OPERATING ENVIRONMENT

Toronto Hydro-Electric System Limited ("Toronto Hydro") is the electricity distributor licensed (ED-2002-0497) by the Ontario Energy Board ("OEB") to serve the City of Toronto. Toronto Hydro is the successor to the six former hydro-electric commissions of the municipalities which amalgamated on January 1, 1998 to form the City of Toronto. For information about Toronto Hydro's Corporate Structure and Governance, please refer to Exhibit 1C, Tab 2.

Toronto Hydro is one of the largest municipal electrical distribution utility in North America and serves the largest city in Canada. In 2017, Toronto Hydro distributed 24.3 terawatt-hours of electricity representing approximately 18 percent of the electricity consumed in the province of Ontario, and served a peak demand of 4,980 megawatts.

Toronto Hydro serves two distinct customer demographic areas: (i) an urban centre in downtown Toronto; and (ii) a suburban area around downtown Toronto, which is often referred to as the Horseshoe. Toronto Hydro has approximately 768,000 customers of various classes, ranging from residential to general service and large use.[1]

The utility's service area includes some of Canada's largest banks, stock exchanges, major manufacturers, and other large customers that are sensitive to service interruptions. In addition, Toronto Hydro supplies electricity to numerous healthcare and long-term care facilities, data centres, schools (including colleges and universities),

[1] Toronto has over 2,900 high-rise multi-residential condominium and apartment building accounts, many of which are "bulk-metered". Taking these bulk-metered multi-residential buildings into account, Toronto Hydro's effective customer count exceeds 1 million customers.

Ontario's Provincial Legislature and Ministries, as well as Toronto's municipal government.

Toronto Hydro's distribution system consists of a mix of overhead, underground, secondary network and stations infrastructure. These systems operate at voltages of 27.6 kV, 13.8 kV, or 4.16 kV, and distribute power through a complex network of approximately 178,800 poles, 60,500 distribution transformers, 17,400 primary switches, 9,100 conductor-kilometres of overhead primary conductors, and 12,700 circuit-kilometres of underground primary cables. This network is composed of assets of varying vintages and types, reflective of the historical standards employed by the six pre-amalgamated utilities.

1. SERVICE TERRITORY

The City of Toronto is bounded by Lake Ontario to the South, Steeles Ave to the North, Mississauga (mainly Highway 427) to the West, and Scarborough/Pickering Townline to the East. A service territory map is filed at Exhibit 1C, Tab 1, Schedule 2.

2. NEIGHBOURING UTILITIES

Toronto Hydro's neighbouring electric distribution utilities are:

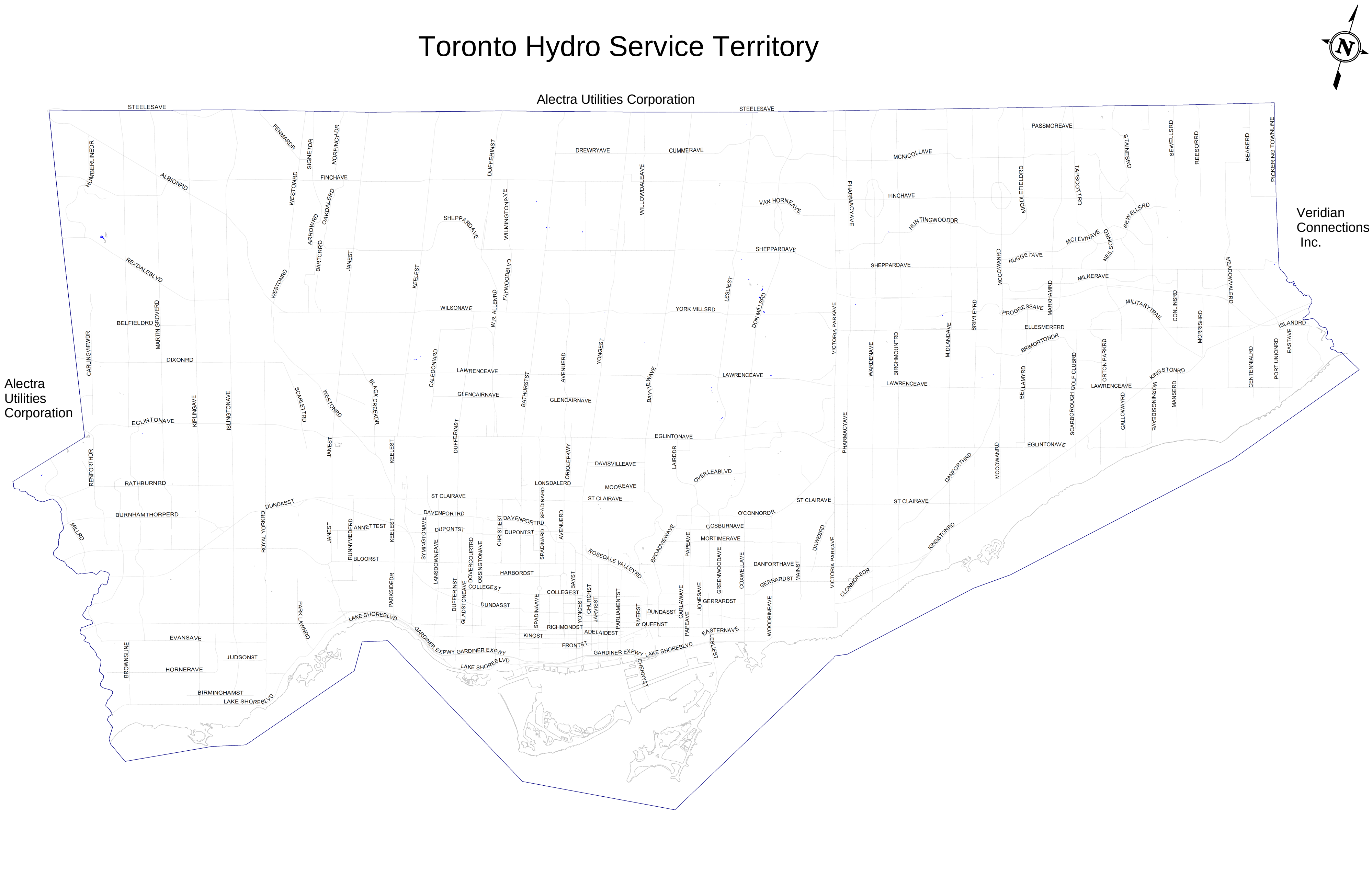
- To the north and west by Alectra Utilities Corp; and
- To the east, Veridian Connections Inc.

Toronto Hydro is not a host utility and there are no embedded utilities in Toronto Hydro's distribution service area.

3. TRANSMISSION ASSETS DEEMED DISTRIBUTION ASSETS

Toronto Hydro owns two transmission system terminal stations (one operational, one under construction) that have been deemed distribution assets, namely Cavanagh TS and Copeland TS, respectively. Toronto Hydro is not proposing any additional assets to be deemed as distribution assets as part of this application.

Toronto Hydro Service Territory



CORPORATE STRUCTURE AND GOVERNANCE

In accordance with s. 2.1.4 of the OEB's Filing Requirements, this schedule provides information about Toronto Hydro's organizational structure and corporate governance framework.[1]

1. CORPORATE STRUCTURE

1.1 Corporate Structure and Governance

Toronto Hydro Corporation ("THC") is a holding company, the sole shareholder of which is the City of Toronto, which wholly owns two subsidiaries (see Figure 1, below): Toronto Hydro-Electric System Limited, a local distribution company ("LDC") which distributes electricity and engages in conservation and demand management ("CDM") activities; and Toronto Hydro Energy Services Inc. ("TH Energy"), a company which provides street lighting and expressway lighting services in the City of Toronto (together, THC and its subsidiaries are hereby referred to as the "Company").

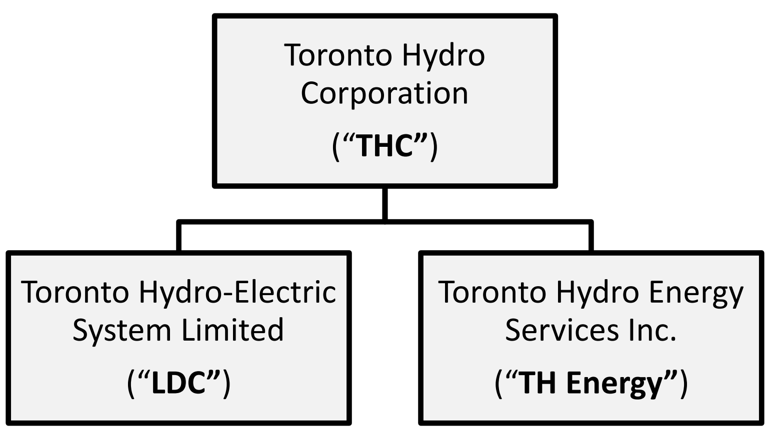


Figure 1: Toronto Hydro Corporate Organization Chart

[1] Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications, Chapter 2 (July 12, 2018).

Each of THC and its subsidiary entities have a Board of Directors, which is responsible for providing strategic guidance to management and supervising the business and affairs of their respective organizational segments. However, elements of the governance of the Company as a whole are undertaken at the THC level with its Board, and its standing committees each of which include representation from the LDC directors who are independent of THC. The THC Board has specific responsibility for approving the overall business strategy and related business plan of the Company which takes into account, among other things, the opportunities and risks of the businesses of the subsidiary entities, and approving the financing strategy.

As THC has no substantive business beyond the regulated activities of LDC, having elements of the corporate governance of LDC provided at the parent company level accomplishes the same objective as having corporate governance solely at the LDC level. Additionally, the LDC Board retains adequate scope for the exercise of independent judgment within the overall framework of good corporate governance of the Company. The LDC Board oversees the operations of the utility and its regulatory and public policy activities, asset planning, customer relations functions, retains decision-making authority related to approval of any dividends by the LDC, and approves its financial statements. The LDC Board also reviews and approves, in a manner consistent with the overall business plan and budget approved by the THC Board, significant corporate plans and initiatives, major acquisitions and dispositions and other significant matters of corporate strategy or policy.

This multi-layered corporate structure allows for matters of material importance to be dealt with at the most appropriate organizational level. A corporate entities relationship chart, showing the extent to which THC is represented on the LDC's Board of Directors, is shown in Figure 2 below.

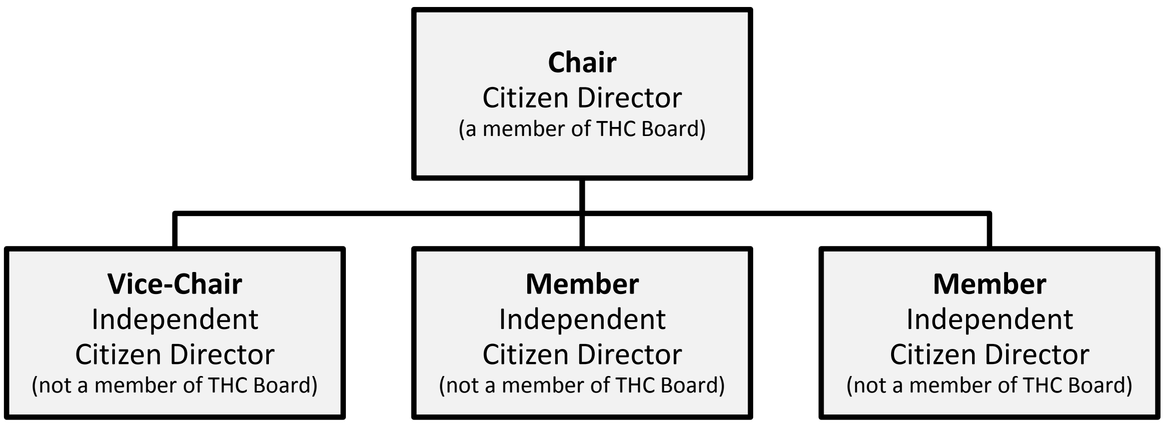


Figure 2: Toronto Hydro Corporate Entities Relationship Chart

1.2 Executive Team

THC's executive team is comprised of the Executive Vice-President and Chief Financial Officer ("CFO") and Executive Vice-President Regulatory Affairs and General Counsel, both of whom are accountable to the President and Chief Executive Officer ("CEO") of THC. The CEO of THC is also the President and CEO of the LDC and of TH Energy.

The LDC's executive management team consists of the following positions that are overseen directly by the CEO:

- Executive Vice-President and Chief Financial Officer, who is also an executive member of THC and of TH Energy;
- Executive Vice-President, Utility Innovation and Chief Conservation Officer;
- Executive Vice-President and Chief Engineering and Construction Officer;

- Executive Vice-President and Chief Customer Care, Electric Operations and Procurement Officer;
- Executive Vice-President and Chief Information Officer;
- Executive Vice-President and Chief Human Resources and Safety Officer; and
- Executive Vice-President, Regulatory Affairs and General Counsel, who is also an executive officer of THC and of TH Energy.

2. CORPORATE GOVERNANCE

2.1 Securities Law Requirements

THC is a reporting issuer in each province of Canada and issues debentures pursuant to a short form base shelf prospectus (dated May 8, 2017). For purposes of Canadian securities regulations, THC is a "venture issuer" (i.e. a reporting issuer that does not have any of its securities listed or quoted on the TSX or other marketplace specified under the Canadian Securities Administrators' National Instrument 51-102 *Continuous Disclosure Obligations*), and must comply with certain corporate governance and public disclosure requirements under applicable securities legislation. These requirements make the Company's operations, finances and governance practices, on a consolidated basis, subject to scrutiny from the Ontario Securities Commission ("OSC"), the investor marketplace and the broader public in a way not applicable to other privately-owned companies.

THC fulfills its securities law corporate governance and disclosure obligations, and in some cases, where in its best interests, even higher standards of governance. As a venture issuer, THC is exempt from the requirements of Part 3 of National Instrument 52-110 – *Audit Committees*, which mandates the composition of an issuer's audit committee. Nonetheless, THC's audit committee meets all of the mandated requirements: it is composed of a minimum of three directors, and every audit committee voting member is a director of THC, is independent, and is financially literate. In addition, the audit committee includes representation from at least one LDC director who is independent of THC.

THC has filed an Annual Information Form ("AIF") in respect of each of the financial years ended December 31, 2004 through December 31, 2017, in accordance with National Instrument 51-102 - Continuous Disclosure Obligations. THC's AIF discloses material information about THC and its business to the public, including information about operations, prospects, risks, and other factors that impact the business of the Company as a whole. A copy of THC's 2017 AIF is filed at Exhibit 1C, Tab 3, Schedule 6.

In addition, to comply with National Instrument 58-101 - *Disclosure of Corporate Governance Practices*, THC provides extensive corporate governance disclosure in its AIF and annual Management Discussion and Analysis ("MD&A"). Such disclosure includes, amongst others, details about the following:

1) How the Board of Directors facilitates its exercise of independent supervision over management, including the identity and independence of its directors, and whether its directors are directors of any other reporting issuers and their identity;
2) Board of Directors written mandate or a description of how the board delineates its roles and responsibilities;
3) Written descriptions for the chair of the Board of Directors, the chair of each board committee and the CEO;
4) Board of Directors orientation and continuing education;

5) The promotion of a culture of ethical business conduct, including adoption of a written code for the directors, officers and employees;
6) The process for nominating new directors;
7) The process of determining CEO and director compensation;
8) Standing committees and their functions;
9) How the Board of Directors assesses whether it is performing effectively; and
10) Director term limits and other mechanisms of board renewal.

THC also provides disclosure in its AIF on the make-up of the Board of Directors (including percentage of female directors) and attendance of directors at the Board of Director and Committee meetings. The enhanced level of disclosure, in particular with respect to governance practices, required under securities legislation increases the transparency of the Company's operations and affairs, and facilitates effective monitoring of management by the Board and stakeholders.

As a financial oversight measure, and to comply with certification requirements in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, all of THC's interim consolidated financial statements (i.e. including LDC's financial results), interim Management Discussion and Analysis (MD&A), AIFs, annual financial statements and annual MD&As are certified by the CEO and CFO. The CEO and CFO certify that the filings do not contain any misrepresentations and fairly present the financial condition, results of operations and cash flows of THC as of the date of and for the periods presented in the filings. The certification process is one example of the Company's system of internal checks and balances that fosters a culture of accountability amongst senior management. THC and LDC also maintain a significant system of internal financial controls which are subject to internal and external audit to ensure that these certifications are accurate.

2.2 Shareholder Direction

As the sole shareholder of THC, the City of Toronto (the "Shareholder" or the "City") has adopted a Shareholder Direction which establishes, amongst other things, the following objectives and fundamental principles that govern the operations of the Company:

1) To operate the Company on an efficient and commercially prudent basis;
2) To optimize the Shareholder's return on equity and operate the Company with a view to meeting the financial performance objectives of the Shareholder as set out in the Shareholder Direction;
3) To provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the City;
4) To operate the Company in an environmentally responsible manner consistent with the City's energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;
5) To ensure that the business is managed in material compliance with all law; and
6) To engage in recruitment and procurement practices designed to attract employees and suppliers from the City's diverse community.

The Shareholder Direction recognizes the central role of the Board of Directors under law, and does not operate as a unanimous shareholder declaration under the Ontario *Business Corporations Act* ("OBCA"). Though it reiterates the items for which shareholder approval is required under the OBCA as well as restricting some financial activities of THC, it emphasizes that the Board of Directors is responsible for determining and implementing the appropriate balance among the objectives and fundamental principles specified in the Shareholder Direction. Ultimately, the City requires THC to operate on a commercially prudent and profitable basis in compliance with law, and expects the Board of Directors to provide stewardship and independently oversee management and operations in accordance with best corporate governance practices.

THC's economic relationship with the City of Toronto is governed principally by a dividend policy (the "Dividend Policy"), contained within the Shareholder Direction. The Dividend Policy sets an expectation, but does not create a legal requirement for the Board of Directors of THC to declare dividends. The LDC and THC Board of Directors keep a detailed record of the processes surrounding decisions relating to dividends paid by the respective corporation. In that regard, dividend checklists for each of the THC Board of Directors and the LDC Board of Directors have been developed (the "Dividend Checklists"). The Dividend Checklists specify that, before declaring a dividend, the directors must ensure that the applicable corporation meets statutory solvency and capital impairment tests.

At all times, Directors are required to exercise their discretion honestly and in good faith with a view to the best interests of the relevant corporation (fiduciary duty) and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances (duty of care). When considering the best interests of the relevant corporation, directors are required to take into account the interests of various stakeholders, including shareholders, ratepayers, employees, and creditors. In the case of dividends paid by the LDC, Directors are obligated to balance the interests of the utility's shareholders against those of its ratepayers.

2.3 Board of Directors

THC's Board of Directors members are appointed by THC's sole shareholder, the City of Toronto. No members of management sit on the THC Board. Of the eleven directors currently on the THC Board of Directors, three are Councillors of the City (including one director who is the Mayor of the City or a member of City Council whom the Mayor recommends as his or her designate and who is appointed by City Council), and are not considered independent because of their positions. Eight of the eleven directors are not elected officials or employees of the City, and have no direct or indirect material relationship with THC and are independent within the meaning of applicable Canadian securities law. The Chair of the THC Board is an independent citizen director. As at December 31, 2017, female directors constituted 36.4 percent (four of eleven) of the members of the THC Board of Directors.

No members of management sit on the LDC Board of Directors. A majority of directors are independent, i.e. they are not elected officials or employees of the City or members of any affiliate of the LDC. Currently, one of the directors on the LDC Board of Directors is a citizen director who is also a member of the Board of Directors of THC.

2.3.1 Nomination of Directors

Pursuant to the Shareholder Direction, the City appoints directors who collectively represent a range of expertise including:

1) Experience on a public utility commission or board of a major corporation or other commercial enterprise;
2) Experience or knowledge with respect to:
    a) Corporate finance;
    b) Corporate governance;

c) Market development;
d) Large system operation and management;
e) Urban energy industries;
f) Public policy issues and the law relating to the Company and the electricity industry;
g) Environmental matters;
h) Labour relations;
i) Occupational health and safety issues;

3) Commercial sensitivity and acumen;
4) Independence of judgment;
5) Personal integrity; and
6) At least three directors with financial management expertise.

The Corporate Governance and Nominating Committee of the THC Board of Directors reviews a skills matrix for evaluation of all potential THC and LDC Board of Directors members. In the case of appointment of THC Directors, the matrix is provided to the City by the THC Board. The matrix's design reflects best practices for requirements for directors as recommended by the Institute of Corporate Directors.

THC appoints the LDC's Board of Directors from among the directors of THC and independent residents of Toronto who are not elected officials or employees of the City or any of its agencies or corporations. The Corporate Governance and Nominating Committee nominates independent candidates for appointment to the LDC Board of Directors for approval by the THC Board of Directors as required by the Affiliate Relationships Code, utilizing the board skills and competencies matrix developed by the Committee as well as expert external recruitment services. This ensures that the directors have a mix of competencies and skills necessary to enable LDC's Board of Directors to properly discharge their responsibilities. Pursuant to the LDC's Board of Directors Mandate, the LDC Board of Directors is required to give due regard to the qualifications of the candidates including:

1) Experience on a public utility commission or board of a major corporation or other commercial enterprise and/or the completion of formal training in directorship / governance;
2) Experience in regulated electricity utility sector at a senior management level;
3) Experience at an executive level in resource and performance management / compensation, including ability to appoint and evaluate the performance of the CEO and senior executives; oversee strategic human resource management, including workforce planning, compensation models, and labour relations; and oversee large scale organizational change;
4) Educational background, including university degrees and professional designations;
5) Experience or knowledge with respect to:
    a) Strategic planning, including ability to identify and critically assess strategic opportunities and threats to the organization;
    b) Risk management, including ability to assess key risks to the organization on an enterprise basis and monitor the risk management framework systems;
    c) Corporate finance / accounting / audit / securities, including ability to analyze financial statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements;
    d) Corporate governance;

e) Market development, innovation and development of new strategic business lines;
f) Large system operation and management;
g) Urban energy industries;
h) Public policy issues and laws relating to the Corporation and its subsidiary entities and the electricity industry;
i) Environmental matters, including experience in environmental management;
j) Labour relations;
k) Occupational health and safety issues;
l) Information technology governance, including privacy, data management and security;
m) Legal and regulatory compliance, including ability to monitor compliance of legal and regulatory requirements;
n) Stakeholder engagement / advocacy / communications, including ability to effectively engage and communicate to industry stakeholders and advocate on behalf of the organization;

6) The following interpersonal skills and attributes:
a) Leadership, including ability to make, and take responsibility for, decisions and take necessary actions in the best interest of the organization, set appropriate Board and organizational culture and represent the organization favourably;
b) Personal integrity / ethics, including understanding and fulfilling the duties and responsibilities of a director, being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining Board confidentiality;

c) Communications skills, including ability to listen constructively and appropriately debate others' viewpoints, develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders;
d) Constructive questioning, including preparedness to ask questions and challenge management and peer directors in a constructive and appropriate manner;
e) Critical and innovative thinking/decision making, including ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems;
f) Influencing and negotiating, including ability to negotiate outcomes and influence others to agree with those outcomes and gain stakeholder support for the Board's decisions;
g) Crisis management, including ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders;
h) Individual and team contribution, including ability to work as part of a team, and demonstrate the passion and time to make a genuine and active contribution to the Board and the organization;
i) Commercial sensitivity and acumen; and
j) Independence of judgement

7) At least one director with financial management expertise.

2.3.2 Exercise of Independent Judgment

No members of management sit on the Boards of THC or LDC. The Board of Directors for each of THC and LDC has a number of practices and policies in place to facilitate its ability to act independently of senior management and to ensure that its behaviour and decision-making processes are objective, responsible, and effective.

- **In Camera Board Meetings:** Each of the Boards of Directors meets regularly in the absence of management to discuss the management of the Company. A portion of each Board and Board committee meeting is reserved for Directors to meet without management present.
- **Board of Directors Mandates:** Each the THC and LDC Board of Directors has adopted a written mandate providing clear direction on the appropriate expectations and standards to be met by Directors, including with respect to independence. For example, the mandates specifically require the Directors, in undertaking their responsibilities and overseeing and authorizing the activities of the Company, to consider the interests of its customers as well as considering and balancing the interests of such other stakeholders as appropriate in the circumstances.
- **Outside Advisors:** Under their respective mandates, each of the Board of Directors of THC and LDC is authorized to retain independent legal counsel and other outside advisors if it considers this appropriate. Each of the LDC and THC Boards also has unrestricted access to the officers of the Company and are authorized to invite officers and employees of the Company and others to attend or participate in its meetings and proceedings if it considers this appropriate.
- **Internal Audit Function***:* The internal audit department provides independent, objective assurance and consulting services to evaluate and improve the effectiveness of the Company's risk management, internal control procedures and governance processes. The internal audit department's work is overseen by the Audit Committee of the Board of Directors of THC. To facilitate independence, the Vice President, Audit and Corporate Compliance of LDC has

unrestricted access to any member of the Board of Directors, as required. The Vice President, Audit and Corporate Compliance meets independently with the members of the Audit Committee on a regular basis and has a reporting relationship to the Chair of the Audit Committee.

- **Corporate Governance and Nominating Committee***:* The Corporate Governance and Nominating Committee facilitates the periodic assessment of the performance of the Board of Directors of THC, LDC and Board committees and reports the results of that assessment to the Boards.
- **Position Descriptions***:* A written position description has been developed for the Chair of each of the THC and LDC Boards which provides direction in the undertaking of these roles. In each case, the Chair is responsible for reporting to the Board, leading the directors and managing the day-to-day activities of the Board. The Chair is also responsible for engaging in discussions with the shareholder and its representatives as are necessary and desirable, maintaining an active and cooperative relationship with the affiliate Boards, the CEO and other senior management, acting as the principal interface between the Board and the CEO, and providing advice and counsel to the CEO and other senior management. The THC Board has also developed written position descriptions for the chair of each of the standing committees and the CEO.

2.3.3 Board of Directors Mandate

THC and LDC Board of Directors have adopted a written mandate which is reviewed periodically and revised as required.

2.3.4 Orientation and Continuing Education

Upon joining the Board of Directors of THC and/or LDC, each new director is given an orientation session with a comprehensive set of materials designed to provide him/her with a summary of the key organizational, financial, regulatory, reporting, planning and operational aspects of the Company. Orientation also engages Directors of THC and/or LDC with organizational representatives in these key areas and a key executive is appointed for ongoing responsibility with each Board and standing Committee. Directors have access to a variety of internal and external resources on topics related to THC's and LDC's businesses, as well as relating to the responsibilities of directors such as fiduciary obligations, issues of confidentiality and privilege, and public disclosure and whistleblowing requirements. Directors also have the opportunity to attend continuing education programs run by external or internal service providers such as the Institute of Corporate Directors.

2.3.5 Ethical Business Conduct

All employees, officers and directors of THC and LDC are required to comply with the principles set out in the written Code of Business Conduct and Whistleblower Procedure (the "Code"). The Code was implemented in 2004, and is periodically reviewed and re-approved by the Board of Directors of THC. The Code of Business Conduct is included in new directors' orientation materials and each director completes training connected therewith and signs an acknowledgement that he or she will comply with the Code.

2.3.6 Board Committees

THC's Board of Directors has established three standing committees to assist the THC and LDC Boards in fulfilling their responsibilities: the Audit Committee, the Corporate Governance and Nominating Committee, and the Human Resources and Environment

Committee. The standing committees are each composed of at least three directors of THC. In addition, each standing committee includes representation from at least one director of the LDC who is not also a director of THC. This ensures independent exercise of oversight by the LDC over all utility functions while allowing effective and efficient governance to be maintained for the Toronto Hydro organization as a whole.

Each committee has a written charter that establishes the committee's purpose, composition and responsibilities.

- **Audit Committee:** oversees the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures and financial risk management systems. Among other things, the Audit Committee reviews THC's and LDC's quarterly and annual financial statements (as well as financial statements prepared in connection with securities offerings or required by applicable regulatory authorities), reviews the audit plans of the external auditors, and oversees the internal audit of THC and LDC. All of the voting members of the Audit Committee are independent and financially literate in accordance with sections 1.4 and 3.1 of National Instrument 52-110 on Audit Committees. Of note, the committee includes at least one representative from the LDC who is not also a director of THC.
- **Corporate Governance and Nominating Committee:** advises the THC and LDC Boards of Directors with respect to matters relating to the corporate governance of the Company, including Board and committee composition and mandates, facilitates the periodic assessment of the performance and effectiveness of the THC and LDC Boards and the standing Board committees, and advises the boards on procedures to ensure that the THC and LDC Boards of Directors function independently from management. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the LDC

Board of Directors for approval by the THC's Board of Directors. The Corporate Governance and Nominating Committee also reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The majority of members of the Corporate Governance and Nominating Committee are independent citizen directors who are not elected officials or employees of the City. Of note, the committee includes at least one representative from the LDC who is not also a director of THC.

- **Human Resources and Environment Committee:** assists the THC Board of Directors and the LDC Board of Directors with the recruitment, assessment and compensation of the CEO, oversees succession planning, reviews and approves the compensation of the executive officers, oversees executive compensation disclosure under applicable securities laws, and advises the boards of directors regarding the compensation structure, benefit plans and programs of the Company. The Human Resources and Environment Committee is also responsible for reviewing and approving the parameters of collective bargaining negotiations, the oversight of health and safety related functions, oversight of human resources related matters and the oversight of environmental related matters and processes of the Company. The majority of members of the Human Resources and Environment Committee are independent citizen directors who are not elected officials or employees of the City. Of note, the committee includes at least one representative from the LDC who is not also a director of THC.

FINANCIAL INFORMATION OVERVIEW

In accordance with section 2.1.9 of the OEB's Filing Requirements,[1] Exhibit 1C, Tab 4 provides the following financial information:

- Accounting Standards (Schedule 2);
- Toronto Hydro's Audited Financial Statements for 2015, 2016 and 2017 (Schedule 3);
- Reconciliation of the financial results shown in the Audited Financial Statements with regulatory financial results for 2015, 2016 and 2017 (Schedule 4);
- Toronto Hydro Corporation's Management's Discussion & Analysis for 2017 (Schedule 5);
- Toronto Hydro Corporation's Annual Information Form for 2017 (Schedule 6);
- Public Offering Information (Schedule 7);
- Rating Agency Reports (Schedule 8);
- Existing Accounting Orders and Departures from the Uniform System of Accounts ("USoA") (Schedule 9); and
- Toronto Hydro's Annual Report for 2017 (Schedule 10).

Toronto Hydro adopted and applied three new accounting standards, effective January 1, 2018 as required by the International Accounting Standards Board. These include International Financial Reporting Standard ("IFRS") 9 *Financial Instruments* ("IFRS 9"), IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), and IFRS 16 *Leases* ("IFRS 16").

[1] Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications – Chapter 2 (July 12, 2018).

1. IFRS 9

IFRS 9 introduces some new classification and measurement categories for financial assets, which impacts the measurement basis of the financial assets. The changes do not have a significant impact on the measurement of Toronto Hydro's financial instruments. IFRS 9 also introduces impairment rules that dictate the allowance for doubtful accounts should be measured at an amount equal to the lifetime expected credit losses for accounts receivable and unbilled revenue rather than the previous incurred loss model. The new impairment model also includes qualitative information regarding its assessment including forward-looking information. The adoption of IFRS 9 led to a $0.3 million decrease to opening retained earnings. There is no impact to revenue requirement.

2. IFRS 15

IFRS 15 introduces a five-step model that applies to customer contracts and contains new rules on the timing and measurement of revenue recognition. Revenue is recognized at a point in time or over time depending on when control of goods or services has been transferred to the customer. Upon adoption of IFRS 15, the only difference was a reclassification between Energy Sales and Energy Purchases. There is no impact to revenue requirement.

3. IFRS 16

IFRS 16 eliminates the previous concepts of operating and finance leases and requires all contracts meeting the definition of a lease to be recognized on the balance sheet as a right-of-use asset and lease liability, with the exception of short-term leases and low-value leases.

Previously the assets related to finance leases were recognized as part of rate base. Given the adoption of IFRS 16, Toronto Hydro is proposes to continue to recognize the right-of-use assets related to leases as part of rate base. Upon the adoption of IFRS 16 on January 1, 2018, Toronto Hydro recognized $1.6 million as right-of-use assets and $1.6 million as lease liabilities for property leases.

ACCOUNTING STANDARDS

Toronto Hydro adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes in the year beginning on January 1, 2015, and the utility continues the apply these standards through the bridge and test years. The Audited Financial Statements provided in Exhibit 1C, Tab 3, Schedule 3 have been prepared in accordance with IFRS.

The OEB Accounting Procedures Handbook ("APH") directs distributors to use Modified IFRS ("MIFRS") for regulatory purposes. Toronto Hydro adopted MIFRS for regulatory purposes in the year beginning on January 1, 2015. This application represents Toronto Hydro's second rebasing application under MIFRS.

Toronto Hydro confirms that it has segregated the accounting of all its non-rate regulated business activities from rate regulated activities. Also, there have been no changes to Toronto Hydro's capitalization policy (Exhibit 2A, Tab 5, Schedule 1) and depreciation and amortization practices (Exhibit 4B, Tab 1, Schedule 1) since the last rebasing application.

AUDITED FINANCIAL STATEMENTS

In accordance with s. 2.1.9 of the OEB's Filing Requirements,[1] this schedule provides Toronto Hydro-Electric System Limited's Audited Financial Statements, as follows:

- Appendix A: 2015 Audited Financial Statements
- Appendix B: 2016 Audited Financial Statements
- Appendix C: 2017 Audited Financial Statements

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (July 12, 2018).

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2015 and 2014

See attached Glossary for abbreviations used in the audited financial statements.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro-Electric System Limited

We have audited the accompanying financial statements of Toronto Hydro-Electric System Limited, which comprise the balance sheets as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Hydro-Electric System Limited as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 2, 2016
Toronto, Canada

Toronto Hydro-Electric System Limited

BALANCE SHEETS

[in millions of Canadian dollars]

	As at December 31, 2015 $	As at December 31, 2014 $	As at January 1, 2014 $
		[note 26]	*[note 26]*
ASSETS			
Current			
Cash and cash equivalents	**-**	84.7	15.7
Accounts receivable *[notes 5 and 15[b]]*	**190.0**	205.7	198.9
Unbilled revenue *[note 15[b]]*	**319.5**	306.6	326.1
Income tax receivable	**9.0**	0.2	0.3
Materials and supplies	**9.8**	8.6	8.6
Other assets *[note 6]*	**9.9**	9.9	8.8
Assets held for sale	**-**	4.0	-
Total current assets	**538.2**	619.7	558.4
Property, plant and equipment *[note 7]*	**3,561.9**	3,224.5	2,820.8
Intangible assets *[note 8]*	**199.3**	198.7	171.5
Deferred tax assets *[note 21]*	**114.3**	143.1	132.1
Other assets *[note 6]*	**1.2**	1.2	0.9
Total assets	**4,414.9**	4,187.2	3,683.7
Regulatory balances *[note 9]*	**241.7**	197.1	88.3
Total assets and regulatory balances	**4,656.6**	4,384.3	3,772.0
LIABILITIES AND EQUITY			
Current			
Bank indebtedness	**188.9**	-	-
Advance from related party *[note 23]*	**-**	308.0	150.0
Accounts payable and accrued liabilities *[note 10]*	**471.6**	512.1	426.5
Customer deposits	**37.5**	38.5	37.3
Deferred revenue *[note 11]*	**3.7**	2.2	-
Deferred conservation credit *[note 3[b]]*	**17.9**	-	20.0
Other liabilities *[note 24]*	**3.2**	2.6	2.1
Notes payable to related party *[notes 12 and 23]*	**60.0**	60.0	60.0
Total current liabilities	**782.8**	923.4	695.9
Notes payable to related party *[notes 12 and 23]*	**1,876.0**	1,632.2	1,433.2
Customer deposits	**9.9**	4.7	7.4
Deferred revenue *[note 11]*	**100.3**	71.4	45.7
Post-employment benefits *[note 13]*	**296.5**	287.4	236.0
Other liabilities *[note 24]*	**4.9**	8.0	14.5
Total liabilities	**3,070.4**	2,927.1	2,432.7
Commitments, contingencies and subsequent events *[notes 2, 24 and 25]*			
Equity			
Share capital *[note 17]*	**556.3**	556.3	556.3
Retained earnings	**845.5**	715.1	605.2
Contributed surplus	**12.8**	12.8	12.8
Total equity	**1,414.6**	1,284.2	1,174.3
Total liabilities and equity	**4,485.0**	4,211.3	3,607.0
Regulatory balances *[note 9]*	**171.6**	173.0	165.0
Total liabilities, equity and regulatory balances	**4,656.6**	4,384.3	3,772.0

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	**2015** **$**	2014 **$**
		[note 26]
Revenues		
Energy sales	**2,925.6**	2,655.0
Distribution revenue	**555.4**	555.1
Other *[note 18]*	**48.3**	51.7
	3,529.3	3,261.8
Expenses		
Energy purchases	**2,898.5**	2,700.4
Operating expenses *[note 19]*	**259.0**	258.1
Depreciation and amortization *[notes 7 and 8]*	**192.8**	183.5
	3,350.3	3,142.0
Finance costs *[note 20]*	**73.2**	64.4
Gain on disposals of property, plant and equipment	**10.1**	1.5
Income before income taxes	**115.9**	56.9
Income tax expense *[note 21]*	**31.5**	13.9
Net income	**84.4**	43.0
Net movements in regulatory balances, net of tax *[note 9]*	**46.0**	66.9
Net income after net movements in regulatory balances	**130.4**	109.9

STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	**2015** **$**	2014 **$**
		[note 26]
Net income after net movements in regulatory balances	**130.4**	109.9
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax (2015 - $nil, 2014 - $12.2) *[note 13]*	-	(33.9)
Net movements in regulatory balances related to OCI, net of tax (2015 - $nil, 2014 - $12.2) *[note 9]*	-	33.9
Other comprehensive income, net of tax	**-**	-
Total comprehensive income	**130.4**	109.9

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	**2015** **$**	2014 **$**
		[note 26]
Share capital ***[note 17]***	**556.3**	556.3
Retained earnings, beginning of year	**715.1**	605.2
Net income after net movements in regulatory balances	**130.4**	109.9
Retained earnings, end of year	**845.5**	715.1
Contributed surplus	**12.8**	12.8
Total equity	**1,414.6**	1,284.2

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	**2015 $**	2014 $ *[note 26]*
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	**130.4**	109.9
Adjustments		
Depreciation and amortization *[notes 7 and 8]*	**192.8**	183.5
Amortization of deferred revenue *[note 11]*	**(2.2)**	(0.7)
Finance costs	**73.2**	64.4
Income tax expense	**31.5**	13.9
Post-employment benefits	**9.1**	5.3
Gain on disposals of property, plant and equipment	**(10.1)**	(1.5)
Other	**0.7**	(1.8)
Capital contributions received *[note 11]*	**33.0**	28.2
Net change in other non-current assets and liabilities	**(0.6)**	(6.9)
Increase (decrease) in customer deposits	**4.2**	(1.5)
Changes in non-cash working capital balances *[note 22]*	**20.5**	36.3
Income tax paid	**(8.5)**	(10.1)
Net movements in regulatory balances *[note 9]*	**(46.0)**	(66.9)
Net cash provided by operating activities	**428.0**	352.1
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 22]*	**(547.9)**	(523.3)
Purchase of intangible assets *[note 22]*	**(21.1)**	(46.8)
Proceeds on disposals of property, plant and equipment	**14.4**	1.8
Net cash used in investing activities	**(554.6)**	(568.3)
FINANCING ACTIVITIES		
Increase (decrease) in advance from related party *[note 23]*	**(308.0)**	158.0
Increase in notes payable to related party *[note 12]*	**243.1**	198.4
Repayment of finance lease liability	**(2.9)**	(2.2)
Interest received	**1.4**	1.0
Interest paid	**(80.6)**	(70.0)
Net cash provided by (used in) financing activities	**(147.0)**	285.2
Net increase (decrease) in cash and cash equivalents (bank indebtedness) during the year	**(273.6)**	69.0
Cash and cash equivalents, beginning of year	**84.7**	15.7
Cash and cash equivalents (bank indebtedness), end of year	**(188.9)**	84.7

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

On June 23, 1999, Toronto Hydro-Electric System Limited ["LDC"] was incorporated under the *Business Corporations Act* (Ontario), and is wholly-owned by Toronto Hydro Corporation [the "Corporation"]. The incorporation was required in accordance with the Electricity Act. LDC is domiciled in Canada and its registered office is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

LDC distributes electricity to customers located in the City of Toronto [the "City"] and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities.

2. BASIS OF PRESENTATION

LDC's audited financial statements have been prepared in accordance with IFRS with respect to the preparation of annual financial information. These are LDC's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of IFRS* ["IFRS 1"], and applying the accounting policies described in note 4. LDC's date of transition to IFRS and its opening IFRS balance sheet is as at January 1, 2014. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of LDC is provided in note 26.

These financial statements are presented in Canadian dollars, LDC's functional currency, and have been prepared on the historical cost basis, except for the valuation of post-employment benefits.

LDC has evaluated the events and transactions occurring after the balance sheet date through March 2, 2016 when LDC's financial statements were authorized for issue by LDC's Board of Directors, and identified the events and transactions which required recognition in the financial statements and/or disclosure in the notes to the financial statements *[notes 3, 4 and 9]*.

3. REGULATION

In April 1999, the Government of Ontario began restructuring the province's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate-setting and other legal filings.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

· *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.

· *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.

· *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The IESO and the OPA were merged under the name IESO starting on January 1, 2015. The IESO supports CDM plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service and technical support, market research, program evaluation and measurement, and training.

a) Electricity Distribution Rates

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. A cost of service review uses a future test-year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base (i.e. the aggregate of approved investment in PP&E and intangible assets excluding work in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital). IRM adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

Administratively, the OEB currently regulates the electricity rates for distributors through one of three specific rate-setting methods: Price Cap Incentive Rate-setting (suitable for most distributors), CIR (suitable for distributors with large or highly variable capital requirements), and Annual Incentive Rate-setting Index (suitable for distributors requiring limited rate adjustments). Under each of these methods, the OEB also allows recovery of costs arising from significant events satisfying certain criteria which are considered external to the regulatory regime and beyond the control of management.

