

2014 Fixed Income Investor Update

Toronto – April 23, 2014

Montreal – April 24, 2014

Winnipeg – April 28, 2014



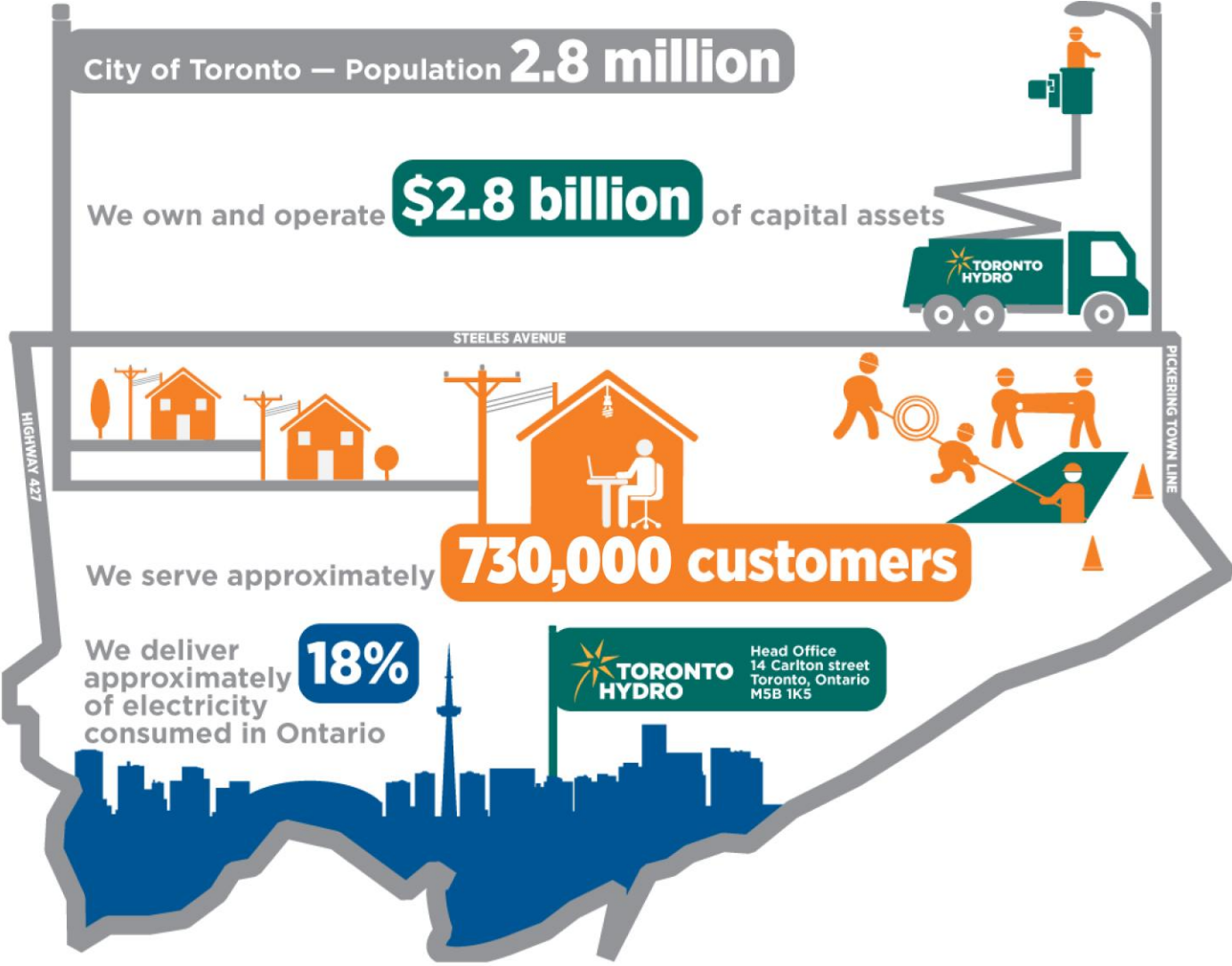
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Certain information included in this presentation or incorporated by reference herein constitutes "forward-looking information". Forward-looking information means disclosure regarding possible events, conditions or results that is based on assumptions about future economic conditions and courses of action or attributable to third parties. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "anticipate", "believe", "estimate", "predict", "potential", "continue", "plan" and similar expressions or the negative of these terms or other comparable terminology. Although the Corporation believes that it has a reasonable basis for the forward-looking information included in this presentation or incorporated by reference herein, such information is subject to a number of risks, uncertainties and assumptions that may cause actual events, conditions or results to differ materially from those contemplated by the forward-looking information. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the ratings assigned to the Corporation or its debt securities by rating agencies. Except to the extent required by applicable securities laws and regulations, the Corporation does not undertake any obligation to update publicly or to revise any of the forward-looking information included in this presentation or incorporated by reference herein after the date thereof, whether as a result of new information, future events or circumstances or otherwise.

Agenda

- **About Toronto Hydro**
- Regulatory Overview
- Financial Highlights

At a Glance



*As at Dec. 31, 2013

Corporate Structure



~\$1.5 Billion



Toronto Hydro-Electric System Limited



Toronto Hydro Energy Services Inc.



- Regulated by Ontario Energy Board (OEB)
- Local Distribution Company
- 99% of Revenues

- Contractual Relationship with City of Toronto
- Owns and operates street lighting
- 1% of Revenues

Shareholder Direction

- Toronto Hydro is operated independently from the City and treated as an investment
 - ❑ Board composed of 11 directors appointed by City Council
- Shareholder Direction adopted by the City sets out the corporate governance principles with respect to Toronto Hydro
 - ❑ Pay dividends to the City each year equal to the greater of \$25.0 million or 50% of the Corporation's consolidated net income for the prior fiscal year
 - ❑ Employ most efficient cost structure and maximize return on equity
 - ❑ Obtain and maintain rating of A- or higher on senior debt securities



Our Focus

VISION: Continuously maximize customer and stakeholders' satisfaction by being safe, reliable and environmentally responsible at optimal costs.

