements. The RRFE 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 RRFE 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 RRFE 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 RRFE. 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 under the RRFE follows a process similar to that of a transmission rate application for the review of the anticipated cost of service for providing distribution services, other than as noted above. 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 recently issued OEB policy, *A New Distribution Rate Design for Residential Electricity Customers*, will change 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 occur over the next four to eight 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 rates revenue requirement to be collected for each customer class.

Distribution Rate Applications

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

In March 2015, the OEB issued a decision regarding Hydro One'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. The 2015 revenue requirement reflects an approved rate base of \$6,552 million, return on equity of 9.30% and a deemed capital structure of 60% debt and 40% equity. The rates are effective as of January 1 in each year.

On January 14, 2016, the OEB issued its final decision and order approving Hydro One's draft rate order for 2016 rates. The overall impact of this decision is a reduction of the proposed 2016 revenue requirement to approximately \$1,410 million from \$1,430 million. The 2016 revenue requirement reflects an approved rate base of \$6,863 million, return on equity of 9.19% and a deemed capital structure of 60% debt and 40% equity. The OEB approved Hydro One's request for interim rates as of January 1, 2016.

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 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".

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 appliances and incentives for the purchase of energy efficient light bulbs and other products. 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, both by way of peak demand reduction and energy savings.

Targets and budgets for CDM were allocated to distributors in October 2014. Hydro One Networks Inc.'s 2015-2020 CDM energy savings target is 1,159 GWh and its CDM plan was approved by the IESO on July 8, 2015. In December 2015, Hydro One Networks Inc.'s 2015-2020 CDM energy savings target was revised to 1,178 GWh to reflect the integration of Norfolk Power's CDM target.

Capital Expenditures

Hydro One's asset sustainment activities are focused on assessment of asset condition. Distribution asset renewals are undertaken when such 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 \$660 million to \$730 million per year over the next five years on capital expenditures relating to its distribution business.

Hydro One is continuing its efforts to make the distribution system more efficient and reliable, including investments in Hydro One's smart grid project, which it is piloting, testing, and validating smart grid capabilities on a larger scale to enable distributed generation integration, improve reliability and operations, and enhance outage restoration and network planning. Work on the initial phase of the smart grid project is expected to be completed by 2017.

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. To create more efficiency in the distribution sector, the Council has endorsed the need for faster consolidation among local distribution companies in Ontario, which may result in competition for acquisition or merger opportunities. Potential acquirers may include strategic and financial buyers, in addition to other local distribution companies.

Other Business

Hydro One's other business segment consists of certain corporate activities, principally its telecommunications business, which provides telecommunications support for the Company's transmission and distribution businesses. 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. This business is carried out by its wholly-owned subsidiary Hydro One Telecom Inc.

Hydro One's telecommunications business is not rate-regulated. 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, which in addition to the telecommunications business also includes a deferred tax asset, represented approximately 12% of Hydro One's total assets as at December 31, 2015, and accounted for approximately 2% of its total revenue in each of 2015 and 2014, 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.

Review of Operations and Auditor General's Report

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, and has identified areas requiring improvements. The OEB's rate decisions also contain directions to Hydro One to reduce costs and improve value to customers. On December 2, 2015, the Auditor General of Ontario released her "value-for-money" audit report on Hydro One. This was the last "value-for-money" audit report that the Auditor General will conduct for Hydro One. The report was critical of Hydro One's management practices in a number of these areas, including its interactions with the OEB. In the report, Hydro One provided formal responses to her recommendations.

First Nations and Métis Communities

Management believes that building and maintaining positive and mutually beneficial relationships with First Nations and Métis communities is important to achieving the Company's corporate objectives. Hydro One is committed to working with First Nations and Métis communities in a spirit of cooperation and shared responsibility. Hydro One's recent 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 First Nations and Métis Relations Policy, Hydro One's First Nations and Métis Relations team provides guidance and advice to support the Company in developing and maintaining positive relationships. Hydro One also has several programs to address the interests of First Nations and Métis communities and their citizens. These include dedicated summer student positions, pre-apprenticeship training opportunities, scholarships which provide opportunities for work terms, First Nations and Métis procurement procedures and community investments.