Under the Price Cap Incentive Rate-setting method, rates are set on a single forward test-year cost of service basis for the first year and indexed for four subsequent years through an industry-standard IRM adjustment (using the 4th generation price cap index formula). Under this method, the ICM is available to address any incremental capital investment needs that may arise during the term. In order to determine whether a distributor is eligible for the ICM, the OEB conducts a review of the distributor's ICM application by way of a detailed examination of evidence and consideration of a number of criteria, such as materiality, need and prudence.

Under the CIR method, rates are set for a minimum period of five years, typically on a forward test-year cost of service basis for the first year with subsequent annual adjustments based on a distributor-specific custom index. The particular mechanics through which rates are set and adjusted are determined by the OEB on a case-by-case basis.

The Annual Incentive Rate-setting Index method sets a distributor's rates through an industry-standard IRM adjustment (using a limited form of the 4th generation price cap index formula) for one or more years.

Under each method, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013 and 2014 using the IRM framework, including the filing of an ICM application. On April 2, 2013, the OEB approved new rates for LDC effective June 1, 2013, which reflected approved capital expenditures amounting to $203.3 million for 2012 and $484.2 million for 2013. In a separate decision rendered on December 19, 2013, the OEB approved capital expenditures amounting to $398.8 million for 2014.

On January 16, 2014, the OEB approved LDC's request for disposition of the smart meter regulatory balances related to smart meter installations in 2008, 2009 and 2010 through two separate rate riders effective May 1, 2014 *[note 9[e]]*. The first rate rider related to the recovery of $23.9 million, representing the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider related to the recovery of $9.6 million, representing the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the CIR method which sought approval of LDC's 2015 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective May 1, 2015, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application included requests for approval of capital expenditures of approximately $2.5 billion over the 2015-2019 period. The rate application also sought approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters *[note 9[e]]*.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets from Toronto Hydro Energy Services Inc. ["TH Energy"] to a new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. The OEB decided that the rate base, revenue requirement and rate consequences of the transfer would be decided at LDC's next cost of service or rebasing rate application. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets as of January 1, 2012, including a post-closing adjustment, was $42.5 million, subject to transaction costs. LDC sought a final determination of the rate base, revenue requirement and rate consequences of the street lighting transfer in the rate application filed on July 31, 2014.

On April 28, 2015, the OEB declared LDC's existing rates as interim rates, effective May 1, 2015, pending a final CIR decision and rate order. On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the rate application filed on July 31, 2014. The CIR decision and rate order approved a rate base of $3,232.0 million and revenue requirement of $633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The OEB-approved revenue requirement generates an increase in funded capital expenditures over the CIR period.

The OEB approved new deferral and variance accounts including accounts to capture variances related to revenue requirement for ICM capital work undertaken from 2012 to 2014 and revenue requirement associated with capital work during the CIR term. The OEB approved recovery of the $15.8 million forecasted net book value relating to the stranded meters. The OEB also approved foregone revenue rate riders for the May 1, 2015 to February 29, 2016 period as well as other requested rate riders *[note 9]*. In addition, the OEB approved the transfer of the street lighting assets into rate base effective January 1, 2015 at a transfer price of $39.8 million, representing the opening net book value of the assets in 2015. The financial impact of the OEB's CIR decision and rate order has been reflected in these financial statements.

The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively *[note 9[b]]*.

b) CDM Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC's distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh of energy savings and 286 MW of summer peak demand savings over the period beginning January 1, 2011 through December 31, 2014.

Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately $50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to $45.8 million for the delivery of CDM programs from 2011 to 2014. All programs delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented on the balance sheets under current liabilities as deferred conservation credit. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC estimated that approximately $5.7 million qualified as cost efficiency incentives, and approximately $4.9 million was repayable to the OPA for the remaining program administration budget, included within accounts payable and accrued liabilities *[note 4[i]]*. On May 8, 2015, the IESO confirmed both the cost efficiency incentives of $5.7 million and the amount payable by LDC of $4.9 million plus applicable taxes, which was paid in July 2015.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement with in-service dates in 2015 would be allocated toward the 2011-2014 program. On March 18, 2015, LDC received approval from the IESO for separate funding of $11.2 million relating to these transitional CDM programs for 2015. Funding was fully received in the third quarter of 2015.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period with funding of approximately $400.0 million, which included participant incentives and LDC's program administration costs. LDC provided the IESO with its plan for achieving its CDM target and received conditional approval as of March 26, 2015.

Under the energy conservation agreement, LDC has an option to submit a joint CDM plan with one or more distribution companies. On April 30, 2015, LDC submitted a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period, to replace the CDM plan that had been conditionally approved as of March 26, 2015, and received approval from the IESO with combined funding of approximately $425.0 million and an energy savings target of approximately 1,668 GWh. The programs under the joint CDM plan for Oakville Hydro Electricity Distribution Inc. started on January 1, 2016. LDC received $17.2 million as at December 31, 2015 and $1.5 million subsequent to December 31, 2015 from the IESO for the delivery of CDM programs under the energy conservation agreement. Amounts received but not yet spent are presented on the balance sheets under current liabilities as deferred conservation credit.

LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro Electricity Distribution Inc. are only being offered under the full cost recovery funding method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"]:

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about LDC's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The standard is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. LDC has elected to early adopt IFRS 14.

LDC has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding LDC's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on LDC's balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances are assessed to no longer be probable based on management's judgment, the balances are recorded in LDC's statements of income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the balance sheets, on the statements of income as net movements in regulatory balances, net of tax, and on the statements of comprehensive income as net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the statements of cash flows, cash and cash equivalents (bank indebtedness) include bank overdrafts that are repayable on demand and form an integral part of LDC's cash management.

c) Accounts receivable and unbilled revenue

Accounts receivable is recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings with adjustments mainly for assumptions related to seasonality and weighted average price. The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable, and the amount of the related impairment loss is recognized in the statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When LDC considers that there are no realistic prospects of recovery of the financial assets, the relevant amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and LDC considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

d) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

e) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. For PP&E used in rate-regulated activities, LDC elected to use the exemption available for assets subject to rate regulation such that the previous US GAAP carrying amount became the deemed cost under IFRS at the date of transition *[note 26]*. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to LDC and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to LDC from its continued use. Any gain or loss arising on derecognition is recorded in the statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the difference between the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the statements of income.

[All tabular amounts in millions of Canadian dollars]

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.5% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Assets under finance lease	1.0% to 14.3%
Other capital assets	4.0% to 25.0%

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that LDC will obtain ownership by the end of the lease term. Assets under finance lease included a 99-year land lease. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

f) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable. For intangible assets used in rate-regulated activities, LDC elected to use the exemption available for assets subject to rate regulation such that the previous US GAAP carrying amount became the deemed cost under IFRS at the date of transition *[note 26]*.

Amortization begins when an asset becomes available for use. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed each financial year-end and adjusted if appropriate.

g) Impairment of non-financial assets

LDC reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. LDC has determined that its assets are a single CGU due to interdependencies of its assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

h) Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is LDC's weighted average cost of borrowing, and is applied to the carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Borrowing costs are included in PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

i) Revenue recognition

Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. LDC applies judgment to determine whether revenues are recorded on a gross or net basis. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. LDC has primary responsibility for the delivery of electricity to the customer. The difference between the amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO to LDC, is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the balance sheets and within net movements in regulatory balances, net of tax on the statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

Other revenue, which includes revenue from services ancillary to the distribution of electricity and revenue from demand billable activities, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue not yet recognized from demand billable activities is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

j) Financial instruments

All financial assets are classified as "Loans and Receivables" and all financial liabilities are classified as "Other Financial Liabilities". These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

LDC uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the balance sheets:

- Cash, cash equivalents and short-term investments are classified as "Loans and Receivables" and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Bank indebtedness is classified as "Other Financial Liabilities" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Advance from related party is classified as "Other Financial Liabilities" and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value due to the short maturity of this instrument.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Customer deposits are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Obligations under finance leases are classified as "Other Financial Liabilities" and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Notes payable to related party are classified as "Other Financial Liabilities" and are initially measured at fair value. The carrying amounts are carried at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC's current borrowing rate for similar debt instruments *[note 15[a]]*. Debt issuance costs incurred in connection with LDC's debt offerings are capitalized as part of the carrying amount of the notes payable and amortized over the term of the related notes payable, using the effective interest method, and the amortization is included in finance costs.

k) Fair value measurements

LDC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect LDC's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if LDC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Multi-employer pension plan

LDC's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the statements of income in the period when the service is rendered by the employee, since it is not practicable to determine LDC's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

LDC has a number of unfunded benefit plans providing post-employment benefits (other than pension) to its employees. LDC pays certain medical, dental and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees. LDC also pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2014.

m) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

n) Income taxes

Under the Electricity Act, LDC is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in LDC paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of income.

o) Use of estimates

The preparation of LDC's financial statements in accordance with IFRS requires management to make estimates and assumptions which affect the application of accounting policies, reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 4[a] – Recognition and measurement of regulatory balances;
- Note 4[i] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 4[e] and 4[f] – Determination of useful lives of depreciable assets;
- Notes 4[l] and 13 – Measurement of post-employment benefits – key actuarial assumptions;

- Notes 4[n] and 21 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 25 – Recognition and measurement of provisions and contingencies.

p) Future accounting pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not yet been applied in preparing these financial statements. LDC continues to analyze these standards and has determined that the following could have an impact on its financial statements.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. LDC expects these amendments to have no material impact on its financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers* ["IFRIC 18"]. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018. LDC is currently evaluating the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"], which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. LDC is currently evaluating the impact of the new standard.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"]. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 has been adopted. LDC is currently evaluating the impact of the new standard.

[All tabular amounts in millions of Canadian dollars]

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Trade receivables	**183.9**	195.0	195.7
Due from related parties *[note 23]*	**4.2**	8.2	2.1
Other	**1.9**	2.5	1.1
	190.0	205.7	198.9

6. OTHER ASSETS

Other assets consist of the following:

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Prepaid expenses	**9.5**	9.6	8.5
Deferred financing costs	**1.6**	1.5	1.2
Total other assets	**11.1**	11.1	9.7
Less: Current portion of other assets relating to:			
Prepaid expenses	**9.5**	9.6	8.5
Deferred financing costs	**0.4**	0.3	0.3
Non-current portion of other assets	**1.2**	1.2	0.9

[All tabular amounts in millions of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost or deemed cost					
Balance as at January 1, 2014	2,284.6	111.7	87.7	336.8	2,820.8
Additions	428.4	34.3	19.6	94.4	576.7
Disposals and retirements	(27.3)	(3.6)	(0.1)	—	(31.0)
Transfers to assets held for sale	—	(4.8)	—	—	(4.8)
Balance as at December 31, 2014	2,685.7	137.6	107.2	431.2	3,361.7
Additions	**368.0**	**67.6**	**12.5**	**65.1**	**513.2**
Disposals and retirements	**(26.5)**	**(2.1)**	—	—	**(28.6)**
Balance as at December 31, 2015	**3,027.2**	**203.1**	**119.7**	**496.3**	**3,846.3**
Accumulated depreciation					
Balance as at January 1, 2014	—	—	—	—	—
Depreciation	107.2	7.9	24.2	—	139.3
Disposals and retirements	(1.1)	(0.1)	(0.1)	—	(1.3)
Transfers to assets held for sale	—	(0.8)	—	—	(0.8)
Balance as at December 31, 2014	106.1	7.0	24.1	—	137.2
Depreciation	**118.9**	**9.1**	**22.0**	—	**150.0**
Disposals and retirements	**(2.4)**	**(0.4)**	—	—	**(2.8)**
Balance as at December 31, 2015	**222.6**	**15.7**	**46.1**	—	**284.4**
Carrying amount					
Balance as at January 1, 2014	2,284.6	111.7	87.7	336.8	2,820.8
Balance as at December 31, 2014	2,579.6	130.6	83.1	431.2	3,224.5
Balance as at December 31, 2015	**2,804.6**	**187.4**	**73.6**	**496.3**	**3,561.9**

As at December 31, 2015, Equipment and other included assets under finance lease with cost of $18.2 million [December 31, 2014 - $18.2 million; January 1, 2014 - $16.1 million] and accumulated depreciation of $6.0 million [December 31, 2014 - $3.8 million; January 1, 2014 - $nil]. For the year ended December 31, 2015, LDC recorded depreciation expense of $2.2 million [2014 - $3.8 million] related to assets under finance lease.

For the year ended December 31, 2015, borrowing costs in the amount of $7.0 million [2014 - $4.9 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.74% [2014 - 3.84%].

Construction in progress additions are net of transfers to the other PP&E categories.

[All tabular amounts in millions of Canadian dollars]

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost or deemed cost					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Additions	17.1	0.9	1.5	27.3	46.8
Balance as at December 31, 2014	86.7	19.9	13.2	98.5	218.3
Additions	**14.9**	**1.8**	**(1.4)**	**5.8**	**21.1**
Balance as at December 31, 2015	**101.6**	**21.7**	**11.8**	**104.3**	**239.4**
Accumulated amortization					
Balance as at January 1, 2014	—	—	—	—	—
Amortization	18.7	0.9	—	—	19.6
Balance as at December 31, 2014	18.7	0.9	—	—	19.6
Amortization	**19.4**	**1.1**	**—**	**—**	**20.5**
Balance as at December 31, 2015	**38.1**	**2.0**	**—**	**—**	**40.1**
Carrying amount					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Balance as at December 31, 2014	68.0	19.0	13.2	98.5	198.7
Balance as at December 31, 2015	**63.5**	**19.7**	**11.8**	**104.3**	**199.3**

For the year ended December 31, 2015, borrowing costs in the amount of $3.8 million [2014 - $3.2 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.74% [2014 - 3.84%].

Software in development and contributions for work in progress additions are net of transfers to the other intangible asset categories.

Computer software is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 7 years, and from 13 to 24 years, respectively.

[All tabular amounts in millions of Canadian dollars]

9. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2015 $	Remaining recovery/ reversal period (months)
Post-employment benefits	**81.2**	**—**	**—**	**—**	**81.2**	(1)
Foregone revenue	**—**	**61.1**	**—**	**—**	**61.1**	46(2)
IFRS transitional adjustments	**24.2**	**4.7**	**—**	**—**	**28.9**	46(2)
Settlement variances	**51.7**	**(26.4)**	**—**	**—**	**25.3**	(3)
Stranded meters	**14.4**	**—**	**—**	**—**	**14.4**	46(2)
Smart meters	**20.9**	**—**	**(10.9)**	**—**	**10.0**	16
LRAM	**—**	**9.1**	**—**	**—**	**9.1**	(4)
Named properties	**—**	**5.8**	**—**	**—**	**5.8**	46(2)
Capital contributions	**—**	**1.9**	**—**	**—**	**1.9**	46(2)
OPEB cash versus accrual	**—**	**1.8**	**—**	**—**	**1.8**	(5)
Other	**4.7**	**2.0**	**(0.1)**	**(4.4)**	**2.2**	10(2)
	197.1	**60.0**	**(11.0)**	**(4.4)**	**241.7**	

	January 1, 2014 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2014 $	Remaining recovery/ reversal period (months)
Post-employment benefits	36.9	45.3	(1.0)	—	81.2	(1)
Settlement variances	5.8	45.9	—	—	51.7	(3)
IFRS transitional adjustments	0.9	23.3	—	—	24.2	48(6)
Smart meters	25.2	9.5	(13.8)	—	20.9	28
Stranded meters	16.9	—	(2.5)	—	14.4	60(6)
Other	2.6	2.5	(0.2)	(0.2)	4.7	12-60(6)
	88.3	126.5	(17.5)	(0.2)	197.1	

(1) LDC did not seek recovery from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction when recovery is sought.
(2) Disposition period is based on the CIR decision and rate order *[note 3[a]]*.
(3) Disposition period of the low voltage variances of $1.3 million over 10 months is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of remaining settlement variances in its next rate applications.
(4) Disposition period of the 2011-2013 LRAM of $3.6 million over 10 months is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of the LRAM balances for 2014 and 2015 at a later date, for which timing is currently unknown.
(5) LDC intends to apply for disposition of the balance following the OEB consultation process on pension and OPEB, for which timing is currently unknown.
(6) Disposition period was based on the CIR application pending as at December 31, 2014 *[note 3[a]]*.

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2015 $	Remaining recovery/ reversal period (months)
Deferred taxes	**143.4**	**(28.6)**	**—**	**—**	**114.8**	(1)
Tax-related variances	**25.3**	**1.2**	**—**	**—**	**26.5**	10-34(2)
Derecognition	**—**	**9.9**	**—**	**—**	**9.9**	(3)
ICM	**2.3**	**—**	**7.4**	**—**	**9.7**	(3)
Gain on disposal	**—**	**5.9**	**—**	**—**	**5.9**	(4)
Capital-related revenue requirement	**—**	**2.8**	**—**	**—**	**2.8**	(3)
Other	**2.0**	**—**	**—**	**—**	**2.0**	10(5)
	173.0	**(8.8)**	**7.4**	**—**	**171.6**	

	January 1, 2014 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2014 $	Remaining recovery/ reversal period (months)
Deferred taxes	132.0	11.4	—	—	143.4	(1)
Tax-related variances	25.2	2.9	(2.8)	—	25.3	12-36(6)
ICM	6.0	(25.1)	21.4	—	2.3	(3)
Other	1.8	0.2	0.2	(0.2)	2.0	12(6)
	165.0	(10.6)	18.8	(0.2)	173.0	

(1) LDC did not apply for disposition of the balance since it is being reversed through timing differences in the recognition of deferred tax assets.

(2) Disposition period of the revision of prior year tax position account over 34 months and the income tax variance account over 10 months is based on the CIR decision and rate order *[note 3[a]]*.

(3) LDC intends to apply for disposition of the balance at a later date, for which timing is currently unknown.

(4) Disposition period for forecasted net gains of 34 months is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of the variance account at a later date, for which timing is currently unknown.

(5) Disposition period is based on the CIR decision and rate order *[note 3[a]]*.

(6) Disposition period was based on the CIR application pending as at December 31, 2014 *[note 3[a]]*.

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. For the year ended December 31, 2015, LDC recorded an impairment of $4.4 million on regulatory debit balances within 'Other' as a result of the CIR decision and rate order. There was no impairment recorded for the year ended December 31, 2014.

Refer to Regulatory Developments and Electricity Consumption paragraphs in the Risk Management and Risk Factors section of the December 31, 2015 MD&A for a discussion of the risks and uncertainties that affect the future recovery of the regulatory balances.

The regulatory balances of LDC consist of the following:

a) Post-Employment Benefits

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments. The balance arising during the years ended December 31, 2015 and December 31, 2014 primarily related to the actuarial gain and loss recorded for the year, respectively. As at December 31, 2015, the regulatory balance did not include carrying charges.

b) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 if new rates were implemented as of May 1, 2015. In the CIR decision and rate order, the OEB approved foregone revenue rate riders for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates *[note 3[a]]*. Based on that approval, a new regulatory balance of $61.1 million was recorded as at December 31, 2015 to reflect the amount associated with the 2015 year to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the forecasted balance of $25.8 million plus an additional $4.7 million for the associated rate of return of 6.19% *[note 3[a]]*. Based on that approval, an additional $4.7 million was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

d) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. The settlement variances relate primarily to non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of variances related to low voltage in 2013 of $1.3 million inclusive of carrying charges over a 10-month period commencing on March 1, 2016 *[note 3[a]]*.

e) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario. As at December 31, 2015, the regulatory balances did not include carrying charges.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. Depreciation expense on the stranded meters of $2.5 million was recorded within net movements in regulatory balances, net of tax until the end of 2014. Included in the 2015-2019 rate application was recovery of the forecasted net book value of the stranded meters as at December 31, 2014. In the CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of $15.8 million over a 46-month period commencing on March 1, 2016 *[note 3[a]]*.

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances *[note 3[a]]*. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base. Accordingly, a new regulatory balance of $25.2 million was recorded as at December 31, 2013 to reflect the future amount to be recovered through rates over a 36-month period commencing on May 1, 2014 and ending on April 30, 2017. LDC recognized $9.5 million of smart meter incremental revenue within net movements in regulatory balances, net of tax during 2014. LDC recognized distribution revenue of $10.9 million from the collection of OEB-approved rate riders for the year ended December 31, 2015 [2014 - $13.8 million].

f) Lost Revenue Adjustment Mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set rates and the actual impact of authorized CDM activities achieved. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015. In the CIR decision and rate order, the OEB approved LDC's request for disposition of $3.6 million inclusive of carrying charges related to this variance for the 2011-2013 period *[note 3[a]]*. Based on that approval, a new regulatory balance was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 10-month period commencing on March 1, 2016. As at December 31, 2015, LDC also recorded an amount of $4.9 million and $0.6 million inclusive of carrying charges related to the variance for 2014 and 2015, respectively.

g) Named Properties

This regulatory balance relates to the difference between the forecasted net gains on certain properties that LDC planned to sell and included as part of 2010 rates and the actual net gains realized upon the sale of the named properties between 2007 to 2011. In the CIR decision and rate order, the OEB approved LDC's request for disposition of $5.8 million related to this variance *[note 3[a]]*. Based on that approval, a new regulatory balance was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

h) Capital Contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions in 2010 and 2011. In the CIR decision and rate order, the OEB approved LDC's request for disposition of $1.9 million related to this variance *[note 3[a]]*. Based on that approval, a new regulatory balance was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

i) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs on an accrual basis and the cash payments made to the OPEB plans. In the CIR decision and rate order *[note 3[a]]*, the OEB directed LDC to account for OPEB costs on a cash basis rather than accrual basis for rate-making purposes and approved a new variance account to record the difference. This is a temporary arrangement, pending the OEB's conclusion of the sector-wide policy consultation it initiated on rate-regulated utility OPEB costs. LDC does not consider the OEB's direction to constitute a change in the basis of its recovery of OPEB costs at this time considering the OEB's approval of the variance account, which LDC is expected to apply for disposition in the future. LDC recorded $1.8 million to reflect the OPEB variance related to 2015. As at December 31, 2015, the regulatory balance did not include carrying charges.

j) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 *[note 4[a]]* and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2015, the regulatory balance did not include carrying charges.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $42.1 million as at December 31, 2015 [December 31, 2014 - $32.7 million; January 1, 2014 - $16.4 million] offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $26.2 million as at December 31, 2015 [December 31, 2014 - $39.9 million; January 1, 2014 - $41.7 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was $98.9 million as at December 31, 2015 [December 31, 2014 - $150.6 million; January 1, 2014 - $157.3 million].

k) Tax-related Variance Accounts

This regulatory balance includes the revision of prior year tax positions based on reassessments received and in process and income tax variances resulting from legislative or regulatory changes.

The revision of prior year tax position regulatory balance related to changes to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers, in the amount of $23.5 million as at December 31, 2015 [December 31, 2014 - $22.3 million; January 1, 2014 - $19.4 million]. An amount of $1.2 million was recorded to reflect new additions to the regulatory balance for the year ended December 31, 2015 [2014 - $2.9 million]. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of $23.3 million inclusive of carrying charges over a 34-month period commencing on March 1, 2016 *[note 3[a]]*.

The income tax variance regulatory balance related to differences resulting from a legislative or regulatory change to the tax rates or rules assumed in applications for electricity distribution rates in the amount of $3.0 million as at December 31, 2015 [December 31, 2014 - $3.0 million; January 1, 2014 - $5.8 million]. These differences have been deferred by LDC in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of $3.0 million inclusive of carrying charges over a 10-month period commencing on March 1, 2016 *[note 3[a]]*.

On April 2, 2013, the OEB approved the disposition of $7.1 million of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014. For the year ended December 31, 2014, electricity distribution rates charged to customers were reduced by $2.8 million.

l) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition amounts for PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the CIR decision and rate order *[note 3[a]]*. A new regulatory balance was recorded as at December 31, 2015 to reflect the derecognition variance related to 2015 of $9.9 million. Carrying charges were added to the regulatory balance at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015.

[All tabular amounts in millions of Canadian dollars]

m) Incremental Capital Module

This regulatory balance relates to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013 *[note 3[a]]*. This account included the amount collected through the ICM rate riders of $7.4 million for the year ended December 31, 2015 [2014 - $21.4 million], offset by the revenue recorded within net movements in regulatory balances, net of tax as it related to the eligible in-service capital expenditures of $nil million for the year ended December 31, 2015 [2014 - $25.1 million]. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%].

n) Gain on Disposal

This regulatory balance relates to the realized gain in connection with the disposal of certain properties by LDC under the facilities consolidation program. This balance is expected to reduce future electricity distribution rates for customers. In the CIR decision and rate order, the OEB approved disposition of the forecasted net gains on the sale of certain properties, including the future tax savings, over a 34-month period commencing on March 1, 2016 *[note 3[a]]*. The OEB also approved a variance account for LDC to record the difference between the total forecasted net gains and future tax savings and the actual net gains and tax savings. The new regulatory balance recorded as at December 31, 2015 reflected the forecasted net gains and future tax savings fully offset by the variance account. The net amount of $5.9 million related to the realized gain in connection with the disposal of a surplus property by LDC in the first quarter of 2015. Carrying charges were added to the regulatory balance at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015.

o) Capital-related Revenue Requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital in-service additions related revenue requirement over the same period. This account was approved by the OEB in the CIR decision and rate order *[note 3[a]]*. A new regulatory balance was recorded as at December 31, 2015 to reflect the capital-related revenue requirement variance related to 2015 of $2.8 million. Carrying charges were added to the regulatory balance at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Trade payables	**316.2**	325.7	274.5
Accrued liabilities	**100.7**	128.2	102.1
Due to related parties *[note 23]*	**52.8**	56.0	49.9
Other	**1.9**	2.2	—
	471.6	512.1	426.5

[All tabular amounts in millions of Canadian dollars]

11. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which have not yet been recognized into other revenue, and revenue not yet recognized from demand billable activities.

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Capital contributions	**103.0**	72.6	45.7
Other	**1.0**	1.0	—
Total deferred revenue	**104.0**	73.6	45.7
Less: Current portion of deferred revenue relating to:			
Capital contributions	**2.7**	1.2	—
Other	**1.0**	1.0	—
Non-current portion of deferred revenue	**100.3**	71.4	45.7

Reconciliation between the opening and closing capital contribution balances is as follows:

	2015 $	2014 $
Balance, beginning of year	**72.6**	45.7
Receipt of capital contributions	**33.0**	28.2
Amortization	**(2.2)**	(0.7)
Other	**(0.4)**	(0.6)
Balance, end of year	**103.0**	72.6

[All tabular amounts in millions of Canadian dollars]

12. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Notes payable to related party:			
5.20% Long-term note payable to the Corporation due November 14, 2017	**245.1**	245.1	245.1
4.54% Long-term note payable to the Corporation due November 12, 2019	**245.1**	245.1	245.1
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0	200.0
3.59% Long-term note payable to the Corporation due November 18, 2021	**300.0**	300.0	300.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	200.0	—
3.60% Long-term note payable to the Corporation due July 28, 2045	**200.0**	—	—
3.988% Long-term note payable to the Corporation due April 9, 2063	**45.0**	—	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	15.0	15.0
Total notes payable to related party	**1,945.2**	1,700.2	1,500.2
Less: Unamortized debt issuance costs	**9.2**	8.0	7.0
Current portion of notes payable to related party *[note 23]*	**60.0**	60.0	60.0
Long-term portion of notes payable to related party *[note 23]*	**1,876.0**	1,632.2	1,433.2

All notes payable to related party of LDC rank equally.

On September 16, 2014, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on September 16, 2044, which bears interest at a rate of 4.13% per annum. Interest is calculated and payable semi-annually in arrears on March 16 and September 16 of each year. The net proceeds of the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

On March 16, 2015, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on July 28, 2045, which bears interest at a rate of 3.60% per annum. Interest is calculated and payable semi-annually in arrears on January 28 and July 28 of each year. The net proceeds of the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

On September 2, 2015, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $45.0 million payable on April 9, 2063, which bears interest at a rate of 3.988% per annum. Interest is calculated and payable semi-annually in arrears on April 9 and October 9 of each year. The net proceeds of the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

13. EMPLOYEE FUTURE BENEFITS

Pension

LDC's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2015, the OMERS plan was 91.5% funded [December 31, 2014 – 90.8%]. OMERS has a strategy to return the plan to a fully funded position. LDC is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2015, the total contributions of all participating employers and employees were approximately $3.8 billion [2014 -

[All tabular amounts in millions of Canadian dollars]

$3.7 billion], of which LDC's contributions were $17.2 million [2014 - $17.7 million], representing less than five percent of total contributions to the OMERS plan. LDC expects to contribute approximately $17.9 million to the OMERS plan in 2016.

Post-employment benefits other than pension

a) Benefit obligation

	2015 $	2014 $
Balance, beginning of year	**287.4**	236.0
Current service cost	**5.6**	5.0
Interest cost	**11.4**	11.0
Benefits paid	**(9.3)**	(11.2)
Experience loss [(1)]	**0.9**	4.9
Actuarial loss arising from changes in demographic assumptions [(1)]	—	8.5
Actuarial loss arising from changes in financial assumptions [(1)]	—	32.6
Transfer from related parties	**0.5**	0.6
Balance, end of year	**296.5**	287.4

[(1)] Total experience loss and actuarial loss is $0.9 million [2014 - $46.0 million]. Actuarial loss on accumulated sick leave credits of $0.8 million [2014 - $0.2 million actuarial gain] is recognized in benefit cost *[note 13[c]]* and $0.1 million in transfer from related parties [2014 - $0.1 million], and $nil [2014 - $46.1 million] of actuarial loss on medical, dental and insurance benefits is recognized in OCI *[note 13[d]]*.

The weighted average duration of the benefit obligation as at December 31, 2015 is 17.1 years [2014 – 17.7 years].

b) Amounts recognized in regulatory balances

As at December 31, 2015, the amount recognized in regulatory balances related to net actuarial loss and IFRS transitional adjustments was $81.2 million [December 31, 2014 - $81.2 million; January 1, 2014 - $36.9 million] *[note 9[a]]*.

c) Benefit cost recognized

	2015 $	2014 $
Current service cost	**5.6**	5.0
Interest cost	**11.4**	11.0
Actuarial loss (gain) on other employee benefits *[note 13[a]]*	**0.8**	(0.2)
Benefit cost	**17.8**	15.8
Capitalized to PP&E and intangible assets	**7.7**	6.3
Charged to operating expenses	**10.1**	9.5

[All tabular amounts in millions of Canadian dollars]

d) Amounts recognized in OCI (before income taxes)

	2015 $	2014 $
Actuarial loss *[note 13[a]]*	—	46.1
Net movements in regulatory balances related to OCI	—	(46.1)
	—	—

e) Significant assumptions

	2015	2014
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	**4.00**	4.00
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**6.00**	6.50
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.00**	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	**2015**	2015
For other retirements	**2018**	2018

f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Changes in key assumptions would have had the following effect on the benefit obligation:

	Change in assumption	2015 $	2014 $
As reported		**296.5**	287.4
Discount rate	1% -	**(45.5)**	(44.1)
	1% –	**54.1**	52.4
Medical and dental cost trend rate	1% -	**38.6**	37.4
	1% –	**(34.7)**	(33.6)

14. CAPITAL MANAGEMENT

LDC's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents, investments or borrowings through TH Energy or the Corporation) to meet the needs of the business; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

LDC monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. LDC manages capital by preparing short-term and long-term cash flow forecasts. In addition, LDC borrows from TH Energy or the Corporation as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in LDC's approach to capital management during the year. As at December 31, 2015, LDC's definition of capital included bank indebtedness, borrowings through the Corporation and obligations under finance leases, including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2014 and as at January 1, 2014. As at December 31, 2015, equity amounted to $1,414.6 million [December 31, 2014 - $1,284.2 million; January 1, 2014 - $1,174.3 million], and bank indebtedness, borrowings through the Corporation and obligations under finance leases, including the current portion thereof, amounted to $2,132.9 million [December 31, 2014 - $2,009.6 million; January 1, 2014 - $1,653.5 million].

15. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2015, December 31, 2014 and January 1, 2014, the fair values of cash and cash equivalents, accounts receivable, unbilled revenue, bank indebtedness, advance from related party, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments *[note 4[j]]*. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

[All tabular amounts in millions of Canadian dollars]

The carrying amounts and fair values of LDC's notes payable consist of the following:

	December 31 2015 $		December 31 2014 $		January 1 2014 $	
	Carrying amount	**Fair value (1)**	**Carrying amount**	**Fair value (1)**	**Carrying amount**	**Fair value (1)**
Long-term notes payable to the Corporation						
5.20% due November 14, 2017	**244.7**	**262.1**	244.6	268.1	244.5	269.6
4.54% due November 12, 2019	**244.4**	**271.5**	244.2	270.9	244.1	265.2
5.59% due May 21, 2040	**198.8**	**248.2**	198.8	255.4	198.7	226.7
3.59% due November 18, 2021	**298.9**	**326.2**	298.7	321.1	298.5	302.8
2.96% due April 10, 2023	**249.0**	**259.7**	248.8	254.1	248.7	232.9
4.01% due April 9, 2063	**198.7**	**194.2**	198.7	201.8	198.7	172.9
4.13% due September 16, 2044	**198.4**	**203.4**	198.4	209.2	—	—
3.60% due July 28, 2045	**198.6**	**185.2**	—	—	—	—
3.988% due April 9, 2063	**44.5**	**43.5**	—	—	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**16.1**	15.0	15.0	15.0	15.0
	1,936.0	**2,055.1**	1,692.2	1,840.6	1,493.2	1,530.1

(1) The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy *[note 4[j]]*.

b) Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by LDC for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

Credit risk

LDC is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. LDC's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. LDC monitors and limits its exposure to credit risk on a continuous basis.

LDC's credit risk associated with accounts receivable is primarily related to electricity bill payments from customers. As at December 31, 2015, LDC had approximately 756,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2015, LDC held security deposits in the amount of $47.4 million [December 31, 2014 - $43.2 million; January 1, 2014 - $44.7 million], of which $25.1 million [December 31, 2014 - $19.8 million; January 1, 2014 - $22.2 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. As at December 31, 2015, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by LDC's treasury policies on assessing and monitoring the credit exposures of counterparties.

LDC did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2015 and December 31, 2014.

[All tabular amounts in millions of Canadian dollars]

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Accounts receivable (net of allowance for doubtful accounts)			
Outstanding for not more than 30 days	**170.5**	179.9	174.8
Outstanding for more than 30 days and not more than 120 days	**16.4**	21.4	20.9
Outstanding for more than 120 days	**3.1**	4.4	3.2
Total accounts receivable	**190.0**	205.7	198.9
Unbilled revenue	**319.5**	306.6	326.1
Total accounts receivable and unbilled revenue	**509.5**	512.3	525.0

LDC has a broad base of customers. As at December 31, 2015, LDC's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2015 $	2014 $
Balance, beginning of year	**(11.8)**	(10.8)
Provision for doubtful accounts	**(7.1)**	(7.4)
Write-offs	**7.6**	7.1
Recoveries	**(0.2)**	(0.7)
Balance, end of year	**(11.5)**	(11.8)

Unbilled revenue represents amounts for which LDC has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2015, December 31, 2014 and January 1, 2014.

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 13[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents, advances from related party, and customer deposits. LDC manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. Advances from related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2015, aside from the valuation of its post-employment benefit obligations, LDC was exposed to interest rate risk predominately from advances from the Corporation and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. LDC estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.4 million to annual finance costs.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

December 31, 2015	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Bank indebtedness	**188.9**	—	—	—	—	—
Accounts payable and accrued liabilities (1)	**454.9**	—	—	—	—	—
Obligations under finance lease	**3.5**	**3.3**	**1.7**	—	—	—
Long-term notes payable to the Corporation						
5.20% due November 14, 2017	—	**245.1**	—	—	—	—
4.54% due November 12, 2019	—	—	—	**245.1**	—	—
5.59% due May 21, 2040	—	—	—	—	—	**200.0**
3.59% due November 18, 2021	—	—	—	—	—	**300.0**
2.96% due April 10, 2023	—	—	—	—	—	**250.0**
4.01% due April 9, 2063	—	—	—	—	—	**200.0**
4.13% due September 16, 2044	—	—	—	—	—	**200.0**
3.60% due July 28, 2045	—	—	—	—	—	**200.0**
3.988% due April 9, 2063	—	—	—	—	—	**45.0**
Demand note payable to the Corporation due on demand	**45.0**	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	**82.3**	**82.3**	**69.3**	**69.3**	**57.9**	**1,046.4**
	789.6	**330.7**	**71.0**	**314.4**	**57.9**	**2,441.4**

(1) Accounts payable and accrued liabilities exclude $16.7 million of accrued interest on long-term notes payable and demand notes payable included within “Interest payments on long-term notes payable and demand notes payable”.

[All tabular amounts in millions of Canadian dollars]

December 31, 2014						
	Due within 1 year $	**Due within 2 years $**	**Due within 3 years $**	**Due within 4 years $**	**Due within 5 years $**	**Due after 5 years $**
Advance from related party	308.0	—	—	—	—	—
Accounts payable and accrued liabilities [(1)]	498.9	—	—	—	—	—
Obligations under finance lease	3.0	3.0	2.8	1.4	—	—
Long-term notes payable to the Corporation						
5.20% due November 14, 2017	—	—	245.1	—	—	—
4.54% due November 12, 2019	—	—	—	—	245.1	—
5.59% due May 21, 2040	—	—	—	—	—	200.0
3.59% due November 18, 2021	—	—	—	—	—	300.0
2.96% due April 10, 2023	—	—	—	—	—	250.0
4.01% due April 9, 2063	—	—	—	—	—	200.0
4.13% due September 16, 2044	—	—	—	—	—	200.0
Demand note payable to the Corporation due on demand	45.0	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	15.0	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	72.8	72.8	72.8	60.0	60.0	838.5
	942.7	75.8	320.7	61.4	305.1	1,988.5

(1) Accounts payable and accrued liabilities exclude $13.2 million of accrued interest on long-term notes payable and demand notes payable included within “Interest payments on long-term notes payable and demand notes payable”.

[All tabular amounts in millions of Canadian dollars]

January 1, 2014						
	Due within 1 year $	**Due within 2 years $**	**Due within 3 years $**	**Due within 4 years $**	**Due within 5 years $**	**Due after 5 years $**
Advance from related party	150.0	—	—	—	—	—
Accounts payable and accrued liabilities [(1)]	415.7	—	—	—	—	—
Obligations under finance lease	2.5	2.5	2.5	2.5	1.4	—
Long-term notes payable to the Corporation						
5.20% due November 14, 2017	—	—	—	245.1	—	—
4.54% due November 12, 2019	—	—	—	—	—	245.1
5.59% due May 21, 2040	—	—	—	—	—	200.0
3.59% due November 18, 2021	—	—	—	—	—	300.0
2.96% due April 10, 2023	—	—	—	—	—	250.0
4.01% due April 9, 2063	—	—	—	—	—	200.0
Demand note payable to the Corporation due on demand	45.0	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	15.0	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	50.5	61.2	61.2	61.2	48.5	674.0
	678.7	63.7	63.7	308.8	49.9	1,869.1

(1) Accounts payable and accrued liabilities exclude $10.8 million of accrued interest on long-term notes payable and demand notes payable included within "Interest payments on long-term notes payable and demand notes payable".

Foreign exchange risk

As at December 31, 2015, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

16. FINANCIAL ASSISTANCE

As at December 31, 2015, $32.4 million [December 31, 2014 - $29.7 million; January 1, 2014 - $50.1 million] was utilized under the Corporation's demand credit facility in the form of letters of credit mainly to satisfy the prescribed prudential requirements of LDC with the IESO for the purchase of electricity.

[All tabular amounts in millions of Canadian dollars]

17. SHARE CAPITAL

Share capital consists of the following:

	December 31 2015 $	December 31 2014 $	January 1 2014 $
Authorized			
The authorized share capital of LDC consists of an unlimited number of common shares without par value.			
Issued and outstanding			
1,000 common shares, of which all were fully paid.	**556.3**	556.3	556.3

18. OTHER REVENUE

Other revenue consists of the following:

	2015 $	2014 $
Other regulatory service charges	**13.5**	13.2
Pole and duct rentals	**10.5**	8.7
Ancillary services revenue	**9.9**	9.7
Street lighting service fee	**4.7**	5.1
Amortization of deferred revenue	**2.2**	0.7
Miscellaneous	**7.5**	14.3
	48.3	51.7

19. OPERATING EXPENSES

Operating expenses consist of the following:

	2015 $	2014 $
Salaries and benefits	**224.9**	224.7
External services	**93.1**	88.1
Materials and supplies	**14.8**	15.2
Other support costs (1)	**37.7**	36.1
Less: Capitalized costs	**(111.5)**	(106.0)
	259.0	258.1

(1) Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2015, LDC recognized operating expenses of $6.6 million related to materials and supplies used to service electrical distribution assets [2014 - $5.8 million].

[All tabular amounts in millions of Canadian dollars]

20. FINANCE COSTS

Finance costs consist of the following:

	2015 $	2014 $
Interest income	**(1.4)**	(1.0)
Interest expense		
Interest on long-term debt [1]	**79.8**	67.5
Interest on short-term debt	**4.5**	4.6
Other interest	**1.1**	1.4
Capitalized borrowing costs	**(10.8)**	(8.1)
	73.2	64.4

[1] Includes amortization of debt issuance costs, discounts and premiums.

21. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

	2015 $	2014 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**115.9**	56.9
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**30.7**	15.1
Change in unrecognized tax benefits	**—**	0.1
Other	**0.8**	(1.3)
Income tax expense	**31.5**	13.9
Effective tax rate	**27.2%**	24.5%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [1]	**133.3**	123.0
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**35.3**	32.6
Temporary differences recoverable in future rates	**(31.7)**	(18.0)
Change in unrecognized tax benefits	**—**	0.1
Other	**(0.7)**	(1.6)
Income tax expense and income tax recorded in net movements in regulatory balances	**2.9**	13.1
Effective tax rate	**2.2%**	10.7%

[1] Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

[All tabular amounts in millions of Canadian dollars]

Income tax expense as presented in the statements of income and comprehensive income are as follows:

	2015 $	2014 $
Income tax expense	**31.5**	13.9
Income tax recorded in net movements in regulatory balances	**(28.6)**	(0.8)
Income tax expense and income tax recorded in net movements in regulatory balances	**2.9**	13.1
Income tax recovery in OCI	—	(12.2)
Income tax expense in OCI recorded in net movements in regulatory balances	—	12.2
Income tax expense in OCI	—	—

Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

	2015 $	2014 $
Current tax expense		
Current year	**3.1**	13.7
Adjustment for tax positions taken in prior periods	**(0.3)**	(1.0)
	2.8	12.7
Deferred tax expense		
Origination and reversal of temporary differences	**0.1**	0.4
Income tax expense and income tax recorded in net movements in regulatory balances	**2.9**	13.1

Deferred tax assets consist of the following:

	Net balance, January 1 2015 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2015 $
PP&E and intangible assets	**55.0**	**(20.5)**	—	**34.5**
Post-employment benefits	**76.2**	**2.4**	—	**78.6**
Other taxable temporary differences	**11.9**	**(10.7)**	—	**1.2**
	143.1	**(28.8)**	—	**114.3**

	Net balance, January 1 2014 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2014 $
PP&E and intangible assets	70.4	(15.4)	—	55.0
Post-employment benefits	62.6	1.4	12.2	76.2
Other taxable temporary differences	(0.9)	12.8	—	11.9
	132.1	(1.2)	12.2	143.1

LDC had recorded a net deferred tax asset as it expects to earn sufficient taxable income to realize the future reversal of deductible temporary differences.

[All tabular amounts in millions of Canadian dollars]

22. STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided/(used) cash as follows:

	2015 $	2014 $
Accounts receivable	**14.3**	(7.8)
Unbilled revenue	**(12.9)**	19.5
Income tax receivable	**(8.8)**	0.1
Materials and supplies	**(1.2)**	—
Other current assets	**—**	(1.1)
Accounts payable and accrued liabilities	**9.1**	43.2
Deferred revenue	**1.5**	2.2
Deferred conservation credit	**17.9**	(20.0)
Other current liabilities	**0.6**	0.2
	20.5	36.3

Reconciliation between the amount presented on the statements of cash flows after factoring in the non-cash additions and total additions to PP&E and intangible assets is as follows:

	2015 $	2014 $
Purchase of PP&E, cash basis	**547.9**	523.3
Net change in accruals related to PP&E	**(36.4)**	48.3
Other	**1.7**	5.1
Total additions to PP&E	**513.2**	576.7
Purchase of intangible assets, cash basis	**21.1**	46.8
Total additions to PP&E and intangible assets	**534.3**	623.5

[All tabular amounts in millions of Canadian dollars]

23. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which wholly owns the Corporation, the Corporation and TH Energy, a wholly-owned subsidiary of the Corporation.

	City $	Corporation $	TH Energy $
For period ended December 31, 2015			
Revenues	**222.6**	**—**	**7.6**
Operating expenses and capital expenditures	**19.7**	**3.6**	**0.5**
Finance costs	**—**	**80.4**	**—**
As at December 31, 2015			
Accounts receivable	**3.2**	**—**	**1.0**
Unbilled revenue	**20.8**	**—**	**—**
Accounts payable and accrued liabilities	**36.6**	**16.2**	**—**
Current portion of notes payable to related party	**—**	**60.0**	**—**
Long-term portion of notes payable to related party	**—**	**1,876.0**	**—**
Customer deposits	**11.7**	**—**	**—**
Deferred revenue	**1.0**	**—**	**—**

	City $	Corporation $	TH Energy $
For period ended December 31, 2014			
Revenues	222.5	—	6.1
Operating expenses (recoveries) and capital expenditures	20.7	2.4	(0.6)
Finance costs	—	68.8	—
As at December 31, 2014			
Accounts receivable	7.2	—	1.0
Unbilled revenue	22.3	—	—
Advance from related party	—	308.0	—
Accounts payable and accrued liabilities	41.7	14.3	—
Current portion of notes payable to related party	—	60.0	—
Long-term portion of notes payable to related party	—	1,632.2	—
Customer deposits	8.2	—	—
Deferred revenue	1.5	—	—

	City $	Corporation $	TH Energy $
As at January 1, 2014			
Accounts receivable	2.1	—	—
Unbilled revenue	19.4	—	—
Advance from related party	—	150.0	—
Accounts payable and accrued liabilities	38.3	11.6	—
Current portion of notes payable to related party	—	60.0	—
Long-term portion of notes payable to related party	—	1,433.2	—
Customer deposits	8.8	—	—
Deferred revenue	6.8	—	—

Revenues represent amounts charged to the City primarily for electricity and ancillary services, and to TH Energy for street lighting and demand billable services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services, and the Corporation for purchased corporate and management services. Operating expense recoveries represent amounts charged to TH Energy for the provision of goods and services. Finance costs represent interest charged by the Corporation on the advances and notes payable *[note 12]*.

[All tabular amounts in millions of Canadian dollars]

Accounts receivable represents receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Advance from related party represents amounts payable to the Corporation for short-term borrowings obtained under the Corporation's revolving credit facility and commercial paper program. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation. Notes payable to related party represent amounts borrowed from the Corporation *[note 12]*. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Key management personnel are comprised of LDC's senior executive officers and members of the Board of Directors. The compensation costs associated with the key management personnel are as follows:

	2015 $	2014 $
Short-term employee benefits	**4.2**	4.2
Post-employment benefits	**1.0**	0.8
Termination benefits	**0.9**	1.0
	6.1	6.0

24. COMMITMENTS

Operating leases and capital projects

As at December 31, 2015, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases $	Capital projects [(2)] and other $
Less than one year	**6.2**	**37.3**
Between one and five years	**5.1**	**20.5**
More than five years	**—**	**—**
Total amount of future minimum payments [(1)]	**11.3**	**57.8**

(1) Refer to note 15 for future cash outflows excluded from the table above.
(2) Reflects capital project commitments for construction services and estimated capital contributions.

LDC has the option to renew its two major property operating leases at the end of the current lease term for an additional five years at the then fair rental value.

Operating lease expense for the year ended December 31, 2015 was $6.3 million [2014 - $6.2 million].

[All tabular amounts in millions of Canadian dollars]

Finance leases

As at December 31, 2015, December 31, 2014 and January 1, 2014, reconciliation between the future minimum lease payments and their present value was as follows:

	December 31 2015 $			December 31 2014 $			January 1 2014 $		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**3.5**	**0.3**	**3.2**	3.0	0.4	2.6	2.5	0.4	2.1
Between one and five years	**5.0**	**0.2**	**4.8**	7.2	0.4	6.8	8.9	0.7	8.2
More than five years	**—**	**—**	**—**	—	—	—	—	—	—
	8.5	**0.5**	**8.0**	10.2	0.8	9.4	11.4	1.1	10.3
Current portion included in Other liabilities			**3.2**			2.6			2.1
Non-current portion included in Other liabilities			**4.8**			6.8			8.2

25. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any applicable liability insurance policies which LDC believes would cover any damages which may become payable by LDC in connection with these actions, subject to such claim not being disputed by the insurer.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act* which sought damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. On June 16, 2014, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice pursuant to which LDC paid the amount of $6.5 million, including all taxes and legal fees in settlement of the action of the class plaintiffs. LDC's liability insurance covered the settlement payment.

On March 10, 2009, a third party claim was served by LDC related to the above action and on June 15, 2009, a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million were served by the owner and manager of 2 Secord Avenue. Given the preliminary status of the unsettled actions, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC.

By order of the court dated January 24, 2012, the above actions involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act* seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks general damages in the amount of $10.0 million and special damages in the amount of $20.0 million from LDC. The plaintiff's motion for certification of the class action was granted on September 11, 2014. Statements of defence to the main action and to the third party claim have not been filed. Given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of LDC.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of LDC.

26. IFRS TRANSITION

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. Accordingly, LDC decided to adopt US GAAP at the time to mirror the decision of the Corporation. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Since the Corporation was converting to IFRS, on March 19, 2014 the Board of Directors of LDC also approved the adoption of IFRS for the year beginning on January 1, 2015. As described in note 2, these are LDC's first financial statements prepared in accordance with IFRS. IFRS 1 sets out the transitional requirements that LDC must apply in preparing its first IFRS financial statements.

The accounting policies set out in notes 2 and 4 have been applied in preparing the financial statements as at and for the year ended December 31, 2015, the comparative information as at and for the year ended December 31, 2014 and the opening IFRS balance sheet as at January 1, 2014 (LDC's date of transition to IFRS). All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant transitional adjustments as a result of the transition from US GAAP to IFRS on LDC's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

IFRS 1 requires retrospective application of IFRS in place as at the reporting date. However, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application. LDC applied the following mandatory exceptions and optional exemptions in the preparation of the opening IFRS balance sheet:

Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under previous GAAP. Accordingly, estimates previously made under US GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

Optional exemptions

a) Rate-regulated deemed cost

Entities with operations subject to rate regulation may hold items of PP&E or intangible assets where the carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalization under IFRS. In such cases, a first-time adopter may deem the previous GAAP carrying amount of such items at the date of transition as the new IFRS cost basis. Under US GAAP, the carrying amount of LDC's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS.

LDC qualifies for the IFRS 1 exemption as it is subject to rate regulation. Accordingly, LDC elected to use the deemed cost exemption for its PP&E and intangible assets, except for construction in progress items for which capital contributions were received. The accumulated depreciation recognized under US GAAP prior to the transition date was included as part of the deemed cost such that the carrying amounts were not affected. The impact of this change was a decrease to both the cost and accumulated depreciation of PP&E by $2,424.0 million and to both the cost and accumulated amortization of intangible assets by $201.9 million, as at January 1, 2014.

LDC tested for asset impairment under this exemption and no impairment was recorded.

b) Borrowing costs

IAS 23 *Borrowing Costs* ["IAS 23"] specifies detailed methodology for capitalizing borrowing costs. Under US GAAP, an allowance for funds used during construction was applied and capitalized as part of the cost of PP&E and intangible assets, where applicable. Under an optional exemption in IFRS 1, an entity would be exempted from determining the applicable borrowing costs under IFRS for items reconstructed under IFRS. LDC elected this exemption and used the borrowing costs determined under US GAAP at the date of transition and applied IAS 23 prospectively to borrowing costs for qualifying assets capitalized after the transition date.

c) Decommissioning costs included in PP&E

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be adjusted retrospectively from the cost of the asset to which it relates, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. LDC elected the exemption available in IFRS 1 which allows a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date. The effect of electing the exemption was an increase to regulatory balances and a decrease to PP&E of $0.9 million as at January 1, 2014.

d) Leases

IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ["IFRIC 4"] requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. Under an optional exemption in IFRS 1, an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, does not have to reassess that determination when it adopts IFRS. As LDC made the same determination of whether an arrangement contained a lease under US GAAP as that required by IFRIC 4, LDC elected this exemption and did not reassess its arrangements at the date of transition.

e) Business combinations

IFRS 1 provides an optional exemption for a first-time adopter to elect not to apply IFRS 3 *Business Combinations* ["IFRS 3"] retrospectively to past business combinations that occurred before the date of transition to IFRS, or to elect to restate all business combinations to comply with IFRS 3 prospectively from any date before the date of transition. LDC elected not to apply IFRS 3 to past business combinations that occurred prior to the date of transition.

f) Transfer of Assets from Customers (Capital Contributions)

IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 prospectively to transfers of assets from customers received on or after the date of transition. LDC did not elect this exemption and instead applied IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above resulted in no adjustment to the capital contributions included in the PP&E deemed cost.

The reconciliation of the January 1, 2014 and December 31, 2014 balance sheets from US GAAP to IFRS is as follows:

[All tabular amounts in millions of Canadian dollars]

BALANCE SHEET

As at January 1, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Cash and cash equivalents		15.7	—	**15.7**
Accounts receivable		198.9	—	**198.9**
Unbilled revenue		326.1	—	**326.1**
Income tax receivable		0.3	—	**0.3**
Materials and supplies		8.6	—	**8.6**
Other assets	B	8.9	(0.1)	**8.8**
Regulatory assets	A	7.1	(7.1)	**—**
Total current assets		565.6	(7.2)	**558.4**
Property, plant and equipment	A, B, C	2,640.0	180.8	**2,820.8**
Intangible assets		171.5	—	**171.5**
Deferred tax assets	A	155.9	(23.8)	**132.1**
Other assets	B	8.0	(7.1)	**0.9**
Regulatory assets	A	234.4	(234.4)	**—**
Total assets		3,775.4	(91.7)	**3,683.7**
Regulatory balances	A, D	—	88.3	**88.3**
Total assets and regulatory balances		3,775.4	(3.4)	**3,772.0**
LIABILITIES AND EQUITY				
Current				
Advance from related party		150.0	—	**150.0**
Accounts payable and accrued liabilities	C	455.7	(29.2)	**426.5**
Customer deposits		37.3	—	**37.3**
Deferred conservation credit		20.0	—	**20.0**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.1	—	**2.1**
Notes payable to related party		60.0	—	**60.0**
Regulatory liabilities	A	2.5	(2.5)	**—**
Total current liabilities		735.6	(39.7)	**695.9**
Notes payable to related party		1,433.2	—	**1,433.2**
Customer deposits		7.4	—	**7.4**
Deferred revenue	C	—	45.7	**45.7**
Post-employment benefits	D	230.8	5.2	**236.0**
Other liabilities		14.4	0.1	**14.5**
Regulatory liabilities	A	180.6	(180.6)	**—**
Total liabilities		2,602.0	(169.3)	**2,432.7**
Equity				
Share capital		556.3	—	**556.3**
Retained earnings	D	604.3	0.9	**605.2**
Contributed surplus		12.8	—	**12.8**
Total equity		1,173.4	0.9	**1,174.3**
Total liabilities and equity		3,775.4	(168.4)	**3,607.0**
Regulatory balances	A	—	165.0	**165.0**
Total liabilities, equity and regulatory balances		3,775.4	(3.4)	**3,772.0**

[All tabular amounts in millions of Canadian dollars]

BALANCE SHEET

As at December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Cash and cash equivalents		84.7	—	**84.7**
Accounts receivable		205.7	—	**205.7**
Unbilled revenue		306.6	—	**306.6**
Income tax receivable		0.2	—	**0.2**
Materials and supplies		8.6	—	**8.6**
Other assets	B	10.0	(0.1)	**9.9**
Regulatory assets	A	11.8	(11.8)	**—**
Assets held for sale		4.0	—	**4.0**
Total current assets		631.6	(11.9)	**619.7**
Property, plant and equipment	A, B, C, D, E, F	2,792.5	432.0	**3,224.5**
Intangible assets	E	197.9	0.8	**198.7**
Deferred tax assets	A	129.8	13.3	**143.1**
Other assets	B	8.1	(6.9)	**1.2**
Regulatory assets	A	564.4	(564.4)	**—**
Total assets		4,324.3	(137.1)	**4,187.2**
Regulatory balances	A, D, E, F	—	197.1	**197.1**
Total assets and regulatory balances		4,324.3	60.0	**4,384.3**
LIABILITIES AND EQUITY				
Current				
Advance from related party		308.0	—	**308.0**
Accounts payable and accrued liabilities	C	535.0	(22.9)	**512.1**
Customer deposits		38.5	—	**38.5**
Deferred revenue	C	1.0	1.2	**2.2**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.6	—	**2.6**
Notes payable to related party		60.0	—	**60.0**
Regulatory liabilities	A	1.6	(1.6)	**—**
Total current liabilities		954.7	(31.3)	**923.4**
Notes payable to related party		1,632.2	—	**1,632.2**
Customer deposits		4.7	—	**4.7**
Deferred revenue	C	—	71.4	**71.4**
Post-employment benefits	D	285.6	1.8	**287.4**
Other liabilities		6.8	1.2	**8.0**
Regulatory liabilities	A	156.2	(156.2)	**—**
Total liabilities		3,040.2	(113.1)	**2,927.1**
Equity				
Share capital		556.3	—	**556.3**
Retained earnings	A, D	715.0	0.1	**715.1**
Contributed surplus		12.8	—	**12.8**
Total equity		1,284.1	0.1	**1,284.2**
Total liabilities and equity		4,324.3	(113.0)	**4,211.3**
Regulatory balances	A	—	173.0	**173.0**
Total liabilities, equity and regulatory balances		4,324.3	60.0	**4,384.3**

[All tabular amounts in millions of Canadian dollars]

The reconciliations of the statement of income and the statement of comprehensive income from US GAAP to IFRS for the year ended December 31, 2014 are as follows:

STATEMENT OF INCOME

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Revenues				
Energy sales	A	2,700.4	(45.4)	**2,655.0**
Distribution revenue	A	554.2	0.9	**555.1**
Other	C	50.6	1.1	**51.7**
		3,305.2	(43.4)	**3,261.8**
Expenses				
Energy purchases		2,700.4	—	**2,700.4**
Operating expenses	A, D	257.8	0.3	**258.1**
Depreciation and amortization	A, C, F	159.4	24.1	**183.5**
		3,117.6	24.4	**3,142.0**
Finance costs	A, E	66.9	(2.5)	**64.4**
Gain on disposals of property, plant and equipment		1.5	—	**1.5**
Income before income taxes		122.2	(65.3)	**56.9**
Income tax expense	A	11.5	2.4	**13.9**
Net income		110.7	(67.7)	**43.0**
Net movements in regulatory balances, net of tax	A, D, E, F	—	66.9	**66.9**
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**

STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax of $12.2	A, D	—	(33.9)	**(33.9)**
Net movements in regulatory balances related to OCI, net of tax of $12.2	A, D	—	33.9	**33.9**
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		110.7	(0.8)	**109.9**

[All tabular amounts in millions of Canadian dollars]

The reconciliation of the statement of changes in equity from US GAAP to IFRS for the year ended December 31, 2014 is as follows:

STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
Share capital		556.3	—	**556.3**
Retained earnings, beginning of year	D	604.3	0.9	**605.2**
Net income after net movements in regulatory balances		110.7	(0.8)	**109.9**
Retained earnings, end of year		715.0	0.1	**715.1**
Contributed surplus		12.8	—	**12.8**
Total equity		1,284.1	0.1	**1,284.2**

Notes to the transitional adjustments

A. Regulatory balances

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the balance sheet. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the statement of income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual regulatory balances.

For LDC, the impact of IFRS 14 at January 1, 2014 was to transfer the ICM eligible in-service capital expenditures *[note 9[m]]* to PP&E, to transfer the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and to transfer all other regulatory debit and credit balances to separate lines below what was formerly known as “Total assets” and “Total liabilities and equity”, respectively. The impact of this change as at January 1, 2014 was to reduce current regulatory assets by $7.1 million, non-current regulatory assets by $234.4 million, deferred tax assets by $23.8 million, current regulatory liabilities by $2.5 million and non-current regulatory liabilities by $180.6 million, and increase PP&E by $157.0 million, regulatory debit balances by $90.2 million and regulatory credit balances by $165.0 million.

As at December 31, 2014, the impact was to reduce current regulatory assets by $11.8 million, non-current regulatory assets by $564.4 million, current regulatory liabilities by $1.6 million and non-current regulatory liabilities by $156.2 million, and increase PP&E by $399.0 million, deferred tax assets by $13.3 million, regulatory debit balances by $179.0 million and regulatory credit balances by $173.0 million. For the year ended December 31, 2014, the impact was to increase distribution revenue by $0.9 million, operating expenses by $2.6 million, income tax expense by $0.8 million, finance costs by $0.1 million, net movements in regulatory balances, net of tax by $45.4 million and net movements in regulatory balances related to OCI, net of tax by $33.9 million, and to decrease energy sales by $45.4 million, depreciation and amortization expense by $2.5 million, and remeasurements of post-employment benefits, net of tax within OCI by $33.9 million.

B. Prepaid lease

Under US GAAP, prepaid land lease was included in other assets. Under IFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to LDC. The impact as at January 1, 2014 and December 31, 2014 was a decrease to current other assets of $0.1 million, a decrease to non-current other assets of $7.1 million and $7.0 million, respectively, and an increase to PP&E of $7.2 million and $7.1 million, respectively.

C. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E. LDC applied IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items for which the deemed cost exemption was applied. As at January 1, 2014, the impact was to increase PP&E by $16.5 million, decrease accounts payable and accrued liabilities by $29.2 million and increase deferred revenue by $45.7 million. As at December 31, 2014, the impact was to increase PP&E by $50.5 million, current deferred revenue by $1.2 million and non-current deferred revenue by $71.4 million, and reduce accounts payable and accrued liabilities by $22.1 million. For the year ended December 31, 2014, $0.7 million was reclassified from depreciation and amortization expense to other revenue.

D. Employee benefits

The attribution methods and attribution periods are different between IFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under IFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise, and amounts related to rate regulation are subsequently reclassified to a regulatory balance on the balance sheets. The impact of these recognition and measurement differences as at January 1, 2014 was an overall decrease to the post-employment benefits liability by $2.8 million and regulatory debit balances of $1.9 million, and an increase to retained earnings of $0.9 million.

As at December 31, 2014, the impact of these recognition and measurement differences was a decrease to PP&E of $0.4 million, regulatory debit balances of $5.7 million (of which $6.1 million related to post-employment benefits, offset by $0.4 million related to IFRS transitional adjustments), post-employment benefit liability of $6.2 million, and an increase to opening retained earnings of $0.9 million. For the year ended December 31, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of $0.6 million, net movements in regulatory balances, net of tax of $1.4 million, and remeasurements of post-employment benefits within pre-tax OCI of $46.1 million, and an increase to net movements in regulatory balances related to pre-tax OCI of $46.1 million.

Under US GAAP, the amount of the actuarial present value of benefits expected to be paid in the next twelve months was presented as a current liability. Under IFRS, it is a policy choice whether or not to separately present a component as current as it relates to post-employment benefits. However, IFRS does specify that short-term employee benefits, such as sick leave benefits, are classified as current if they are expected to be settled wholly within twelve months after the end of the reporting period. LDC elected to present post-employment benefit obligation as non-current since it is not expected to be settled wholly within twelve months. As LDC does not expect to settle all of its sick leave benefits within twelve months, sick leave benefits have been included in the non-current liability as well. This presentation difference resulted in a decrease to current post-employment benefits and an increase to non-current post-employment benefits as at January 1, 2014 and December 31, 2014 in the amount of $8.0 million.

E. Borrowing costs

Under US GAAP, an allowance for funds used during construction was applied based on OEB-prescribed rates on a simple interest basis and capitalized as part of the cost of PP&E and intangible assets where applicable. Under IFRS, the applicable borrowing costs are determined by applying the methodology in IAS 23 to qualifying assets. The capitalization rate under IFRS is based on the weighted average interest rate of LDC's external general borrowings using the effective interest rate method which is applied to the carrying amount of the asset including borrowing costs previously capitalized. In addition, under IFRS, capitalization commences immediately as the expenditure on a qualifying asset is incurred. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to increase PP&E by $2.1 million and intangible assets by $0.5 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by $2.6 million.

F. PP&E derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to LDC from its continued use and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by $26.5 million.

Impact on the statements of cash flows

The changes in classifications of cash flows from US GAAP to IFRS were mainly due to:

- Reclassification of capital contributions received to finance additions to PP&E from investing activities to operating activities, and inclusion of amortization of deferred revenue related to capital contributions in operating activities. Under US GAAP, capital contributions were treated as a reduction of PP&E and associated cash flows were classified as investing activities. Under IFRS, LDC treats capital contributions as deferred revenue and classifies the associated cash flows as operating activities;
- Presentation of income taxes paid and interest paid within the body of the statements of cash flows as part of operating and financing activities, respectively, whereas they were previously disclosed as supplementary information; and
- Reclassification of adjustments relating to regulatory balances within operating activities to "Net movements in regulatory balances" in the application of IFRS 14.

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2016 and 2015

See attached Glossary for abbreviations used in the audited financial statements.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro-Electric System Limited

We have audited the accompanying financial statements of Toronto Hydro-Electric System Limited, which comprise the balance sheets as at December 31, 2016 and December 31, 2015, the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Hydro-Electric System Limited as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 2, 2017
Toronto, Canada

Toronto Hydro-Electric System Limited

BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	2016 $	2015 $
ASSETS		
Current		
Accounts receivable *[notes 4 and 14[b]]*	**226.2**	190.0
Unbilled revenue *[note 14[b]]*	**319.7**	319.5
Income tax receivable	**-**	9.0
Materials and supplies	**9.7**	9.8
Other assets *[note 5]*	**13.5**	9.9
Total current assets	**569.1**	538.2
Property, plant and equipment *[note 6]*	**3,876.3**	3,561.9
Intangible assets *[note 7]*	**217.8**	199.3
Deferred tax assets *[note 20]*	**63.8**	114.3
Other assets *[note 5]*	**1.3**	1.2
Total assets	**4,728.3**	4,414.9
Regulatory balances *[note 8]*	**190.8**	241.7
Total assets and regulatory balances	**4,919.1**	4,656.6
LIABILITIES AND EQUITY		
Current		
Joint bank indebtedness	**50.5**	188.9
Accounts payable and accrued liabilities *[note 9]*	**500.4**	471.6
Income tax payable	**9.0**	-
Customer deposits	**39.1**	37.5
Deferred revenue *[note 10]*	**4.3**	3.7
Deferred conservation credit *[note 3[b]]*	**5.5**	17.9
Notes payable to related party *[notes 11 and 22]*	**304.9**	60.0
Other liabilities *[note 23]*	**3.1**	3.2
Total current liabilities	**916.8**	782.8
Notes payable to related party *[notes 11 and 22]*	**1,830.6**	1,876.0
Customer deposits	**15.0**	9.9
Deferred revenue *[note 10]*	**139.9**	100.3
Post-employment benefits *[note 12]*	**280.5**	296.5
Other liabilities *[note 23]*	**1.9**	4.9
Total liabilities	**3,184.7**	3,070.4
Commitments and contingencies *[notes 23 and 24]*		
Equity		
Share capital *[note 16]*	**556.3**	556.3
Retained earnings	**995.9**	845.5
Contributed surplus	**12.8**	12.8
Total equity	**1,565.0**	1,414.6
Total liabilities and equity	**4,749.7**	4,485.0
Regulatory balances *[note 8]*	**169.4**	171.6
Total liabilities, equity and regulatory balances	**4,919.1**	4,656.6

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF INCOME [in millions of Canadian dollars]		
Year ended December 31	**2016** **$**	2015 **$**
Revenues		
Energy sales	**3,306.2**	2,925.6
Distribution revenue	**647.9**	555.4
Other *[note 17]*	**66.3**	48.3
	4,020.4	3,529.3
Expenses		
Energy purchases	**3,216.9**	2,898.5
Operating expenses *[note 18]*	**267.6**	259.0
Depreciation and amortization *[notes 6 and 7]*	**210.6**	192.8
	3,695.1	3,350.3
Finance costs *[note 19]*	**76.6**	73.2
Gain on disposals of property, plant and equipment	**2.1**	10.1
Income before income taxes	**250.8**	115.9
Income tax expense *[note 20]*	**67.2**	31.5
Net income	**183.6**	84.4
Net movements in regulatory balances	**(77.2)**	17.4
Net movements in regulatory balances arising from deferred tax assets	**44.0**	28.6
Net income after net movements in regulatory balances	**150.4**	130.4

STATEMENTS OF COMPREHENSIVE INCOME [in millions of Canadian dollars]		
Year ended December 31	**2016** **$**	2015 **$**
Net income after net movements in regulatory balances	**150.4**	130.4
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax (2016 - $5.5, 2015 - $nil) *[note 12]*	**15.5**	-
Net movements in regulatory balances related to OCI, net of tax (2016 - $5.5, 2015 - $nil) *[note 12]*	**(15.5)**	-
Other comprehensive income, net of tax	**-**	-
Total comprehensive income	**150.4**	130.4

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	**2016** **$**	2015 **$**
Share capital ***[note 16]***	**556.3**	556.3
Retained earnings, beginning of year	**845.5**	715.1
Net income after net movements in regulatory balances	**150.4**	130.4
Retained earnings, end of year	**995.9**	845.5
Contributed surplus	**12.8**	12.8
Total equity	**1,565.0**	1,414.6

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	2016 $	2015 $
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	**150.4**	130.4
Net movements in regulatory balances	**77.2**	(17.4)
Net movements in regulatory balances arising from deferred tax assets	**(44.0)**	(28.6)
Adjustments		
Depreciation and amortization *[notes 6 and 7]*	**210.6**	192.8
Amortization of deferred revenue *[note 10]*	**(3.8)**	(2.2)
Finance costs	**76.6**	73.2
Income tax expense	**67.2**	31.5
Post-employment benefits	**5.0**	9.1
Gain on disposals of property, plant and equipment	**(2.1)**	(10.1)
Other	**0.7**	0.7
Capital contributions received *[note 10]*	**44.3**	33.0
Net change in other non-current assets and liabilities	**(0.4)**	(0.6)
Increase in customer deposits	**6.7**	4.2
Changes in non-cash working capital balances *[note 21]*	**(14.2)**	20.5
Income tax paid	**(0.9)**	(8.5)
Net cash provided by operating activities	**573.3**	428.0
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 21]*	**(506.6)**	(547.9)
Purchase of intangible assets *[note 21]*	**(39.9)**	(21.1)
Proceeds on disposals of property, plant and equipment	**2.2**	14.4
Net cash used in investing activities	**(544.3)**	(554.6)
FINANCING ACTIVITIES		
Decrease in advance from related party	**-**	(308.0)
Increase in notes payable to related party *[note 11]*	**198.7**	243.1
Repayment of finance lease liability	**(3.1)**	(2.9)
Interest received	**0.3**	1.4
Interest paid	**(86.5)**	(80.6)
Net cash provided by (used in) financing activities	**109.4**	(147.0)
Net increase (decrease) in cash and cash equivalents (joint bank indebtedness) during the year	**138.4**	(273.6)
Cash and cash equivalents (joint bank indebtedness), beginning of year	**(188.9)**	84.7
Joint bank indebtedness, end of year	**(50.5)**	(188.9)

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

Toronto Hydro-Electric System Limited [“LDC”] was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario) in accordance with the Electricity Act. LDC is wholly-owned by Toronto Hydro Corporation [the “Corporation”] and is domiciled in Canada, with its registered office is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

LDC distributes electricity to customers located in the City of Toronto [the “City”] and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities.

2. BASIS OF PRESENTATION

LDC’s audited financial statements have been prepared in accordance with IFRS with respect to the preparation of annual financial information.

These financial statements are presented in Canadian dollars, LDC’s functional currency, and have been prepared on the historical cost basis, except for the valuation of post-employment benefits.

LDC has evaluated the events and transactions occurring after the balance sheet date through March 2, 2017 when LDC’s financial statements were authorized for issue by LDC’s Board of Directors, and identified no events and transactions which required recognition in the financial statements and/or disclosure in the notes to the financial statements.

The summary of significant accounting policies has been disclosed in note 25.

3. REGULATION

The OEB has regulatory oversight of electricity matters in Ontario. The OEB’s authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC’s customers and load.

a) Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the 2015-2019 rate application filed on July 31, 2014 [the "CIR decision and rate order"]. The CIR decision and rate order approved a rate base of $3,232.0 million and revenue requirement of $633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved, on an interim basis, subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively *[note 8[a]]*. On August 22, 2016, LDC filed its 2017 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2017 and ending on December 31, 2017. On December 21, 2016, the OEB issued a decision finalizing LDC's 2017 rates and providing for other deferral and variance account dispositions.

On July 28, 2016, the OEB approved a settlement proposal submitted by LDC and intervenors to the ICM rate application, which provided that there would be no change to the 2015-2019 rate base previously approved in the CIR decision and the 2012-2014 ICM process would be closed with no future disposition to or from ratepayers. Further to this approval, $9.8 million previously recorded as an ICM regulatory credit balance *[note 8]* was recorded as an increase in equity through net movements in regulatory balances in 2016.

b) CDM Activities

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding for CDM programs approved pursuant to the 2011-2014 OPA agreement with in-service dates in 2015 would be allocated toward the 2011-2014 program budget. On March 18, 2015, LDC received approval from the IESO for separate funding of $11.2 million relating to these transitional CDM programs for 2015. Funding was fully received in the third quarter of 2015.

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to its customers and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015. Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. The programs for Oakville Hydro Electricity Distribution Inc. under the joint CDM plan started on January 1, 2016. LDC received

[All tabular amounts in millions of Canadian dollars]

$17.2 million as at December 31, 2015 and $27.7 million in the year ended December 31, 2016 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the balance sheets under current liabilities as deferred conservation credit.

LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro Electricity Distribution Inc. are only being offered under the full cost recovery funding method.

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	2016 $	2015 $
Trade receivables	**214.7**	183.9
Due from related parties *[note 22]*	**10.1**	4.2
Other	**1.4**	1.9
	226.2	190.0

5. OTHER ASSETS

Other assets consist of the following:

	2016 $	2015 $
Prepaid expenses	**12.3**	9.5
Deferred financing costs	**1.6**	1.6
Other	**0.9**	—
Total other assets	**14.8**	11.1
Less: Current portion of other assets relating to:		
Prepaid expenses	**12.3**	9.5
Deferred financing costs	**0.4**	0.4
Other	**0.8**	—
Current portion of other assets	**13.5**	9.9
Non-current portion of other assets	**1.3**	1.2

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2015	2,685.7	137.6	107.2	431.2	3,361.7
Additions/(Transfers)	368.0	67.6	12.5	65.1	513.2
Disposals and retirements	(26.5)	(2.1)	—	—	(28.6)
Balance as at December 31, 2015	3,027.2	203.1	119.7	496.3	3,846.3
Additions/(Transfers)	**381.2**	**111.3**	**61.7**	**(48.1)**	**506.1**
Disposals and retirements	**(32.1)**	**(0.1)**	**(0.3)**	—	**(32.5)**
Balance as at December 31, 2016	**3,376.3**	**314.3**	**181.1**	**448.2**	**4,319.9**
Accumulated depreciation					
Balance as at January 1, 2015	106.1	7.0	24.1	—	137.2
Depreciation	118.9	9.1	22.0	—	150.0
Disposals and retirements	(2.4)	(0.4)	—	—	(2.8)
Balance as at December 31, 2015	222.6	15.7	46.1	—	284.4
Depreciation	**129.3**	**10.3**	**24.3**	—	**163.9**
Disposals and retirements	**(4.6)**	—	**(0.1)**	—	**(4.7)**
Balance as at December 31, 2016	**347.3**	**26.0**	**70.3**	—	**443.6**
Carrying amount					
Balance as at December 31, 2015	2,804.6	187.4	73.6	496.3	3,561.9
Balance as at December 31, 2016	**3,029.0**	**288.3**	**110.8**	**448.2**	**3,876.3**

As at December 31, 2016, Equipment and other included assets under finance lease with cost of $18.2 million [December 31, 2015 - $18.2 million] and accumulated depreciation of $8.3 million [December 31, 2015 - $6.0 million]. For the year ended December 31, 2016, LDC recorded depreciation expense of $2.3 million [2015 - $2.2 million] related to assets under finance lease.

For the year ended December 31, 2016, borrowing costs in the amount of $9.5 million [2015 - $7.0 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.61% [2015 - 3.74%].

Construction in progress additions are net of transfers to the other PP&E categories.

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2015	86.7	19.9	13.2	98.5	218.3
Additions/(Transfers)	14.9	1.8	(1.4)	5.8	21.1
Balance as at December 31, 2015	101.6	21.7	11.8	104.3	239.4
Additions/(Transfers)	**11.9**	**53.8**	**8.4**	**(34.2)**	**39.9**
Balance as at December 31, 2016	**113.5**	**75.5**	**20.2**	**70.1**	**279.3**
Accumulated amortization					
Balance as at January 1, 2015	18.7	0.9	—	—	19.6
Amortization	19.4	1.1	—	—	20.5
Balance as at December 31, 2015	38.1	2.0	—	—	40.1
Amortization	**19.3**	**2.1**	—	—	**21.4**
Balance as at December 31, 2016	**57.4**	**4.1**	—	—	**61.5**
Carrying amount					
Balance as at December 31, 2015	63.5	19.7	11.8	104.3	199.3
Balance as at December 31, 2016	**56.1**	**71.4**	**20.2**	**70.1**	**217.8**

For the year ended December 31, 2016, borrowing costs in the amount of $3.0 million [2015 - $3.8 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.61% [2015 - 3.74%].

Software in development and contributions for work in progress additions are net of transfers to the other intangible asset categories.

Computer software is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 6 years, and from 12 to 25 years, respectively.

[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2016 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Foregone revenue	**61.1**	**19.2**	**(16.0)**	**—**	**64.3**	36	—
OPEB actuarial net loss	**81.2**	**(21.0)**	**—**	**—**	**60.2**	note 8[b]	—
IFRS transitional adjustments	**28.9**	**—**	**(6.1)**	**—**	**22.8**	36	—
Stranded meters	**14.4**	**—**	**(3.0)**	**—**	**11.4**	36	*
LRAM	**9.1**	**4.7**	**(3.3)**	**—**	**10.5**	note 8[e]	*
Gain on disposal	**—**	**—**	**14.5**	**(5.9)**	**8.6**	note 8[f]	*
Named properties	**5.8**	**—**	**(1.2)**	**—**	**4.6**	36	—
OPEB cash versus accrual	**1.8**	**1.1**	**—**	**—**	**2.9**	note 8[h]	—
Smart meters	**10.0**	**—**	**(7.9)**	**—**	**2.1**	4	—
Capital contributions	**1.9**	**—**	**(0.4)**	**—**	**1.5**	36	—
Settlement variances	**25.3**	**—**	**—**	**(25.3)**	**—**	—	*
Other	**2.2**	**1.6**	**—**	**(1.9)**	**1.9**	—	*
	241.7	**5.6**	**(23.4)**	**(33.1)**	**190.8**		

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2015 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB actuarial net loss	81.2	—	—	—	81.2	note 8[b]	—
Foregone revenue	—	61.1	—	—	61.1	46	—
IFRS transitional adjustments	24.2	4.7	—	—	28.9	46	—
Settlement variances	51.7	(26.4)	—	—	25.3	note 8[k]	*
Stranded meters	14.4	—	—	—	14.4	46	—
Smart meters	20.9	—	(10.9)	—	10.0	16	—
LRAM	—	9.1	—	—	9.1	note 8[e]	*
Named properties	—	5.8	—	—	5.8	46	—
Capital contributions	—	1.9	—	—	1.9	46	—
OPEB cash versus accrual	—	1.8	—	—	1.8	note 8[h]	—
Other	4.7	2.0	(0.1)	(4.4)	2.2	10	*
	197.1	60.0	(11.0)	(4.4)	241.7		

* Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.10% for 2016 [January 1, 2015 to March 31, 2015 - 1.47%; April 1, 2015 to December 31, 2015 - 1.10%].

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2016 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	**114.8**	**(49.5)**	**—**	**—**	**65.3**	note 8[j]	—
Settlement variances	**—**	**89.3**	**1.2**	**(27.7)**	**62.8**	note 8[k]	*
Tax-related variances	**26.5**	**—**	**(8.5)**	**(0.5)**	**17.5**	24	*
Derecognition	**9.9**	**2.9**	**—**	**—**	**12.8**	note 8[m]	*
Capital-related revenue requirement	**2.8**	**6.0**	**—**	**—**	**8.8**	note 8[n]	*
ICM	**9.7**	**0.1**	**(9.8)**	**—**	**—**	—	*
Gain on disposal	**5.9**	**—**	**—**	**(5.9)**	**—**	—	*
Other	**2.0**	**1.2**	**(2.0)**	**1.0**	**2.2**	—	*
	171.6	**50.0**	**(19.1)**	**(33.1)**	**169.4**		

	January 1, 2015 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2015 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	143.4	(28.6)	—	—	114.8	note 8[j]	—
Tax-related variances	25.3	1.2	—	—	26.5	10-34	*
Derecognition	—	9.9	—	—	9.9	note 8[m]	*
ICM	2.3	—	7.4	—	9.7	note 8[o]	*
Gain on disposal	—	5.9	—	—	5.9	note 8[f]	*
Capital-related revenue requirement	—	2.8	—	—	2.8	note 8[n]	*
Other	2.0	—	—	—	2.0	10	*
	173.0	(8.8)	7.4	—	171.6		

* Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.10% for 2016 [January 1, 2015 to March 31, 2015 - 1.47%; April 1, 2015 to December 31, 2015 - 1.10%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. During 2016, residual regulatory balances approved by the OEB for disposition over a 10-month period commencing on March 1, 2016 were reclassified from "Other" regulatory debit balance, settlement variances and tax-related variances into "Other" regulatory credit balance. For the year ended December 31, 2015, LDC recorded an impairment of $4.4 million on regulatory debit balances within 'Other' as a result of the CIR decision and rate order. There was no impairment recorded for the year ended December 31, 2016.

[All tabular amounts in millions of Canadian dollars]

Reconciliation between the net movements in regulatory balances shown above and the net movements presented on the statements of income and the statements of comprehensive income is as follows:

	2016 $	2015 $
Total movements per regulatory debit balances table	**(50.9)**	44.6
Total movements per regulatory credit balances table	**2.2**	1.4
Total net movements	**(48.7)**	46.0
Net movements per financial statements:		
Net movements in regulatory balances	**(77.2)**	17.4
Net movements in regulatory balances arising from deferred tax assets	**44.0**	28.6
Net movements in regulatory balances related to OCI, net of tax	**(15.5)**	—
Total net movements per financial statements	**(48.7)**	46.0

Ontario's electricity industry regulatory developments and other governmental policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. There is a risk that the OEB may disallow the recovery of a portion of certain costs incurred in the current period through future rates or disagree with the proposed recovery period. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, any impairment will be recorded in the period when the assessment is made.

The regulatory balances of LDC consist of the following:

a) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the CIR decision and rate order, the OEB approved foregone revenue rate riders commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates *[note 3[a]]*.

b) OPEB Actuarial Net Loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2016 of $21.0 million is related to the actuarial gain recorded for the year [2015 - $nil] *[note 12[a]]*; however, the net position is an actuarial loss that is recoverable in future rates. LDC has not sought recovery to date from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction when recovery is sought.