 PEOPLE	 FINANCIAL	 OPERATIONS	 CUSTOMER
<p>We strive to foster a fully engaged, safe and healthy workforce that meets the changing requirements of our business.</p> <p>OUR PROMISE</p> <ul style="list-style-type: none">• Provide a healthy and safe workplace• Develop a skilled and knowledgeable workforce• Keep our workforce engaged and productive	<p>We aim to meet the financial objectives of our shareholder, the City of Toronto.</p> <p>OUR PROMISE</p> <ul style="list-style-type: none">• Provide a fair return to our shareholder• Continue to increase shareholder value	<p>We work to improve reliability through optimal and sustainable system management.</p> <p>OUR PROMISE</p> <ul style="list-style-type: none">• Keep the lights on• Keep our system safe• Build a grid that supports a modern city in an environmentally responsible manner• Maintain above-average productivity	<p>Our goal is to provide value for money.</p> <p>OUR PROMISE</p> <ul style="list-style-type: none">• Provide long-term value for rate payers• Make it easy to work with us• Help customers conserve energy• Provide customers with tools and technology

People Strategy

Our promise

- ✓ Provide a healthy and safe workplace
- ✓ Develop a skilled and knowledgeable workforce
- ✓ Keep our workforce engaged and productive

**Best in class safety
& environmental
management
systems**

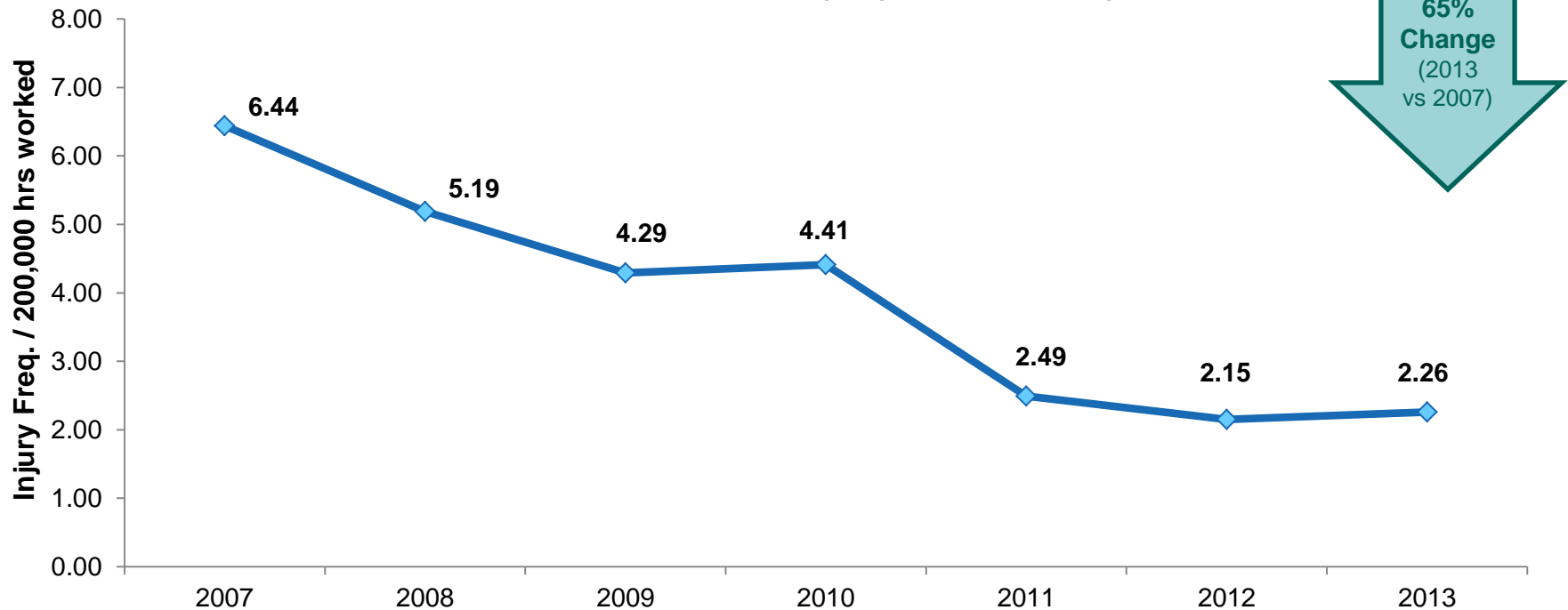
**Retain high
performers and
develop leadership
succession plans**

**Focus on
workforce
engagement,
productivity &
quality of work**

**Balanced
workforce
complemented by
contractors**

Safety

Total Recordable Injury Frequency



Toronto Hydro is committed to a safe and injury free work environment for all employees, contractors, visitors and the public, as evidenced by the significant reduction of recordable injuries over the last seven years.