The Company's engagement with First Nations and Métis communities is overseen by the Company's Health, Safety, Environment and First Nations & Métis Committee. This committee is responsible for assisting the Board in discharging the Board's oversight responsibilities relating to effective occupational health and safety and environmental policies and practices at Hydro One, and its relationship with First Nations and Métis communities.

Outsourced Services

To gain efficiencies and cost reductions, 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, call centre and accounting services. Inergi LP (an affiliate of Capgemini Canada Inc.) provides the Company with back-office services and call centre services under an agreement that expires on December 31, 2019, for back-office services and on February 28, 2018, for call centre services. The Company has an option to renew the agreement for two additional terms of approximately one year each. Brookfield Global Integrated Solutions (formerly Brookfield Johnson Controls Canada LP) provides the Company with facilities management services 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, 2015, Hydro One had over 5,500 regular employees and over 2,000 non-regular employees province-wide, comprising a mix of skilled trades, lines staff, 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 Workforce".

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. The Company is committed to creating and maintaining a safe workplace which is one of Hydro One's stated core values, and maintaining safety through a concentrated focus on the elimination of serious incidents or "near-misses" which have the potential to cause serious injuries. 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 75% in the number of recordable rate incidents. All measures are monitored by management and by the Health, Safety, Environment and First Nations & Métis 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 2015, 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 and 2015. 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* (Ontario). 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. If enacted, Bill 135 may affect certain environmental approvals.

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.

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 voluntary 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 any contamination at or from these facilities and, where necessary, the development of remediation plans for the Company's properties and affected adjacent private properties. Future consolidated expenditures related to Hydro One's land assessment and remediation program are currently estimated at approximately \$61 million as at December 31, 2015. These expenditures are expected to be spent over the period ending 2023. The consolidated expenditures on this program for 2015 were approximately \$11 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.

Reorganizations

In connection with the initial public offering of Hydro One Limited, the Company completed a series of pre-closing transactions in 2015. See "General Development of the Business".

RISK FACTORS

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

DIVIDENDS

On February 11, 2016, the Board declared a dividend of \$0.34 per share on each of its outstanding common shares to be paid on March 31, 2016 to shareholders of record on March 17, 2016. The dividend represents payment for the fourth quarter period of November 5, 2015 to December 31, 2015 (following the closing of Hydro One Limited's initial public offering) plus the full first quarter ending March 31, 2016. The Board also declared a dividend of \$0.32602739 per share on each of its outstanding Series 1 preferred shares.

Dividend Policy

The Board has established a dividend policy pursuant to which Hydro One Limited expects to pay a quarterly dividend 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.

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, 2015 and 2014 under the headings "Dividends" and "Subsequent Events".

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, 2015, there were 595,000,000 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. See "The Electricity Industry in Ontario – Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry – Legislative Amendments Specific to Hydro One – 10% Ownership Restriction".

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.

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 beginning with the partial month from November 5, 2015, being the date of the closing of Hydro One Limited’s initial public offering:

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
November 5, 2015 to November 30, 2015.....	23.15	21.01	31,005,159
December 2015	22.95	21.53	7,060,538
January 2016	22.60	21.85	3,929,776
February 2016	23.31	21.90	4,489,699
March 1 to March 21, 2016	24.25	23.15	5,623,586

Prior Sales of Unlisted Securities

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

On October 31, 2015, in connection with the acquisition by Hydro One Limited of all of the issued and outstanding shares of Hydro One Inc., 16,720,000 Series 1 preferred shares were issued by Hydro One Limited to the Province at a price of \$25.00 per share. No Series 2 preferred shares have been issued to date. See “General Development of the Business – Completion of Initial Public Offering and Acquisition of Hydro One Inc.” and “Description of Capital Structure”.

DIRECTORS AND OFFICERS

Directors and Executive Officers

The following table sets forth information regarding the directors and executive officers of Hydro One Limited as of December 31, 2015. 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.