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the balance commencing on March 1, 2016 *[note 3[a]]*.

d) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. In the CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 commencing on March 1, 2016 *[note 3[a]]*.

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances to be recovered through rates commencing on May 1, 2014. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

e) Lost Revenue Adjustment Mechanism ["LRAM"]

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. New variances are accrued based on current CDM activities while approved variances up to 2014 are disposed through OEB-approved rate riders over twelve months commencing on January 1, 2017. Variances pertaining to years subsequent to 2014 have yet to be applied for disposition.

f) Gain on Disposal

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (debits), and the after-tax gain realized on two significant LDC properties (credits). As part of the CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on both properties back to ratepayers, effective from March 1, 2016 to December 31, 2018. During 2015, the gain on one of the properties was realized by LDC resulting in a net credit balance at December 31, 2015. As at December 31, 2016, the amount disposed through the rate riders exceeded the gain realized on the first property as the second property was still not sold, resulting in a net debit balance. Upon the sale of the second property, the account would revert to a credit balance if actual net gains and tax savings exceed the total amount of the approved rate riders. LDC expects to seek disposition for any residual balance in a future rate application.

g) Named Properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale in between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the CIR decision and rate order, the OEB approved disposition of this variance commencing on March 1, 2016 *[note 3[a]]*.

h) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. The OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. LDC does not consider the OEB's direction to constitute a change in the basis of its recovery of OPEB costs at this time, considering the OEB's approval of the variance account. The timing of disposition of the balance is currently unknown.

i) Capital Contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the CIR decision and rate order, the OEB approved disposition of this variance commencing on March 1, 2016 *[note 3[a]]*.

j) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 *[note 25[a]]* and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. LDC did not apply for disposition of the balance since it is being reversed through timing differences in the recognition of deferred tax assets.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $36.4 million as at December 31, 2016 [December 31, 2015 - $42.1 million] offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $10.4 million as at December 31, 2016 [December 31, 2015 - $26.2 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was $39.3 million as at December 31, 2016 [December 31, 2015 - $98.9 million].

k) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. New variances are accrued based on current charges while approved variances up to 2015, including carrying charges forecasted to the end of 2016, are disposed through OEB-approved rate riders over twelve months commencing on January 1, 2017. Settlement variances pertaining to years subsequent to 2015 have yet to be applied for disposition.

l) Tax-related Variance Accounts

This regulatory credit balance arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates. In the CIR decision and rate order, the OEB approved disposition of the balance commencing on March 1, 2016 *[note 3[a]]*.

m) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the CIR decision and rate order *[note 3[a]]*. The timing of disposition of the balance is currently unknown.

n) Capital-related Revenue Requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. If the cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeds the actual capital-related revenue requirement over the same rate period, LDC must apply for disposition of this account in order to clear the balance to ratepayers through a rate rider. This account was approved by the OEB in the CIR decision and rate order *[note 3[a]]*. The timing of disposition of the balance is currently unknown.

[All tabular amounts in millions of Canadian dollars]

o) Incremental Capital Module

This regulatory balance related to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013. The balance of $9.8 million represented the net of amounts collected through the ICM rate riders from 2013 to 2014 and amounts recognized in profit or loss in relation to the eligible in-service capital expenditures. Further to the OEB's decision of July 28, 2016, the entire balance of $9.8 million was recorded as an increase in equity through net movements in regulatory balances in 2016 *[note 3[a]]*.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2016 $	2015 $
Trade payables	**323.6**	316.2
Accrued liabilities	**116.3**	100.7
Due to related parties *[note 22]*	**58.7**	52.8
Other	**1.8**	1.9
	500.4	471.6

10. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which have not yet been recognized into other revenue, and revenue not yet recognized from ancillary services *[note 25[i]]*.

	2016 $	2015 $
Capital contributions, beginning of year	**103.0**	72.6
Capital contributions received	**44.3**	33.0
Amortization	**(3.8)**	(2.2)
Other	**(0.3)**	(0.4)
Capital contributions, end of year	**143.2**	103.0
Other	**1.0**	1.0
Total deferred revenue	**144.2**	104.0
Less: Current portion of deferred revenue relating to:		
Capital contributions	**3.3**	2.7
Other	**1.0**	1.0
Current portion of deferred revenue	**4.3**	3.7
Non-current portion of deferred revenue	**139.9**	100.3

[All tabular amounts in millions of Canadian dollars]

11. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	2016 $	2015 $
Notes payable to related party:		
5.20% Long-term note payable to the Corporation due November 14, 2017	**245.1**	245.1
4.54% Long-term note payable to the Corporation due November 12, 2019	**245.1**	245.1
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0
3.59% Long-term note payable to the Corporation due November 18, 2021	**300.0**	300.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	200.0
3.60% Long-term note payable to the Corporation due July 28, 2045	**200.0**	200.0
3.988% Long-term note payable to the Corporation due April 9, 2063	**45.0**	45.0
2.572% Long-term note payable to the Corporation due August 25, 2026	**200.0**	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	15.0
Total notes payable to related party	**2,145.2**	1,945.2
Less: Unamortized debt issuance costs	**9.7**	9.2
Current portion of notes payable to related party *[note 22]*	**304.9**	60.0
Long-term portion of notes payable to related party *[note 22]*	**1,830.6**	1,876.0

All notes payable to related party of LDC rank equally.

On March 16, 2015, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on July 28, 2045, which bears interest at a rate of 3.60% per annum. Interest is calculated and payable semi-annually in arrears on January 28 and July 28 of each year. The net proceeds from the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

On September 2, 2015, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $45.0 million payable on April 9, 2063, which bears interest at a rate of 3.988% per annum. Interest is calculated and payable semi-annually in arrears on April 9 and October 9 of each year. The net proceeds from the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

On June 14, 2016, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on August 25, 2026, which bears interest at a rate of 2.572% per annum. Interest is calculated and payable semi-annually in arrears on February 25 and August 25 of each year. The net proceeds from the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

[All tabular amounts in millions of Canadian dollars]

12. EMPLOYEE FUTURE BENEFITS

Pension

LDC's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2016, the OMERS plan was 93.4% funded [December 31, 2015 - 91.5%]. OMERS has a strategy to return the plan to a fully funded position. LDC is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2016, LDC's contributions were $17.3 million [2015 - $17.2 million], representing less than five percent of total contributions to the OMERS plan. LDC expects to contribute approximately $18.8 million to the OMERS plan in 2017.

Post-employment benefits other than pension

a) Benefit obligation

	2016 $	2015 $
Balance, beginning of year	**296.5**	287.4
Current service cost	**5.8**	5.6
Interest cost	**11.7**	11.4
Benefits paid	**(10.9)**	(9.3)
Experience loss (gain) (1)	**(4.2)**	0.9
Actuarial gain arising from changes in demographic assumptions (1)	**(17.5)**	—
Actuarial gain arising from changes in financial assumptions (1)	**(1.6)**	—
Transfer from related parties	**0.7**	0.5
Balance, end of year	**280.5**	296.5

(1) Actuarial loss (gain) on accumulated sick leave credits of ($2.1) million [2015 - $0.8 million] is recognized in benefit cost *[note 12[c]]* and ($0.2) million in transfer from related parties [2015 - $0.1 million], and ($21.0) million [2015 - $nil] of actuarial gain on medical, dental and life insurance benefits is recognized in OCI *[note 12[d]]*.

The weighted average duration of the benefit obligation as at December 31, 2016 is 16.7 years [2015 – 17.1 years].

b) Amounts recognized in regulatory balances

As at December 31, 2016, the amount recognized in regulatory balances related to net actuarial loss and IFRS transitional adjustments was $60.2 million [December 31, 2015 - $81.2 million] *[note 8[b]]*.

[All tabular amounts in millions of Canadian dollars]

c) Benefit cost recognized

	2016 $	2015 $
Current service cost	**5.8**	5.6
Interest cost	**11.7**	11.4
Actuarial loss (gain) on other employee benefits *[note 12[a]]*	**(2.1)**	0.8
Benefit cost	**15.4**	17.8
Capitalized to PP&E and intangible assets	**6.4**	7.7
Charged to operating expenses	**9.0**	10.1

d) Amounts recognized in OCI

	2016 $	2015 $
Actuarial gain *[note 12[a]]*	**(21.0)**	—
Income tax expense in OCI *[note 20]*	**5.5**	—
Remeasurements of post-employment benefits, net of tax	**(15.5)**	—
Net movements in regulatory balances related to OCI, net of tax	**15.5**	—
OCI, net of tax	**—**	—

e) Significant assumptions

	2016	2015
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	**4.00**	4.00
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.50**	6.00
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.00**	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	**2015**	2015
For other retirements	**2018**	2018

f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

[All tabular amounts in millions of Canadian dollars]

Changes in key assumptions would have had the following effect on the benefit obligation:

	Change in assumption	2016 $	2015 $
As reported		**280.5**	296.5
Discount rate	1% ↑	**(42.0)**	(45.5)
	1% ↓	**54.0**	54.1
Medical and dental cost trend rate	1% ↑	**36.1**	38.6
	1% ↓	**(32.3)**	(34.7)

13. CAPITAL MANAGEMENT

LDC's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents, investments or borrowings through TH Energy or the Corporation) to meet the needs of the business; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

LDC monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. LDC manages capital by preparing short-term and long-term cash flow forecasts. In addition, LDC borrows from TH Energy or the Corporation as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in LDC's approach to capital management during the year. As at December 31, 2016, LDC's definition of capital included bank indebtedness, borrowings through the Corporation and obligations under finance leases, including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2015. As at December 31, 2016, equity amounted to $1,565.0 million [December 31, 2015 - $1,414.6 million], and bank indebtedness, borrowings through the Corporation and obligations under finance leases, including the current portion thereof, amounted to $2,191.0 million [December 31, 2015 - $2,132.9 million].

14. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2016 and December 31, 2015, the fair values of cash and cash equivalents, accounts receivable, unbilled revenue, bank indebtedness, advance from related party, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments *[note 25[j]]*. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

[All tabular amounts in millions of Canadian dollars]

The carrying amounts and fair values of LDC's notes payable consist of the following:

	2016 $		2015 $	
	Carrying amount	Fair value [(1)]	Carrying amount	Fair value [(1)]
Long-term notes payable to the Corporation				
5.20% due November 14, 2017	**244.9**	**253.7**	244.7	262.1
4.54% due November 12, 2019	**244.6**	**265.6**	244.4	271.5
5.59% due May 21, 2040	**198.8**	**253.3**	198.8	248.2
3.59% due November 18, 2021	**299.0**	**322.9**	298.9	326.2
2.96% due April 10, 2023	**249.1**	**259.7**	249.0	259.7
4.01% due April 9, 2063	**198.7**	**201.2**	198.7	194.2
4.13% due September 16, 2044	**198.5**	**209.4**	198.4	203.4
3.60% due July 28, 2045	**198.6**	**191.3**	198.6	185.2
3.988% due April 9, 2063	**44.5**	**45.1**	44.5	43.5
2.572% due August 25, 2026	**198.8**	**194.6**	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**16.0**	15.0	16.1
	2,135.5	**2,257.8**	1,936.0	2,055.1

(1) The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy *[note 25[j]]*.

b) Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by LDC for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

Credit risk

LDC is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. LDC's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. LDC monitors and limits its exposure to credit risk on a continuous basis.

LDC is subject to credit risk with respect to customer non-payment of electricity bills. As at December 31, 2016, LDC had approximately 761,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2016, LDC held security deposits in the amount of $54.1 million [December 31, 2015 - $47.4 million], of which $30.0 million [December 31, 2015 - $25.1 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. As at December 31, 2016, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by LDC's treasury policies on assessing and monitoring the credit exposures of counterparties.

LDC did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2016 and December 31, 2015.

[All tabular amounts in millions of Canadian dollars]

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2016 $	2015 $
Accounts receivable (net of allowance for doubtful accounts)		
Outstanding for not more than 30 days	**196.7**	170.5
Outstanding for more than 30 days and not more than 120 days	**25.4**	16.4
Outstanding for more than 120 days	**4.1**	3.1
Total accounts receivable	**226.2**	190.0
Unbilled revenue	**319.7**	319.5
Total accounts receivable and unbilled revenue	**545.9**	509.5

LDC has a broad base of customers. As at December 31, 2016 and December 31, 2015, LDC's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2016 $	2015 $
Balance, beginning of year	**(11.5)**	(11.8)
Provision for doubtful accounts	**(5.5)**	(7.1)
Write-offs	**7.6**	7.6
Recoveries	**(0.3)**	(0.2)
Balance, end of year	**(9.7)**	(11.5)

Unbilled revenue represents amounts for which LDC has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2016 and December 31, 2015.

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 12[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents, notes payable to related party, and customer deposits. Notes payable to related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2016, aside from the valuation of its post-employment benefit obligations, LDC was exposed to interest rate risk predominately from notes payable to related party and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. LDC estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $1.0 million to annual finance costs.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

2016						
	Due within 1 year $	**Due within 2 years $**	**Due within 3 years $**	**Due within 4 years $**	**Due within 5 years $**	**Due after 5 years $**
Bank indebtedness	**50.5**	—	—	—	—	—
Accounts payable and accrued liabilities [(1)]	**481.9**	—	—	—	—	—
Obligations under finance lease	**3.2**	**1.6**	—	—	—	—
Long-term notes payable to the Corporation						
5.20% due November 14, 2017	**245.1**	—	—	—	—	—
4.54% due November 12, 2019	—	—	**245.1**	—	—	—
5.59% due May 21, 2040	—	—	—	—	—	**200.0**
3.59% due November 18, 2021	—	—	—	—	**300.0**	—
2.96% due April 10, 2023	—	—	—	—	—	**250.0**
4.01% due April 9, 2063	—	—	—	—	—	**200.0**
4.13% due September 16, 2044	—	—	—	—	—	**200.0**
3.60% due July 28, 2045	—	—	—	—	—	**200.0**
3.988% due April 9, 2063	—	—	—	—	—	**45.0**
2.572% due August 25, 2026	—	—	—	—	—	**200.0**
Demand note payable to the Corporation due on demand	**45.0**	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	**85.5**	**77.8**	**71.4**	**65.8**	**60.3**	**1,014.0**
	926.2	**79.4**	**316.5**	**65.8**	**360.3**	**2,309.0**

(1) Accounts payable and accrued liabilities exclude $18.5 million of accrued interest on long-term notes payable and demand notes payable included within “Interest payments on long-term notes payable and demand notes payable”.

Foreign exchange risk

As at December 31, 2016, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

15. FINANCIAL ASSISTANCE

As at December 31, 2016, $33.4 million [December 31, 2015 - $32.4 million] of letters of credit had been issued by the Corporation, on behalf of LDC, under its $75.0 million demand facility mainly to support LDC’s prudential requirements with the IESO.

[All tabular amounts in millions of Canadian dollars]

16. SHARE CAPITAL

Share capital consists of the following:

	2016 $	2015 $
Authorized		
The authorized share capital of LDC consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**556.3**	556.3

17. OTHER REVENUE

Other revenue consists of the following:

	2016 $	2015 $
Other regulatory service charges	**16.7**	13.5
Ancillary services	**15.2**	9.9
Pole and duct rentals	**12.0**	10.5
Street lighting service fee	**5.8**	4.7
Amortization of deferred revenue	**3.8**	2.2
Miscellaneous	**12.8**	7.5
	66.3	48.3

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2016 $	2015 $
Salaries and benefits	**218.9**	224.9
External services	**108.6**	93.1
Materials and supplies	**16.4**	14.8
Other support costs (1)	**32.2**	37.7
Less: Capitalized costs	**(108.5)**	(111.5)
	267.6	259.0

(1) Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2016, LDC recognized operating expenses of $7.6 million related to materials and supplies used to service electricity distribution assets [2015 - $6.6 million].

[All tabular amounts in millions of Canadian dollars]

19. FINANCE COSTS

Finance costs consist of the following:

	2016 $	2015 $
Interest income	**(0.3)**	(1.4)
Interest expense		
Interest on long-term debt [1]	**85.4**	79.8
Interest on short-term debt	**3.6**	4.5
Other interest	**0.5**	1.1
Capitalized borrowing costs	**(12.6)**	(10.8)
	76.6	73.2

[1] Includes amortization of debt issuance costs, discounts and premiums.

20. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

	2016 $	2015 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**250.8**	115.9
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**66.5**	30.7
Other	**0.7**	0.8
Income tax expense	**67.2**	31.5
Effective tax rate	**26.8%**	27.2%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [1]	**173.6**	133.3
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**46.0**	35.3
Temporary differences recoverable in future rates	**(22.7)**	(31.7)
Other	**(0.1)**	(0.7)
Income tax expense and income tax recorded in net movements in regulatory balances	**23.2**	2.9
Effective tax rate	**13.4%**	2.2%

[1] Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

[All tabular amounts in millions of Canadian dollars]

Income tax expense as presented in the statements of income and OCI are as follows:

	2016 $	2015 $
Income tax expense	**67.2**	31.5
Income tax recorded in net movements in regulatory balances	**(44.0)**	(28.6)
Income tax expense and income tax recorded in net movements in regulatory balances	**23.2**	2.9
Income tax expense in OCI *[note 12[d]]*	**5.5**	—
Income tax recovery in OCI recorded in net movements in regulatory balances	**(5.5)**	—
Income tax expense in OCI	**—**	—

Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

	2016 $	2015 $
Current tax expense		
Current year	**24.4**	3.1
Adjustment for tax positions taken in prior periods	**(2.2)**	(0.3)
	22.2	2.8
Deferred tax expense		
Origination and reversal of temporary differences	**1.0**	0.1
Income tax expense and income tax recorded in net movements in regulatory balances	**23.2**	2.9

Deferred tax assets consist of the following:

	Net balance, January 1 2016 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2016 $
PP&E and intangible assets	**34.5**	**(22.8)**	**—**	**11.7**
Post-employment benefits	**78.6**	**1.2**	**(5.5)**	**74.3**
Other taxable temporary differences	**1.2**	**(23.4)**	**—**	**(22.2)**
	114.3	**(45.0)**	**(5.5)**	**63.8**

	Net balance, January 1 2015 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2015 $
PP&E and intangible assets	55.0	(20.5)	—	34.5
Post-employment benefits	76.2	2.4	—	78.6
Other taxable temporary differences	11.9	(10.7)	—	1.2
	143.1	(28.8)	—	114.3

LDC had recorded a net deferred tax asset as it expects to earn sufficient taxable income to realize the future reversal of deductible temporary differences.

[All tabular amounts in millions of Canadian dollars]

21. STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided/(used) cash as follows:

	2016 $	2015 $
Accounts receivable	**(36.5)**	14.3
Unbilled revenue	**(0.2)**	(12.9)
Income tax receivable	**9.0**	(8.8)
Materials and supplies	**0.1**	(1.2)
Other current assets	**(3.6)**	—
Accounts payable and accrued liabilities	**19.9**	9.1
Income tax payable	**9.0**	—
Deferred revenue	**0.6**	1.5
Deferred conservation credit	**(12.4)**	17.9
Other current liabilities	**(0.1)**	0.6
	(14.2)	20.5

Reconciliation between the amount presented on the statements of cash flows and total additions to PP&E and intangible assets is as follows:

	2016 $	2015 $
Purchase of PP&E, cash basis	**506.6**	547.9
Net change in accruals related to PP&E	**(2.3)**	(36.4)
Other	**1.8**	1.7
Total additions to PP&E	**506.1**	513.2
Purchase of intangible assets, cash basis	**39.9**	21.1
Total additions to PP&E and intangible assets	**546.0**	534.3

[All tabular amounts in millions of Canadian dollars]

22. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which wholly owns the Corporation, the Corporation and TH Energy, a wholly-owned subsidiary of the Corporation.

	City $	Corporation $	TH Energy $
For period ended December 31, 2016			
Revenues	**258.5**	—	**8.7**
Operating expenses and capital expenditures	**26.9**	**1.5**	**0.9**
Finance costs	—	**85.8**	—
As at December 31, 2016			
Accounts receivable	**9.3**	—	**0.8**
Unbilled revenue	**23.1**	—	—
Accounts payable and accrued liabilities	**41.0**	**17.7**	—
Current portion of notes payable to related party	—	**304.9**	—
Long-term portion of notes payable to related party	—	**1,830.6**	—
Customer deposits	**14.1**	—	—
Deferred revenue	**3.0**	—	—

	City $	Corporation $	TH Energy $
For period ended December 31, 2015			
Revenues	222.6	—	7.6
Operating expenses and capital expenditures	19.7	3.6	0.5
Finance costs	—	80.4	—
As at December 31, 2015			
Accounts receivable	3.2	—	1.0
Unbilled revenue	20.8	—	—
Accounts payable and accrued liabilities	36.6	16.2	—
Current portion of notes payable to related party	—	60.0	—
Long-term portion of notes payable to related party	—	1,876.0	—
Customer deposits	11.7	—	—
Deferred revenue	1.0	—	—

Revenues represent amounts charged to the City primarily for electricity and ancillary services, and to TH Energy for street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services, the Corporation for purchased corporate and management services, and TH Energy for the provision of goods and services. Finance costs represent interest charged by the Corporation on the notes payable *[note 11]*.

Accounts receivable represents receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation. Notes payable to related party represent amounts borrowed from the Corporation *[note 11]*. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

[All tabular amounts in millions of Canadian dollars]

Key management personnel include LDC's senior executive officers and members of the Board of Directors. The compensation costs associated with the key management personnel are as follows:

	2016 $	**2015 $**
Short-term employee benefits	**3.7**	4.2
Post-employment benefits	**1.0**	1.0
Termination benefits	—	0.9
	4.7	6.1

23. COMMITMENTS

Operating leases and capital projects

As at December 31, 2016, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases $	**Capital projects (2) and other $**
Less than one year	**2.6**	**20.2**
Between one and five years	**3.0**	**2.5**
Total amount of future minimum payments (1)	**5.6**	**22.7**

(1) Refer to note 14 for financial commitments excluded from the table above.
(2) Mainly commitments for construction services.

Operating lease expense for the year ended December 31, 2016 was $6.4 million [2015 - $6.3 million].

Finance leases

As at December 31, 2016 and December 31, 2015, reconciliation between the future minimum lease payments and their present value was as follows:

	2016 $			**2015 $**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	**3.2**	**0.2**	**3.0**	3.5	0.3	3.2
Between one and five years	**1.6**	—	**1.6**	5.0	0.2	4.8
More than five years	—	—	—	—	—	—
	4.8	**0.2**	**4.6**	8.5	0.5	8.0
Current portion included in Other liabilities			**3.0**			3.2
Non-current portion included in Other liabilities			**1.6**			4.8

24. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any applicable liability insurance policies which LDC believes would cover any damages which may become payable by LDC in connection with these actions, subject to such claim not being disputed by the insurers.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14 *Regulatory Deferral Accounts* [“IFRS 14”]:

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about LDC’s financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. LDC elected to early adopt IFRS 14 for the year ended December 31, 2015.

LDC has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the “Accounting Procedures Handbook for Electricity Distributors”. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding LDC’s regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on LDC’s balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management’s judgment, the balances are recorded in LDC’s statements of income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the balance sheets, the statements of income and the statements of comprehensive income as net movements in regulatory balances and net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB’s regulations and decisions.

b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the statements of cash flows, cash and cash equivalents (joint bank indebtedness) include bank overdrafts that are repayable on demand and form an integral part of LDC's cash management.

c) Accounts receivable and unbilled revenue

Accounts receivable is recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings with adjustments mainly for assumptions related to seasonality and weighted average price. The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable, and the amount of the related impairment loss is recognized in the statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When LDC considers that there are no realistic prospects of recovery of the financial assets, the relevant amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and LDC considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

d) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

e) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to LDC and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to LDC from its continued use. Any gain or loss arising on derecognition is recorded in the statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the difference between the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the statements of income.

[All tabular amounts in millions of Canadian dollars]

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.5% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Assets under finance lease	1.0% to 14.3%
Other capital assets	4.0% to 25.0%

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that LDC will obtain ownership by the end of the lease term. Assets under finance lease included a 99-year land lease. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

f) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable.

Amortization begins when an asset becomes available for use. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed each financial year-end and adjusted if appropriate.

g) Impairment of non-financial assets

LDC reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. LDC has determined that its assets are a single CGU due to interdependencies of its assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

h) Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is LDC's weighted average cost of borrowing, and is applied to the carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Capitalization commences immediately as the expenditure on a qualifying asset is incurred. Borrowing costs are included in PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

i) Revenue recognition

Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. LDC applies judgment to determine whether revenues are recorded on a gross or net basis. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. LDC has primary responsibility for the delivery of electricity to the customer. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the balance sheets and within net movements in regulatory balances on the statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

Other revenue, which includes revenue from services ancillary to the electricity distribution, delivery of street lighting services, and pole and duct rentals, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue not yet recognized from ancillary services is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

j) Financial instruments

All financial assets are classified as "Loans and Receivables" and all financial liabilities are classified as "Other Financial Liabilities". These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

LDC uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the balance sheets:

- Cash, cash equivalents and short-term investments are classified as “Loans and Receivables” and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as “Loans and Receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Bank indebtedness is classified as “Other Financial Liabilities” and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Advance from related party is classified as “Other Financial Liabilities” and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amount approximates fair value due to the short maturity of this instrument.

- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Customer deposits are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Obligations under finance leases are classified as “Other Financial Liabilities” and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Notes payable to related party are classified as “Other Financial Liabilities” and are initially measured at fair value. The carrying amounts are carried at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC’s current borrowing rate for similar debt instruments *[note 14[a]]*. Debt issuance costs incurred in connection with LDC’s debt offerings are capitalized as part of the carrying amount of the notes payable and amortized over the term of the related notes payable, using the effective interest method, and the amortization is included in finance costs.

k) Fair value measurements

LDC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect LDC’s assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if LDC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Multi-employer pension plan

LDC's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the statements of income in the period when the service is rendered by the employee, since it is not practicable to determine LDC's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

LDC has a number of unfunded benefit plans providing post-employment benefits (other than pension) to its employees. LDC pays certain medical, dental and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees. LDC also pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2016.

m) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

n) Income taxes

Under the Electricity Act, LDC is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in LDC paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of income.

o) Use of judgments and estimates

The preparation of LDC's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in note 25[i] relating to principal versus agent determination.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 25[a] – Recognition and measurement of regulatory balances;
- Note 25[i] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 25[e] and 25[f] – Determination of useful lives of depreciable assets;
- Notes 25[l] and 12 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 25[n] and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 24 – Recognition and measurement of provisions and contingencies.

p) Changes in accounting policies

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments were adopted effective January 1, 2016. The adoption of these amendments has no material impact on LDC's financial statements.

q) Future accounting pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016, and have not yet been applied in preparing these financial statements. LDC continues to analyze these standards and has determined that the following could have an impact on its financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers* ["IFRIC 18"]. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018.

In April 2016, the IASB issued amendments to IFRS 15, which was originally issued in May 2014. These amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments also include two additional transitional reliefs. The amendments are effective for annual periods beginning on or after January 1, 2018, consistent with the effective date of the standard.

LDC will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach with practical expedients. LDC has completed its initial assessment of the key revenue streams and continues to evaluate the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"], which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. LDC is currently evaluating the impact of the new standard.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"] and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 is also adopted.

LDC will elect to early adopt IFRS 16 on January 1, 2018 using the full retrospective approach for lessee's measurement of leases with practical expedients, and apply the practical expedient on lease definition. LDC has completed its initial assessment of its existing operating leases and anticipates that IFRS 16 will not have a significant impact on the LDC's consolidated financial statements.

Disclosure Initiative

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments are expected to increase disclosures relating to changes in liabilities arising from financing activities with no impact to the LDC's financial position or results of operations.

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro-Electric System Limited

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Hydro-Electric System Limited as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 6, 2018
Toronto, Canada

Toronto Hydro-Electric System Limited

BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	**2017** **$**	2016 $
ASSETS		
Current		
Accounts receivable *[notes 4 and 15[b]]*	**217.2**	226.2
Unbilled revenue *[note 15[b]]*	**276.0**	319.7
Materials and supplies	**9.3**	9.7
Other assets *[note 5]*	**12.7**	13.5
Assets held for sale *[note 8]*	**8.7**	-
Total current assets	**523.9**	569.1
Property, plant and equipment *[note 6]*	**4,107.8**	3,876.3
Intangible assets *[note 7]*	**296.2**	217.8
Deferred tax assets *[note 21]*	**57.0**	63.8
Other assets *[note 5]*	**3.0**	1.3
Total assets	**4,987.9**	4,728.3
Regulatory balances *[note 9]*	**199.9**	190.8
Total assets and regulatory balances	**5,187.8**	4,919.1
LIABILITIES AND EQUITY		
Current		
Bank indebtedness	**125.0**	50.5
Accounts payable and accrued liabilities *[note 10]*	**513.3**	500.4
Income tax payable	**12.5**	9.0
Customer deposits	**49.2**	39.1
Deferred revenue *[note 11]*	**9.9**	4.3
Deferred conservation credit *[note 3[c]]*	**9.3**	5.5
Notes payable to related party *[notes 12 and 23]*	**60.0**	304.9
Other liabilities *[note 24]*	**1.5**	3.1
Total current liabilities	**780.7**	916.8
Notes payable to related party *[notes 12 and 23]*	**2,029.9**	1,830.6
Customer deposits	**8.9**	15.0
Deferred revenue *[note 11]*	**178.8**	139.9
Post-employment benefits *[note 13]*	**313.0**	280.5
Other liabilities *[note 24]*	**0.2**	1.9
Total liabilities	**3,311.5**	3,184.7
Commitments, contingencies and subsequent events *[notes 2, 24 and 25]*		
Equity		
Share capital *[note 17]*	**556.3**	556.3
Retained earnings	**1,147.2**	995.9
Contributed surplus	**12.8**	12.8
Total equity	**1,716.3**	1,565.0
Total liabilities and equity	**5,027.8**	4,749.7
Regulatory balances *[note 9]*	**160.0**	169.4
Total liabilities, equity and regulatory balances	**5,187.8**	4,919.1

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	2017 $	2016 $
Revenues		
Energy sales	**3,017.8**	3,306.2
Distribution revenue	**724.2**	647.9
Other *[note 18]*	**96.7**	66.3
	3,838.7	4,020.4
Expenses		
Energy purchases	**3,063.5**	3,216.9
Operating expenses *[note 19]*	**284.2**	267.6
Depreciation and amortization *[notes 6 and 7]*	**222.3**	210.6
	3,570.0	3,695.1
Finance costs *[note 20]*	**(81.0)**	(76.6)
Gain on disposals of property, plant and equipment	**9.8**	2.1
Income before income taxes	**197.5**	250.8
Income tax expense *[note 21]*	**(44.2)**	(67.2)
Net income	**153.3**	183.6
Net movements in regulatory balances *[note 9]*	**(13.1)**	(77.2)
Net movements in regulatory balances arising from deferred tax assets *[note 9]*	**13.2**	44.0
Net income after net movements in regulatory balances	**153.4**	150.4

STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	2017 $	2016 $
Net income after net movements in regulatory balances	**153.4**	150.4
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax (2017 - $6.7, 2016 - $5.5) *[note 13]*	**(18.4)**	15.5
Net movements in regulatory balances related to OCI, net of tax (2017 - $6.7, 2016 - $5.5) *[note 13]*	**18.4**	(15.5)
Other comprehensive income, net of tax	**-**	-
Total comprehensive income	**153.4**	150.4

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	**2017** **$**	2016 **$**
Share capital ***[note 17]***	**556.3**	556.3
Retained earnings, beginning of year	**995.9**	845.5
Net income after net movements in regulatory balances	**153.4**	150.4
Dividends *[notes 17 and 23]*	**(2.1)**	-
Retained earnings, end of year	**1,147.2**	995.9
Contributed surplus	**12.8**	12.8
Total equity	**1,716.3**	1,565.0

See accompanying notes to the financial statements.

Toronto Hydro-Electric System Limited

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	2017 $	2016 $
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	**153.4**	150.4
Net movements in regulatory balances *[note 9]*	**13.1**	77.2
Net movements in regulatory balances arising from deferred tax assets *[note 9]*	**(13.2)**	(44.0)
Adjustments		
Depreciation and amortization *[notes 6 and 7]*	**222.3**	210.6
Amortization of deferred revenue *[note 11]*	**(4.7)**	(3.8)
Finance costs	**81.0**	76.6
Income tax expense	**44.2**	67.2
Post-employment benefits	**7.4**	5.0
Gain on disposals of property, plant and equipment	**(9.8)**	(2.1)
Other	**1.1**	0.7
Capital contributions received *[note 11]*	**50.8**	44.3
Net change in other non-current assets and liabilities	**(6.5)**	(0.4)
Increase in customer deposits	**4.0**	6.7
Changes in non-cash working capital balances *[note 22]*	**60.7**	(14.2)
Income tax paid	**(22.1)**	(0.9)
Net cash provided by operating activities	**581.7**	573.3
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 22]*	**(433.8)**	(506.6)
Purchase of intangible assets *[note 22]*	**(93.4)**	(39.9)
Proceeds on disposals of property, plant and equipment	**12.5**	2.2
Net cash used in investing activities	**(514.7)**	(544.3)
FINANCING ACTIVITIES		
Issuance of notes payable to related party *[note 12]*	**198.6**	198.7
Repayment of notes payable to related party *[note 12]*	**(245.1)**	-
Repayment of finance lease liability	**(3.0)**	(3.1)
Dividends paid *[note 17]*	**(2.1)**	-
Interest received	**0.3**	0.3
Interest paid	**(90.2)**	(86.5)
Net cash provided by (used in) financing activities	**(141.5)**	109.4
Net decrease (increase) in bank indebtedness during the year	**(74.5)**	138.4
Bank indebtedness, beginning of year	**(50.5)**	(188.9)
Bank indebtedness, end of year	**(125.0)**	(50.5)

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

Toronto Hydro-Electric System Limited was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario) in accordance with the Electricity Act. LDC is wholly-owned by the Corporation and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

LDC distributes electricity to customers located in the City and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities.

2. BASIS OF PRESENTATION

LDC's audited financial statements for the years ended December 31, 2017 and 2016 have been prepared in accordance with IFRS with respect to the preparation of annual financial information.

These financial statements are presented in Canadian dollars, LDC's functional currency, and have been prepared on the historical cost basis, except for post-employment benefits which are recorded at actuarial value.

LDC has evaluated the events and transactions occurring after the balance sheet date through March 6, 2018 when LDC's financial statements were authorized for issue by LDC's Board of Directors, and identified the events and transactions which required recognition in the LDC's financial statements and/or disclosure in these notes to the LDC's financial statements *[note 8]*.

The summary of significant accounting policies has been disclosed in note 26.

3. REGULATION

The OEB has regulatory oversight of electricity matters in Ontario. The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through back to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through back to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

a) Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On March 1, 2016 pursuant to LDC's 2015 – 2019 CIR application, the OEB set 2018 distribution rates on an interim basis. On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts.

b) Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced the OFHP, which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the OREC, which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the OFHA, which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the financial statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable, unbilled revenue, accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

c) CDM Activities

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to its customers and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015.

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. ["Oakville Hydro"] for the delivery of CDM programs over the 2015-2020 period. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro are only being offered under the full cost recovery funding method.

[All tabular amounts in millions of Canadian dollars]

The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. Oakville Hydro's programs under the joint CDM plan started on January 1, 2016. LDC received $44.9 million as at December 31, 2016 and $57.4 million in the year ended December 31, 2017 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the balance sheets under current liabilities as deferred conservation credit. As at December 31, 2017, LDC estimated that approximately $12.9 million qualified as a joint mid-term incentive, of which $12.2 million represents LDC's portion and is included within accounts receivable.

Effective October 16, 2017, LDC entered into an agreement to transfer $4.0 million of funding and a corresponding 20 GWh of its energy savings target to another local distribution company. This agreement will decrease the joint CDM plan funding with Oakville Hydro to $421.0 million, with a revised energy savings target of 1,648 GWh. The revised CDM plan was approved by the IESO on December 14, 2017.

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	2017 $	2016 $
Trade receivables	**188.6**	214.7
Due from related parties *[note 23]*	**14.8**	10.1
CDM mid-term incentive *[note 3[c]]*	**12.2**	—
Other	**1.6**	1.4
	217.2	226.2

5. OTHER ASSETS

Other assets consist of the following:

	2017 $	2016 $
Prepaid expenses	**11.3**	12.3
Deferred financing costs	**1.6**	1.6
Other	**2.8**	0.9
Total other assets	**15.7**	14.8
Less: Current portion of other assets relating to:		
Prepaid expenses	**11.3**	12.3
Deferred financing costs	**0.4**	0.4
Other	**1.0**	0.8
Current portion of other assets	**12.7**	13.5
Non-current portion of other assets	**3.0**	1.3

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2016	3,027.2	203.1	119.7	496.3	3,846.3
Additions/(Transfers)	381.2	111.3	61.7	(48.1)	506.1
Disposals and retirements	(32.1)	(0.1)	(0.3)	—	(32.5)
Balance as at December 31, 2016	3,376.3	314.3	181.1	448.2	4,319.9
Additions/(Transfers)	**404.4**	**84.8**	**32.8**	**(77.1)**	**444.9**
Assets held for sale *[note 8]*	—	**(21.2)**	—	—	**(21.2)**
Disposals and retirements	**(31.5)**	**(3.2)**	**(0.3)**	—	**(35.0)**
Balance as at December 31, 2017	**3,749.2**	**374.7**	**213.6**	**371.1**	**4,708.6**
Accumulated depreciation					
Balance as at January 1, 2016	222.6	15.7	46.1	—	284.4
Depreciation	129.3	10.3	24.3	—	163.9
Disposals and retirements	(4.6)	—	(0.1)	—	(4.7)
Balance as at December 31, 2016	347.3	26.0	70.3	—	443.6
Depreciation	**138.1**	**13.5**	**24.8**	—	**176.4**
Assets held for sale *[note 8]*	—	**(12.5)**	—	—	**(12.5)**
Disposals and retirements	**(5.9)**	**(0.5)**	**(0.3)**	—	**(6.7)**
Balance as at December 31, 2017	**479.5**	**26.5**	**94.8**		**600.8**
Carrying amount					
Balance as at December 31, 2016	3,029.0	288.3	110.8	448.2	3,876.3
Balance as at December 31, 2017	**3,269.7**	**348.2**	**118.8**	**371.1**	**4,107.8**

As at December 31, 2017, "Equipment and other" included assets under finance lease with cost of $18.2 million [December 31, 2016 - $18.2 million] and accumulated depreciation of $10.4 million [December 31, 2016 - $8.3 million]. For the year ended December 31, 2017, LDC recorded depreciation expense of $2.1 million [2016 - $2.3 million] related to assets under finance lease.

For the year ended December 31, 2017, borrowing costs in the amount of $6.2 million [2016 - $9.5 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.73% [2016 - 3.61%].

"Construction in progress" additions are net of transfers to the other PP&E categories.

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2016	101.6	21.7	11.8	104.3	239.4
Additions/(Transfers)	11.9	53.8	8.4	(34.2)	39.9
Balance as at December 31, 2016	113.5	75.5	20.2	70.1	279.3
Additions/(Transfers)	**23.4**	**—**	**34.0**	**44.0**	**101.4**
Balance as at December 31, 2017	**136.9**	**75.5**	**54.2**	**114.1**	**380.7**
Accumulated amortization					
Balance as at January 1, 2016	38.1	2.0	—	—	40.1
Amortization	19.3	2.1	—	—	21.4
Balance as at December 31, 2016	57.4	4.1	—	—	61.5
Amortization	**20.0**	**3.0**	**—**	**—**	**23.0**
Balance as at December 31, 2017	**77.4**	**7.1**	**—**	**—**	**84.5**
Carrying amount					
Balance as at December 31, 2016	56.1	71.4	20.2	70.1	217.8
Balance as at December 31, 2017	**59.5**	**68.4**	**54.2**	**114.1**	**296.2**

For the year ended December 31, 2017, borrowing costs in the amount of $3.6 million [2016 - $3.0 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.73% [2016 - 3.61%].

"Software in development" and "Contributions for work in progress" additions are net of transfers to the other intangible asset categories.

"Computer software" is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 5 years, and from 11 to 25 years, respectively.

8. ASSETS HELD FOR SALE

In 2017, LDC commenced the process to sell a property including land and buildings to a third party. Accordingly, the carrying amount of the identified assets of $8.7 million was transferred from PP&E to assets held for sale as at December 31, 2017. Upon reclassification as assets held for sale, no further depreciation was recorded by LDC on the related assets. On January 16, 2018, LDC entered into an agreement to sell the property, which is expected to close on April 16, 2018. Upon completion of the sale, the net gain including the future tax savings will be deferred as a regulatory credit balance *[note 9[c]]*.

[All tabular amounts in millions of Canadian dollars]

9. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2017 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2017 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB actuarial net loss	**60.2**	**25.1**	**—**	**—**	**85.3**	note 9[a]	—
Foregone revenue	**64.3**	**—**	**(20.3)**	**—**	**44.0**	24	—
Gain on disposal	**8.6**	**(8.1)**	**18.6**	**—**	**19.1**	note 9[c]	*
LRAM	**10.5**	**11.0**	**(4.8)**	**—**	**16.7**	note 9[d]	*
IFRS transitional adjustments	**22.8**	**—**	**(7.8)**	**—**	**15.0**	24	—
Stranded meters	**11.4**	**—**	**(3.9)**	**—**	**7.5**	24	*
OPEB cash versus accrual	**2.9**	**1.3**	**—**	**—**	**4.2**	note 9[g]	—
Named properties	**4.6**	**—**	**(1.5)**	**—**	**3.1**	24	—
Capital contributions	**1.5**	**—**	**(0.5)**	**—**	**1.0**	24	—
Smart meters	**2.1**	**—**	**(3.1)**	**1.0**	**—**	—	—
Other	**1.9**	**2.1**	**—**	**—**	**4.0**	—	*
	190.8	**31.4**	**(23.3)**	**1.0**	**199.9**		

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2016 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB actuarial net loss	81.2	(21.0)	—	—	60.2	note 9[a]	—
Foregone revenue	61.1	19.2	(16.0)	—	64.3	36	—
Gain on disposal	—	—	14.5	(5.9)	8.6	note 9[c]	*
LRAM	9.1	4.7	(3.3)	—	10.5	note 9[d]	*
IFRS transitional adjustments	28.9	—	(6.1)	—	22.8	36	—
Stranded meters	14.4	—	(3.0)	—	11.4	36	*
OPEB cash versus accrual	1.8	1.1	—	—	2.9	note 9[g]	—
Named properties	5.8	—	(1.2)	—	4.6	36	—
Capital contributions	1.9	—	(0.4)	—	1.5	36	—
Smart meters	10.0	—	(7.9)	—	2.1	4	—
Settlement variances	25.3	—	—	(25.3)	—	—	*
Other	2.2	1.6	—	(1.9)	1.9	—	*
	241.7	5.6	(23.4)	(33.1)	190.8		

* In accordance with the OEB's direction, carrying charges were accrued to certain regulatory balances at a rate of 1.10% for January 1, 2017 to September 30, 2017 and 1.50% for October 1, 2017 to December 31, 2017 [2016 - 1.10%].