New Collective Agreement



- Toronto Hydro has 961 employees represented by the Canadian Union of Public Employees, Local One ("CUPE One")*
- On February 13, 2014, CUPE One ratified collective agreements governing inside and outside employees for a four-year period expiring January 31, 2018



*As at Dec. 31, 2013

Operations Strategy

Our promise

- ✓ Keep the lights on
- ✓ Keep our system safe
- ✓ Build a grid that supports a modern city
- ✓ Maintain above average productivity

Focus on managing
core business
activities

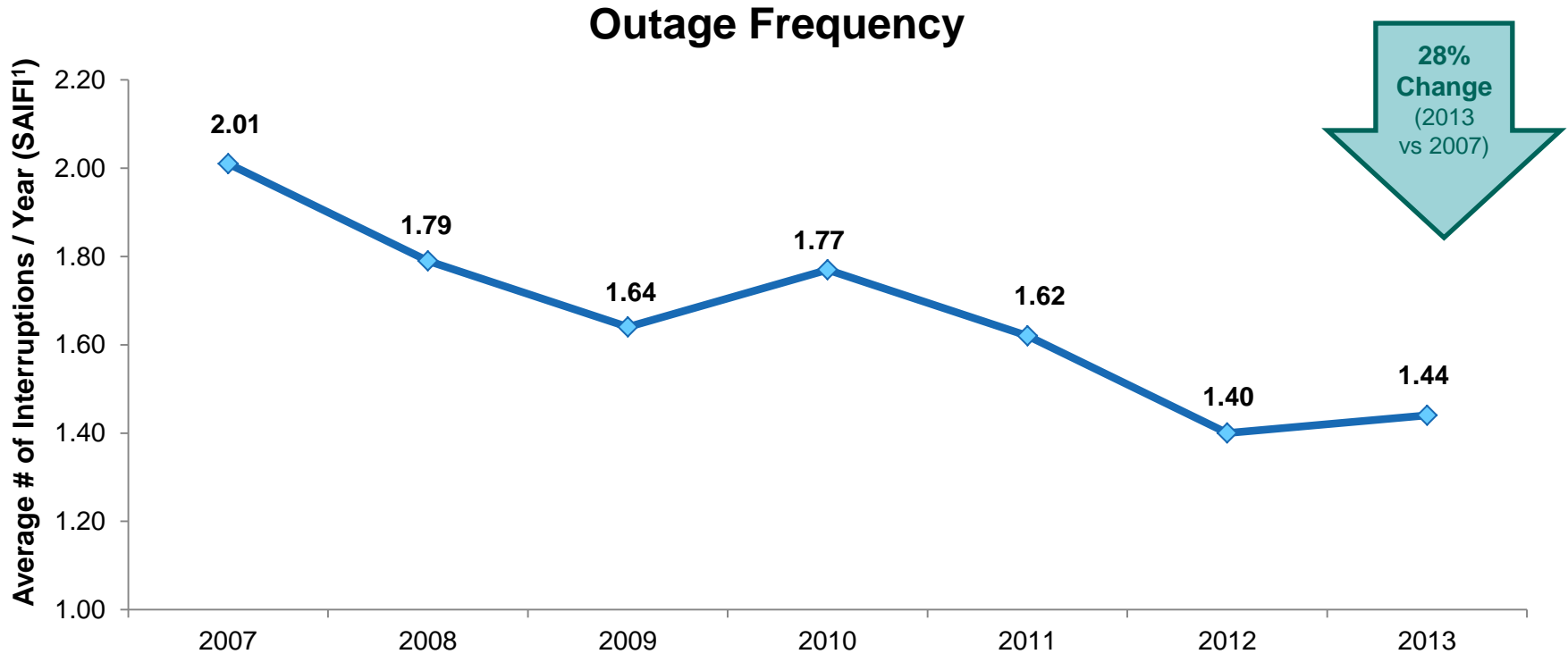
Design, engineer,
construct & operate

Maximize capital
budget with available
regulatory
mechanism

Mitigate deteriorating
reliability while
maximizing reliability
at allowable level of
investment

Continue to enhance
productivity and
efficiency throughout
our operations

Operations



Reduction in outage frequency is partly explained by grid modernization and infrastructure investments.



¹System Average Interruption Frequency Index. Represents the quotient obtained by dividing the total number of customer interruptions longer than one minute by the number of customers served.

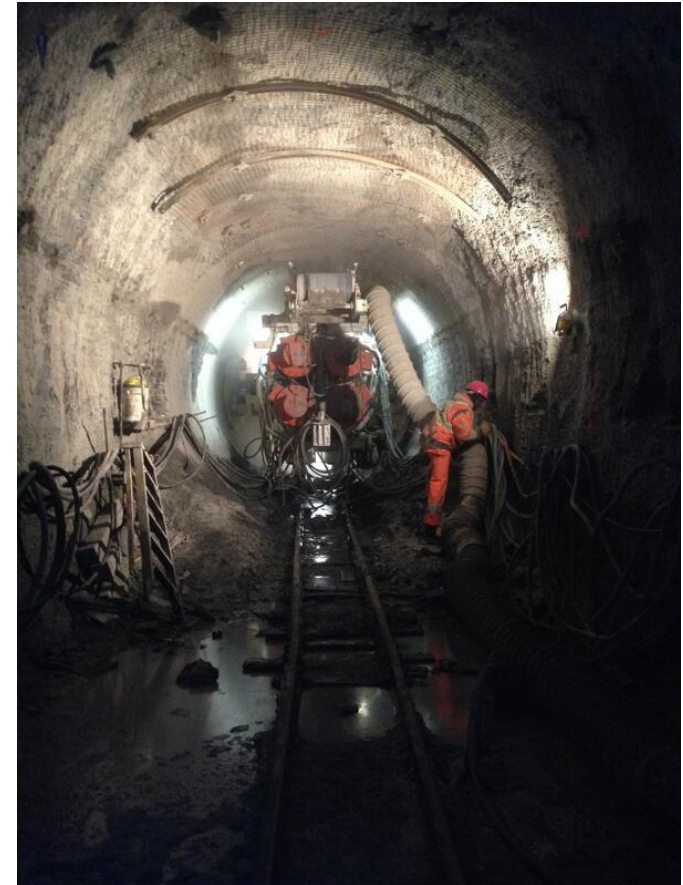


TORONTO IS BECOMING SKYSCRAPER CITY



Copeland Transformer Station

- One of Toronto Hydro's largest capital initiatives in response to the developing need for distribution solutions in the downtown core
- Estimated completion: Q2 2015
- Estimated cost for this project is \$195 million
- Will add a total of 144 MVA in new capacity to the distribution system, which is equivalent to approximately 70 condo towers