<u>Name, Province or State and Country of Residence</u>	<u>Age</u>	<u>Position/Title</u>	<u>Independent</u>	<u>Principal Occupation</u>	<u>Committees</u>
Mayo Schmidt Ontario, Canada	58	President and Chief Executive Officer and Director		President and Chief Executive Officer, Hydro One Limited and Hydro One Inc.	—
Michael Vels Ontario, Canada	54	Chief Financial Officer		Chief Financial Officer, Hydro One Limited and Hydro One Inc.	—
Judy McKellar Ontario, Canada	59	Senior Vice President, People and Culture, Health, Safety and Environment of Hydro One Networks Inc.		Senior Vice President, People and Culture, Health, Safety and Environment of Hydro One Networks Inc.	—

Name, Province or State and Country of Residence	Age	Position/Title	Independent	Principal Occupation	Committees
Alexander (Sandy) ⁽¹⁾ Struthers Ontario, Canada	56	Chief Operating Officer		Chief Operating Officer, Hydro One Inc.	—
David Denison Ontario, Canada	63	Director and Chair of the Board	Yes	Board Chair, Hydro One Limited and Hydro One Inc.	—
Ian Bourne ⁽²⁾ Alberta, Canada	68	Director	Yes	Chair, Ballard Power Systems Inc.	Human Resources Committee (Chair); Nominating, Corporate Governance, Public Policy & Regulatory Committee
Charles Brindamour Ontario, Canada	45	Director	Yes	Chief Executive Officer, Intact Financial Corporation	Audit Committee; Human Resources Committee
Marcello (Marc) Caira ⁽²⁾ Ontario, Canada	61	Director	Yes	Vice-Chairman, Restaurant Brands International Inc	Human Resources Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee
Christie Clark Ontario, Canada	62	Director	Yes	Corporate Director	Human Resources Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee
George Cooke ⁽²⁾ Ontario, Canada	62	Director	Yes	President, Martello Associates Consulting / Chair, OMERS Administration Corporation	Audit Committee; Health, Safety, Environment and First Nations & Métis Committee
Margaret (Marianne) Harris Ontario, Canada	58	Director	Yes	Corporate Director	Human Resources Committee; Health, Safety, Environment and First Nations & Métis Committee (Chair)
James Hinds Ontario, Canada	58	Director	Yes	Corporate Director	Audit Committee; Health, Safety, Environment and First Nations & Métis Committee
Kathryn Jackson ⁽²⁾ Pennsylvania, United States	58	Director	Yes	Corporate Director	Nominating, Corporate Governance, Public Policy & Regulatory Committee; Health, Safety, Environment and First Nations & Métis Committee
Roberta Jamieson Ontario, Canada	63	Director	Yes	President and Chief Executive Officer, Indspire	Audit Committee; Health, Safety, Environment and First Nations & Métis Committee
Frances Lankin Ontario, Canada	61	Director	Yes	Corporate Director	Audit Committee; Nominating, Corporate Governance, Public Policy & Regulatory Committee
Philip Orsino Ontario, Canada	61	Director	Yes	Corporate Director	Audit Committee (Chair); Nominating, Corporate Governance, Public Policy

Name, Province or State and Country of Residence	Age	Position/Title	Independent	Principal Occupation	Committees
Jane Peverett ⁽²⁾ British Columbia, Canada	57	Director	Yes	Corporate Director	& Regulatory Committee Human Resources Committee, Nominating, Corporate Governance, Public Policy & Regulatory Committee (Chair)
Gale Rubenstein ⁽²⁾ Ontario, Canada	62	Director	Yes	Partner, Goodmans LLP	Human Resources Committee; Health, Safety, Environment and First Nations & Métis Committee

Notes:

- (1) As of February 3, 2016, Mr. Struthers is no longer employed by Hydro One.
- (2) 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.

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 both Hydro One Limited and Hydro One Inc. Prior to joining Hydro One, Mr. Schmidt served as President, CEO and director at Viterra Inc., one of the largest shippers and integrated agriculture export firms in Canada and globally. During his tenure, Viterra grew to operate in 14 countries with industrial assets and a supply chain to 50 countries with 500+ assets and 17 ports. Mr. Schmidt is a director of Agrium Inc. and serves as the Chairman of the Corporate Governance and Nominating Committee and is a member of the Environment, Health, Safety & Security Committee. Mr. Schmidt also sits on the CEO Advisory Committee on Cyber Security with other CEOs representing a variety of Canadian industry sectors and the Deputy Minister level within the Canadian federal government and is a member of Washburn University's Foundation Board of Trustees and the Lincoln Society. Mr. Schmidt received his B.B.A. from Washburn in 1980. Mr. Schmidt has been recognized in the Financial Post's Top 10 CEO Scorecard Rankings, as CEO of the Year by Canadian Business Magazine, as well as being awarded the Saskatchewan Centennial Medal.