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2017 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2017 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	**65.3**	**(6.5)**	**—**	**—**	**58.8**	note 9[j]	—
Settlement variances	**62.8**	**(45.2)**	**23.4**	**—**	**41.0**	note 9[k]	*
Capital-related revenue requirement	**8.8**	**16.2**	**—**	**—**	**25.0**	note 9[l]	*
Derecognition	**12.8**	**3.1**	**—**	**—**	**15.9**	note 9[m]	*
Tax-related variances	**17.5**	**—**	**(8.2)**	**—**	**9.3**	12	*
Development charges	**—**	**5.3**	**—**	**—**	**5.3**	note 9[o]	*
Smart meters	**—**	**—**	**(0.7)**	**1.0**	**0.3**	—	*
Other	**2.2**	**2.7**	**(0.5)**	**—**	**4.4**	—	*
	169.4	**(24.4)**	**14.0**	**1.0**	**160.0**		

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2016 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	114.8	(49.5)	—	—	65.3	note 9[j]	—
Settlement variances	—	89.3	1.2	(27.7)	62.8	note 9[k]	*
Capital-related revenue requirement	2.8	6.0	—	—	8.8	note 9[l]	*
Derecognition	9.9	2.9	—	—	12.8	note 9[m]	*
Tax-related variances	26.5	—	(8.5)	(0.5)	17.5	24	*
ICM	9.7	0.1	(9.8)	—	—	—	*
Gain on disposal	5.9	—	—	(5.9)	—	—	*
Other	2.0	1.2	(2.0)	1.0	2.2	—	*
	171.6	50.0	(19.1)	(33.1)	169.4		

* In accordance with the OEB's direction, carrying charges were accrued to certain regulatory balances at a rate of 1.10% for January 1, 2017 to September 30, 2017 and 1.50% for October 1, 2017 to December 31, 2017 [2016 - 1.10%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. During 2016, residual regulatory balances approved by the OEB for disposition over a 10-month period commencing on March 1, 2016 were reclassified from "Other" regulatory debit balance, settlement variances and tax-related variances into "Other" regulatory credit balance. There was no impairment recorded for the year ended December 31, 2017.

[All tabular amounts in millions of Canadian dollars]

Reconciliation between the net movements in regulatory balances shown above and the net movements presented on the statements of income and the statements of comprehensive income is as follows:

	2017 $	2016 $
Total movements per regulatory debit balances table	**9.1**	(50.9)
Total movements per regulatory credit balances table	**9.4**	2.2
Total net movements	**18.5**	(48.7)
Net movements per financial statements:		
Net movements in regulatory balances	**(13.1)**	(77.2)
Net movements in regulatory balances arising from deferred tax assets	**13.2**	44.0
Net movements in regulatory balances related to OCI, net of tax	**18.4**	(15.5)
Total net movements per financial statements	**18.5**	(48.7)

Regulatory developments in Ontario's electricity industry regulatory developments and other governmental policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. There is a risk that the OEB may disallow the recovery of a portion of certain costs incurred in the current period through future rates or disagree with the proposed recovery period. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, any impairment will be recorded in the period when the assessment is made.

The regulatory balances of LDC consist of the following:

a) OPEB Actuarial Net Loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2017 of $25.1 million is related to the actuarial loss recorded for the year [2016 - $21.0 million actuarial gain] *[note 13[a]]*. The net position is an actuarial loss that is recoverable in future rates. LDC has not sought recovery to date from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction, in a future rate application.

b) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the CIR decision and rate order, the OEB approved foregone revenue rate riders over 46 months commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates.

c) Gain on Disposal

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (debits), and the after-tax gain realized on two significant LDC properties (credits). As part of the CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on both properties back to ratepayers, effective from March 1, 2016 to December 31, 2018. During 2015, the gain on one of the properties was realized by LDC resulting in a net credit balance at December 31, 2015. As at December 31, 2016, the amount disposed through the rate riders exceeded the gain realized on the first property as the second property was still not sold, resulting in a net debit balance. Upon the sale of the second property, the account would revert to a credit balance if actual net gains and tax savings exceed the total amount of the approved rate riders *[note 8]*. In the second quarter of 2017, LDC realized a gain in connection with the disposal of a third property. LDC expects to seek disposition for any residual balance in a future rate application.

d) Lost Revenue Adjustment Mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. New variances are accrued based on current CDM activities. Approved variances up to 2014 were disposed through OEB-approved rate riders over 12 months commencing on January 1, 2017 and approved variances for 2015 and 2016 will be disposed through OEB-approved rate riders over 12 months commencing on January 1, 2018. Variances pertaining to years subsequent to 2016 have yet to be applied for disposition.

e) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the balance over 46 months commencing on March 1, 2016.

f) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. In the CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 over 46 months commencing on March 1, 2016.

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances to be recovered through rates over 36 months commencing on May 1, 2014. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

g) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. The OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. On September 14, 2017, the OEB issued its final report on the consultation and established the use of the accrual accounting method as the default method on which to set rates for OPEB costs. LDC will continue to track the cash versus accrual difference until its next rate application when the disposition of this regulatory balance will be considered. The timing of disposition of the balance is currently unknown.

h) Named Properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

i) Capital Contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

j) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 *[note 26[a]]* and the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. LDC did not apply for disposition of the balance since it is reversed through timing differences in the recognition of deferred tax assets.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $34.9 million as at December 31, 2017 [December 31, 2016 - $36.4 million], offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $8.5 million as at December 31, 2017 [December 31, 2016 - $10.4 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was $32.4 million as at December 31, 2017 [December 31, 2016 - $39.3 million].

k) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. New variances are accrued based on current charges while approved variances up to 2016, including carrying charges forecasted to the end of 2017, will be disposed through OEB-approved rate riders over 12 months commencing on January 1, 2018. Settlement variances pertaining to years subsequent to 2016 have yet to be applied for disposition.

l) Capital-related Revenue Requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. If the cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeds the actual capital-related revenue requirement over the same rate period, LDC must apply for disposition of this account in order to clear the balance to ratepayers through a rate rider. This account was approved by the OEB in the CIR decision and rate order. The timing of disposition of the balance is currently unknown.

m) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the CIR decision and rate order. The timing of disposition of the balance is currently unknown.

n) Tax-related Variance Accounts

This regulatory credit balance arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates. In the CIR decision and rate order, the OEB approved disposition of the balance over 10-34 months commencing on March 1, 2016.

[All tabular amounts in millions of Canadian dollars]

o) Development charges

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits on offers to connect from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the specified customer connection horizon, LDC retained the excess expansion deposit not otherwise returned to the connecting customer.

The excess expansion deposits were recorded as a regulatory balance on the balance sheets, with a corresponding offset in net movements in regulatory balances. This regulatory balance is expected to offset future electricity distribution rates for customers, although application has yet to be made to dispose of the balance.

p) Incremental Capital Module

This regulatory balance related to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013. The balance of $9.8 million represented the net of amounts collected through the ICM rate riders from 2013 to 2014 and amounts recognized in profit or loss in relation to the eligible in-service capital expenditures. Further to the OEB's decision on July 28, 2016, the entire balance of $9.8 million was recorded as an increase in equity through net movements in regulatory balances in 2016.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2017 **$**	**2016** **$**
Trade payables	**323.7**	323.6
Accrued liabilities	**129.6**	116.3
Due to related parties *[note 23]*	**58.3**	58.7
Other	**1.7**	1.8
	513.3	500.4

[All tabular amounts in millions of Canadian dollars]

11. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which have not yet been recognized into other revenue, and revenue not yet recognized from ancillary services *[note 26[i]]*.

	2017 $	2016 $
Capital contributions, beginning of year	**143.2**	103.0
Capital contributions received	**50.8**	44.3
Amortization	**(4.7)**	(3.8)
Other	**(1.5)**	(0.3)
Capital contributions, end of year	**187.8**	143.2
Other	**0.9**	1.0
Total deferred revenue	**188.7**	144.2
Less: Current portion of deferred revenue relating to:		
Capital contributions	**9.0**	3.3
Other	**0.9**	1.0
Current portion of deferred revenue	**9.9**	4.3
Non-current portion of deferred revenue	**178.8**	139.9

12. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	2017 $	2016 $
Notes payable to related party:		
5.20% Long-term note payable to the Corporation due November 14, 2017	**—**	245.1
4.54% Long-term note payable to the Corporation due November 12, 2019	**245.1**	245.1
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0
3.59% Long-term note payable to the Corporation due November 18, 2021	**300.0**	300.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	200.0
3.60% Long-term note payable to the Corporation due July 28, 2045	**200.0**	200.0
3.988% Long-term note payable to the Corporation due April 9, 2063	**45.0**	45.0
2.572% Long-term note payable to the Corporation due August 25, 2026	**200.0**	200.0
3.535% Long-term note payable to the Corporation due February 28, 2048	**200.0**	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	15.0
Total notes payable to related party	**2,100.1**	2,145.2
Less: Unamortized debt issuance costs	**10.2**	9.7
Current portion of notes payable to related party *[note 23]*	**60.0**	304.9
Long-term portion of notes payable to related party *[note 23]*	**2,029.9**	1,830.6

All notes payable to the Corporation are unsecured, rank equally and will be settled in cash.

[All tabular amounts in millions of Canadian dollars]

On June 14, 2016, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on August 25, 2026, which bears interest at a rate of 2.572% per annum. Interest is calculated and payable semi-annually in arrears on February 25 and August 25 of each year. The net proceeds from the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

On November 14, 2017, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on February 28, 2048, which bears interest at a rate of 3.535% per annum. Interest is calculated and payable semi-annually in arrears on February 28 and August 28 of each year. The net proceeds from the promissory note were used to repay certain existing indebtedness of LDC and for general corporate purposes.

13. EMPLOYEE FUTURE BENEFITS

Pension

LDC's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2017, the OMERS plan was 94.0% funded [December 31, 2016 - 93.4%]. OMERS has a strategy to return the plan to a fully funded position. LDC is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2017, LDC's contributions were $17.5 million [2016 - $17.3 million], representing less than five percent of total contributions to the OMERS plan. LDC expects to contribute approximately $18.7 million to the OMERS plan in 2018.

Post-employment benefits other than pension

a) Benefit obligation

	2017 $	2016 $
Balance, beginning of year	**280.5**	296.5
Current service cost	**4.0**	5.8
Interest cost	**11.0**	11.7
Benefits paid	**(11.0)**	(10.9)
Experience loss (gain) (1)	**1.9**	(4.2)
Actuarial gain arising from changes in demographic assumptions (1)	**—**	(17.5)
Actuarial loss (gain) arising from changes in financial assumptions (1)	**26.3**	(1.6)
Transfer from related parties	**0.3**	0.7
Balance, end of year	**313.0**	280.5

(1) Actuarial loss (gain) on accumulated sick leave credits of $3.1 million [2016 - ($2.1) million] is recognized in benefit cost *[note 13[c]]* and $nil million in transfer from related parties [2016 - ($0.2) million], and actuarial loss (gain) on medical, dental and life insurance benefits of $25.1 million [2016 - ($21.0) million] is recognized in OCI *[note 13[d]]*.

The weighted average duration of the benefit obligation as at December 31, 2017 is 16.7 years [2016 – 16.7 years].

b) Amounts recognized in regulatory balances

As at December 31, 2017, the amount recognized in regulatory balances related to net actuarial loss was $85.3 million [December 31, 2016 - $60.2 million] *[note 9[a]]*.

[All tabular amounts in millions of Canadian dollars]

c) Benefit cost recognized

	2017 $	2016 $
Current service cost	**4.0**	5.8
Interest cost	**11.0**	11.7
Actuarial loss (gain) on other employee benefits *[note 13[a]]*	**3.1**	(2.1)
Benefit cost	**18.1**	15.4
Capitalized to PP&E and intangible assets	**8.1**	6.4
Charged to operating expenses	**10.0**	9.0

d) Amounts recognized in OCI

	2017 $	2016 $
Actuarial loss (gain) *[note 13[a]]*	**25.1**	(21.0)
Income tax expense (recovery) in OCI *[note 21]*	**(6.7)**	5.5
Remeasurements of post-employment benefits, net of tax	**18.4**	(15.5)
Net movements in regulatory balances related to OCI, net of tax	**(18.4)**	15.5
OCI, net of tax	**—**	—

e) Significant assumptions

	2017	2016
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	**3.50**	4.00
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.50**	5.50
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.00**	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	**2015**	2015
For other retirements	**2018**	2018

f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

[All tabular amounts in millions of Canadian dollars]

Changes in key assumptions would have had the following effect on the benefit obligation:

	Change in assumption	2017 $	2016 $
Benefit obligation		**313.0**	280.5
Discount rate	1% -	**(46.8)**	(42.0)
	1% ¯	**60.2**	54.0
Medical and dental cost trend rate	1% -	**40.2**	36.1
	1% ¯	**(36.0)**	(32.3)

14. CAPITAL MANAGEMENT

LDC's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents, investments or borrowings through TH Energy or the Corporation) to meet the needs of the business; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

LDC monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. LDC manages capital by preparing short-term and long-term cash flow forecasts. In addition, LDC borrows from TH Energy or the Corporation as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in LDC's approach to capital management during the year. As at December 31, 2017, LDC's definition of capital included equity, bank indebtedness, borrowings through the Corporation and obligations under finance leases, including the current portion thereof, and had remained unchanged from the definition as at December 31, 2016. As at December 31, 2017, equity amounted to $1,716.3 million [December 31, 2016 - $1,565.0 million], and bank indebtedness, borrowings through the Corporation and obligations under finance leases, including the current portion thereof, amounted to $2,216.4 million [December 31, 2015 - $2,191.0 million].

15. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2017 and December 31, 2016, the fair values of cash and cash equivalents, accounts receivable, unbilled revenue, bank indebtedness, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments *[note 26[j]]*. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

[All tabular amounts in millions of Canadian dollars]

The carrying amounts and fair values of LDC's notes payable to related party consist of the following:

	2017 $		2016 $	
	Carrying amount	**Fair value [1]**	**Carrying amount**	**Fair value [1]**
Long-term notes payable to the Corporation				
5.20% due November 14, 2017	—	—	244.9	253.7
4.54% due November 12, 2019	**244.7**	**255.6**	244.6	265.6
5.59% due May 21, 2040	**198.9**	**263.9**	198.8	253.3
3.59% due November 18, 2021	**299.2**	**313.9**	299.0	322.9
2.96% due April 10, 2023	**249.2**	**255.8**	249.1	259.7
4.01% due April 9, 2063	**198.7**	**217.4**	198.7	201.2
4.13% due September 16, 2044	**198.5**	**221.1**	198.5	209.4
3.60% due July 28, 2045	**198.7**	**202.9**	198.6	191.3
3.988% due April 9, 2063	**44.5**	**48.7**	44.5	45.1
2.572% due August 25, 2026	**198.9**	**195.4**	198.8	194.6
3.535% due February 28, 2048	**198.6**	**202.5**	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**15.6**	15.0	16.0
	2,089.9	**2,237.8**	2,135.5	2,257.8

[1] The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy *[note 26[j]]*.

b) Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by LDC for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

Credit risk

LDC is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. LDC's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. LDC monitors and limits its exposure to credit risk on a continuous basis.

LDC is subject to credit risk with respect to customer non-payment of electricity bills. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2017, LDC held security deposits in the amount of $58.2 million [December 31, 2016 - $54.1 million], of which $29.8 million [December 31, 2016 - $30.0 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. LDC's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2017, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by LDC's treasury policies on assessing and monitoring the credit exposures of counterparties.

LDC did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2017 and December 31, 2016.

[All tabular amounts in millions of Canadian dollars]

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2017 $	2016 $
Accounts receivable (net of allowance for doubtful accounts)		
Outstanding for not more than 30 days	**180.3**	196.7
Outstanding for more than 30 days and not more than 120 days	**32.6**	25.4
Outstanding for more than 120 days	**4.3**	4.1
Total accounts receivable	**217.2**	226.2
Unbilled revenue	**276.0**	319.7
Total accounts receivable and unbilled revenue	**493.2**	545.9

LDC has a broad base of customers. As at December 31, 2017 and December 31, 2016, LDC's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2017 $	2016 $
Balance, beginning of year	**(9.7)**	(11.5)
Provision for doubtful accounts	**(6.2)**	(3.8)
Write-offs	**5.9**	5.9
Recoveries	**(0.2)**	(0.3)
Balance, end of year	**(10.2)**	(9.7)

Unbilled revenue represents amounts for which LDC has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2017 and December 31, 2016.

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 13[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents, notes payable to related party, and customer deposits. Notes payable to related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2017, aside from the valuation of its post-employment benefit obligations, LDC was exposed to interest rate risk predominately from notes payable to related party and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. LDC estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $1.8 million to annual finance costs.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

2017						
	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Bank indebtedness	**125.0**	—	—	—	—	—
Accounts payable and accrued liabilities [1]	**495.6**	—	—	—	—	—
Obligations under finance lease	**1.5**	—	—	—	—	—
Long-term notes payable to the Corporation						
4.54% due November 12, 2019	—	**245.1**	—	—	—	—
5.59% due May 21, 2040	—	—	—	—	—	**200.0**
3.59% due November 18, 2021	—	—	—	**300.0**	—	—
2.96% due April 10, 2023	—	—	—	—	—	**250.0**
4.01% due April 9, 2063	—	—	—	—	—	**200.0**
4.13% due September 16, 2044	—	—	—	—	—	**200.0**
3.60% due July 28, 2045	—	—	—	—	—	**200.0**
3.988% due April 9, 2063	—	—	—	—	—	**45.0**
2.572% due August 25, 2026	—	—	—	—	—	**200.0**
3.535% due February 28, 2048	—	—	—	—	—	**200.0**
Demand note payable to the Corporation due on demand	**45.0**	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	**78.3**	**78.5**	**67.3**	**67.3**	**56.3**	**1,145.0**
	760.4	**323.6**	**67.3**	**367.3**	**56.3**	**2,640.0**

[1] Accounts payable and accrued liabilities exclude $17.7 million of accrued interest on long-term notes payable and demand notes payable included within "Interest payments on long-term notes payable and demand notes payable".

Foreign exchange risk

As at December 31, 2017, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

16. FINANCIAL ASSISTANCE

As at December 31, 2017, $38.4 million [December 31, 2016 - $33.4 million] of letters of credit had been issued by the Corporation, on behalf of LDC, under its $75.0 million demand facility mainly to support LDC's prudential requirements with the IESO.

[All tabular amounts in millions of Canadian dollars]

17. SHARE CAPITAL

Share capital consists of the following:

	2017 $	2016 $
Authorized		
The authorized share capital of LDC consists of an unlimited number of common shares without par value		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**556.3**	556.3

Dividends

On May 11, 2017, the Board of Directors of LDC declared dividends in the amount of $2.1 million to the Corporation [2016 - $nil], which was paid out on June 27, 2017.

18. OTHER REVENUE

Other revenue consists of the following:

	2017 $	2016 $
Ancillary services	**21.1**	15.2
Pole and duct rentals	**15.8**	12.0
Other regulatory service charges	**13.3**	16.7
CDM mid-term incentive *[note 3[c]]*	**12.2**	—
Street lighting service fee	**6.7**	5.8
Development charges *[note 9[o]]*	**5.1**	—
Amortization of deferred revenue *[note 11]*	**4.7**	3.8
Miscellaneous	**17.8**	12.8
	96.7	66.3

19. OPERATING EXPENSES

Operating expenses consist of the following:

	2017 $	2016 $
Salaries and benefits	**225.4**	218.9
External services	**131.9**	108.6
Other support costs [(1)]	**21.6**	32.2
Materials and supplies	**21.3**	16.4
Less: Capitalized costs	**(116.0)**	(108.5)
	284.2	267.6

[(1)] Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

[All tabular amounts in millions of Canadian dollars]

For the year ended December 31, 2017, LDC recognized operating expenses of $13.0 million related to materials and supplies used to service electricity distribution assets [2016 - $7.6 million].

20. FINANCE COSTS

Finance costs consist of the following:

	2017 $	2016 $
Interest income	**(0.3)**	(0.3)
Interest expense		
Interest on long-term debt [1]	**87.1**	85.4
Interest on short-term debt	**3.3**	3.6
Other interest	**0.7**	0.5
Capitalized borrowing costs	**(9.8)**	(12.6)
	81.0	76.6

[1] Includes amortization of debt issuance costs, discounts and premiums.

21. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

	2017 $	2016 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**197.5**	250.8
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**52.3**	66.5
Non-taxable amounts	**(8.7)**	0.4
Other	**0.6**	0.3
Income tax expense	**44.2**	67.2
Effective tax rate	**22.4%**	26.8%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [1]	**184.4**	173.6
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**48.9**	46.0
Temporary differences recoverable in future rates	**(15.5)**	(22.7)
Other	**(2.4)**	(0.1)
Income tax expense and income tax recorded in net movements in regulatory balances	**31.0**	23.2
Effective tax rate	**16.8%**	13.4%

[1] Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

[All tabular amounts in millions of Canadian dollars]

Income tax expense as presented in the statements of income and OCI are as follows:

	2017 $	2016 $
Income tax expense	**44.2**	67.2
Income tax recorded in net movements in regulatory balances	**(13.2)**	(44.0)
Income tax expense and income tax recorded in net movements in regulatory balances	**31.0**	23.2
Income tax expense (recovery) in OCI *[note 13[d]]*	**(6.7)**	5.5
Income tax expense (recovery) in OCI recorded in net movements in regulatory balances	**6.7**	(5.5)
Income tax expense in OCI	**—**	—

Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

	2017 $	2016 $
Current tax expense		
Current year	**32.0**	24.4
Adjustment for tax positions taken in prior periods	**(1.1)**	(2.2)
	30.9	22.2
Deferred tax expense		
Origination and reversal of temporary differences	**0.1**	1.0
Income tax expense and income tax recorded in net movements in regulatory balances	**31.0**	23.2

Deferred tax assets consist of the following:

	Net balance, January 1 2017 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2017 $
PP&E and intangible assets	**11.7**	**(26.6)**	**—**	**(14.9)**
Post-employment benefits	**74.3**	**1.9**	**6.7**	**82.9**
Other taxable temporary differences	**(22.2)**	**11.2**	**—**	**(11.0)**
	63.8	**(13.5)**	**6.7**	**57.0**

	Net balance, January 1 2016 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2016 $
PP&E and intangible assets	34.5	(22.8)	—	11.7
Post-employment benefits	78.6	1.2	(5.5)	74.3
Other taxable temporary differences	1.2	(23.4)	—	(22.2)
	114.3	(45.0)	(5.5)	63.8

LDC had recorded a net deferred tax asset as it expects to earn sufficient taxable income to realize the future reversal of deductible temporary differences.

[All tabular amounts in millions of Canadian dollars]

22. STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided/(used) cash as follows:

	2017 $	2016 $
Accounts receivable	**8.7**	(36.5)
Unbilled revenue	**43.7**	(0.2)
Income tax receivable	—	9.0
Materials and supplies	**0.4**	0.1
Other current assets	**0.8**	(3.6)
Accounts payable and accrued liabilities	**(4.2)**	19.9
Income tax payable	**3.5**	9.0
Deferred revenue	**5.6**	0.6
Deferred conservation credit	**3.8**	(12.4)
Other current liabilities	**(1.6)**	(0.1)
	60.7	(14.2)

Reconciliation between the amount presented on the statements of cash flows and total additions to PP&E and intangible assets is as follows:

	2017 $	2016 $
Purchase of PP&E, cash basis	**433.8**	506.6
Net change in accruals related to PP&E	**9.5**	(2.3)
Other	**1.6**	1.8
Total additions to PP&E	**444.9**	506.1
Purchase of intangible assets, cash basis	**93.4**	39.9
Net change in accruals related to intangible assets	**8.0**	—
Total additions to intangible assets	**101.4**	**39.9**

[All tabular amounts in millions of Canadian dollars]

Summary of changes in liabilities arising from financing activities:

	2016 $	Cash flows [1] $	Non-cash changes $ Foreign exchange	 Other	2017 $
Year ended December					
Dividends payable	—	**(2.1)**	—	**2.1**	—
Notes payable to related party *[note 12]*	**2,135.5**	**(46.5)**	—	**0.9**	**2,089.9**
Accrued interest [2]	**18.5**	**(90.2)**	—	**89.4**	**17.7**
Lease liability [3]	**4.6**	**(3.0)**	**(0.1)**	—	**1.5**
	2,158.6	**(141.8)**	**(0.1)**	**92.4**	**2,109.1**

	2015 $	Cash flows [1] $	Non-cash changes $ Foreign exchange	 Other	2016 $
Year ended December					
Notes payable to related party *[note 12]*	**1,936.0**	**198.7**	—	**0.8**	**2,135.5**
Accrued interest [2]	**16.7**	**(86.5)**	—	**88.3**	**18.5**
Lease liability [3]	**8.0**	**(3.1)**	**(0.3)**	—	**4.6**
	1,960.7	**109.1**	**(0.3)**	**89.1**	**2,158.6**

(1) Cash inflows and cash outflows arising from notes payable to related parties are presented on a net basis
(2) Included within accounts payable and accrued liabilities *[note 15[b]]*
(3) Included within other liabilities

23. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which is the sole shareholder of the Corporation, the Corporation, and TH Energy, a wholly-owned subsidiary of the Corporation.

	City $	Corporation $	TH Energy $
For period ended December 31, 2017			
Revenues	**263.1**	—	**10.7**
Operating expenses (recoveries) and capital expenditures	**22.1**	**1.6**	**(1.1)**
Finance costs	—	**87.0**	—
Dividends	—	**2.1**	—
As at December 31, 2017			
Accounts receivable	**12.7**	—	**2.1**
Unbilled revenue	**24.7**	—	—
Accounts payable and accrued liabilities	**40.0**	**18.3**	—
Current portion of notes payable to related party	—	**60.0**	—
Long-term portion of notes payable to related party	—	**2,029.9**	—
Customer deposits	**15.7**	—	—
Deferred revenue	**1.5**	—	—

[All tabular amounts in millions of Canadian dollars]

	City $	Corporation $	TH Energy $
For period ended December 31, 2016			
Revenues	258.5	—	8.7
Operating expenses and capital expenditures	26.9	1.5	0.9
Finance costs	—	85.8	—
As at December 31, 2016			
Accounts receivable	9.3	—	0.8
Unbilled revenue	23.1	—	—
Accounts payable and accrued liabilities	41.0	17.7	—
Current portion of notes payable to related party	—	304.9	—
Long-term portion of notes payable to related party	—	1,830.6	—
Customer deposits	14.1	—	—
Deferred revenue	3.0	—	—

Revenues represent amounts charged to the City primarily for electricity and ancillary services, and to TH Energy for street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services, and the Corporation for purchased corporate and management services. Operating expense recoveries represent amounts charged to TH Energy for the provision of goods and services. Finance costs represent interest charged by the Corporation on the notes payable *[note 20]*. Dividends are paid to the Corporation *[note 17]*.

Accounts receivable represents receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation. Notes payable to related party represent amounts borrowed from the Corporation *[note 12]*. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Key management personnel include LDC's senior executive officers and members of the Board of Directors. The compensation costs associated with the key management personnel are as follows:

	2017 $	2016 $
Short-term employee benefits	**4.3**	3.7
Post-employment benefits	**1.1**	1.0
	5.4	4.7

[All tabular amounts in millions of Canadian dollars]

24. COMMITMENTS

Operating leases and capital projects

As at December 31, 2017, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases $	Capital projects (1) and other $
Less than one year	**0.3**	**17.5**
Between one and five years	**1.1**	**28.5**
Total amount of future minimum payments (2)	**1.4**	**46.0**

(1) Mainly commitments for construction services and estimated capital contributions.
(2) Refer to note 15 for financial commitments excluded from the table above.

Operating lease expense for the year ended December 31, 2017 was $0.8 million [2016 - $2.8 million].

Finance leases

As at December 31, 2017 and December 31, 2016, reconciliation between the future minimum lease payments and their present value was as follows:

	2017 $			2016 $		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**1.5**	—	**1.5**	3.2	0.2	3.0
Between one and five years	—	—	—	1.6	—	1.6
More than five years	—	—	—	—	—	—
	1.5	—	**1.5**	4.8	0.2	4.6
Current portion included within Other liabilities			**1.5**			3.0
Non-current portion included within Other liabilities			—			1.6

25. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any applicable liability insurance policies which LDC believes would cover any damages which may become payable by LDC in connection with these actions, subject to such claim not being disputed by the insurers.

26. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"]:

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about LDC's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

LDC has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding LDC's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on LDC's balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in LDC's statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the balance sheets and are presented on the statements of income and the statements of comprehensive income as net movements in regulatory balances and net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

b) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the statements of cash flows, cash and cash equivalents (bank indebtedness) include bank overdrafts that are repayable on demand and form an integral part of LDC's cash management.

c) Accounts receivable and unbilled revenue

Accounts receivable is recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings with adjustments mainly for assumptions related to seasonality and weighted average price. The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable, and the amount of the related impairment loss is recognized in the statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When LDC considers that there are no realistic prospects of recovery of the financial assets, the relevant amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

[All tabular amounts in millions of Canadian dollars]

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and LDC considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

d) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

e) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to LDC and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to LDC from its continued use. Any gain or loss arising on derecognition is recorded in the statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the statements of income.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Assets under finance lease	1.0% to 14.3%
Other capital assets	4.0% to 25.0%

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that LDC will obtain ownership by the end of the lease term. Assets under finance lease included a 99-year land lease. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

f) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable.

Amortization begins when an asset becomes available for use. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed at each financial year-end and adjusted if appropriate.

g) Impairment of non-financial assets

LDC reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. LDC has determined that its assets are a single CGU due to interdependencies of its assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

h) Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is LDC's weighted average cost of borrowing, and is applied to the carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Capitalization commences immediately as the expenditure on a qualifying asset is incurred. Borrowing costs are included in PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

i) Revenue recognition

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. LDC applies judgment to determine whether revenues are recorded on a gross or net basis. LDC has primary responsibility for the delivery of electricity to the customer. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the balance sheets and within net movements in regulatory balances on the statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

Other revenue, which includes revenue from services ancillary to the electricity distribution, delivery of street lighting services, and pole and duct rentals, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue from ancillary services not yet recognized is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

j) Financial instruments

All financial assets are classified as “Loans and Receivables” and all financial liabilities are classified as “Other Financial Liabilities”. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm’s length transaction between willing parties.

LDC uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the balance sheets:

- Cash, cash equivalents and short-term investments are classified as “Loans and Receivables” and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as “Loans and Receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Bank indebtedness is classified as “Other Financial Liabilities” and is initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Customer deposits are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Obligations under finance leases are classified as “Other Financial Liabilities” and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Notes payable to related party are classified as “Other Financial Liabilities” and are initially measured at fair value. The carrying amounts are carried at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC’s current borrowing rate for similar debt instruments *[note 15[a]]*. Debt issuance costs incurred in connection with LDC’s debt offerings are capitalized as part of the carrying amount of the notes payable and amortized over the term of the related notes payable, using the effective interest method, and the amortization is included in finance costs.

k) Fair value measurements

LDC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect LDC’s assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if LDC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Multi-employer pension plan

LDC’s full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees’ contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the statements of income in the period when the service is rendered by the employee, since it is not practicable to determine LDC’s portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

LDC has a number of unfunded benefit plans providing post-employment benefits (other than pension) to its employees. LDC pays certain medical, dental and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees. LDC also pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2016.

m) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

n) Income taxes

Under the Electricity Act, LDC is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in LDC paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the statements of income.

o) Use of judgments and estimates

The preparation of LDC's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in note 26[i] relating to principal versus agent determination for recording revenue on a gross or net basis.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 26[a] – Recognition and measurement of regulatory balances;
- Note 26[i] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 26[e] and 26[f] – Determination of useful lives of depreciable assets;
- Notes 26[l] and 13 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 26[n] and 21 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 25 – Recognition and measurement of provisions and contingencies.

p) Changes in accounting policies

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The additional disclosures relating to changes in liabilities arising from financing activities are included in note 22 and have no impact to the LDC's financial position or results of operations.

q) Future accounting pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017, and have not yet been applied in preparing these financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two methods for recognizing revenue: at a point in time or over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

LDC will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach. LDC has completed its assessment of the key revenue streams. The majority of LDC's revenue (energy sales and distribution revenue) is generated from electricity distribution at regulated prices. LDC concluded that IFRS 15 will not have a material impact on the accounting for these revenue streams. Upon adoption of IFRS 15, there will be a $167.6 million income statement reclassification between Energy Sales and Energy Purchases for the comparative year ended December 31, 2017 and there is no impact to opening retained earnings as at January 1, 2018. LDC is currently finalizing its assessment on capital contributions. LDC has determined that IFRS 15 will also increase its required disclosure on revenue streams.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"], which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. LDC has assessed the impact of adopting IFRS 9, and concluded that the new classification under IFRS 9 will not have a material impact on the financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"] and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the current distinction between finance and operating leases. It requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. In addition, the nature and timing of expenses related to leases will change, as IFRS 16 replaces the straight-line operating leases expense with the depreciation expense for the assets and interest expense on the lease liabilities. Lessor accounting remains substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, and may be applied either retrospectively or using a modified retrospective approach. Early adoption is permitted if IFRS 15 is also adopted.

LDC intends to early adopt IFRS 16 on January 1, 2018. LDC has completed its assessment of existing operating leases. IFRS 16 will not have a significant impact on LDC's financial statements and LDC has assessed the quantitative impact of adopting IFRS 16 to be $nil in opening retained earnings, and an increase of $1.6 million in total assets and total liabilities for the right-of-use assets and the lease liabilities, respectively, as at January 1, 2018.

GLOSSARY

CDM – Conservation and demand management

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

Electricity Act – *Electricity Act, 1998* (Ontario), as amended

GAAP – Generally Accepted Accounting Principles

GWh – Gigawatt hour

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

IESO – Independent Electricity System Operator. The IESO and the Ontario Power Authority were merged under the name Independent Electricity System Operator on January 1, 2015.

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act* (Canada), as amended

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

OCI – Other comprehensive income

OEB – Ontario Energy Board

OEB Act – *Ontario Energy Board Act, 1998* (Ontario), as amended

OFHP – Ontario's Fair Hydro Plan

OFHA – *Fair Hydro Act, 2017* (Ontario)

OMERS – Ontario Municipal Employees Retirement System

OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.

OPEB – Other post-employment benefits

OREC – *Ontario Rebate for Electricity Consumers Act*, 2016 (Ontario).

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

TA – *Taxation Act, 2007* (Ontario), as amended

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

RECONCILIATIONS

In accordance with s. 2.1.9 of the OEB's Filing Requirements,[1] this schedule provides reconciliations of the financial results shown in the Audited Financial Statements (Exhibit 1C, Tab 3, Schedule 3) with the regulatory financial results filed under s. 2.1.13 of the OEB's Electricity Reporting & Record Keeping Requirements for the years 2015 through 2017:

- Appendix A: 2015 Reconciliation
- Appendix B: 2016 Reconciliation
- Appendix C: 2017 Reconciliation

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (July 12, 2018).