Customer Strategy

Our promise

- ✓ To provide long-term value for rate payers
 - ✓ Make it easy to work with us
 - ✓ Help customers conserve energy
- ✓ Provide customers with tools and technology

Focus on managing
Core business
Meter to Cash

Affordable Rates

Revenue protection
and growth

Achieve CDM
regulated targets
within approved
funding limits



Customer Segmentation

<i>Type</i>	Number of Customers	%	Revenues (\$K)	%
Residential Service	648,380	88.9%	\$814,287	25.4%
General Service	81,137	11.1%	\$2,066,621	64.5%
Large Users	51	<0.01%	\$264,548	8.3%
Other	-	-	\$57,337	1.8%
Total	729,568	100%	\$3,202,793	100%

A diverse foundation of large, well-established customers provides Toronto Hydro with low concentration risk.

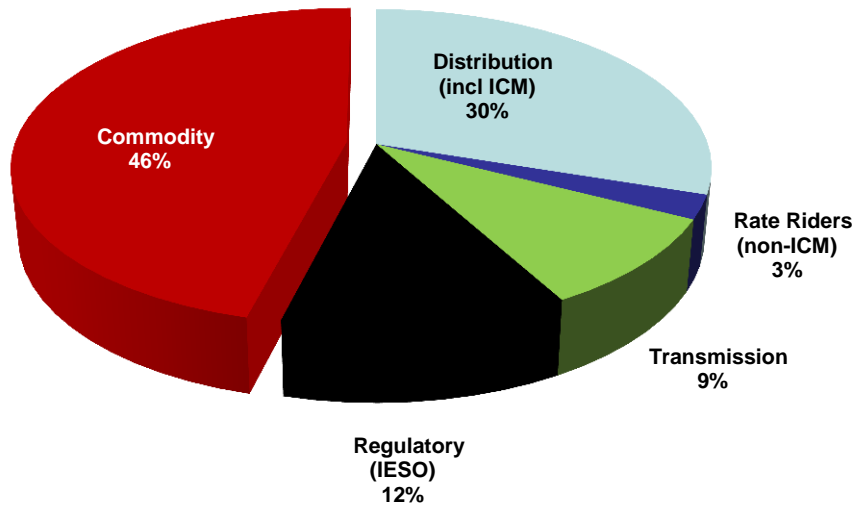


*As at Dec. 31, 2013

Residential Bill Components*

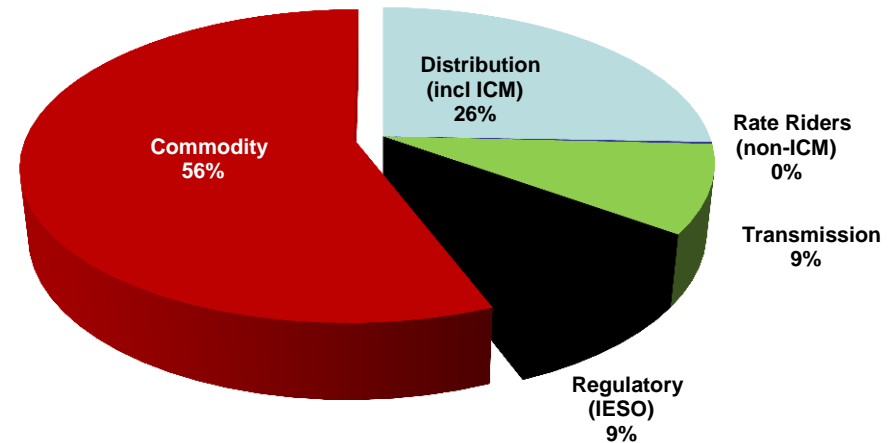
Residential Bill 2005

% of Bill by Component



Residential Bill 2013

% of Bill by Component

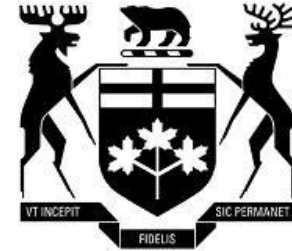


* Projections incorporate high-level assumptions on rate increases for different components excludes Tax & Ontario Clean Energy Benefit