Mr. Michael Vels is the Chief Financial Officer of both Hydro One Limited and Hydro One Inc. Prior to joining Hydro One, Mr. Vels served as Maple Leaf Foods Inc.'s Chief Financial Officer (2004 to 2014), and, in 2014, served as the Chief Transition Officer of the Company. From 1991 to 2004, Mr. Vels took on increasing roles and responsibility at Maple Leaf Foods. Prior to 1991, he worked in public accounting in Canada and mergers and acquisitions in the United Kingdom. Mr. Vels currently serves as Director of Canada's National Ballet School and formerly served on the board of directors for Canada Bread Company, Ltd. (2007-2014) and Country Style Food Services Inc. (2007-2009). He is a past member of the OSC Continuous Disclosure Advisory Committee. 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).

Ms. Judy McKellar is the Senior Vice President, People and Culture, Health, Safety and Environment of Hydro One Networks Inc., a wholly-owned subsidiary of Hydro One Inc. She was appointed to this position on November 17, 2014. Ms. McKellar has held various roles of increasing responsibility at Hydro One 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.

Mr. Alexander (Sandy) Struthers was the Chief Operating Officer and Executive Vice President Strategic Planning of Hydro One Inc. and Hydro One Networks Inc. Mr. Struthers had previously served as Hydro One Inc.'s Chief Financial Officer and Chief Administrative Officer (2013-2014). Mr. Struthers first joined Hydro One Inc. in 2000 as a Finance Director responsible for mergers and acquisitions and has since held a number of senior management positions as Chief Financial Officer (2009-2012), and as Vice President and Chief Information Officer (2004-2008). Prior to joining the Company, Mr. Struthers was a partner in the Corporate Finance group of a national accounting firm. Mr. Struthers holds a Master of Business Administration from York University and a Bachelor of Commerce (Honours) from Queen's University. He is a member of the Institute of Corporate Directors, a Chartered Professional Accountant and a member of the Institute of Chartered Accountants of Ontario, and a past member of the Canadian Institute of Chartered Business Valuators. As of February 3, 2016, Mr. Struthers is no longer an employee of Hydro One.

Information Regarding Certain Directors and Executive Officers

As at December 31, 2015, the directors and executive officers of Hydro One Limited beneficially owned, controlled or directed, directly or indirectly, as a group, 80,600 common shares, which represented approximately 0.01% 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* (Canada). 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.

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 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.

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 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, Canada's largest property and casualty insurance provider. Mr. Brindamour is a director of Intact Financial Corporation, the C.D. Howe Institute, Branksome Hall and of the Insurance Bureau of Canada. He is also a member of the Advisory Committee of the University of Waterloo's Climate Change Adaptation Project, serves on the advisory board of Gibraltar Growth Corporation and is co-chair of Laval University's "Grande Campagne". 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 President of Martello Associates Consulting, a business strategy consulting firm. He is also the Chair of the board of directors of the OMERS Administration Corporation and CANATICS (Canadian National Insurance Crime Services). 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), 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 company until December 31, 2012. Mr. Cooke obtained a Bachelor of Arts degree (Hons.) in Political Studies (1975) and a Master of Business Administration degree (1977) from Queen's University. He also holds an Honorary Doctor of Laws degree (1999) 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).

James Hinds

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, and Executive Producer of the Indspire Awards, a nationally broadcast gala honoring 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) and was the Chair of its Risk Oversight Committee. Ms. Jamieson was appointed a Member of the Order of Canada in 1994. Ms. Jamieson holds a Bachelor of Laws from the University of Western Ontario.

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 currently Chair of the National NewsMedia Council, and a director of the Ontario Lottery and Gaming Corporation and the Institute of Corporate Directors, where she sits 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.