		C1	C2	C3	C4=C1:C3	
RRR Reporting						
Rate Base Calculation		**PP&E**	**ROE Exclusions**		**ROE Calc**	
Reconciliation - Total PP&E		**(incl CWIP)**	**Remove CWIP**	**Other**	**Net**	**Comment**
As Reported - US GAAP RRR Dec 31, 2014	R1	$2,903,903	-$518,239	$0	$2,385,664	PPE per ROE Calc. 2014
Difference to mIFRS	R2	$25,841	-$24,250	$0	$1,591	Adjustments due to conversion from US GAAP to MIFRS
mIFRS - Trial Balance	R3=R1+R2	**$2,929,744**	**-$542,489**	**$0**	**$2,387,255**	
A/C 2440 Deferred Revenue LT	R4			-$43,571	-$43,571	Capital contributions recorded in A/C 2440 is netted in the determination of rate base
CWIP portion of A/C 2440	R5			$22,706	$22,706	CWIP portion of A/C 2440 is excluded in determination of rate base
mIFRS Balance	R6=R3:R5	**$2,929,744**	**-$542,489**	**-$20,865**	**$2,366,390**	
Inclusions for new Rate Regime						
ICM Assets	R7	$439,074			$439,074	As a result of the December 29, 2015 OEB Decision and Order, the approved rate base as at January 1, 2015 included the ICM and street lighting assets.
Streetlighting Assets	R8	$38,475			$38,475	As a result of the December 29, 2015 OEB Decision and Order, the approved rate base as at January 1, 2015 included the ICM and street lighting assets.
Total Jan 1 2015 PP&E - RRR	R9=R6:R8	**$3,407,293**	**-$542,489**	**-$20,865**	**$2,843,939**	Jan 1, 2015 PP&E for ROE Purposes
Total Adjustment to RRR Opening PP&E	R10=R9-R1				**$458,275**	
2015 ROE						
mIFRS - RRR Balances per ledger - OEB roll up		$3,750,644	-$609,194		$3,141,450	
A/C 2440 Deferred Revenue LT				-$86,773	-$86,773	
CWIP portion of A/C 2440				$31,475	$31,475	
Submission per RRR		**$3,750,644**	**-$609,194**	**-$55,298**	**$3,086,151**	Dec 31, 2015 PP&E for ROE Purposes

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2015

Filing: April 30, 2016

		Regulated 2015 Actual OEB Acct TB	Regulated 2015 Actual (in thousands)	Unregulated 2015 Actual (in thousands)	Consol Adj 2015 Actual (in thousands)	Calculated THESL Consol 2015 Actual (in thousands)	Audited THESL Consol 2015 Actual (in thousands)	Diff	Comment
Assets									
Current Assets									
Cash and cash equivalents	1005_Cash	-	-						
	1010_Cash Advances and Working Funds	-	-						
		-	-	7,588	-7,588	-	-	-	
Accounts receivable	1100_Customer Accounts Receivable	188,642,297	188,642						
	1104_Accounts Receivable - Recoverable Work	5,364,989	5,365						
	1110_Other Accounts Receivable	612	1						
	1130_Accumulated Provision for Uncollectible Accounts-- Credit	- 11,451,441	-11,451						
	1200_Accounts Receivable from Associated Companies	949,071	949						
		183,505,530	183,506	7,096	-746	189,855	189,855	-0	
Unbilled revenue	1120_Accrued Utility Revenues	319,034,891	319,035	509		319,544	319,544	-0	
Income tax receivable	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	8,213,756	8,214			8,214	8,964	750	Note 1
Materials and supplies	1330_Plant Materials and Operating Supplies	9,827,944	9,828			9,828	9,828	-	
Other assets	1180_Prepayments	9,932,782	9,933			9,933	9,933	-	
	1190_Miscellaneous Current and Accrued Assets	875,659	876			876	-	-876	Note 2
		347,885,033	347,885	509	-	348,394	348,268	-126	
Property, plant and equipment	1805_Land	7,101,021	7,101						
	1808_Buildings and Fixtures	51,400,864	51,401						
	1815_Transformer Station Equipment - Normally Primary above 50 kV	5,839,979	5,840						
	1820_Distribution Station Equipment - Normally Primary below 50 kV	149,863,147	149,863						
	1830_Poles Towers and Fixtures	310,997,642	310,998						
	1835_Overhead Conductors and Devices	299,369,433	299,369						
	1840_Underground Conduit	951,961,159	951,961						
	1845_Underground Conductors and Devices	609,870,852	609,871						
	1850_Line Transformers	412,408,347	412,408						
	1855_Services	93,304,634	93,305						
	1860_Meters	168,697,558	168,698						
	1905_Land	17,738,078	17,738						
	1908_Buildings and Fixtures	126,908,339	126,908						
	1910_Leasehold Improvements	753,840	754						
	1915_Office Furniture and Equipment	10,757,047	10,757						
	1920_Computer Equipment - Hardware	27,318,767	27,319						
	1930_Transportation Equipment	27,217,305	27,217						
	1935_Stores Equipment	7,066	7						
	1940_Tools Shop and Garage Equipment	14,696,369	14,696						
	1945_Measurement and Testing Equipment	480,243	480						
	1955_Communication Equipment	8,025,828	8,026						
	1960_Miscellaneous Equipment	267,071	267						
	1970_Load Management Controls - Customer Premises	3,022,834	3,023						
	1975_Load Management Controls - Utility Premises	-	-						
	1980_System Supervisory Equipment	25,425,079	25,425						
	1995_Contributions and Grants - Credit	-	-						
	1612_Land Rights	7,191,090	7,191						
	2005_Property Under Capital Leases	10,979,744	10,980						
	2055_Construction Work in Progress-Electric	493,198,903	493,199						
	2105_Accum. Amortization of Electric Utility Plant - Property Plant & Equipment	- 282,768,843	-282,769						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	-698,681	-699						
		3,551,334,715	3,551,335	10,590	-	3,561,925	3,561,925	-0	

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2015

Filing: April 30, 2016

		Regulated 2015 Actual OEB Acct TB	Regulated 2015 Actual (in thousands)	Unregulated 2015 Actual (in thousands)	Consol Adj 2015 Actual (in thousands)	Calculated THESL Consol 2015 Actual (in thousands)	Audited THESL Consol 2015 Actual (in thousands)	Diff	Comment
Intangible assets	1609_Capital Contributions Paid	21,730,287	21,730						
	1611_Computer Software	101,649,562	101,650						
	2055_Construction Work in Progress--Electric	115,995,560	115,996						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	- 40,065,975	-40,066						
		199,309,434	199,309	-	-	199,309	199,309	-	
Deferred tax assets	1495_Deferred Taxes - Non-Current Assets	99,859,048	99,859	-	-	99,859	114,345	14,486	Note 3
Other assets	1460_Other Non-Current Assets	3,838,091	3,838	-	-	3,838	1,211	-2,627	Note 2
Regulatory balances	1508_Other Regulatory Assets	151,906,897	151,907						
	1520_Power Purchase Variance Account	0	0						
	1521_Special Purpose Chg Assessment Variance Account	-	-						
	1550_Low Voltage Variance Acct	2,198,398	2,198						
	1551_Smart Metering Entity Charge Variance Acct	140,568	141						
	1555_Smart Meter Capital Offset Variance	14,404,067	14,404						
	1556_Smart Meter Operating Variance	-	-						
	1562_Deferred Payments in Lieu of Taxes	-	-						
	1563_Deferred PILs Contra Account	-	-						
	1568_LRAM Variance Account	9,105,233							
	1575_IFRS-UGAAP Transitional PPE Amounts	24,193,438							
	1580_RSVAWMS	- 156,333,491	-156,333						
	1584_RSVANW	69,472,636	69,473						
	1586_RSVACN	36,894,013	36,894						
	1588_RSVAPOWER	- 22,246,709	-22,247						
	1589_RSVAGA	97,731,157	97,731						
	1592_PILs and Tax Variance for 2006 and Subsequent Years	- 2,494,112							
	1595_Disposition Recovery Reg Balances Control Acct	- 1,742,385	-1,742						
		223,229,711	223,230	-	-	223,230	241,718	18,488	Note 4
Total Assets		4,608,961,562	4,608,962	25,782	-8,334	4,626,410	4,656,631	30,222	
Liabilities and Shareholder's Equity									
Bank indebtedness	2225_Notes and Loans Payable	- 196,521,453	-196,521	-	7,588	-188,934	-188,934	-	
Advance from related party		-	-	-	-	-	-	-	
Accounts payable and accrued liabilities	2205_Accounts Payable	- 389,106,383	-389,106						
	2208_Customer Credit Balances	- 16,243,629	-16,244						
	2220_Miscellaneous Current and Accrued Liabilities	- 15,426,009	-15,426						
	2240_Accounts Payable to Associated Companies Notes	- 54,010,977	-54,011						
	2250_Debt Retirement Charges(DRC) Payable	- 12,683,957	-12,684						
	2290_Commodity Taxes	- 759,852	-760						
	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	650,961	651						
	2292_Payroll Deductions / Expenses Payable	- 7,815,043	-7,815						
		- 495,394,890	-495,395	23,122	746	-471,527	-471,527	0	
Customer deposits	2210_Current Portion of Customer Deposits	- 37,469,696	-37,470				-37,470		
	2335_Long Term Customer Deposits	-	-						
		- 37,469,696	-37,470	-	-	-37,470	-37,470	-	
Deferred revenue	2220_Miscellaneous Current and Accrued Liabilities	-973,180	-973	-		-973	-3,740	-2,766	Note 5
Deferred conservation credit		0	-	-17,885		-17,885	-17,885	-	
Other liabilities	2285_Obligations Under Finance Leases--Current	- 3,235,715	-3,236			-3,236	-3,236	-	
Note payable to related party	2242_ Payable to Associated Companies	- 60,000,000	-60,000			-60,000	-		
	2240_Accounts Payable to Associated Companies Notes	-	-			-	-		
	2260_Current Portion of Long Term Debt	-	-	-		-	-		
		- 60,000,000	-60,000	-	-	-60,000	-60,000	-	
Note payable to related party	2550_Advances from Associated Companies	- 1,875,984,003	-1,875,984			-1,875,984	-1,875,984	0	
	2505_Debentures Outstanding - Long Term Portion	-	-			-	-	-	
Customer deposits	2335_Long Term Customer Deposits	-9,888,218	-9,888			-9,888	-9,888	-	

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2015

Filing: April 30, 2016

		Regulated 2015 Actual OEB Acct TB	Regulated 2015 Actual (in thousands)	Unregulated 2015 Actual (in thousands)	Consol Adj 2015 Actual (in thousands)	Calculated THESL Consol 2015 Actual (in thousands)	Audited THESL Consol 2015 Actual (in thousands)	Diff	Comment
Deferred revenue	2440_Deferred Revenues	- 86,772,590	-86,773			-86,773	-100,281		
	2320_Other Miscellaneous Non-Current Liabilities	-	-			-	-		
	2335_Long Term Customer Deposits	- 16,275,062	-16,275			-16,275	-		
		- 103,047,652	-103,048	-	-	-103,048	-100,281	2,766	Note 5
Post-employment benefits	2306_Employee Future Benefits	- 295,351,821	-295,352	-1,168		-296,520	-296,520	-	
Other liabilities	2325_Obligations Under Capital Lease-Non-Current	- 4,773,123	-4,773			-4,773	-4,942		
	2320_Other Miscellaneous Non-Current Liabilities	- 168,633	-169			-169			
		- 4,941,757	-4,942	-	-	-4,942	-4,942	-	
Total Liabilities		- 3,082,808,385	-3,082,808	4,069	8,334	-3,070,406	-3,070,406	0	
Share Capital	3005_Common Shares Issued	- 527,816,668	-527,817	-28,461		-556,278	-556,278	0	
Retained Earnings	3045_Unappropriated Retained Earnings	- 989,001,291	-989,001						
	3046_Balance Transferred From Income	- 140,491,242	-140,491						
	3049_Dividends Payable-Common Shares	321,526,000	321,526						
	3055_Adjustment to Retained Earnings	- 5,969,175	-5,969						
		- 813,935,709	-813,936	-1,390	-	-815,325	-845,547	-30,222	Note 6
Contributed Surplus	3010_Contributed Surplus	- 12,757,392	-12,757			-12,757	-12,757	-	
Regulatory balances	1508_Other Regulatory Assets	- 72,714,445	-72,714						
	2350_Future Income Tax - Non-Current	- 98,928,963	-98,929						
		- 171,643,408	-171,643	-	-	-171,643	-171,643	-	
Total liabilities, equity and regulatory balances		- 4,608,961,562	-4,608,962	-25,782	8,334	-4,626,410	-4,656,631	-30,222	
		- 0	- 0	-	-	-0	-	0	

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2015

Filing: April 30, 2016

Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: Difference in "Income tax receivable" of $750: Calculated balance of $8,214 & AFS balance of $8,964, a difference of $750, as follows:
The difference represents the non-regulated business income tax receivable included in the AFS.

Note 2: This relates to the CIR Costs Deferral re-instatement on the Balance Sheet.
For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L.
For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the
CIR costs were re-instated on the balance sheet and will be amortized over the 5 years. The current portion and the long-term portion of the re-instated CIR costs on the balance sheet was $876 and $2,627 respectively.

Note 3: Difference in "Deferred tax assets" of $14,486: Calculated balance of $99,859 & AFS balance of $114,345, a difference of $14,486, as follows:
a. The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets are recorded in regulatory balances in accordance with IFRS 14 for AFS.
For purposes of RRR reporting, these balances are reclassified to deferred tax assets in the amount of $15,918.
b. For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets in the amount of ($1,432).

Note 4: Difference in "Regulatory balances - deferred debits" of $18,488: Calculated balance of $223,230 & AFS balance of $241,718, a difference of $18,488, as follows:

a. A "Smart meter recovery" regulatory asset (RA) was booked for AFS, and is not considered a regulatory asset for purposes of RRR reporting:	$9,947
b. Incremental Capital Model (ICM) revenue and depreciation expense was booked in the AFS in the past, and this considered a regulatory asset for purposes of RRR reporting.	$20,884
c. The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets are recorded in regulatory balances in accordance with IFRS 14 for AFS. For purposes of RRR reporting, these balances are reclassified to deferred tax assets.	-$15,918
d. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010. For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. The following adjustment has been made to the AFS to reflect for RRR Reporting the amount in the above mentioned contra account: The adjustment entry is, HST/OVAT Contra Account (Dr.) $1,180k, Misc. Interest (Cr.) $14k and Retained Earnings (Cr.) 1,166k.	-$1,180
e. For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the OEB approved the disposition of Account 1575 with the return on rate base of $4.7 million. For RRR purposes, the $4.7 million accrual has been reversed.	$4,755
Total difference:	$18,488

Note 5: Difference in "Deferred revenue - current", offset by difference in "Deferred revenue - long-term" of $2,766 as follows:
For the AFS the Deferred revenue was split between current and long-term. For the RRR purposes, the Deferred revenue is not split between current and long-term.

Note 6: Difference in "Retained Earnings" of ($30,222): Calculated balance of ($815,325) & AFS balance of ($845,547), a difference of ($30,222).
Adjustments have been made to certain AFS income statement items to arrive at the RRR reporting as follows:

A. Adjustments made to certain AFS income statement items in prior years as follows:

a. Reduction for prior years AFS Distribution revenue booked for Smart Meter "net revenue requirement" on the disposition of Account 1555 "Smart Meter Capital & Recovery" and 1556 "Smart Meter OM&A Variance account" balances. The is recorded to Distribution revenue for RRR reporting, to OEB account 4080 as the amount is billed to THESL customers in the future.	-$20,879
b. Incremental Capital Model (ICM) revenue and depreciation expense booked in the AFS in prior year, and this considered a regulatory asset for purposes of RRR reporting. This ICM revenue and depreciation expense shall be booked for RRR reporting in the future under regulatory prescribed ICM accounting treatment.	- 20,884
c. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010. For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. The following adjustment has been made to the AFS to reflect for RRR Reporting the amount in the above mentioned contra account: The adjustment entry is, HST/OVAT Contra Account (Dr.) $1,166k, Misc. Interest (Cr.) $16k and Retained Earnings (Cr.) 1,150k.	1,166
d. "Wireless pole attachments" regulatory asset (RA) was booked for purposes of RRR reporting while for prior year AFS purposes the RA amount was included in the income statement.	- 113
e. For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets related to prior year.	1,275
B. Adjustments made to certain AFS income statement items in 2015, with these differences as explained in the Income Statement attached.	
a. The total impact on net income or difference for the year 2015 was $9,213, per the Income Statement attached.	9,213
Total difference:	-$30,222

Toronto Hydro-Electric System Limited - 2.1.13
Statement of Income
December 31, 2015

Filing: April 30, 2016

		Regulated 2015 Actual OEB Acct TB	Regulated 2015 Actual (in thousands)	Unregulated 2015 Actual (in thousands)	Net Movement Adj 2015 Actual (in thousands)	Consol Adj 2015 Actual (in thousands)	Calculated THESL Consol 2015 Actual (in thousands)	Audited THESL Consol 2015 Actual (in thousands)	Diff	Comment
Revenue										
Energy sales	4006_Residential Energy Sales	-511,505,959	- 511,506							
	4010_Commercial Energy Sales	-1,473,500,371	- 1,473,500							
	4020_Energy Sales to Large Users	-216,615,501	- 216,616							
	4025_Street Lighting Energy Sales	-12,384,109	- 12,384							
	4035_General Energy Sales	-252,285,805	- 252,286							
	4050_Revenue Adjustment	-6,409,770	- 6,410							
	4062_Billed WMS	-84,969,806	- 84,970							
	4066_Billed NW	-166,194,728	- 166,195							
	4068_Billed CN	-116,495,879	- 116,496							
	4075_Billed LV	43	0							
		-2,840,361,885	- 2,840,362		- 30,834	-	- 2,871,195	- 2,925,630	- 54,434	Note 1
Distribution revenue	4080_Distribution Services Revenue	-612,354,538	- 612,355		50,751	-	- 561,603	- 555,424	6,179	Note 2
		-3,452,716,423	- 3,452,716	-	19,918	-	- 3,432,799	- 3,481,054	- 48,255	
Other income	4082_Retail Services Revenues	-397,235	- 397							
	4084_Service Transaction Requests (STR) Revenues	-20,107	- 20							
	4086_SSS Administration Revenue	-2,196,126	- 2,196							
	4090_Electric Services Incidental to Energy Sales	0	-							
	4210_Rent from Electric Property	-10,406,330	- 10,406							
	4215_Other Utility Operating Income	-1,111,340	- 1,111							
	4220_Other Electric Revenues	-7,055,723	- 7,056							
	4225_Late Payment Charges	-4,126,310	- 4,126							
	4235_Miscellaneous Service Revenues	-6,786,826	- 6,787							
	4245_Government and Other Assistance Directly Credited to Income	-2,210,580	- 2,211							
	4325_Revenues from Merchandise Jobbing Etc.	-12,747,564	- 12,748							
	4330_Costs and Expenses of Merchandising Jobbing Etc.	14,047,565	14,048							
	4076_Billed Smart Metering Entity Charge	-6,756,356	- 6,756							
		-39,766,931	- 39,767	- 1,177	- 250	-	- 41,194	- 48,335	- 7,141	Note 3
Costs										
Energy purchases	4705_Power Purchased	1,363,933,297	1,363,933							
	4707_Charges - Global Adjustment	1,096,864,597	1,096,865							
	4708_Charges-WMS	64,322,666	64,323							
	4714_Charges-NW	166,193,052	166,193							
	4716_Charges-CN	116,497,555	116,498							
	4730_Rural Rate Assistance Expense	32,551,447	32,551							
	4750_Charges LV	-43	- 0							
		2,840,362,572	2,840,363	-	3,697	-	2,844,060	2,898,492	54,432	Note 4
Operating expenses	4380_Expenses of Non-Utility Operations	91,941	92							
	4398_Foreign Exchange Gains and Losses Including Amortization	1,500,430	1,500							
	5005_Distribution Operation Supervision and Engineering	20,195,329	20,195							
	5010_Distribution Load Dispatching	5,728,776	5,729							
	5012_Station Buildings and Fixtures Expense	0	-							
	5016_Distribution Station Equipment - Operation Labour	2,791,165	2,791							
	5017_Distribution Station Equipment - Operation Supplies and Expenses	2,876,993	2,877							
	5020_Overhead Distribution Lines and Feeders - Operation Labour	810,769	811							
	5025_Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	1,163,363	1,163							
	5035_Overhead Distribution Transformers- Operation	0	-							
	5040_Underground Distribution Lines and Feeders - Operation Labour	1,462,007	1,462							
	5045_Underground Distribution Lines & Feeders - Operation Supplies & Expenses	1,800,410	1,800							
	5055_Underground Distribution Transformers - Operation	14,266	14							
	5065_Meter Expense	484,730	485							
	5070_Customer Premises - Operation Labour	2,798,435	2,798							
	5075_Customer Premises - Materials and Expenses	1,997,164	1,997							
	5085_Miscellaneous Distribution Expense	6,437,256	6,437							
	5105_Maintenance Supervision and Engineering	19,129,502	19,130							
	5110_Maintenance of Buildings and Fixtures - Distribution Stations	14,284,733	14,285							
	5112_Maintenance of Transformer Station Equipment	0	-							
	5114_Maintenance of Distribution Station Equipment	3,212,202	3,212							
	5120_Maintenance of Poles Towers and Fixtures	426,963	-							
	5125_Maintenance of Overhead Conductors and Devices	15,645,627	16,913							

Toronto Hydro-Electric System Limited - 2.1.13

Statement of Income
December 31, 2015

Filing: April 30, 2016

		Regulated 2015 Actual OEB Acct TB	Regulated 2015 Actual (in thousands)	Unregulated 2015 Actual (in thousands)	Net Movement Adj 2015 Actual (in thousands)	Consol Adj 2015 Actual (in thousands)	Calculated THESL Consol 2015 Actual (in thousands)	Audited THESL Consol 2015 Actual (in thousands)	Diff	Comment
	5130_Maintenance of Overhead Services	840,012	-							
	5135_Overhead Distribution Lines and Feeders - Right of Way	3,204,037	3,204							
	5145_Maintenance of Underground Conduit	-182	- 0							
	5150_Maintenance of Underground Conductors and Devices	7,685,651	7,686							
	5155_Maintenance of Underground Services	15,992	16							
	5160_Maintenance of Line Transformers	0	-							
	5165_Maintenance of Street Lighting and Signal Systems	2,379,914	2,380							
	5305_Supervision	230,612	231							
	5310_Meter Reading Expense	3,578,418	3,578							
	5315_Customer Billing	8,714,033	8,714							
	5320_Collecting	17,591,343	17,591							
	5335_Bad Debt Expense	6,630,000	6,630							
	5410_Community Relations - Sundry	-16,029	- 16							
	5415_Energy Conservation	84	0							
	5420_Community Safety Program	3,472,067	3,472							
	5605_Executive Salaries and Expenses	1,610,316	1,610							
	5610_Management Salaries and Expenses	2,827	3							
	5615_General Administrative Salaries and Expenses	52,024,951	52,025		- 304					
	5620_Office Supplies and Expenses	3,001	3							
	5625_Administrative Expense Transferred Credit	138,439	138							
	5630_Outside Services Employed	6,130,421	6,130							
	5635_Property Insurance	1,566,037	1,566							
	5640_Injuries and Damages	1,642,100	1,642							
	5655_Regulatory Expenses	4,878,459	4,878							
	5660_General Advertising Expenses	0	-							
	5665_Miscellaneous General Expenses	-630	- 1		-					
	5675_Maintenance of General Plant	11,320,163	11,320							
	5680_Electrical Safety Authority Fees	409,601	410							
	6105_Taxes Other Than Income Taxes	5,192,007	5,192							
	6205_Donations	968,556	969							
	4375_Revenues from Non-Utility Operations	-2,927,027	- 2,927							
	4751_Charges Smart Metering Entity Chg	6,756,356	6,756							
		246,893,592	246,894	1,582	- 304	-	248,172	258,928	10,756	Note 5
Depreciation and amortization	5705_Amortization Expense - Property Plant and Equipment	171,911,093								
	5715_Amortization of Intangible Assets	20,418,336								
		192,329,429	192,329	479		-	192,809	192,809	-	
		-212,897,762	- 212,898	884	23,061	-	- 188,953	- 179,161	9,792	
Financing costs										
Interest Income	4375_Revenues from Non-Utility Operations	0	-							
	4405_Interest and Dividend Income	-1,298,537	- 1,299							
		-1,298,537	- 1,299	- 60		-	- 1,358	- 1,358	-	
Interest Expense, Long-term Debt	6030_Interest on Debt to Associated Companies	79,824,748	79,825	-			79,825	79,825	-	
Interest Expense, Other	5615_General Administrative Salaries and Expenses	2,175,207	2,175				2,175	-	- 2,175	
	5420_Community Safety Program	41,513	42				42	-	- 42	
	5105_Maintenance Supervision and Engineering	292,895	293				293	-	- 293	
	6035_Other Interest Expense	2,951,987	2,952	1	152	-	3,104	- 5,179	- 8,283	
	6040_Allowance for Borrowed Funds Used During Construction--Credit	-10,806,600	- 10,807				- 10,807	-	10,807	
		74,479,750	74,480	1	152	-	74,632	74,646	14	Note 6
Gain on disposals of property, plant and equipment	4355_Gain on Disposition of Utility and Other Property	-4,062,681								
	4335_Profits and Losses from Financial Instrument Hedges	-211,338								
		-4,274,019	- 4,274		- 5,844		- 10,118	- 10,118	-	
Income Tax Expense	6110_Income Taxes	3,518,763	3,519	-	28,590	-	32,108	31,358	- 750	Note 7
	6115_Provision for Deferred Taxes - Inc. Statement	-19,437	- 19				- 19	138	157	Note 8
Net Income		-140,491,242	- 140,491	825	45,958	-	- 93,708	- 84,495	9,213	
Net movements in regulatory balances, net of tax		0			- 45,958		- 45,958	- 45,958	-	
Net income after net movements in regulatory balances		-140,491,242	-140,491,242	825	-	-	- 139,667	- 130,453	9,213	

Toronto Hydro-Electric System Limited - 2.1.13 Filing: April 30, 2016
Statement of Income
December 31, 2015
Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: Difference in "Energy sales" of ($54,434): Calculated balance of ($2,871,195) & AFS balance of ($2,925,629), a difference of ($54,434), as follows:	
a. For RRR reporting, THESL books the RSVA change to the higher of COP Revenue or COP expense. For the AFS, the RSVA change is booked to COP Revenue.	-38,944
The difference between the amounts charged by THESL to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO to THESL,	
is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within "net movements in regulatory balances, net of tax" for AFS.	
For purpose of RRR reporting, the regulatory impact within net movement is reversed into COP revenue.	
b. For RRR Reporting, for the period Jan to Sept 2015, THESL booked to "Cost of Power revenue" and "COP expense" the amount of the IESO settlement invoices charge type 142, in the amounts of $3,160 and ($3,160), respectively.	-3,160
For the AFS, for the period Jan to Sept 2015, THESL does not book IESO settlement invoices charge type 142 to either COP revenue or COP expense.	
c. For RRR Reporting, for the period Oct to Dec 15, THESL booked to "Cost of Power revenue" the amount of the IESO settlement invoices charge type 142, in the amounts of $12,328.	-12,328
For the AFS, for the period Oct to Dec 2015, THESL book IESO settlement invoices charge type 142 to COP expense.	
d. Other	-2
Total difference:	-54,434
Note 2: Difference in "Distribution revenue" of $6,179: Calculated balance of ($561,603) & AFS balance of ($555,424), a difference of $6,179, as follows:	
a. A "Smart meter recovery" regulatory asset (RA) was booked for AFS, with AFS Distribution revenue booked on an accrual basis. This is not considered a regulatory	10,932
asset for purposes of RRR reporting. The AFS Distribution revenue amount has been adjusted so the Distribution revenue booked for RRR Reporting is appropriately reflected on a cash basis.	
b. This relates to the reversal of the Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base.	-4,755
For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is	
applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the	
OEB approved the disposition of Account 1575 with the return on rate base of $4,755. As such, for RRR purposes, the $4,755 accrual will need to be reversed.	
c. Other	2
Total difference:	6,179
Note 3: Difference in "Other income" of ($7,141): Calculated balance of ($41,194) & AFS balance of ($48,335), a difference of ($7,141), as follows:	
a. Demand Billable Charges: As per GAAP, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis:	-14,047
b. Smart Metering Entity charge: As per AFS GAAP, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory	6,756
accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":	
c. "Wireless pole attachments" revenue was booked to a regulatory asset (RA) for purposes of RRR reporting, while for AFS purposes the wireless pole attachment revenues were included in "Other income" in the amount of $150:	150
Total difference:	-7,141
Note 4: Difference in "Energy purchases" of $58,129: Calculated balance of $2,840,363 & AFS balance of $2,898,492, a difference of $58,129, as follows:	
a. For RRR reporting, THESL books the RSVA change to the higher of COP Revenue or COP expense. For the AFS, the RSVA change is booked to COP Revenue.	38,944
b. For RRR Reporting, for the period Jan to Sept 2015, THESL booked to "Cost of Power revenue" and "COP expense" the amount of the IESO settlement invoices charge type 142, in the amounts of $3,160 and ($3,160), respectively.	3,160
For the AFS, for the period Jan to Sept 2015, THESL does not book IESO settlement invoices charge type 142 to either COP revenue or COP expense.	
c. For RRR Reporting, for the period Oct to Dec 15, THESL booked to "Cost of Power revenue" the amount of the IESO settlement invoices charge type 142, in the amounts of $12,328.	12,328
For the AFS, for the period Oct to Dec 2015, THESL book IESO settlement invoices charge type 142 to COP expense.	
Total difference:	54,432
Note 5: Difference in "Operating expenses" of $7,059: Calculated balance of $251,869 & AFS balance of $258,928, a difference of $7,059, as follows:	
a. Demand Billable Charges: As per AFS GAAP, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis:	14,047
b. Smart Metering Entity charge: As per AFS GAAP, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory	-6,756
accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":	
c. This relates to the CIR Costs Deferral re-instatement on the Balance Sheet.	3,503
For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L.	
For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the	
CIR costs were re-instated on the balance sheet and will be amortized over the 5 years.	
e. Other	-38
Total difference:	10,756
Note 6: Difference in "Financing Costs - Interest expense" of $14: Calculated balance of $74,632 & AFS balance of $74,646, a difference of $14, as follows:	14
a. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax	
credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010.	
For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax	
Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592.	
The following adjustment has been made to the AFS to reflect for RRR Reporting the amount in the above mentioned contra account:	
The adjustment entry is, HST/OVAT Contra Account (Dr.) $1,180k, Misc. Interest (Cr.) $14k and Retained Earnings (Cr.) 1,166k.	
Note 7: Difference in "Income tax expense - Income taxes" of ($750): Calculated balance of $32,108 & AFS balance of $31,358, a difference of ($750), as follows:	-750
The difference represents the non-regulated business current income tax expense included in the AFS.	
Note 8: Difference in "Income tax expense - Provision for deferred taxes" of $157: Calculated balance of ($19) & AFS balance of $138, a difference of $157, as follows:	157
For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets.	

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Balance Sheet

December 31, 2014

		USGAAP Regulated 2014 Actual OEB Acct TB	USGAAP Regulated 2014 Actual (in thousands)	Notes	Adjustments	Adjustments (in thousands)	mIFRS Regulated 2014 Actual OEB Acct TB	mIFRS Regulated 2014 Actual (in thousands)	Unregulated 2014 Actual (in thousands)	Consol Adj 2014 Actual (in thousands)	Calculated THESL Consol 2014 Actual (in thousands)	Audited THESL Consol 2014 Actual (in thousands)	Diff	Comment
Assets														
Current Assets														
Cash and cash equivalents	1005_Cash	87,642,549	87,643		-	-	87,642,549	87,643						
	1010_Cash Advances and Working Funds	10,378	10		-	-	10,378	10						
		87,652,927	87,653		-	-	87,652,927	87,653	-2,925	-	84,728	84,728	-	
Accounts receivable	1100_Customer Accounts Receivable	199,557,426	199,557		0	0	199,557,426	199,557						
	1104_Accounts Receivable - Recoverable Work	7,235,439	7,235		-	-	7,235,439	7,235						
	1110_Other Accounts Receivable	14,148	14		-	-	14,148	14						
	1130_Accumulated Provision for Uncollectible Accounts-- Credit	- 11,758,208	-11,758		-	-	- 11,758,208	-11,758						
	1200_Accounts Receivable from Associated Companies	795,509	796		26,450	26	821,960	822						
		195,844,314	195,844	A	26,450	26	195,870,765	195,871	10,588	-692	205,766	205,766	-0	
Unbilled revenue	1120_Accrued Utility Revenues	306,481,105	306,481		0	0	306,481,105	306,481	129		306,610	306,610	-0	
Income tax receivable	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	194,618	195		- 0	-0	194,617	195			195	195	-0	
Materials and supplies	1330_Plant Materials and Operating Supplies	8,649,272	8,649		-	-	8,649,272	8,649			8,649	8,649	-	
Other assets	1180_Prepayments	12,487,592	12,488	B	- 88,276	-88	12,399,316	12,399			12,399	9,878	-2,521	Note 1
Assets held for sale	1190_Miscellaneous Current and Accrued Assets	4,045,847	4,046		- 24,581	-25	4,021,266	4,021			4,021	4,021	-	
Current portion of regulatory assets	1508_Other Regulatory Assets	11,812,612	11,813	C	- 11,812,612	-11,813								
		343,671,047	343,671		- 11,925,470	-11,925	331,745,577	331,746	129	-	331,874	329,353	-2,521	
Property, plant and equipment	1805_Land	7,580,501	7,581		-	-	7,580,501	7,581						
	1808_Buildings and Fixtures	49,223,004	49,223		- 20,488,806	-20,489	28,734,199	28,734						
	1815_Transformer Station Equipment - Normally Primary above 50 kV	10,972,681	10,973		- 5,132,702	-5,133	5,839,979	5,840						
	1820_Distribution Station Equipment - Normally Primary below 50 kV	243,832,471	243,832		- 109,718,097	-109,718	134,114,373	134,114						
	1830_Poles Towers and Fixtures	411,108,296	411,108		- 204,436,233	-204,436	206,672,063	206,672						
	1835_Overhead Conductors and Devices	477,275,658	477,276		- 268,525,879	-268,526	208,749,780	208,750						
	1840_Underground Conduit	1,451,620,240	1,451,620		- 784,267,392	-784,267	667,352,848	667,353						
	1845_Underground Conductors and Devices	923,599,543	923,600		- 498,410,431	-498,410	425,189,112	425,189						
	1850_Line Transformers	815,359,725	815,360		- 495,099,610	-495,100	320,260,115	320,260						
	1855_Services	88,280,402	88,280		- 23,396,553	-23,397	64,883,849	64,884						
	1860_Meters	201,190,539	201,191		- 63,069,563	-63,070	138,120,976	138,121						
	1905_Land	18,401,025	18,401		-	-	18,401,025	18,401						
	1908_Buildings and Fixtures	133,816,591	133,817		- 51,464,224	-51,464	82,352,367	82,352						
	1910_Leasehold Improvements	20,404,897	20,405		- 19,651,057	-19,651	753,840	754						
	1915_Office Furniture and Equipment	22,329,700	22,330		- 12,493,951	-12,494	9,835,750	9,836						
	1920_Computer Equipment - Hardware	65,167,799	65,168		- 45,195,780	-45,196	19,972,019	19,972						
	1930_Transportation Equipment	72,270,772	72,271		- 47,535,946	-47,536	24,734,826	24,735						
	1935_Stores Equipment	5,506,283	5,506		- 5,499,217	-5,499	7,066	7						
	1940_Tools Shop and Garage Equipment	44,410,493	44,410		- 31,550,676	-31,551	12,859,818	12,860						
	1945_Measurement and Testing Equipment	5,120,008	5,120		- 4,640,005	-4,640	480,004	480						
	1955_Communication Equipment	36,011,961	36,012		- 28,497,996	-28,498	7,513,965	7,514						
	1960_Miscellaneous Equipment	369,101	369		- 102,031	-102	267,071	267						
	1970_Load Management Controls - Customer Premises	14,843,095	14,843		- 11,820,262	-11,820	3,022,834	3,023						
	1975_Load Management Controls - Utility Premises	554,382	554		- 554,382	-554	-	-						
	1980_System Supervisory Equipment	62,188,595	62,189		- 41,874,894	-41,875	20,313,701	20,314						
	1995_Contributions and Grants - Credit	- 361,198,753	-361,199		361,198,753	361,199	-	-						
	1612_Land Rights	-	-		7,191,090	7,191	7,191,090	7,191						
	2005_Property Under Finance Leases	15,815,421	15,815		- 4,835,677	-4,836	10,979,744	10,980						
	2055_Construction Work in Progress--Electric	407,121,264	407,121		23,766,940	23,767	430,888,204	430,888						
	2105_Accum. Depreciation of Electric Utility Plant - Property Plant & Equipment	- 2,295,387,700	-2,295,388		2,169,784,284	2,169,784	- 125,603,416	-125,603						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	- 241,754,780	-241,755		241,380,237	241,380	- 374,543	-375						
		2,706,033,215	2,706,033	A, B, C, D, E, I, M, N	25,059,944	25,060	2,731,093,158	2,731,093	47,434	-	2,778,527	3,224,536	446,009	Note 2
Intangible assets	1609_Capital Contributions Paid	23,039,470	23,039		- 3,072,683	-3,073	19,966,787	19,967						
	1611_Computer Software	285,531,224	285,531		- 198,800,474	-198,800	86,730,750	86,731						
	2055_Construction Work in Progress--Electric	111,117,488	111,117		483,462	483	111,600,950	111,601						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	-	-		- 19,647,639	-19,648	- 19,647,639	-19,648						
	2105_Accum. Depreciation of Electric Utility Plant - Property Plant & Equipment	- 221,818,227	-221,818		221,818,227	221,818	-	-						
		197,869,955	197,870	D, E, N	780,893	781	198,650,848	198,651	-	-	198,651	198,651	-	
Deferred tax assets	1495_Deferred Taxes - Non-Current Assets	129,808,574	129,809	G	20,427,303	20,427	150,235,877	150,236	-	-	150,236	143,072	-7,163	Note 3
Other assets	1460_Other Non-Current Assets	8,066,234	8,066	B	- 7,014,538	-7,015	1,051,695	1,052	-	-	1,052	1,052	-	
Regulatory balances	1508_Other Regulatory Assets	490,133,299	490,133	A, C	10,402,184	10,402	500,535,483	500,535						
	1520_Power Purchase Variance Account	0	0		-	-	0	0						
	1521_Special Purpose Chg Assessment Variance Account	-	-		-	-	-	-						
	1550_Low Voltage Variance Acct	1,728,591	1,729		-	-	1,728,591	1,729						
	1551_Smart Metering Entity Charge Variance Acct	241,003	241		-	-	241,003	241						
	1555_Smart Meter Capital Offset Variance	14,404,067	14,404		0	0	14,404,067	14,404						
	1556_Smart Meter Operating Variance	-	-		-	-	-	-						
	1562_Deferred Payments in Lieu of Taxes	-	-		-	-	-	-						
	1563_Deferred PILs Contra Account	-	-		-	-	-	-						
	1568_LRAM Variance Account	-	-		-	-	-	-						
	1575_IFRS-UGAAP Transitional PPE Amounts	-	-	D	24,193,438	24,193	24,193,438	24,193						
	1580_RSVAWMS	- 108,421,020	-108,421		-	-	- 108,421,020	-108,421						
	1584_RSVANW	62,266,249	62,266		-	-	62,266,249	62,266						
	1586_RSVACN	29,067,376	29,067		-	-	29,067,376	29,067						
	1588_RSVAPOWER	- 18,770,687	-18,771		-	-	- 18,770,687	-18,771						
	1589_RSVAGA	88,291,117	88,291		-	-	88,291,117	88,291						
	1592_PILs and Tax Variance for 2006 and Subsequent Years	-	-		-	-	-	-						
	1595_Disposition Recovery Reg Balances Control Acct	-	-	F	- 1,713,099	-1,713	- 1,713,099	-1,713						
		558,939,995	558,940		32,882,524	32,883	591,822,519	591,823	-	-	591,823	197,146	-394,677	Note 4

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Balance Sheet

December 31, 2014

		USGAAP Regulated 2014 Actual OEB Acct TB	USGAAP Regulated 2014 Actual (in thousands)	Notes	Adjustments	Adjustments (in thousands)	mIFRS Regulated 2014 Actual OEB Acct TB	mIFRS Regulated 2014 Actual (in thousands)	Unregulated 2014 Actual (in thousands)	Consol Adj 2014 Actual (in thousands)	Calculated THESL Consol 2014 Actual (in thousands)	Audited THESL Consol 2014 Actual (in thousands)	Diff	Comment
Total Assets		4,227,886,261	4,227,886		60,237,106	60,237	4,288,123,367	4,288,123	55,226	-692	4,342,657	4,384,304	41,648	
Liabilities and equity														
Bank indebtedness		-	-				-	-	-	-	-	-	-	
Advance from related party	2242_ Payable to Associated Companies	-	-	H	- 308,000,000	-308,000	- 308,000,000	-308,000	-	-	-308,000	-308,000	-	
Accounts payable and accrued liabilities	2205_Accounts Payable	- 421,555,928	-421,556	K, M	851,539	852	- 420,704,389	-420,704						
	2208_Customer Credit Balances	- 40,808,916	-40,809	I	22,132,108	22,132	- 18,676,807	-18,677						
	2220_Miscellaneous Current and Accrued Liabilities	- 13,780,070	-13,780	A	965,386	965	- 12,814,683	-12,815						
	2240_Accounts Payable to Associated Companies Notes	- 12,388,608	-12,389	A	- 956,386	-956	- 13,344,994	-13,345						
	2250_Debt Retirement Charges(DRC) Payable	- 12,973,211	-12,973		-	-	- 12,973,211	-12,973						
	2290_Commodity Taxes	- 3,316,585	-3,317		-	-	- 3,316,585	-3,317						
	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	-	-		0	0	0	0						
	2292_Payroll Deductions / Expenses Payable	- 7,638,080	-7,638		0	0	- 7,638,080	-7,638						
		- 512,461,397	-512,461		22,992,648	22,993	- 489,468,749	-489,469	-23,447	692	-512,224	-512,224	0	
Customer deposits	2210_Customer Deposits	- 15,122,093	-15,122	J	- 23,333,176	-23,333	- 38,455,269	-38,455				-38,455		
	2335_Non-Current Customer Deposits	- 23,333,176	-23,333	J	23,333,176	23,333	-	-						
			-											
		- 38,455,269	-38,455		-	-	- 38,455,269	-38,455	-	-	-38,455	-38,455	-	
Current portion of regulatory liabilities	1595_Disposition Recovery Reg Balances Control Acct	- 1,644,343	-1,644	F	1,644,343	1,644								
Current portion of Post-employment benefits	2306_Employee Future Benefits	- 7,958,000	-7,958	A	7,958,000	7,958								
Deferred revenue	2220_Miscellaneous Current and Accrued Liabilities				(965,386.35)	-965	-965,386	-965	-		-965	-2,159	-1,194	Note 5
	2240_Accounts Payable to Associated Companies Notes	- 965,386	-965		965,386.35	965								
		- 965,386	-965		-	-	- 965,386	-965			-965	-2,159	-1,194	
Deferred conservation credit		-	-				0	-	-		-	-	-	
Other liabilities	2285_Obligations Under Finance Leases--Current	- 2,624,659	-2,625		- 0	-0	- 2,624,659	-2,625			-2,625	-2,625	-	
Note payable to related party	2242_ Payable to Associated Companies	- 368,000,000	-368,000		308,000,000	308,000	- 60,000,000	-60,000			-60,000	-		
	2240_Accounts Payable to Associated Companies Notes	-	-		-	-	-	-			-	-		
	2260_Current Long Term Debt	-	-		-	-	-	-	-		-	-		
							-							
		- 368,000,000	-368,000	H	308,000,000	308,000	- 60,000,000	-60,000	-	-	-60,000	-60,000	-	
Note payable to related party	2550_Advances from Associated Companies	- 1,632,196,529	-1,632,197		- 0	-0	- 1,632,196,529	-1,632,197			-1,632,197	-1,632,197	0	
	2505_Debentures Outstanding - Long Term	-					-	-			-	-	-	
Customer deposits	2335_Non-Current Customer Deposits	- 4,669,307	-4,669		-	- -	4,669,307	-4,669			-4,669	-4,669	-	
Deferred revenue	2440_Deferred Revenues			I	- 43,571,006	-43,571	- 43,571,006	-43,571			-43,571	-71,444		
	2320_Other Miscellaneous Non-Current Liabilities				-	-	-	-			-	-		
	2335_Non-Current Customer Deposits			I	- 22,132,108	-22,132	- 22,132,108	-22,132			-22,132	-		
		-	-		- 65,703,115	-65,703	- 65,703,115	-65,703	-	-	-65,703	-71,444	-5,741	Note 6
Post-employment benefits	2306_POEB Liability	- 284,485,208	-284,485	A	- 1,782,033	-1,782	- 286,267,241	-286,267	-1,103		-287,370	-287,370	-	
Other liabilities	2325_Obligations Under Finance Lease--Non-Current	- 6,771,630	-6,772		20,440	20	- 6,751,190	-6,751			-6,751	-8,018		
	2320_Other Miscellaneous Non-Current Liabilities	- 22,321,322	-22,321	K	- 1,266,730	-1,267	- 23,588,052	-23,588			-23,588			
		- 29,092,952	-29,093		- 1,246,290	-1,246	- 30,339,242	-30,339	-	-	-30,339	-8,018	22,321	Note 7
Regulatory liability	1592_PILs and Tax Variance for 2006 and Subsequent Years	- 2,466,509	-2,467	L	2,466,509	2,467								
	1595_Disposition Recovery Reg Balances Control Acct	- 68,757	-69	F	68,757	69								
	2350_Future Income Tax - Non-Current	- 130,161,389	-130,161	G	130,161,389	130,161								
		- 132,696,655	- 132,696,655		132,696,655	132,696,655	-	-						
Total Liabilities		- 3,015,249,703	-3,015,250		96,560,207	96,560	- 2,918,689,496	-2,918,689	-24,550	692	-2,942,547	-2,927,161	15,386	
Share Capital	3005_Common Shares Issued	- 527,816,668	-527,817		-	-	- 527,816,668	-527,817	-28,461		-556,278	-556,278	0	
Retained Earnings	3045_Unappropriated Retained Earnings	- 893,470,038	-893,470		2	0	- 893,470,036	-893,470						
	3046_Balance Transferred From Income	- 94,945,708	-94,946	O	689,046	689	- 94,256,662	-94,257						
	3049_Dividends Payable-Common Shares	321,526,000	321,526		-	-	321,526,000	321,526						
	3055_Adjustment to Retained Earnings	- 5,172,752	-5,173	A	- 796,423	-796	- 5,969,175	-5,969						
		- 672,062,498	-672,062		- 107,375	-107	- 672,169,874	-672,170	-2,214	-	-674,384	-715,094	-40,710	Note 8
Contributed Surplus	3010_Contributed Surplus	- 12,757,392	-12,757		-	-	- 12,757,392	-12,757			-12,757	-12,757	-	
Regulatory balances	1508_Other Regulatory Assets	-	-	C	- 3,623,607	-3,624	- 3,623,607	-3,624						
	1592_PILs and Tax Variance for 2006 and Subsequent Years	-	-	L	- 2,466,509	-2,467	- 2,466,509	-2,467						
	2350_Deferred Tax - Non-Current Liability	-	-	G	- 150,599,822	-150,600	- 150,599,822	-150,600						
		-	-		- 156,689,937	-156,690	- 156,689,937	-156,690	-	-	-156,690	-173,014	-16,324	Note 9
Total liabilities, equity and regulatory balances		- 4,227,886,261	-4,227,886		- 60,237,106	-60,237	- 4,288,123,367	-4,288,123	-55,226	692	-4,342,657	-4,384,304	-41,648	
		-	-		- 0	-0	- 0	-0	-	-	-0	-	0	

Toronto Hydro-Electric System Limited - 2.1.13

Balance Sheet

December 31, 2014

Filing: April 30, 2016

Notes on the adjustments from OEB US GAAP to mIFRS:

A Other Post-Employment Benefits (OPEB):

between mIFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under mIFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave

B Land Lease:

assets. Under mIFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to LDC. The

C 1508 - Other Regulatory Assets:

The total difference between US GAAP and mIFRS for account 1508 - Other Regulatory Assets after considering presentation differences is ($5.0 million). The difference is primarily comprised of the following:

OPEB measurement difference between US GAAP and mIFRS	-$6.1	million
ICM assets that was transferred from PP&E measurement difference between US GAAP and mIFRS primarily related to capitalized borrowing costs	$1.1	million
	-$5.0	million

D 1575 - IFRS - GAAP Transitional PP&E:

Transitional Issues, PP&E and intangibles transitional differences from US GAAP to mIFRS are to be recorded in USoA 1575 IFRS - GAAP Transitional PP&E. The balance of

E Rate-Regulated Deemed Costs Exemption:

LDC has applied the rate-regulated deemed cost exemption on its PP&E and intangibles. As such, LDC has elected to use the US GAAP net book value as its deemed cost on the date of transition, January 1, 2014.