Agenda

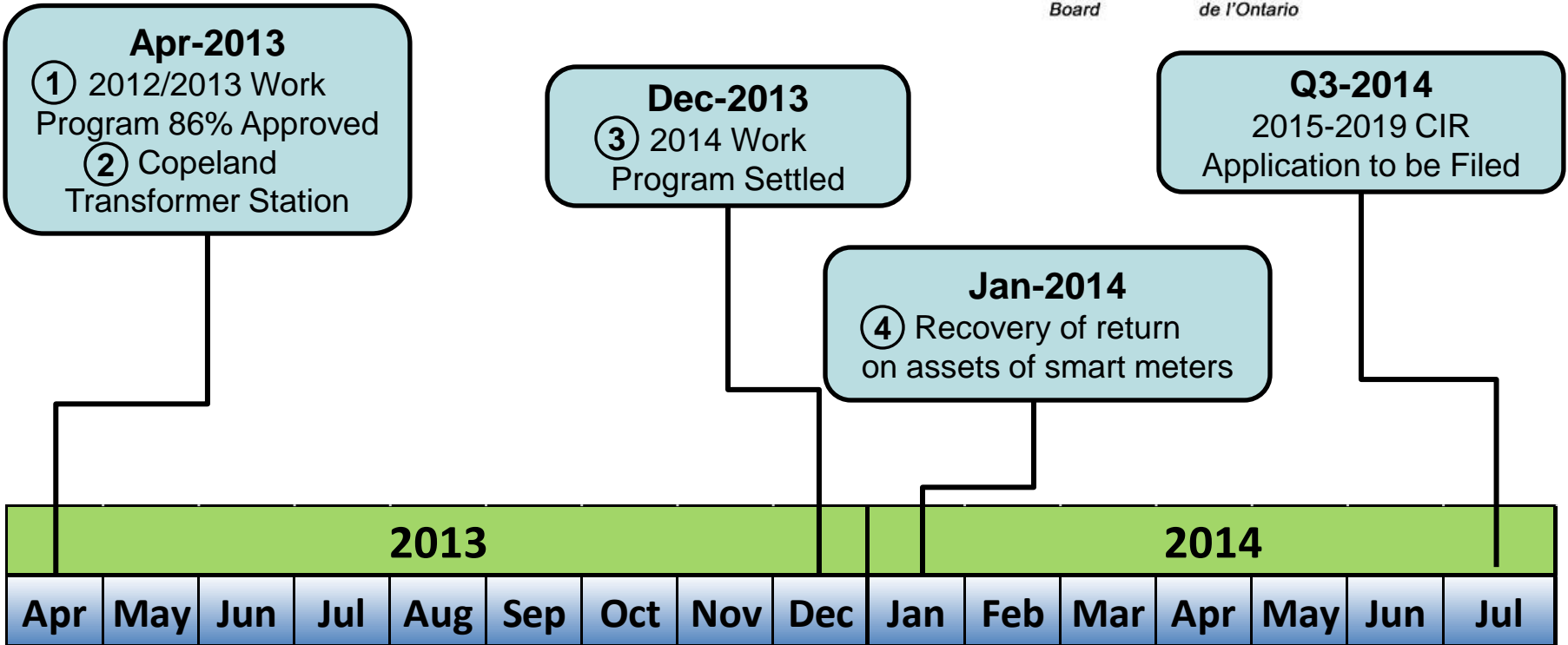
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- **Regulatory Overview**
- Financial Highlights

OEB – Key Dates



Ontario

Ontario Energy Board Commission de l'énergie de l'Ontario



Regulatory Framework

Current

Cost of Service (COS)



3GIRM
IRM/ICM



3GIRM
IRM/ICM

2006-2011

2012-2013

2014

Forward

Custom
Incentive
Regulation

2015 & Beyond



3GIRM: 3rd Generation Incentive Regulation Mechanism | ICM: Incremental Capital Module

CIR Framework

- Custom Incentive Regulation (CIR) is a hybrid between COS and IRM (minimum 5-year term)

Rate setting for term based on a distributor's forecasts, and OEB IR analysis (e.g. productivity and benchmarking)

- CIR is appropriate for:
 - ❑ Distributors with large, broad, multi-year investment needs over a five-year period or more
 - ❑ Distributors who require certainty of funding several years in advance

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Financial Strategy

Our promise

- ✓ Provide a Fair Return To Our Shareholder
- ✓ Continue To Increase Shareholder Value

Only spend OEB
approved CapEx
and OpEx

Fair return to
Shareholder

Maintain
investment grade
credit rating and
access to capital
market

Achieve excellence
in Regulatory
affairs and
processes

2013 Financial Summary

<i>\$ Millions</i>	2012	2013	Variance Better/(Worse)
Net revenues	\$577.3	\$635.3	\$58.0 10.0%
Operating expenses	(\$245.2)	(\$272.0)	(\$26.8) (10.9%)
Net financing charges	(\$74.0)	(\$66.3)	\$7.7 10.4%
Income tax expense	(\$4.6)	(\$4.3)	\$0.3 6.5%
Net income	\$86.0*	\$121.2	\$35.2 40.9%

*2012 Net income includes \$27.8M restructuring costs

Record net income from regulated operations in 2013.



Liquidity






- Toronto Hydro benefits from a strong liquidity position
- On September 6, 2013 Toronto Hydro amended its \$600M credit facility
 - ❑ Extended by an additional year, now maturing in October 2018
- As at December 31, 2013 Toronto Hydro had nearly \$500M in liquidity

\$ Millions	2013	
	<u>Size</u>	<u>Available</u>
Revolving Credit Facility*	600	450
Working Capital Facility	20	1
Prudential Facility	75	25
Total Liquidity	695	476