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

Mr. Philip 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 member of its Audit Committee, 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 Institute of Chartered Accountants 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 2015 and 2014 for professional services are presented below:

	Year ended December 31, 2015	Year ended December 31, 2014
Audit Fees	\$1,376,500 ⁽¹⁾	\$ 723,745
Audit-Related Fees	\$412,200 ⁽²⁾	\$ 139,083 ⁽³⁾
Tax Fees	\$90,000 ⁽⁴⁾	—
Total	\$1,878,700	\$ 862,828

Notes:

- (1) \$475,000 of these fees related to the company's initial public offering completed on November 5, 2015, which are recoverable from the Province.
- (2) The nature of the services rendered was: due diligence, translations and audit of the Hydro One Pension Plan and related matters.
- (3) The nature of services rendered was: translations, executive expense reviews, audit of the Hydro One Pension Plan and related matters.
- (4) The nature of the services rendered was: procedures in connection with scientific research and experimental development tax credit claims.

PROMOTERS

Hydro One Inc. has taken the initiative in founding and organizing Hydro One Limited and may therefore be considered a promoter of Hydro One Limited for the purposes of applicable securities legislation. In connection with a series of pre-closing transactions completed in connection with the initial public offering of Hydro One Limited, on October 31, 2015, Hydro One Limited acquired all of the issued and outstanding common shares of Hydro One Inc. from the Province in exchange for the issuance to the Province of 16,720,000 Series 1 preferred shares and 12,197,500,000 common shares. See "Corporate Structure –Corporate Structure and Subsidiaries" and "General Development of the Business".

Although the Province was identified as a promoter of Hydro One for purposes of the initial public offering, as a result of the entering into of the Governance Agreement and completion of the initial public offering, Hydro One no longer believes the Province is a promoter of Hydro One.

AGREEMENTS WITH PRINCIPAL SHAREHOLDER

In addition to the various legislative amendments made by the Province as described under “The Electricity Industry in Ontario – Recent Policy Changes and Legislative Amendments Affecting the Electricity Industry – Legislative Amendments Specific to Hydro One”, in connection with the 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.

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 – 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 *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario). 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, based on the amount of tax that Hydro One would otherwise be liable to pay under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) 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 *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) ceased to apply. Under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), 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 *Income Tax Act* (Canada) ("**departure tax**"). The departure tax amount was confirmed by a letter from the Minister of Finance.

Hydro One Inc. also paid the Ontario Electricity Financial Corporation approximately \$0.2 billion in additional payments in lieu of tax in connection with the initial public offering and approximately \$0.1 billion in other payments in lieu of tax installments.

For a discussion of the departure tax and the related financial implications on the Company, see the Annual MD&A under the heading "Related Party Transactions".

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) the underwriting agreement (the "**Underwriting Agreement**") dated October 29, 2015, between Hydro One Limited, Hydro One Inc., the Province and a syndicate of underwriters pursuant to which the underwriters agreed to purchase, and the Province agreed to sell 81,100,000 common shares (such number of shares subsequently increased to an aggregate of 89,250,000 common shares) of Hydro One Limited at a price of \$20.50 per share. The Underwriting Agreement

provides that Hydro One Limited and Hydro One Inc. will jointly and severally 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;

(b) the Governance Agreement, described under “Agreements with Principal Shareholder”; and

(c) 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.

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.

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 Hydro One Inc. and has audited the consolidated financial statements of Hydro One Limited and Hydro One Inc. as at and for the years ended December 31, 2015 and December 31, 2014. KPMG LLP has confirmed that it is independent of Hydro One Limited and Hydro One Inc. 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.

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 2015.

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 finance 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 with the meeting minutes of the Board. 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 Nominating and Corporate 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.
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
 - (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 discuss their audit plan for the year, 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:
 - (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 Management's 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 implications of Company initiatives which may have a material impact on transmission and distribution rate filing applications.

Code of Business Conduct and Whistleblower Policy

31. review and recommend to the Board for approval any changes to the Code of Business Conduct for employees, officers and directors of the Company.
32. 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.
33. oversee management's monitoring of, compliance with the Company's Code of Business Conduct and the Whistleblower Policy.

Enterprise Risk Management

34. 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.
35. meet with the head of the Enterprise Risk Management function at least semiannually.
36. 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

37. 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.
38. 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.
39. review on an annual basis reports on the expense accounts of the Chief Executive Officer and his or her direct reports.
40. 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.

41. 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.

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