F 1595 - Disposition and Recovery/Refund of Regulatory Balances Control Account:

The total difference between US GAAP and mIFRS for account 1595 - Disposition and Recovery/Refund of Regulatory Balances Control Account after considering presentation differences is $nil.

G Deferred Tax Asset and Liability:

The difference between US GAAP and mIFRS is primarily the tax impact as a result of the transition from US GAAP to IFRS.

H 2242 - Notes Payable to Associated Companies:

The total difference between US GAAP and mIFRS for account 2242 - Notes Payable to Associated Companies after considering presentation differences is $nil.

I Contributions in Aid of Construction:

Construction, under mIFRS the initial receipt of cash related to contributions in aid of construction are recorded in customer deposits. Under US GAAP, these amounts were recorded

Construction, under mIFRS when the cash related to contributions in aid of construction are spent on the construction or acquisition of PP&E or intangibles, the customer deposit account is drawn down and an entry is made

J Customer Deposits Reclassification

cash collections to guarantee the payment of electricity bills. The electricity customer security deposits liability includes

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Balance Sheet

December 31, 2014

K Reclassification of Other Long-Term Benefits:

The difference primarily relates to the reclassification of other long-term benefits from Accounts Payable under US GAAP to USoA 2320 Other Miscellaneous Non-Current Liabilities under mIFRS.

L 1592 - PILs and Tax Variance for 2006 and Subsequent Years:

The total difference between US GAAP and mIFRS for account 1592 - PILs and Tax Variance for 2006 and Subsequent Years after considering presentation differences is $nil.

M Decommissioning Provision:

remeasured at the end of each period, whereas under US
GAAP, remeasurement was not required. After adjusting for
the Day 1 adjustment and for the difference in retired value,

N January 1, 2015 PP&E and Intangibles for Rate Base Purposes under mIFRS:

on the Application for electricity distribution rates effective
from May 1, 2015 and for
each following year effective January 1 through to December

December 31, 2014 PP&E under mIFRS	2,731,093
December 31, 2014 Intangibles under mIFRS	198,651
	2,929,744
Less: USoA 2055 - Construction Work in Progress--Electric	-542,489
December 31, 2014 PP&E and Intangibles excluding CWIP	2,387,255
Add: USoA 2440 - Deferred Revenues	-43,571
Less: Capital Contribution CWIP included in USoA 2440 - Deferred Revenues	22,706
December 31, 2014 PP&E and Intangibles excluding CWIP, net of capital contributions	2,366,390
Add: ICM Assets transferred to PP&E on January 1, 2015	439,074
Add: Street lighting Assets transferred to PP&E on January 1, 2015	38,475
January 1, 2015 PP&E and Intangibles for rate base purposes under mIFRS	2,843,939

O 3046 - Balance Transferred From Income

Refer to the income statement reconciliation for details.

Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: Difference in "Current portion of other assets" of ($2,521). Calculated balance of $12,399 & AFS balance of $9,878, a difference of ($2,521), due to transfer of AFS regulatory asset for CIRA cost deferral to Prepaids account 1180 for RRR purposes.	-$2,521
Note 2: Difference in "Property, plant and equipment" of $446,009. Calculated balance of 2,778,527 & AFS balance of $3,224,536, a difference of $446,009, due to transfer of AFS PP&E Assets to Regulatory asset account 1508 Other Regulatory asset, sub-account Incremental Capital Expenditures.	$446,009
Note 3: Difference in "Deferred tax assets" of ($7,163). Calculated balance of $150,236 & AFS balance of $143,072, a difference of ($7,163), due to transfer of the gross up on the deferred tax asset and deferred tax liability on regulatory balances from Regulatory balance accont to AFS Deferred tax assets in the amount of $7,163.	-$7,163
Note 4: Difference in "Regulatory balances (debit)" of ($394,677): Calculated balance of $591,823 & AFS balance of $197,146, a difference of ($394,677), as follows:	
a. A "Smart meter recovery" regulatory balance was booked for AFS, and is not considered a regulatory balance for purposes of RRR reporting:	$20,879
b. Incremental Capital Model (ICM) revenue and depreciation expense contra account RA were booked for the AFS, and this not considered a regulatory balance for purposes of RRR reporting:	$22,493
c. Due to the transfer of AFS PP&E Assets to Regulatory asset account 1508 Other Regulatory asset, sub-account Incremental Capital Expenditures:	-$440,682
d. "Wireless pole attachments" regulatory balance was booked for purposes of RRR reporting and not included the AFS:	$113
e.Transfer of AFS regulatory balance for CIRA cost deferral to Prepaids account 1180 for RRR purposes.	$2,521
Total difference:	-$394,677

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Balance Sheet

December 31, 2014

Note 5: Difference in "Current portion of deferred revenue" of ($1,194). Calculated balance of ($965) & AFS balance of ($2,159), a difference of ($1,194), due to the transfer of capital contributions in 2220_Miscellaneous Current and Accrued Liabilities to 2440_Deferred Revenues for OEB reporting purpose.	-$1,194
Note 6: Difference in "Deferred revenue" of ($5,741). Calculated balance of ($65,703) & AFS balance of ($71,444), a difference of ($5,741), due to:	
a. The transfer of AFS Deferred revenue to Regulatory asset account 1508 Other Regulatory asset, sub-account Incremental Capital Expenditures.	-$6,935
b. The transfer of capital contributions in 2320_Other Miscellaneous Non-Current Liabilities to 2440_Deferred Revenues for OEB reporting purpose.	$1,194
Total difference:	-$5,741
Note 7: Difference in "Other long-term liabilities" of $22,321. Calculated balance of ($30,339) & AFS balance of ($8,018), a difference of $22,321, due to: A Revision of prior year tax position" regulatory credit balance was booked for AFS, and is not considered a regulatory balance for purposes of RRR reporting: For RRR Reporting, the amount was transferred to OEB account 2320 "Other Miscellaneous Non-Current Liabilities".	$22,321
Note 8: Difference in "Retained Earnings" of ($40,710): Calculated balance of ($674,384) & AFS balance of ($715,094), a difference of ($40,710). Adjustments have been made to certain AFS income statement items to arrive at the RRR reporting as follows:	
a. Reduction to AFS Distribution revenue booked for Smart Meter "net revenue requirement" on the disposition of Account 1555 "Smart Meter Capital & Recovery" and 1556 "Smart Meter OM&A Variance account" balances. The amount shall be booked to Distribution revenue for RRR reporting, to OEB account 4080 as the amount is billed to THESL customers in the future:	-$20,879
b. Reverse the ICM revenue and related depreciation expense booked LTD 2014 in the AFS. This ICM revenue and depreciation expense shall be booked for RRR reporting in the future under regulatory prescribed ICM accounting treatment:	- 22,493
c. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010. For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. The following adjustment has been made to the AFS to reflect for RRR Reporting the amount in the above mentioned contra account: The adjustment entry is, HST/OVAT Contra Account (Dr.) $1,166k, Misc. Interest (Cr.) $16k and Retained Earnings (Cr.) 1,150k.	1,166
d. Due to the transfer of AFS Depreciation expense to Regulatory asset account 1508 Other Regulatory asset, sub-account Incremental Capital Expenditures in the amount of $1,608.	1,608
e. "Wireless pole attachments" regulatory balance was booked for purposes of RRR reporting while for AFS purposes the amount was included in the income statement:	- 113
Total difference:	-$40,710
Note 9: Difference in "Regulatory credit balances" of ($16,324): Calculated balance of ($156,690) & AFS balance of ($173,014), a difference of ($16,324), as follows:	
a. A Revision of prior year tax position" regulatory credit balance was booked for AFS, and is not considered a regulatory balance for purposes of RRR reporting: For RRR Reporting, the amount was transferred to OEB account 2320 "Other Miscellaneous Non-Current Liabilities" from Regulatory Liabilities.	-$22,321
b. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010. For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. The following adjustment has been made to the AFS to reflect for RRR Reporting the amount in the above mentioned contra account: The adjustment entry is, HST/OVAT Contra Account (Dr.) $1,166k, Misc. Interest (Cr.) $16k and Retained Earnings (Cr.) 1,150k.	- 1,166
c. The gross up on the deferred tax asset and deferred tax liability on regulatory balances was booked as part of Regulatory balances and transferred to Deferred tax assets for purpose of RRR reporting.	7,163
Total difference:	-$16,324

Toronto Hydro-Electric System Limited - 2.1.13

Statement of Income

December 31, 2014

Filing: April 30, 2016

		USGAAP Regulated 2014 Actual OEB Acct TB	USGAAP Regulated 2014 Actual (in thousands)	Notes	Adjustments	Adjustments (in thousands)	mIFRS Regulated 2014 Actual OEB Acct TB	mIFRS Regulated 2014 Actual (in thousands)	Unregulated 2014 Actual (in thousands)	Consol Adj 2014 Actual (in thousands)	Calculated THESL Consol 2014 Actual (in thousands)	Audited THESL Consol 2014 Actual (in thousands)	Diff	Comment
Revenue														
Energy sales	4006_Residential Energy Sales	-486,662,662	- 486,663		0	-	-486,662,662	- 486,663						
	4010_Commercial Energy Sales	-1,385,714,616	- 1,385,715		47,589,091	47,589	-1,338,125,525	- 1,338,126						
	4020_Energy Sales to Large Users	-199,844,824	- 199,845		0	-	-199,844,824	- 199,845						
	4025_Street Lighting Energy Sales	-10,813,462	- 10,813		0	-	-10,813,462	- 10,813						
	4035_General Energy Sales	-210,750,959	- 210,751		0	-	-210,750,959	- 210,751						
	4050_Revenue Adjustment	20,840,986	20,841		0	-	20,840,986	20,841						
	4062_Billed WMS	-140,981,015	- 140,981		0	-	-140,981,015	- 140,981						
	4066_Billed NW	-177,393,894	- 177,394		15,032,996	15,033	-162,360,898	- 162,361						
	4068_Billed CN	-122,500,059	- 122,500		6,865,068	6,865	-115,634,991	- 115,635						
	4075_Billed LV	-483,426	- 483		487,421	487	3,995	4						
		-2,714,303,930	- 2,714,304	A	69,974,576	69,975	-2,644,329,354	- 2,644,329		-	- 2,644,329	- 2,654,966	- 10,637	Note 1
Distribution revenue	4080_Distribution Services Revenue	-533,456,671	- 533,457		0	-	-533,456,671	- 533,457		-	- 533,457	- 555,051	- 21,594	Note 2
		-3,247,760,602	- 3,247,761	A	69,974,576	69,975	-3,177,786,025	- 3,177,786	-	-	- 3,177,786	- 3,210,017	- 32,231	
Other income	4082_Retail Services Revenues	-439,346	- 439		0	-	-439,346	- 439						
	4084_Service Transaction Requests (STR) Revenues	-19,204	- 19		0	-	-19,204	- 19						
	4086_SSS Administration Revenue	-2,142,518	- 2,143		0	-	-2,142,518	- 2,143						
	4090_Electric Services Incidental to Energy Sales	0	-		0	-	0	-						
	4210_Rent from Electric Property	-8,694,567	- 8,695		0	-	-8,694,567	- 8,695						
	4215_Other Utility Operating Income	-956,230	- 956		0	-	-956,230	- 956						
	4220_Other Electric Revenues	0	-		0	-	0	-						
	4225_Late Payment Charges	-4,072,861	- 4,073		0	-	-4,072,861	- 4,073						
	4235_Miscellaneous Service Revenues	-6,543,450	- 6,543		0	-	-6,543,450	- 6,543						
	4245_Government and Other Assistance Directly Credited to Income	0	-	B	-711,174	- 711	-711,174	- 711						
	4325_Revenues from Merchandise Jobbing Etc.	-15,789,942	- 15,790	C	-325,077	- 325	-16,115,018	- 16,115						
	4330_Costs and Expenses of Merchandising Jobbing Etc.	14,815,407	14,815		0	0	14,815,408	14,815						
	4390_Miscellaneous Non-Operating Income	0	-	C	377,506	378	377,506	378						
	4355_Gain on Disposition of Utility and Other Property	0	-		-39,226	- 39	-39,226	- 39						
	4076_Billed Smart Metering Entity Charge	-6,674,801	- 6,675		0	-	-6,674,801	- 6,675						
		-30,517,512	- 30,518		-697,970	- 698	-31,215,483	- 31,215	- 11,786	-	- 43,001	- 51,650	- 8,649	Note 3
Expenses														
Energy purchases	4705_Power Purchased	1,450,996,403	1,450,996		0	-	1,450,996,403	1,450,996						
	4707_Charges - Global Adjustment	821,950,228	821,950		-47,589,091	- 47,589	774,361,137	774,361						
	4708_Charges-WMS	109,089,063	109,089		0	-	109,089,063	109,089						
	4714_Charges-NW	177,373,782	177,374		-15,032,996	- 15,033	162,340,786	162,341						
	4716_Charges-CN	122,520,171	122,520		-6,865,068	- 6,865	115,655,103	115,655						
	4730_Rural Rate Assistance Expense	31,891,953	31,892		0	-	31,891,953	31,892						
	4750_Charges LV	483,426	483		-487,421	- 487	-3,995	- 4						
		2,714,305,025	2,714,305	A	-69,974,576	- 69,975	2,644,330,449	2,644,330	-	-	2,644,330	2,700,378	56,047	Note 4
Operating expenses	4380_Expenses of Non-Rate Regulated Operations	299,017	299		10,000	10	309,017	309						
	4398_Foreign Exchange Gains and Losses Including Amortization	836,217	836		0	-	836,217	836						
	5005_Distribution Operation Supervision and Engineering	23,877,567	23,878		0	-	23,877,567	23,878						
	5010_Distribution Load Dispatching	5,970,719	5,971		0	-	5,970,719	5,971						
	5012_Station Buildings and Fixtures Expense	-595	- 1		0	-	-595	- 1						
	5016_Distribution Station Equipment - Operation Labour	2,802,147	2,802		0	-	2,802,147	2,802						
	5017_Distribution Station Equipment - Operation Supplies and Expenses	2,979,166	2,979		0	-	2,979,166	2,979						
	5020_Overhead Distribution Lines and Feeders - Operation Labour	870,363	870		0	-	870,363	870						
	5025_Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	1,087,913	1,088		0	-	1,087,913	1,088						
	5035_Overhead Distribution Transformers- Operation	0	-		0	-	0	-						
	5040_Underground Distribution Lines and Feeders - Operation Labour	1,474,740	1,475		0	-	1,474,740	1,475						
	5045_Underground Distribution Lines & Feeders - Operation Supplies & Expenses	-65,611	- 66		0	-	-65,611	- 66						
	5055_Underground Distribution Transformers - Operation	19,221	19		0	-	19,221	19						
	5065_Meter Expense	703,792	704		0	-	703,792	704						
	5070_Customer Premises - Operation Labour	2,225,487	2,225		0	-	2,225,487	2,225						
	5075_Customer Premises - Materials and Expenses	1,152,544	1,153		0	-	1,152,544	1,153						
	5085_Miscellaneous Distribution Expense	5,772,413	5,772		0	-	5,772,413	5,772						
	5105_Maintenance Supervision and Engineering	19,684,342	19,684		0	-	19,684,342	19,684						
	5110_Maintenance of Buildings and Fixtures - Distribution Stations	14,384,807	14,385		0	-	14,384,807	14,385						
	5112_Maintenance of Transformer Station Equipment	1,675	2		0	-	1,675	2						
	5114_Maintenance of Distribution Station Equipment	2,391,986	2,392		0	-	2,391,986	2,392						
	5120_Maintenance of Poles Towers and Fixtures	792	1		0	-	792	1						
	5125_Maintenance of Overhead Conductors and Devices	18,182,819	18,183		0	-	18,182,819	18,183						

Toronto Hydro-Electric System Limited - 2.1.13

Statement of Income

Filing: April 30, 2016

December 31, 2014		USGAAP Regulated 2014 Actual OEB Acct TB	USGAAP Regulated 2014 Actual (in thousands)	Notes	Adjustments	Adjustments (in thousands)	mIFRS Regulated 2014 Actual OEB Acct TB	mIFRS Regulated 2014 Actual (in thousands)	Unregulated 2014 Actual (in thousands)	Consol Adj 2014 Actual (in thousands)	Calculated THESL Consol 2014 Actual (in thousands)	Audited THESL Consol 2014 Actual (in thousands)	Diff	Comment
	5130_Maintenance of Overhead Services	-6	- 0		0	-	-6	- 0						
	5135_Overhead Distribution Lines and Feeders - Right of Way	2,461,534	2,462		0	-	2,461,534	2,462						
	5145_Maintenance of Underground Conduit	15,930	16		0	-	15,930	16						
	5150_Maintenance of Underground Conductors and Devices	6,472,704	6,473		0	-	6,472,704	6,473						
	5155_Maintenance of Underground Services	5,378	5		0	-	5,378	5						
	5160_Maintenance of Line Transformers	233	0		0	-	233	0						
	5165_Maintenance of Street Lighting and Signal Systems	64,308	64		0	-	64,308	64						
	5305_Supervision	238,889	239		0	-	238,889	239						
	5310_Meter Reading Expense	3,729,620	3,730		0	-	3,729,620	3,730						
	5315_Customer Billing	13,258,274	13,258		0	-	13,258,274	13,258						
	5320_Collecting	12,960,393	12,960		0	-	12,960,393	12,960						
	5335_Bad Debt Expense	6,500,000	6,500		0	-	6,500,000	6,500						
	5410_Community Relations - Sundry	2,833	3		0	-	2,833	3						
	5415_Energy Conservation	0	-		0	-	0	-						
	5420_Community Safety Program	2,567,716	2,568	G	-102,824	- 103	2,464,892	2,465						
	5605_Executive Salaries and Expenses	1,288,765	1,289		0	-	1,288,765	1,289						
	5610_Management Salaries and Expenses	2,437	2		0	-	2,437	2						
	5615_General Administrative Salaries and Expenses	52,420,167	52,420	D, E	733,007	733	53,153,173	53,153						
	5620_Office Supplies and Expenses	4,241	4		0	-	4,241	4						
	5625_Administrative Expense Transferred Credit	18,848	19		0	-	18,848	19						
	5630_Outside Services Employed	7,682,506	7,683	E	-1,551,628	- 1,552	6,130,878	6,131						
	5635_Property Insurance	2,109,526	2,110		0	-	2,109,526	2,110						
	5640_Injuries and Damages	1,647,295	1,647		0	-	1,647,295	1,647						
	5655_Regulatory Expenses	4,322,741	4,323		0	-	4,322,741	4,323						
	5660_General Advertising Expenses	0	-		0	-	0	-						
	5665_Miscellaneous General Expenses	700	1		0	0	700	1						
	5675_Maintenance of General Plant	11,092,442	11,092	F	-88,276	- 88	11,004,166	11,004						
	5680_Electrical Safety Authority Fees	402,600	403		0	-	402,600	403						
	6105_Taxes Other Than Income Taxes	5,784,625	5,785		0	-	5,784,625	5,785						
	6205_Donations	660,000	660		0	-	660,000	660						
	4375_Revenues from Non-Rate Regulated Operations	-3,316,031	- 3,316		0	-	-3,316,031	- 3,316						
	4751_Charges Smart Metering Entity Chg	6,674,801	6,675		0	-	6,674,801	6,675						
		243,724,988	243,725		-999,721	- 1,000	242,725,267	242,725	5,904	-	248,629	257,889	9,260	Note 5
Depreciation and amortization	5705_Depreciation Expense - Property Plant and Equipment	128,411,008	128,411	B	717,661	718	129,128,669	129,129						
	5715_Amortization of Intangible Assets	19,925,483	19,925		0	-	19,925,483	19,925						
		148,336,490	148,336		717,661	718	149,054,151	149,054	2,007	-	151,061	183,549	32,488	Note 6
		-171,911,611	- 171,912		-980,030	- 980	-172,891,641	- 172,892	- 3,875	-	- 176,767	- 119,852	56,915	
Financing costs														
Interest Income	4375_Revenues from Non-Rate Regulated Operations	-2,198	- 2		0	0	-2,198	- 2						
	4405_Interest and Dividend Income	-1,474,251	- 1,474		0	-	-1,474,251	- 1,474						
		-1,476,449	- 1,476		0	0	-1,476,449	- 1,476	- 33	-	- 1,509	- 1,048	462	
Interest Expense, Long-term Debt	6030_Interest on Debt to Associated Companies	67,585,841	67,586		0	-	67,585,841	67,586	-		67,586	67,586	-	
Interest Expense, Other	5615_General Administrative Salaries and Expenses	1,870,971	1,871		0	-	1,870,971	1,871			1,871	-	- 1,871	
	5420_Community Safety Program	0	-	G	94,388	94	94,388	94			94	-	- 94	
	5105_Maintenance Supervision and Engineering	0	-		0	-	0	-			-	-	-	
	5675_Maintenance of General Plant	0	-		0	-	0	-			-	-	-	
	6035_Other Interest Expense	4,455,557	4,456		-0	- 0	4,455,557	4,456	- 33	-	4,423	- 2,123	- 6,546	
	6040_Allowance for Borrowed Costs Applied to CWIP--Credit	-5,516,998	- 5,517		0	0	-5,516,998	- 5,517			- 5,517	-	5,517	
		68,395,372	68,395		94,388	94	68,489,759	68,490	- 33	-	68,457	65,463	- 2,994	
		66,918,922	66,919		94,388	94	67,013,310	67,013	- 66	-	66,948	64,415	- 2,533	Note 7
Gain on disposals of property, plant and equipment	4355_Gain on Disposition of Utility and Other Property	-1,478,662	- 1,479		0	-	-1,478,662	- 1,479						
	4335_Profits and Losses from Financial Instrument Hedges	0	-		0	-	0	-						
		-1,478,662	- 1,479		0	-	-1,478,662	- 1,479			- 1,479	- 1,479	-	
Income Tax Expense	6110_Income Taxes	11,158,421	11,158	E	1,573,628	1,574	12,732,049	12,732	-	-	12,732	12,732	-	
	6115_Provision for Deferred Taxes - Inc. Statement	367,222	367		1,060	1	368,282	368			368	1,193	825	
		11,525,643	11,526		1,574,688	1,575	13,100,331	13,100	-	-	13,100	13,925	825	Note 8
Net Income		-94,945,708	- 94,946		689,046	689	-94,256,662	- 94,257	- 3,941	-	- 98,197	- 42,990	55,207	
Net movements in regulatory balances, net of tax		0	-		0	-	0	-			-	- 66,923	- 66,923	Note 9
Net income after net movements in regulatory balances		-94,945,708	- 94,946		689,046	689	-94,256,662	- 94,257	- 3,941	-	- 98,197	- 109,913	- 11,715	

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Statement of Income

December 31, 2014

Notes on the adjustments from OEB US GAAP to mIFRS:

A RSVA Adjustments:
In accordance with the APH Article 490 - Retail Services and
Settlement Variances, for recording the difference between
Cost of Power Revenue and Cost of Power Expense, the

B Amortization of Contributions in Aid of Construction:
The difference between US GAAP and mIFRS is primarily
comprised of the amortization of Contributions in Aid of
Construction. In accordance with the APH Article 430 -
Contributions in Aid of Construction, under mIFRS the

C Decommissioning Provision:
decommissioning provision asset and liability of ($0.3 million)
and the transitional adjustment for decommissioning provision

D Other Post-Employment Benefits (OPEB):
between IFRS and US GAAP and result in a measurement
difference of the post-employment benefit liability. In addition,
under IFRS, a liability is recognized for both non-vested

E Non-Refundable Investment Tax Credits:
Under US GAAP, the non-refundable investment tax credits are
recorded in income tax expenses. Under mIFRS, these tax
credits are recorded in operating expenses. For December 31,

F Land Lease:
Under US GAAP, prepaid land lease was included in other
assets, and as such, the amortization was recorded in
operating expenses. Under mIFRS, prepaid land lease is
included in PP&E as a finance lease as substantially all of the
risks and rewards incidental to ownership of the land are

G Decommissioning Provision Accretion Expense Presentation
The difference between US GAAP and mIFRS is primarily
related to the presentation of the decommissioning provision
accretion expense, where under US GAAP, the accretion
expense is presented in operating expenses. Under mIFRS,

Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: Difference in "Energy sales" of ($10,637): Calculated balance of ($2,644,329) & AFS balance of ($2,654,966), a difference of ($10,637), as follows:

a. For RRR Reporting, THESL booked to "Cost of Power revenue" and "COP expense" the amount of the IESO settlement invoices charge type 142, in the amounts of ($13,927) and $13,927, respectively.	
For the AFS, THESL does not book IESO settlement invoices charge type 142 to either COP revenue or COP expense.	13,927
b. For RRR reporting, THESL books the RSVA change to the higher of COP Revenue or COP expense. For the AFS, the RSVA change is booked to COP Revenue.	-69,975
c. The difference between the amounts charged by THESL to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO to THESL,	
is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within "net movements in regulatory balances, net of tax" for AFS.	
For purpose of RRR reporting, the regulatory impact within net movement is reversed into COP revenue.	45,410
Total difference:	-10,637

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Statement of Income

December 31, 2014

Note 2: Difference in "Distribution revenue" of ($21,594): Calculated balance of ($533,457) & AFS balance of ($555,051), a difference of ($21,594), as follows:

a. A "Smart meter recovery" regulatory balance was booked for AFS, with AFS Distribution revenue booked on an accrual basis. This is not considered a regulatory balance for purposes of RRR reporting. The AFS Distribution revenue amount has been adjusted so the Distribution revenue booked for RRR Reporting is appropriately reflected on a cash basis.	4,351
b. An Incremental Capital Model (ICM) revenue contra account Regulatory balance was booked for the AFS, with an offsetting entry to Distribution revenue. This is not considered a regulatory balance for purposes of RRR reporting. The Regulatory balance and related Distribution revenue have been reversed for RRR reporting:	-25,063
c. The difference between revenue recorded based on collection of OEB-approved rate riders and revenue booked on an accrual basis is presented within "net movements in regulatory balances, net of tax" ☐ in accordance with IFRS 14 for AFS. For purpose of RRR reporting, the regulatory impact within net movement is reversed into distribution revenue.	-883
Total difference:	-21,594

Note 3: Difference in "Other income" of ($8,649): Calculated balance of ($43,001) & AFS balance of ($51,650), a difference of ($8,649), as follows:

a. Demand Billable Charges: $14,792. As per IFRS, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis:	-14,793
b. Smart Metering Entity charge: As per IFRS, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":	6,675
c. "Wireless pole attachments" revenue was booked to a regulatory balance for purposes of RRR reporting, while for AFS purposes the wireless pole attachment revenues were included in "Other income" in the amount of $150:	-150
d. The differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014 was recorded in a regulatory account "IFRS Transitional Adjustments". ☐ In accordance with IFRS 14, the related impact was presented within "net movements in regulatory balances, net of tax" for AFS. For purpose of RRR reporting, a portion of the amount related to write off of certain assets within net movement is reversed into other income.	-379
Total difference:	-8,647

Note 4: Difference in "Energy purchases" of $56,047: Calculated balance of $2,644,330 & AFS balance of $2,700,378, a difference of $56,047, as follows:

a. For RRR Reporting, THESL booked to "Cost of Power revenue" and "COP expense" the amount of the IESO settlement invoices charge type 142, in the amounts of ($13,927) and $13,927, respectively. For the AFS, THESL does not book IESO settlement invoices charge type 142 to either COP revenue or COP expense:	-13,927
b. For RRR reporting, THESL books the RSVA change to the higher of COP Revenue or COP expense. For the AFS, the RSVA change is booked to COP Revenue.	69,975
Total difference:	56,047

Note 5: Difference in "Operating expenses" of $9,260: Calculated balance of $248,629 & AFS balance of $257,889, a difference of $9,260, as follows:

a. Demand Billable Charges: As per IFRS, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis:	14,793
b. Smart Metering Entity charge: As per IFRS, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":	-6,675
c. "Wireless pole attachments" Operating expenses were booked to a regulatory balance for purposes of RRR reporting, while for AFS purposes the wireless pole attachment operating expenses were included in "Operating expenses" in the amount of $38:	38
d. THESL deferred costs relating to OPEB and CIR application as regulatory balances under IFRS, with related impact presented separately in "net movements in regulatory balances, net of tax" under IFRS 14 for AFS.☐ For purpose of RRR reporting, the regulatory impact within net movement is reversed into operating expenses.	1,104
Total difference:	9,260

Note 6: Difference in "Depreciation and amortization" of $32,488: Calculated balance of $151,061 & AFS balance of $183,549, a difference of $32,488, as follows:

a. An Incremental Capital Model (ICM) depreciation contra account Regulatory balance was booked for the AFS, with an offsetting entry to Depreciation expense. This is not considered a regulatory asset for purposes of RRR reporting. The RA and related depreciation expense have been reversed for RRR reporting:	7,485
b. Due to the transfer of AFS Depreciation expense to Regulatory asset account 1508 Other Regulatory asset, sub-account Incremental Capital Expenditures	1,608
c. The differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014 related to derecognition of certain assets was recorded☐ in a regulatory account "IFRS Transitional Adjustments". In accordance with IFRS 14, the related impact was presented within "net movements in regulatory balances, net of tax" for AFS. For purpose of RRR reporting, the regulatory impact within net movement is reversed into depreciation and amortization expense.	23,394
Total difference:	32,487

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2016

Statement of Income

December 31, 2014

Note 7: Difference in "Finance costs" of ($2,533): Calculated balance of $66,948 & AFS balance of $64,415, a difference of ($2,533), as follows:

a. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010. For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. The following adjustment has been made to the AFS to reflect for RRR Reporting the amount in the above mentioned contra account: The adjustment entry is, HST/OVAT Contra Account (Dr.) $1,166k, Misc. Interest (Cr.) $16k and Retained Earnings (Cr.) 1,150k.	$16
b. "Wireless pole attachments" carrying charges were booked to a regulatory balance for purposes of RRR reporting, while for AFS purposes the wireless pole attachment carrying charges were included in "interest expenses" in the amount of $1:	-$1
c. The differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014 related to additional capitalized borrowing costs was recorded in a regulatory account "IFRS Transitional Adjustments". In accordance with IFRS 14, the related impact was presented within "net movements in regulatory balances, net of tax" for AFS. In accordance with IFRS 14, carrying charges on regulatory balances are presented within finance costs with related impact included within "net movements in regulatory balances, net of tax" for AFS. For purpose of RRR reporting, the regulatory impact within net movement is reversed into finance costs.	-$2,548
Total difference:	-$2,533

Note 8: Difference in "Income tax expense" of $825. Calculated balance of $13,100 & AFS balance of $13,925, a difference of $825, as follows:

The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets and corresponding regulatory liability balance are recorded in regulatory balances in accordance with IFRS 14 for AFS. The net change of these balances is presented within "net movements in regulatory balances, net of tax" for AFS. For purposes of RRR reporting, the regulatory impact within net movement is reversed into income tax expense.	$825

Note 9: Difference in "Net movements in regulatory balances, net of tax" of $66,923. Calculated balance of $nil & AFS balance of $66,923, a difference of ($66,923), as follows:

Under IFRS 14 for AFS, the "net movements in regulatory balances, net of tax" line includes the net of all the related regulaory impact to the various income statement lines noted above. For purpose of RRR reporting, the regulatory impact within net movement is reversed into the various income statement lines based on their nature.	-$66,923

RRR Reporting **Rate Base Calculation** **Reconciliation - Total PP&E** **(Amount in $ thousands)**	**PP&E** **(incl CWIP)**	**ROE Exclusions** **Reomve CWIP**	**Other**	**ROE Calc** **Net**	**Comment**
As Reported - US GAAP RRR Dec 31, 2014	$2,903,903	-$518,239	$0	$2,385,664	PPE per ROE Calc. 2014
Difference to mIFRS	$25,841	-$24,250	$0	$1,591	
mIFRS - Trial Balance	**$2,929,744**	**-$542,489**		**$2,387,255**	
A/C 2440 Deferred Revenue LT			-$43,571	-$43,571	manual entries on ROE web site
CWIP portion of A/C 2440			$22,706	$22,706	manual entries on ROE web site
mIFRS Balance	**$2,929,744**	**-$542,489**	**-$20,865**	**$2,366,390**	
Inclusions for new Rate Regime					
ICM Assets	$439,074			$439,074	
Streetlighting Assets	$38,475			$38,475	
Total Jan 1 2015 PP&E - RRR	**$3,407,293**	**-$542,489**	**-$20,865**	**$2,843,939**	Jan 1, 2015 PP&E for ROE Purposes
Total Adjustment to RRR Openning PP&E				**$458,275**	
2015 ROE					
mIFRS - RRR Balances per ledger - OEB roll up	$3,750,644	-$609,194		$3,141,450	
A/C 2440 Deferred Revenue LT			-$86,773	-$86,773	
CWIP portion of A/C 2440			$31,475	$31,475	
Submission per RRR	**$3,750,644**	**-$609,194**	**-$55,298**	**$3,086,151**	Dec 31, 2015 PP&E for ROE Purposes
2016 ROE					
mIFRS - RRR Balances per ledger - OEB roll up	4,084,341	-$537,863		$3,546,478	
A/C 2440 Deferred Revenue LT			-$116,238	-$116,238	
CWIP portion of A/C 2440			$32,364	$32,364	
Submission per RRR	**$4,084,341**	**-$537,863**	**-$83,874**	**$3,462,604**	Dec 31, 2016 PP&E for ROE Purposes

Toronto Hydro-Electric System Limited - 2.1.13

Balance Sheet
December 31, 2016

Filing: May 1, 2017

		Regulated 2016 Actual OEB Acct TB	Regulated 2016 Actual (in thousands)	Unregulated 2016 Actual (in thousands)	Consol Adj 2016 Actual (in thousands)	Calculated THESL Consol 2016 Actual (in thousands)	Audited THESL Consol 2016 Actual (in thousands)	Diff	Comment
Assets									
Current Assets									
Cash and cash equivalents	1005_Cash	0	0						
	1010_Cash Advances and Working Funds	-	-						
		0	0	34,744	-34,744	0	-	-0	
Accounts receivable	1100_Customer Accounts Receivable	223,296,063	223,296						
	1104_Accounts Receivable - Recoverable Work	7,387,522	7,388						
	1110_Other Accounts Receivable	861,863	862						
	1130_Accumulated Provision for Uncollectible Accounts-- Credit	- 9,719,364	-9,719						
	1200_Accounts Receivable from Associated Companies	749,564	750						
		222,575,647	222,576	6,217	-2,634	226,159	226,159	0	
Unbilled revenue	1120_Accrued Utility Revenues	319,248,302	319,248	477		319,725	319,725	0	
Income tax receivable	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	-	-			-	0	0	
Materials and supplies	1330_Plant Materials and Operating Supplies	9,664,954	9,665			9,665	9,665	-	
Other assets	1180_Prepayments	13,484,370	13,484			13,484	13,484	-	
	1190_Miscellaneous Current and Accrued Assets	1,005,039	1,005			1,005	-	-1,005	Note 1
		343,402,665	343,403	477	-	343,879	342,874	-1,005	
Property, plant and equipment	1805_Land	7,099,147	7,099						
	1808_Buildings and Fixtures	105,068,042	105,068						
	1815_Transformer Station Equipment - Normally Primary above 50 kV	5,992,646	5,993						
	1820_Distribution Station Equipment - Normally Primary below 50 kV	156,772,442	156,772						
	1830_Poles Towers and Fixtures	339,483,342	339,483						
	1835_Overhead Conductors and Devices	349,487,472	349,487						
	1840_Underground Conduit	1,050,984,568	1,050,985						
	1845_Underground Conductors and Devices	690,624,155	690,624						
	1850_Line Transformers	465,305,585	465,306						
	1855_Services	109,093,637	109,094						
	1860_Meters	180,923,164	180,923						
	1905_Land	17,738,379	17,738						
	1908_Buildings and Fixtures	184,456,714	184,457						
	1910_Leasehold Improvements	753,840	754						
	1915_Office Furniture and Equipment	15,352,125	15,352						
	1920_Computer Equipment - Hardware	47,237,874	47,238						
	1930_Transportation Equipment	30,558,319	30,558						
	1935_Stores Equipment	7,066	7						
	1940_Tools Shop and Garage Equipment	17,825,609	17,826						
	1945_Measurement and Testing Equipment	480,243	480						
	1955_Communication Equipment	35,886,586	35,887						
	1960_Miscellaneous Equipment	270,978	271						
	1970_Load Management Controls - Customer Premises	3,022,834	3,023						
	1975_Load Management Controls - Utility Premises	-	-						
	1980_System Supervisory Equipment	28,172,657	28,173						
	1995_Contributions and Grants - Credit	-	-						
	1612_Land Rights	7,191,090	7,191						
	2005_Property Under Finance Leases	10,979,744	10,980						
	2055_Construction Work in Progress--Electric	447,746,006	447,746						
	2105_Accum. Depreciation of Electric Utility Plant - Property Plant & Equipment	- 441,042,862	-441,043						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	-972,158	-972						
		3,866,499,243	3,866,499	9,774	-	3,876,273	3,876,273	-0	

Toronto Hydro-Electric System Limited - 2.1.13

Balance Sheet
December 31, 2016

Filing: May 1, 2017

		Regulated 2016 Actual OEB Acct TB	Regulated 2016 Actual (in thousands)	Unregulated 2016 Actual (in thousands)	Consol Adj 2016 Actual (in thousands)	Calculated THESL Consol 2016 Actual (in thousands)	Audited THESL Consol 2016 Actual (in thousands)	Diff	Comment
Intangible assets	1609_Capital Contributions Paid	75,574,497	75,574						
	1611_Computer Software	113,563,764	113,564						
	2055_Construction Work in Progress--Electric	90,117,426	90,117						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	- 61,413,708	-61,414						
		217,841,978	217,842	-	-	217,842	217,842	-	
Deferred tax assets	1495_Deferred Taxes - Non-Current Assets	39,332,676	39,333	-	-	39,333	63,758	24,425	Note 2
Other assets	1460_Other Non-Current Assets	3,357,517	3,358	-	-	3,358	1,347	-2,010	Note 1
Regulatory balances	1508_Other Regulatory Assets	137,733,885	137,734						
	1520_Power Purchase Variance Account	0	0						
	1521_Special Purpose Chg Assessment Variance Account	-	-						
	1533_Renewable Generation Connection Funding Adder Deferral Account	- 1,026,599	-1,027						
	1550_Low Voltage Variance Acct	1,268,066	1,268						
	1551_Smart Metering Entity Charge Variance Acct	- 677,184	-677						
	1555_Smart Meter Capital Offset Variance	11,411,865	11,412						
	1556_Smart Meter Operating Variance	-	-						
	1562_Deferred Payments in Lieu of Taxes	-	-						
	1563_Deferred PILs Contra Account	-	-						
	1568_LRAM Variance Account	10,174,673	10,175						
	1575_IFRS-UGAAP Transitional PPE Amounts	19,014,359	19,014						
	1580_RSVAWMS	- 183,172,404	-183,172						
	1584_RSVANW	53,722,512	53,723						
	1586_RSVACN	7,215,493	7,215						
	1588_RSVAPOWER	- 27,061,247	-27,061						
	1589_RSVAGA	85,222,910	85,223						
	1592_PILs and Tax Variance for 2006 and Subsequent Years	- 0	-0						
	1595_Disposition Recovery Reg Balances Control Acct	70,438,691	70,439						
		184,265,019	184,265	-	-	184,265	190,884	6,619	Note 3
Total Assets		4,877,274,745	4,877,275	51,212	-37,378	4,891,109	4,919,137	28,028	
Liabilities and Equity									
Joint Bank indebtedness	2225_Notes and Loans Payable	- 85,288,819	-85,289	-	34,744	-50,545	-50,545	0	
Advance from related party		-	-	-	-	-	-	-	
Accounts payable and accrued liabilities	2205_Accounts Payable	- 418,669,174	-418,669						
	2208_Customer Credit Balances	- 13,950,489	-13,950						
	2220_Miscellaneous Current and Accrued Liabilities	- 16,565,749	-16,566						
	2240_Accounts Payable to Associated Companies Notes	- 20,357,895	-20,358						
	2250_Debt Retirement Charges(DRC) Payable	- 7,814,334	-7,814						
	2290_Commodity Taxes	- 4,049,856	-4,050						
	2292_Payroll Deductions / Expenses Payable	- 8,821,613	-8,822						
		- 490,229,109	-490,229	-12,837	2,634	-500,432	-500,432	0	
Income tax payable	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	- 8,597,103	-8,597	-		-8,597	-8,986	-389	Note 4

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2016

Filing: May 1, 2017

		Regulated 2016 Actual OEB Acct TB	Regulated 2016 Actual (in thousands)	Unregulated 2016 Actual (in thousands)	Consol Adj 2016 Actual (in thousands)	Calculated THESL Consol 2016 Actual (in thousands)	Audited THESL Consol 2016 Actual (in thousands)	Diff	Comment
Customer deposits	2210_Customer Deposits	- 39,145,495	-39,145			-39,145	-39,145		
	2335_Long Term Customer Deposits	-	-			-			
		- 39,145,495	-39,145	-	-	-39,145	-39,145	-	
Deferred revenue	2220_Miscellaneous Current and Accrued Liabilities	-1,000,524	-1,001	-		-1,001	-4,324	-3,323	Note 5
Deferred conservation credit		0	-	-5,529		-5,529	-5,529	-	
Other liabilities	2285_Obligations Under Finance Leases--Current	- 3,050,846	-3,051			-3,051			
	2220_Miscellaneous Current and Accrued Liabilities	- 54,792	-55			-55			
		- 3,105,638	-3,106	-	-	-3,106	-3,106	-	
Notes payable to related party	2242_ Payable to Associated Companies	- 304,910,193	-304,910			-304,910	-304,910		
	2260_Current Portion of Long Term Debt	-	-	-		-	-		
			-						
		- 304,910,193	-304,910	-	-	-304,910	-304,910	-	
Notes payable to related party	2550_Advances from Associated Companies	- 1,830,595,099	-1,830,595			-1,830,595	-1,830,595	0	
	2505_Debentures Outstanding - Long Term Portion	-	-			-	-	-	
Customer deposits	2335_Non-Current Customer Deposits	-14,961,988	-14,962			-14,962	-14,962	-	
Deferred revenue	2440_Deferred Revenues	- 116,237,970	-116,238			-116,238			
	2320_Other Miscellaneous Non-Current Liabilities	-	-			-			
	2335_Non-Current Customer Deposits	- 26,944,576	-26,945			-26,945			
		- 143,182,546	-143,183	-	-	-143,183	-139,859	3,323	Note 5
Post-employment benefits	2306_POEB Liability	- 279,290,000	-279,290	-1,195		-280,485	-280,485	0	
Other liabilities	2325_Obligations Under Finance Lease--Non-Current	- 1,579,842	-1,580			-1,580			
	2320_Other Miscellaneous Non-Current Liabilities	379,632	380			380			
		- 1,200,210	-1,200	-	-	-1,200	-1,922	-721	Note 6
Total Liabilities		- 3,201,506,724	-3,201,507	-19,560	37,378	-3,183,689	-3,184,799	-1,111	
Share Capital	3005_Common Shares Issued	- 527,816,668	-527,817	-28,461		-556,278	-556,278	0	
Retained Earnings	3045_Unappropriated Retained Earnings	- 1,129,492,533	-1,129,493						
	3046_Balance Transferred From Income	- 177,744,793	-177,745						
	3049_Dividends Payable-Common Shares	321,526,001	321,526						
	3055_Adjustment to Retained Earnings	- 5,969,175	-5,969						
		- 991,680,501	-991,681	-3,191	-	-994,871	-995,879	-1,007	Note 7
Contributed Surplus	3010_Contributed Surplus	- 12,757,392	-12,757			-12,757	-12,757	-	
Regulatory balances	1508_Other Regulatory Assets	- 87,895,862	-87,896						
	1595_Disposition Recovery Reg Balances Control Acct	- 16,284,919	-16,285						
	2350_Deferred Tax - Non-Current Liability	- 39,332,677	-39,333						
		- 143,513,459	-143,513	-	-	-143,513	-169,424	-25,911	Note 8
Total liabilities, equity and regulatory balances		- 4,877,274,745	-4,877,275	-51,212	37,378	-4,891,109	-4,919,137	-28,028	
		-	-	-	-	-	0	0	

Toronto Hydro-Electric System Limited - 2.1.13 Filing: May 1, 2017
Balance Sheet
December 31, 2016

Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: This relates to the CIR Costs Deferral re-instatement on the Balance Sheet.
For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L.
For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the CIR costs were re-instated on the balance sheet and will be amortized over the 5 years. The current portion and the long-term portion of the re-instated CIR costs on the balance sheet was $1,005 and $2,010 respectively.