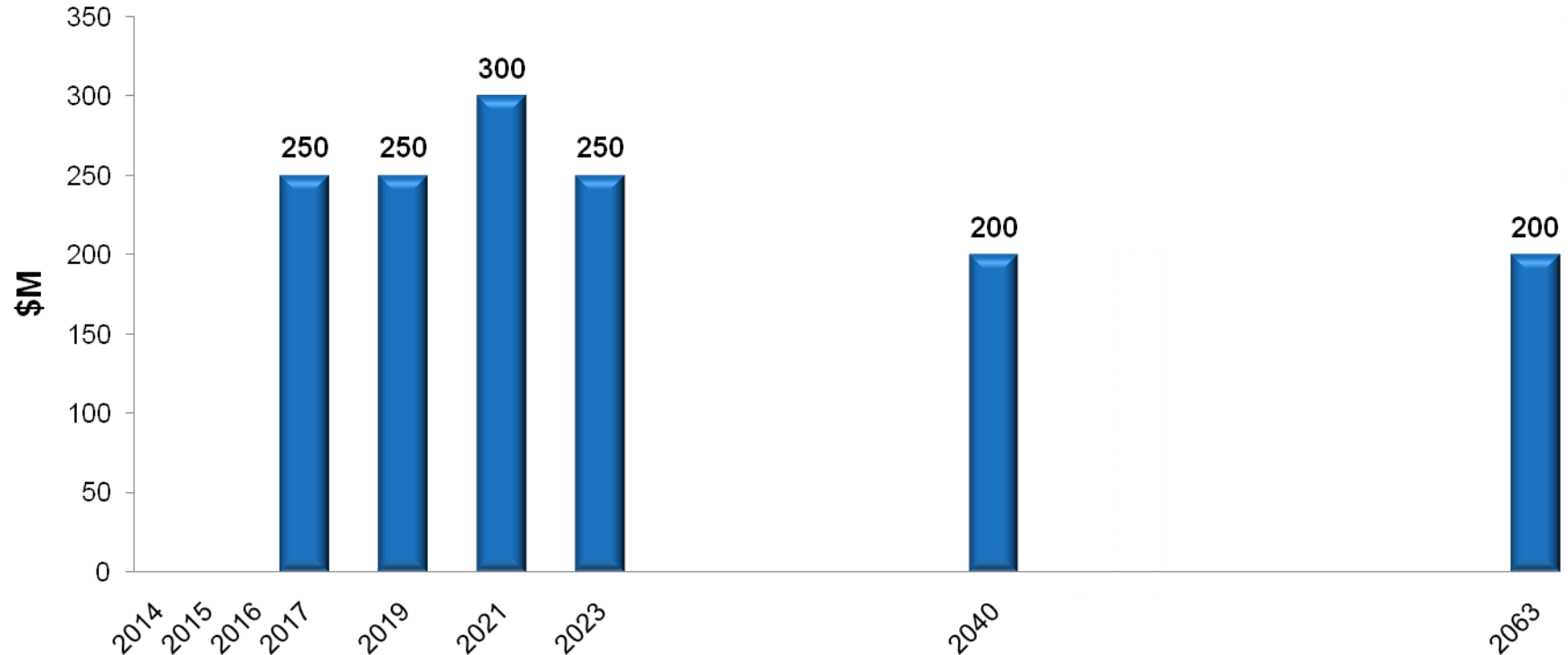
* Current Commercial Paper drawings reduce credit facility availability

Commercial Paper

- Launch Date: December 17, 2013
- Rating: R-1 (low)
- Amount: \$400M
- Dealers:     
- Backstopped by credit facility
- \$150 million outstanding as at December 31, 2013

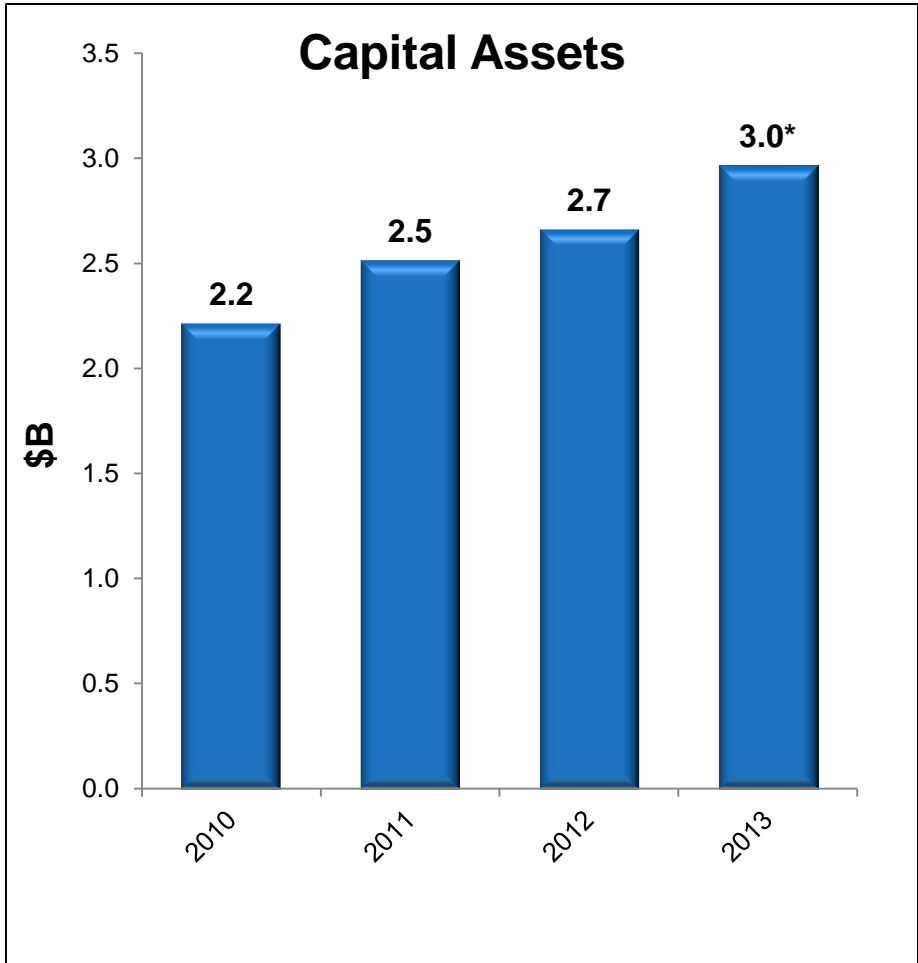
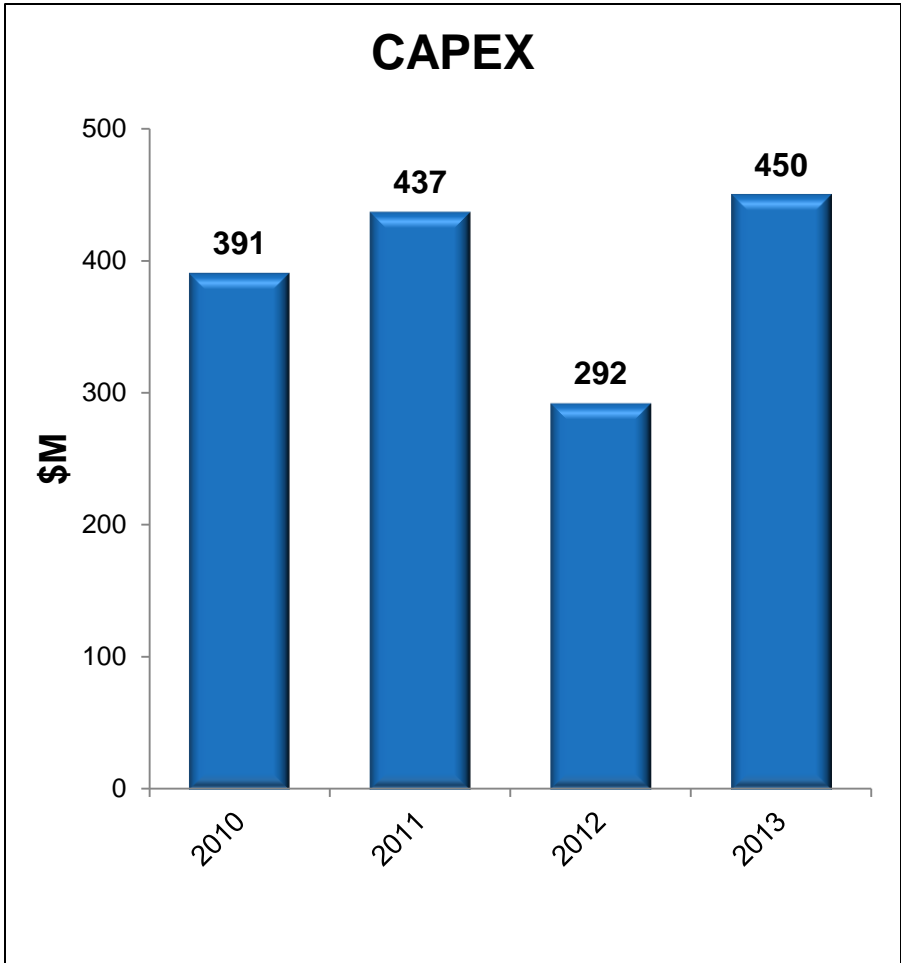


Debt Maturities



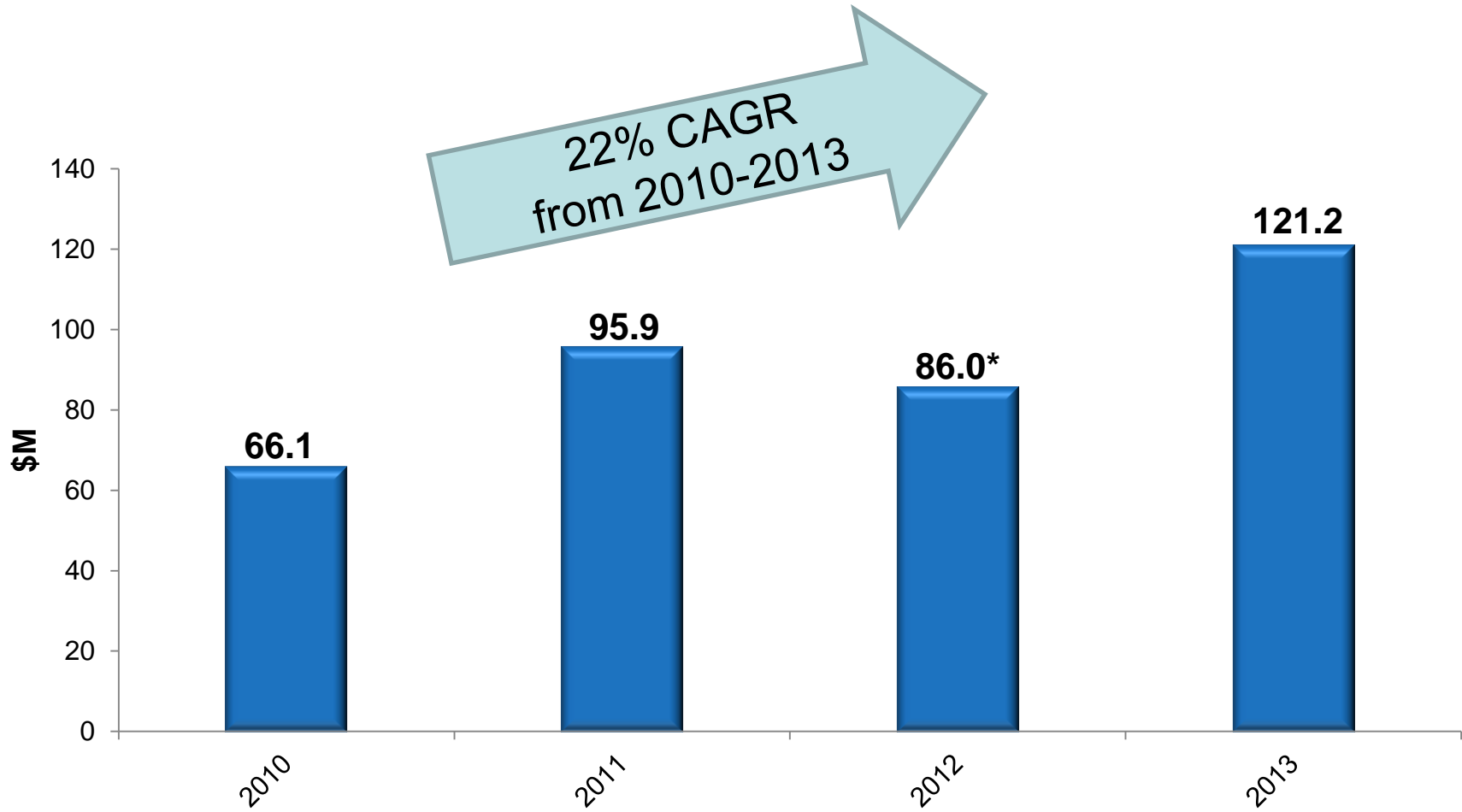
The Corporation's maturities are well staggered, with no debentures maturing before 2017.

Capital Expenditures / Capital Assets



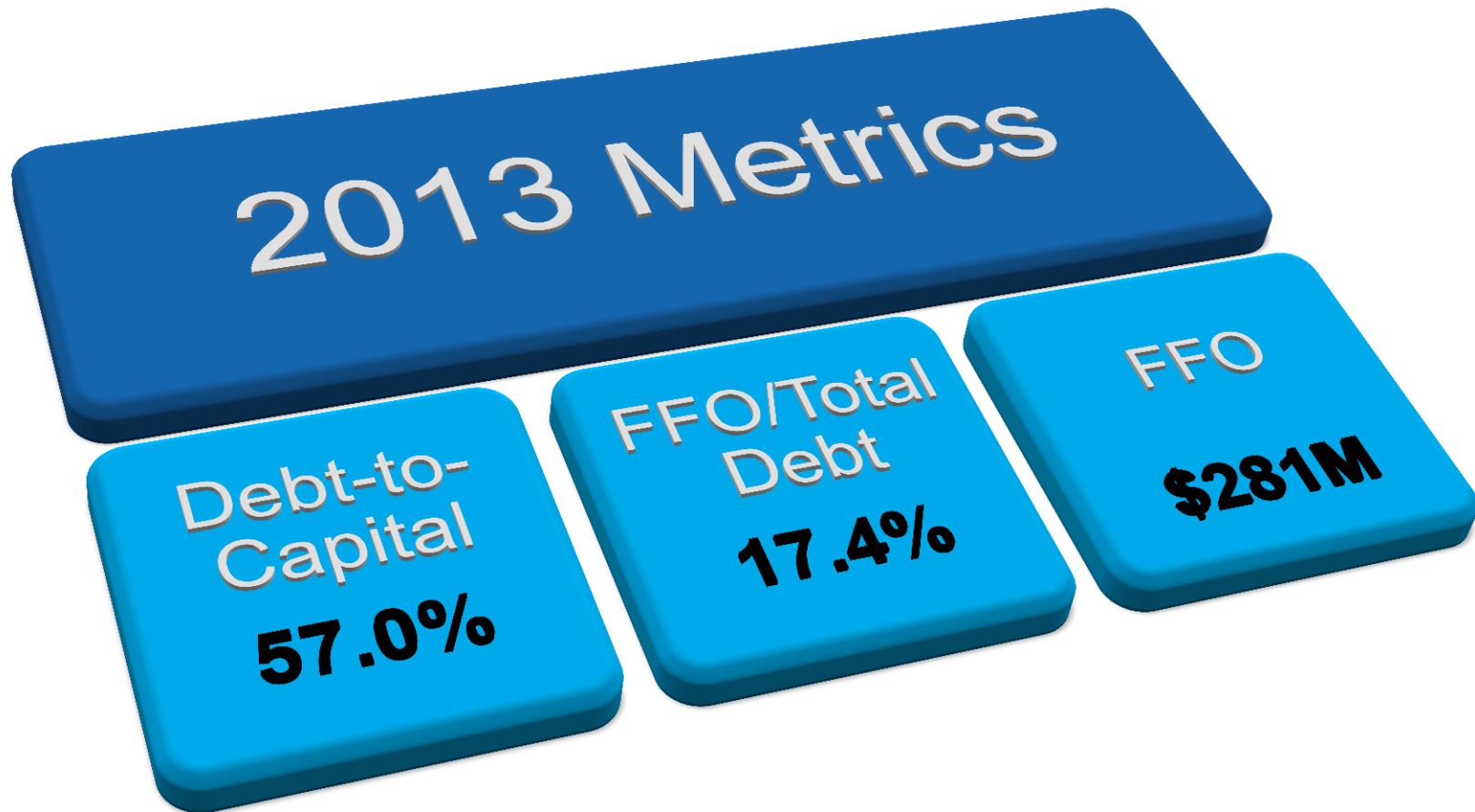
* Note: 2013 includes ICM Capital (integrated as a portion of Regulatory Assets)

Net Income



* Note: 2012 Net income includes \$27.8M restructuring costs

Key Metrics



Accounting Standards

Up to 2011

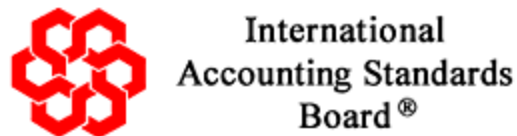
CGAAP

2012-2014

USGAAP

2015+

IFRS



Credit Ratings

S T A N D A R D
& P O O R ' S
R A T I N G S S E R V I C E S



A / stable outlook



A (high) / stable trend

The Shareholder Direction provides that Toronto Hydro will obtain and maintain a rating of A- or higher on its senior debt securities.

Key Takeaways

**COMMITTED TO MAINTAIN
STRONG CREDIT RATING**

FINANCIAL INTEGRITY

OPERATIONALLY STRONG

**LOW RISK PROFILE WITH FOCUS ON
REGULATED UTILITY OPERATIONS**

THANK YOU!



 **TORONTO
HYDRO**
Corporation