Note 2: Difference in "Deferred tax assets" of $24,425: Calculated balance of $39,333 & AFS balance of $63,758, a difference of $24,425, as follows:
a. The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets are recorded in regulatory balances in accordance with IFRS 14 for AFS.
For purposes of RRR reporting, these balances are reclassified to deferred tax assets in the amount of $25,911.
b. For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets in the amount of ($1,486).

Note 3: Difference in "Regulatory balances - deferred debits" of $6,619: Calculated balance of $184,265 & AFS balance of $190,884, a difference of $6,619, as follows:

a. A "Smart meter recovery" regulatory asset (RA) was booked for AFS, and is not considered a regulatory asset for purposes of RRR reporting:	2,092
b. For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the OEB approved the disposition of Account 1575 with the return on rate base of $4.7 million. For RRR purposes, the $4.7 million accrual has been reversed. As such, in the AFS, the disposition of the account 1575 includes offsetting entries on the balance sheet related to the disposition of the return on rate base, whereas for RRR purposes, the collection of the return on rate base is recorded in the income statement in accordance with the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6.	3,806
c. The capital-related revenue requirement variance account is calculated using rate base for the AFS and calculated based on capital in-service additions for RRR reporting.	721
Total difference:	6,619

Note 4: Difference in "Income tax payable" of ($389): Calculated balance of ($8,597) & AFS balance of ($8,986), a difference of ($389), as follows:
The difference represents the non-regulated business income tax payable included in the AFS.

Note 5: Difference in "Deferred revenue - current", offset by difference in "Deferred revenue - long-term" of $3,323 as follows:
For the AFS the Deferred revenue was split between current and long-term. For the RRR purposes, the Deferred revenue is not split between current and long-term.

Note 6: Difference in "Other liabilities" of ($721): Calculated balance of ($1,200) & AFS balance of ($1,922), a difference of ($721), as follows:
The difference represents the capital-related revenue requirement variance account calculated using rate base for the AFS and calculated based on capital in-service additions for RRR reporting.

Note 7: Difference in "Retained Earnings" of ($1,007): Calculated balance of ($994,871) & AFS balance of ($995,879), a difference of ($1,007).
Adjustments have been made to certain AFS income statement items to arrive at the RRR reporting as follows:

A. Adjustments made to certain AFS income statement items in prior years as follows:

a. Reduction for prior years' AFS Distribution revenue booked for Smart Meter "net revenue requirement" on the disposition of Account 1555 "Smart Meter Capital & Recovery" and 1556 "Smart Meter OM&A Variance account" balances. The amount is recorded to Distribution revenue for RRR reporting, to OEB account 4080 as the amount is billed to THESL customers in the future.	- 9,947
b. Incremental Capital Model (ICM) revenue and depreciation expense booked in the AFS in prior year, and this was considered a regulatory asset for purposes of RRR reporting. This ICM revenue and depreciation expense was to be booked for RRR reporting under regulatory prescribed ICM accounting treatment.	- 20,884
c. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010. For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592.	1,180
d For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets related to prior year.	1,432
e. This relates to the reversal of the Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base. For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the OEB approved the disposition of Account 1575 with the return on rate base of $4,755k. As such, for 2015 RRR purposes, the $4,755k accrual was reversed.	- 4,755
f. This relates to the CIR Costs Deferral re-instatement on the Balance Sheet. For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L. For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the CIR costs were re-instated on the balance sheet and will be amortized over the 5 years.	3,503
g. The difference represents the non-regulated business current income tax expense included in the AFS.	- 750
h. Other	- 1
B. Adjustments made to certain AFS income statement items in 2016, with these differences as explained in the Income Statement attached.	
a. The total impact on net income or difference for the year 2016 was $29,215, per the Income Statement attached.	29,215
Total difference:	- 1,007

Note 8: Difference in "Regulatory balances - deferred credits" of ($25,911): Calculated balance of ($143,513) & AFS balance of ($169,424), a difference of ($25,911), as follows:
The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets are recorded in regulatory balances in accordance with IFRS 14 for AFS. For purposes of RRR reporting, these balances are reclassified to deferred tax assets.

Toronto Hydro-Electric System Limited - 2.1.13

Statement of Income
December 31, 2016

Filing: May 1, 2017

		Regulated 2016 Actual OEB Acct TB	Regulated 2016 Actual (in thousands)	Unregulated 2016 Actual (in thousands)	Net Movement Adj 2016 Actual (in thousands)	Consol Adj 2016 Actual (in thousands)	Calculated THESL Consol 2016 Actual (in thousands)	Audited THESL Consol 2016 Actual (in thousands)	Diff	Comment
Revenue										
Energy sales	4006_Residential Energy Sales	-584,394,405	- 584,394							
	4010_Commercial Energy Sales	-1,672,640,074	- 1,672,640							
	4020_Energy Sales to Large Users	-199,743,477	- 199,743							
	4025_Street Lighting Energy Sales	-14,801,546	- 14,802							
	4035_General Energy Sales	-285,294,010	- 285,294							
	4050_Revenue Adjustment	323,259	323							
	4062_Billed WMS	-127,291,573	- 127,292							
	4066_Billed NW	-171,339,860	- 171,340							
	4068_Billed CN	-127,357,471	- 127,357							
	4075_Billed LV	0	-							
		-3,182,539,156	- 3,182,539	-	- 89,608	-	- 3,272,147	- 3,306,175	- 34,028	Note 1
Distribution revenue	4080_Distribution Services Revenue	-696,533,948	- 696,534		9,191	-	- 687,343	- 647,869	39,474	Note 2
		-3,879,073,104	- 3,879,073	-	- 80,416	-	- 3,959,490	- 3,954,044	5,446	
Other income	4082_Retail Services Revenues	-347,875	- 348							
	4084_Service Transaction Requests (STR) Revenues	-18,378	- 18							
	4086_SSS Administration Revenue	-2,317,539	- 2,318							
	4090_Electric Services Incidental to Energy Sales	0	-							
	4210_Rent from Electric Property	-11,868,496	- 11,868							
	4215_Other Utility Operating Income	-1,102,337	- 1,102							
	4220_Other Electric Revenues	-8,200,259	- 8,200							
	4225_Late Payment Charges	-4,540,398	- 4,540							
	4235_Miscellaneous Service Revenues	-9,496,223	- 9,496							
	4245_Government and Other Assistance Directly Credited to Income	-3,765,318	- 3,765							
	4325_Revenues from Merchandise Jobbing Etc.	-20,950,568	- 20,951							
	4310_Regulatory Credits	-5,179,079	- 5,179							
	4330_Costs and Expenses of Merchandising Jobbing Etc.	19,805,704	19,806							
	5615_General Administrative Salaries and Expenses	238,629	239							
	4076_Billed Smart Metering Entity Charge	-6,919,230	- 6,919							
		-54,661,367	- 54,661	- 3,466	- 488	-	- 58,615	- 66,322	- 7,707	Note 3
Costs										
Energy purchases	4705_Power Purchased	1,391,825,709	1,391,826							
	4707_Charges - Global Adjustment	1,364,724,543	1,364,725							
	4708_Charges-WMS	94,602,317	94,602							
	4714_Charges-NW	171,339,860	171,340							
	4716_Charges-CN	127,357,471	127,357							
	4730_Rural Rate Assistance Expense	32,689,256	32,689							
	4750_Charges LV	0	0							
		3,182,539,156	3,182,539	-	312	-	3,182,851	3,216,879	34,028	Note 4
Operating expenses	4380_Expenses of Non-Rate Regulated Operations	3,486,726	3,487							
	4398_Foreign Exchange Gains and Losses Including Amortization	-162,383	- 162							
	5005_Distribution Operation Supervision and Engineering	23,026,740	23,027							
	5010_Distribution Load Dispatching	5,351,161	5,351							
	5012_Station Buildings and Fixtures Expense	0	-							
	5016_Distribution Station Equipment - Operation Labour	4,003,573	4,004							
	5017_Distribution Station Equipment - Operation Supplies and Expenses	2,645,106	2,645							
	5020_Overhead Distribution Lines and Feeders - Operation Labour	624,866	625							
	5025_Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	3,737,901	3,738							
	5035_Overhead Distribution Transformers- Operation	0	-							
	5040_Underground Distribution Lines and Feeders - Operation Labour	663,662	664							
	5045_Underground Distribution Lines & Feeders - Operation Supplies & Expenses	2,460,512	2,461							
	5055_Underground Distribution Transformers - Operation	4,683	5							
	5065_Meter Expense	531,226	531							
	5070_Customer Premises - Operation Labour	2,194,355	2,194							
	5075_Customer Premises - Materials and Expenses	1,542,691	1,543							
	5085_Miscellaneous Distribution Expense	10,117,835	10,118							
	5105_Maintenance Supervision and Engineering	14,808,760	14,809							
	5110_Maintenance of Buildings and Fixtures - Distribution Stations	14,810,485	14,810							
	5112_Maintenance of Transformer Station Equipment	0	-							
	5114_Maintenance of Distribution Station Equipment	3,877,544	3,878							
	5120_Maintenance of Poles Towers and Fixtures	415,958	2							
	5125_Maintenance of Overhead Conductors and Devices	14,995,019	16,024							

Toronto Hydro-Electric System Limited - 2.1.13

Filing: May 1, 2017

Statement of Income
December 31, 2016

		Regulated 2016 Actual OEB Acct TB	Regulated 2016 Actual (in thousands)	Unregulated 2016 Actual (in thousands)	Net Movement Adj 2016 Actual (in thousands)	Consol Adj 2016 Actual (in thousands)	Calculated THESL Consol 2016 Actual (in thousands)	Audited THESL Consol 2016 Actual (in thousands)	Diff	Comment
	5130_Maintenance of Overhead Services	616,897	2							
	5135_Overhead Distribution Lines and Feeders - Right of Way	3,850,160	3,850							
	5145_Maintenance of Underground Conduit	6,440	6							
	5150_Maintenance of Underground Conductors and Devices	6,024,819	6,025							
	5155_Maintenance of Underground Services	187,260	187							
	5160_Maintenance of Line Transformers	2,046	2							
	5165_Maintenance of Street Lighting and Signal Systems	3,371,509	3,372							
	5305_Supervision	203,987	204							
	5310_Meter Reading Expense	4,223,672	4,224							
	5315_Customer Billing	8,772,066	8,772							
	5320_Collecting	16,538,114	16,538							
	5335_Bad Debt Expense	5,229,919	5,230							
	5410_Community Relations - Sundry	0	-							
	5415_Energy Conservation	0	-							
	5420_Community Safety Program	2,501,576	2,502							
	5605_Executive Salaries and Expenses	3,203,104	3,203							
	5610_Management Salaries and Expenses	802	1							
	5615_General Administrative Salaries and Expenses	52,007,614	52,008							
	5620_Office Supplies and Expenses	4,196	4							
	5625_Administrative Expense Transferred Credit	14,706	15							
	5630_Outside Services Employed	6,419,601	6,420							
	5635_Property Insurance	1,757,502	1,758							
	5640_Injuries and Damages	1,562,179	1,562							
	5655_Regulatory Expenses	5,188,491	5,188							
	5660_General Advertising Expenses	0	-							
	5665_Miscellaneous General Expenses	37,971	38		3,159					
	5675_Maintenance of General Plant	10,393,074	10,393							
	5680_Electrical Safety Authority Fees	406,037	406							
	6105_Taxes Other Than Income Taxes	4,648,749	4,649							
	6205_Donations	965,726	966							
	4375_Revenues from Non-Rate Regulated Operations	-3,212,613	- 3,213							
	4751_Charges Smart Metering Entity Chg	6,919,230	6,919							
		250,981,257	250,981	1,200	3,159	-	255,339	267,738	12,399	Note 5
Depreciation and amortization	5705_Depreciation Expense - Property Plant and Equipment	204,558,212	204,558							
	5715_Amortization of Intangible Assets	21,347,733	21,348							
		225,905,945	225,906	759		-	226,665	210,601	- 16,064	Note 6
		-274,308,114	- 274,308	- 1,507	- 77,434	-	- 353,249	- 325,148	28,101	
Finance costs										
Interest Income	4375_Revenues from Non-Rate Regulated Operations	0	-							
	4405_Interest and Dividend Income	-19,393	- 19							
		-19,393	- 19	- 277		-	- 297	- 297	0	
Interest Expense, Long-term Debt	6030_Interest on Debt to Associated Companies	85,425,373	85,425	-			85,425	85,425	-	
Interest Expense, Other	5615_General Administrative Salaries and Expenses	2,298,641	2,299					-	-	
	5420_Community Safety Program	24,235	24					-	-	
	5105_Maintenance Supervision and Engineering	88,031	88					-	-	
	4405_Interest and Dividend Income	-166,995	- 167							
	6035_Other Interest Expense	1,678,198	1,678			-			-	
	6040_Allowance for Borrowed Costs Applied to CWIP--Credit	-12,574,989	- 12,575					-	-	
		-8,652,879	- 8,653	- 17	237	-	- 8,433	- 8,512	- 80	Note 7
Gain on disposals of property, plant and equipment	4355_Gain on Disposition of Utility and Other Property	-2,132,160	- 2,132							
	4335_Profits and Losses from Financial Instrument Hedges	0	0							
		-2,132,160	- 2,132	-			- 2,132	- 2,132	-	
Income Tax Expense	6110_Income Taxes	21,762,400	21,762	-		-	21,762	22,152	389	Note 8
	6115_Provision for Deferred Taxes - Inc. Statement	179,979	180		44,033		44,213	45,017	804	Note 9
Net Income		-177,744,793	- 177,745	- 1,801	- 33,164	-	- 212,710	- 183,495	29,215	
Net movements in regulatory balances, net of tax		0			33,164		33,164	33,164	-	
Net income after net movements in regulatory balances		-177,744,793	- 177,745	- 1,801	-	-	- 179,546	- 150,331	29,215	

Toronto Hydro-Electric System Limited - 2.1.13 Filing: May 1, 2017
Statement of Income
December 31, 2016
Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: Difference in "Energy sales" of ($34,028): Calculated balance of ($3,272,147) & AFS balance of ($3,306,175), a difference of ($34,028), as follows:
For RRR Reporting, THESL booked to "Cost of Power expense" the amount of the IESO settlement invoices charge type 142, in the credit amount of $34,028. -34,028
For the AFS, THESL book IESO settlement invoices charge type 142 to COP revenue.
Total difference:

Note 2: Difference in "Distribution revenue" of $39,474: Calculated balance of ($687,343) & AFS balance of ($647,869), a difference of $39,474, as follows:
a. A "Smart meter recovery" regulatory asset (RA) was booked for AFS, with AFS Distribution revenue booked on an accrual basis. This is not considered a regulatory 7,855
asset for purposes of RRR reporting. The AFS Distribution revenue amount has been adjusted so the Distribution revenue booked for RRR Reporting is appropriately reflected on a cash basis.
b. This relates to the reversal of the Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base. 949
For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is
applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the
OEB approved the disposition of Account 1575 with the return on rate base of $4,755. For 2015 RRR purposes, the $4,755 accrual has been reversed.
As such, in the AFS, the disposition of the account 1575 includes offsetting entries on the balance sheet related to the disposition of the return on rate base, whereas for RRR purposes, the
collection of the return on rate base is recorded in the income statement in accordance with the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6.
c. HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax -1,100
credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010.
For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax
Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. As a result of the OEB's Decision to clear the OEB account 1592 "PILs and Tax Variances for 2006
and Subsequent Years, Sub-account HST / OVAT Input Tax" to recover from customers effective March 1, 2016 over a 10 month period, the offsetting contra account OEB account 1592
"PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" was cleared over a 10 month period into the income statement.
d. Incremental Capital Model (ICM) revenue and depreciation expense booked in the AFS in prior year, and this was considered a regulatory asset for purposes of RRR reporting in previous years. 31,770
As a result of the ICM Settlement in 2016, the ICM regulatory accounts have been cleared. As such, for RRR purposes, the ICM rate rider collected of $41.2 million has been recognized
into Distribution Revenue, and the depreciation on ICM assets of $10.9 million that was deferred in regulatory assets has been recognized into Depreciation Expense in the income statement.
Therefore, an additional amount was recorded to increase the revenue recognized for AFS to $41.2 million for RRR purpose.
Total difference: 39,474

Note 3: Difference in "Other income" of ($7,707): Calculated balance of ($58,615) & AFS balance of ($66,322), a difference of ($7,707), as follows:
a. Demand Billable Charges: As per AFS GAAP, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis: -19,806
b. Smart Metering Entity charge: As per AFS GAAP, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory 6,919
accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":
c. As per the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, the approved disposition of the account balance for both Account 1575 and Account 1576 would be reflected 5,179
as an offset to depreciation expense over the approved amortization period." As well, based on the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, to ensure that
only the return on rate base component is recorded in distribution revenues, the offsetting credit entry is recorded in OEB Account 4310 Regulatory Credits.
d. Other 1
Total difference: -7,707

Note 4: Difference in "Energy purchases" of $34,028: Calculated balance of $3,182,851 & AFS balance of $3,216,879, a difference of $34,028, as follows:
For RRR Reporting, THESL booked to "Cost of Power expense" the amount of the IESO settlement invoices charge type 142, in the credit amount of $34,028. 34,028
For the AFS, THESL book IESO settlement invoices charge type 142 to COP revenue.

Note 5: Difference in "Operating expenses" of $12,399: Calculated balance of $255,339 & AFS balance of $267,738, a difference of $12,399, as follows:
a. Demand Billable Charges: As per AFS GAAP, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis: 19,806
b. Smart Metering Entity charge: As per AFS GAAP, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory -6,919
accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":
c. This relates to the CIR Costs Deferral re-instatement on the Balance Sheet. -488
For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L.
For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the
CIR costs were re-instated on the balance sheet and will be amortized over the 5 years.
Total difference: 12,399

Note 6: Difference in "Depreciation and amortization" of ($16,064): Calculated balance of ($226,665) & AFS balance of ($210,601), a difference of ($16,064), as follows: -5,179
a. As per the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, the approved disposition of the account balance for both Account 1575 and Account 1576 would be reflected
as an offset to depreciation expense over the approved amortization period." As well, based on the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, to ensure that
only the return on rate base component is recorded in distribution revenues, the offsetting credit entry is recorded in OEB Account 4310 Regulatory Credits.
b. Incremental Capital Model (ICM) revenue and depreciation expense booked in the AFS in prior year, and this was considered a regulatory asset for purposes of RRR reporting in previous years. -10,885
As a result of the ICM Settlement in 2016, the ICM regulatory accounts have been cleared. As such, for RRR purposes, the ICM rate rider collected of $41.2 million has been recognized
into Distribution Revenue, and the depreciation on ICM assets of $10.9 million that was deferred in regulatory assets has been recognized into Depreciation Expense in the income statement.
Total difference: -16,064

Note 7: Difference in "Finance Costs - Interest expense, other" of ($80): Calculated balance of ($8,433) & AFS balance of ($8,512), a difference of ($80), as follows: -80
HST Contra account adjustment: In prior years' AFS, THESL has booked to the OEB account 1592, "PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax
credits (ITCs)" the ITC savings arising from the elimination of Provincial Sales Tax and implementation of the HST on July 1, 2010.
For AFS purposes, the offsetting entry was booked to the income statement rather the regulatory sub-account established, a contra account within Account 1592, "PILS and Tax
Variances for 2006 and subsequent years - HST/OVAT Contra Account" of Account 1592. As a result of the OEB's Decision to clear the OEB account 1592 "PILs and Tax Variances for 2006
and Subsequent Years, Sub-account HST / OVAT Input Tax" to recover from customers effective March 1, 2016 over a 10 month period, the offsetting contra account OEB account 1592
"PILS and Tax Variances for 2006 and subsequent years - HST/OVAT Contra Account" was being cleared over a 10 month period into the income statement.

Note 8: Difference in "Income tax expense - Income taxes" of $389: Calculated balance of $21,762 & AFS balance of $22,152, a difference of $389, as follows: 389
The difference represents the non-regulated business current income tax expense included in the AFS.

Note 9: Difference in "Income tax expense - Provision for deferred taxes" of $804: Calculated balance of $44,213 & AFS balance of $45,017, a difference of $804, as follows: 804
For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets.

RRR Reporting

Rate Base Calculation Reconciliation - Total PP&E	**PP&E (incl CWIP)**	**ROE Exclusions Remove CWIP**	**Other**	**ROE Calc Net**	**Comment**
As Reported - US GAAP RRR Dec 31, 2014	$2,903,903	-$518,239	$0	$2,385,664	PPE per ROE Calc. 2014
Difference to mIFRS	$25,841	-$24,250	$0	$1,591	
mIFRS - Trial Balance	**$2,929,744**	**-$542,489**		**$2,387,255**	
A/C 2440 Deferred Revenue LT			-$43,571	-$43,571	manual entries on ROE web site
CWIP portion of A/C 2440			$22,706	$22,706	manual entries on ROE web site
mIFRS Balance	**$2,929,744**	**-$542,489**	**-$20,865**	**$2,366,390**	
Inclusions for new Rate Regime					
ICM Assets	$439,074			$439,074	
Streetlighting Assets	$38,475			$38,475	
Total Jan 1 2015 PP&E - RRR	**$3,407,293**	**-$542,489**	**-$20,865**	**$2,843,939**	Jan 1, 2015 PP&E for ROE Purposes
Total Adjustment to RRR Openning PP&E				**$458,275**	
2015 ROE					
mIFRS - RRR Balances per ledger - OEB roll up	$3,750,644	-$609,194		$3,141,450	
A/C 2440 Deferred Revenue LT			-$86,773	-$86,773	
CWIP portion of A/C 2440			$31,475	$31,475	
Submission per RRR	**$3,750,644**	**-$609,194**	**-$55,298**	**$3,086,151**	Dec 31, 2015 PP&E for ROE Purposes
2016 ROE					
mIFRS - RRR Balances per ledger - OEB roll up	$4,084,341	-$537,863		$3,546,478	
A/C 2440 Deferred Revenue LT			-$116,238	-$116,238	
CWIP portion of A/C 2440			$32,364	$32,364	
Submission per RRR	**$4,084,341**	**-$537,863**	**-$83,874**	**$3,462,604**	Dec 31, 2016 PP&E for ROE Purposes
2017 ROE					
mIFRS - RRR Balances per ledger - OEB roll up	4,393,492	-$537,732		$3,855,760	
A/C 2440 Deferred Revenue LT			-$158,039	-$158,039	
CWIP portion of A/C 2440			$51,285	$51,285	
Non rate-regulated assets A/C 2075 & 2180			-$1,969	-$1,969	
Monthly billing			-$2,289	-$2,289	
Submission per RRR	**$4,393,492**	**-$537,732**	**-$111,011**	**$3,744,749**	Dec 31, 2017 PP&E for ROE Purposes

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2017

Filing: April 30, 2018

		Regulated 2017 Actual OEB Acct TB	Regulated 2017 Actual (in thousands)	Unregulated 2017 Actual (in thousands)	Consol Adj 2017 Actual (in thousands)	Calculated THESL Consol 2017 Actual (in thousands)	Audited THESL Consol 2017 Actual (in thousands)	Diff	Comment
Assets									
Current Assets									
Cash and cash equivalents	1005_Cash	-	-						
	1010_Cash Advances and Working Funds	-	-						
		-	-	31,691	-31,691	-	-	-	
Accounts receivable	1100_Customer Accounts Receivable	175,929,618	175,930						
	1104_Accounts Receivable - Recoverable Work	14,986,696	14,987						
	1110_Other Accounts Receivable	18,277,743	18,278						
	1130_Accumulated Provision for Uncollectible Accounts-- Credit	- 10,173,788	-10,174						
	1200_Accounts Receivable from Associated Companies	2,041,500	2,042						
		201,061,769	201,062	20,454	-4,458	217,058	217,058	-0	
Unbilled revenue	1120_Accrued Utility Revenues	273,670,964	273,671	2,333		276,004	276,004	0	
Income tax receivable	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	-	-			-	0	0	
Materials and supplies	1330_Plant Materials and Operating Supplies	9,345,336	9,345			9,345	9,345	-	
Other assets	1180_Prepayments	12,655,839	12,656			12,656	12,656	-	
	1190_Miscellaneous Current and Accrued Assets	9,736,934	9,737			9,737	8,732	-1,005	Note 1
		305,409,073	305,409	2,333	-	307,742	306,737	-1,005	
Property, plant and equipment	1805_Land	7,006,433	7,006						
	1808_Buildings and Fixtures	116,632,610	116,633						
	1815_Transformer Station Equipment - Normally Primary above 50 kV	36,917,966	36,918						
	1820_Distribution Station Equipment - Normally Primary below 50 kV	184,513,183	184,513						
	1830_Poles Towers and Fixtures	362,478,012	362,478						
	1835_Overhead Conductors and Devices	390,547,495	390,547						
	1840_Underground Conduit	1,127,938,656	1,127,939						
	1845_Underground Conductors and Devices	782,844,299	782,844						
	1850_Line Transformers	515,354,184	515,354						
	1855_Services	122,134,425	122,134						
	1860_Meters	199,703,400	199,703						
	1905_Land	17,358,657	17,359						
	1908_Buildings and Fixtures	225,535,597	225,536						
	1910_Leasehold Improvements	753,840	754						
	1915_Office Furniture and Equipment	19,308,596	19,309						
	1920_Computer Equipment - Hardware	58,683,341	58,683						
	1930_Transportation Equipment	33,718,724	33,719						
	1935_Stores Equipment	7,066	7						
	1940_Tools Shop and Garage Equipment	21,151,564	21,152						
	1945_Measurement and Testing Equipment	480,243	480						
	1950_Power Operated Equipment	845,773	846						
	1955_Communication Equipment	45,358,046	45,358						
	1960_Miscellaneous Equipment	270,978	271						
	1970_Load Management Controls - Customer Premises	3,022,834	3,023						
	1975_Load Management Controls - Utility Premises	-	-						
	1980_System Supervisory Equipment	33,585,011	33,585						
	1995_Contributions and Grants - Credit	-	-						
	1612_Land Rights	-	-						
	2005_Property Under Finance Leases	18,170,834	18,171						
	2055_Construction Work in Progress--Electric	369,579,569	369,580						
	2075_Non-Rate Regulated Property Owned or Under Finance Leases	2,002,023	2,002						
	2105_Accum. Depreciation of Electric Utility Plant - Property Plant & Equipment	- 598,528,934	-598,529						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	0	-						
	2180_Accumulated Depreciation of Non Rate-Regulated Property	- 33,367	-33						
		4,097,341,055	4,097,341	10,474	-	4,107,815	4,107,815	-0	

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2017

Filing: April 30, 2018

		Regulated 2017 Actual OEB Acct TB	Regulated 2017 Actual (in thousands)	Unregulated 2017 Actual (in thousands)	Consol Adj 2017 Actual (in thousands)	Calculated THESL Consol 2017 Actual (in thousands)	Audited THESL Consol 2017 Actual (in thousands)	Diff	Comment
Assets									
Current Assets									
Intangible assets	1609_Capital Contributions Paid	75,574,497	75,574						
	1611_Computer Software	136,960,666	136,961						
	2055_Construction Work in Progress--Electric	168,152,290	168,152						
	2120_Accumulated Amortization of Electric Utility Plant - Intangibles	- 84,536,557	-84,537						
		296,150,895	296,151	-	-	296,151	296,151	-	
Deferred tax assets	1495_Deferred Taxes - Non-Current Assets	32,385,644	32,386	-	-	32,386	57,042	24,656	Note 2
Other assets	1460_Other Non-Current Assets	3,987,240	3,987	-	-	3,987	2,982	-1,005	Note 1
Regulatory balances	1508_Other Regulatory Assets	158,766,321	158,766						
	1520_Power Purchase Variance Account	-	-						
	1521_Special Purpose Chg Assessment Variance Account	-	-						
	1533_Renewable Generation Connection Funding Adder Deferral Account	- 2,427,009	-2,427						
	1550_Low Voltage Variance Acct	714,420	714						
	1551_Smart Metering Entity Charge Variance Acct	- 489,957	-490						
	1555_Smart Meter Capital Offset Variance	7,535,784	7,536						
	1556_Smart Meter Operating Variance	-	-						
	1562_Deferred Payments in Lieu of Taxes	-	-						
	1563_Deferred PILs Contra Account	-	-						
	1568_LRAM Variance Account	16,272,081	16,272						
	1575_IFRS-UGAAP Transitional PPE Amounts	12,431,316	12,431						
	1580_RSVAWMS	- 49,829,210	-49,829						
	1584_RSVANW	- 8,471,333	-8,471						
	1586_RSVACN	- 22,014,588	-22,015						
	1588_RSVAPOWER	- 8,354,608	-8,355						
	1589_RSVAGA	44,040,688	44,041						
	1592_PILs and Tax Variance for 2006 and Subsequent Years	- 0	-0						
	1595_Disposition Recovery Reg Balances Control Acct	51,509,248	51,509						
		199,683,155	199,683	-	-	199,683	200,030	346	Note 3
Total Assets		5,136,018,830	5,136,019	64,952	-36,149	5,164,821	5,187,814	22,993	
Liabilities and Equity									
Joint Bank indebtedness	2225_Notes and Loans Payable	- 156,716,639	-156,717	-	31,691	-125,026	-125,026	-	
Advance from related party		-	-	-	-	-	-	-	
Accounts payable and accrued liabilities	2205_Accounts Payable	- 434,815,015	-434,815						
	2208_Customer Credit Balances	- 16,484,303	-16,484						
	2220_Miscellaneous Current and Accrued Liabilities	- 17,477,970	-17,478						
	2240_Accounts Payable to Associated Companies Notes	- 22,739,630	-22,740						
	2250_Debt Retirement Charges(DRC) Payable	- 8,129,135	-8,129						
	2290_Commodity Taxes	- 3,102,310	-3,102						
	2292_Payroll Deductions / Expenses Payable	- 7,370,143	-7,370						
		- 510,118,505	-510,119	-7,772	4,458	-513,432	-513,432	-0	
Income tax payable	2294_Accrual for Taxes Payments in Lieu of Taxes Etc.	- 8,661,391	-8,661	-		-8,661	-12,468	-3,807	Note 4
Customer deposits	2210_Customer Deposits	- 49,218,946	-49,219			-49,219	-49,219		
Deferred revenue	2220_Miscellaneous Current and Accrued Liabilities	- 838,273	-838	-		-838			
	2210_Customer Deposits	- 4,938,272	-4,938			-4,938			
		- 5,776,546	-5,777	-	-	-5,777	-9,877	-4,100	Note 5
Deferred conservation credit		0	-	-9,274		-9,274	-9,274	-	
Other liabilities	2285_Obligations Under Finance Leases--Current	- 1,476,064	-1,476			-1,476			
	2220_Miscellaneous Current and Accrued Liabilities	- 54,792	-55			-55			
		- 1,530,856	-1,531	-	-	-1,531	-1,531	-	
Notes payable to related party	2242_ Payable to Associated Companies	- 60,000,002	-60,000			-60,000	-60,000		
	2260_Current Portion of Long Term Debt	-	-	-		-	-		
			-						
		- 60,000,002	-60,000	-	-	-60,000	-60,000	-	
Notes payable to related party	2550_Advances from Associated Companies	- 2,029,892,220	-2,029,892			-2,029,892	-2,029,892	0	
	2505_Debentures Outstanding - Long Term Portion	-	-			-	-	-	
		- 2,029,892,220	-2,029,892	-	-	-2,029,892	-2,029,892	0	

Toronto Hydro-Electric System Limited - 2.1.13
Balance Sheet
December 31, 2017

Filing: April 30, 2018

		Regulated 2017 Actual OEB Acct TB	Regulated 2017 Actual (in thousands)	Unregulated 2017 Actual (in thousands)	Consol Adj 2017 Actual (in thousands)	Calculated THESL Consol 2017 Actual (in thousands)	Audited THESL Consol 2017 Actual (in thousands)	Diff	Comment
Assets									
Current Assets									
Customer deposits	2335_Non-Current Customer Deposits	- 8,936,138	-8,936			-8,936	-8,936	-	
Deferred revenue	2440_Deferred Revenues	- 158,039,186	-158,039			-158,039			
	2320_Other Miscellaneous Non-Current Liabilities	-	-			-			
	2335_Non-Current Customer Deposits	- 24,822,672	-24,823			-24,823			
		- 182,861,858	-182,862	-	-	-182,862	-178,761	4,100	Note 5
Post-employment benefits	2306_POEB Liability	- 311,560,000	-311,560	-1,410		-312,970	-312,970	0	
Other liabilities	2325_Obligations Under Finance Lease--Non-Current	-	-			-			
	2320_Other Miscellaneous Non-Current Liabilities	- 15,555,997	-15,556			-15,556			
		- 15,555,997	-15,556	-	-	-15,556	-205	15,351	Note 6
Total Liabilities		- 3,340,829,098	-3,340,829	-18,456	36,149	-3,323,136	-3,311,592	11,544	
Share Capital	3005_Common Shares Issued	- 527,816,668	-527,817	-28,461		-556,278	-556,278	0	
Retained Earnings	3045_Unappropriated Retained Earnings	- 1,307,237,327	-1,307,237						
	3046_Balance Transferred From Income	- 144,669,212	-144,669						
	3049_Dividends Payable-Common Shares	323,626,000	323,626						
	3055_Adjustment to Retained Earnings	- 5,969,175	-5,969						
		- 1,134,249,713	-1,134,250	-18,035	-	-1,152,285	-1,147,176	5,108	Note 7
Contributed Surplus	3010_Contributed Surplus	- 12,757,392	-12,757			-12,757	-12,757	-	
Regulatory balances	1508_Other Regulatory Assets	- 78,674,761	-78,675						
	1595_Disposition Recovery Reg Balances Control Acct	- 9,305,552	-9,306						
	2350_Deferred Tax - Non-Current Liability	- 32,385,645	-32,386						
		- 120,365,958	-120,366	-	-	-120,366	-160,011	-39,645	Note 8
Total liabilities, equity and regulatory balances		- 5,136,018,830	-5,136,019	-64,952	36,149	-5,164,821	-5,187,814	-22,993	
		-	-	-	-	-	-	-0	

Toronto Hydro-Electric System Limited - 2.1.13 Filing: April 30, 2018
Balance Sheet
December 31, 2017

Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: This relates to the CIR Costs Deferral re-instatement on the Balance Sheet.
For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L.
For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the CIR costs were re-instated on the balance sheet and will be amortized over the 5 years. The current portion and the long-term portion of the re-instated CIR costs on the balance sheet was $1,005 and $1,005 respectively.

Note 2: Difference in "Deferred tax assets" of $24,656: Calculated balance of $32,386 & AFS balance of $57,042, a difference of $24,656, as follows:
a. The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets are recorded in regulatory balances in accordance with IFRS 14 for AFS.
For purposes of RRR reporting, these balances are reclassified to deferred tax assets in the amount of $26,263.
b. For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets in the amount of ($1,607).

Note 3: Difference in "Regulatory balances - deferred debits" of $346: Calculated balance of $199,683 & AFS balance of $200,030, a difference of $346, is due to balances considered regulatory balances for the AFS but not for the purpose of RRR reporting in accordance with APH.

Note 4: Difference in "Income tax payable" of ($3,807): Calculated balance of ($8,661) & AFS balance of ($12,468), a difference of ($3,807), as follows:
The difference represents the non-regulated business income tax payable included in the AFS.

Note 5: Difference in "Deferred revenue - current", offset by difference in "Deferred revenue - long-term" of $4,100 as follows:
For the AFS the Deferred revenue was split between current and long-term. For the RRR purposes, the Deferred revenue is not split between current and long-term.

Note 6: Difference in "Other liabilities" of $15,351: Calculated balance of ($15,556) & AFS balance of ($205), a difference of $15,351, primarily related to a deferral of gain on sale of surplus property in a regulatory account for the AFS and recorded as miscellaneous liability for RRR reporting and deferral of excess expansion deposits withholdings in a regulatory account for the AFS and recorded as miscellaneous liability for RRR reporting.

Note 7: Difference in "Retained Earnings" of $5,108: Calculated balance of ($1,152,285) & AFS balance of ($1,147,176), a difference of $5,108.
Adjustments have been made to certain AFS income statement items to arrive at the RRR reporting as follows:

A. Adjustments made to certain AFS income statement items in prior years as follows:	
a. Reduction for prior years' AFS Distribution revenue booked for Smart Meter "net revenue requirement" on the disposition of Account 1555 "Smart Meter Capital & Recovery" and 1556 "Smart Meter OM&A Variance account" balances. The amount is recorded to Distribution revenue for RRR reporting, to OEB account 4080 as the amount is billed to THESL customers in the future.	- 2,092
b. For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets related to prior year.	2,236
c. This relates to the reversal of the Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base. For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the OEB approved the disposition of Account 1575 with the return on rate base of $4,755k. As such, for 2015 RRR purposes, the $4,755k accrual was reversed. As such, in the AFS, the disposition of the account 1575 includes offsetting entries on the balance sheet related to the disposition of the return on rate base, whereas for RRR purposes, the collection of the return on rate base is recorded in the income statement in accordance with the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6.	- 3,806
d. This relates to the CIR Costs Deferral re-instatement on the Balance Sheet. For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L. For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the CIR costs were re-instated on the balance sheet and will be amortized over the 5 years.	3,015
e. The difference represents the non-regulated business current income tax expense included in the AFS.	- 361
B. Adjustments made to certain AFS income statement items in 2017, with these differences as explained in the Income Statement attached.	
a. The total impact on net income or difference for the year 2017 was $6,116, per the Income Statement attached.	6,116
Total difference:	5,108

Note 8: Difference in "Regulatory balances - deferred credits" of ($39,645): Calculated balance of ($120,366) & AFS balance of ($160,011), a difference of ($39,645), as follows:

a. The deferred tax balance related to regulatory balances and gross up in respect of deferred tax assets are recorded in regulatory balances in accordance with IFRS 14 for AFS. For purposes of RRR reporting, these balances are reclassified to deferred tax assets.

b. Deferral of gain on sale of surplus property in a regulatory account for the AFS and recorded as miscellaneous liabilities for RRR reporting.

c. Deferral of excess expansion deposit withholdings in a regulatory account for the AFS and recorded as miscellaneous liabilities for RRR reporting.

Toronto Hydro-Electric System Limited - 2.1.13

Statement of Income
December 31, 2017

Filing: April 30, 2018

		Regulated 2017 Actual OEB Acct TB	Regulated 2017 Actual (in thousands)	Unregulated 2017 Actual (in thousands)	Net Movement Adj 2017 Actual (in thousands)	Consol Adj 2017 Actual (in thousands)	Calculated THESL Consol 2017 Actual (in thousands)	Audited THESL Consol 2017 Actual (in thousands)	Diff	Comment
Revenue										
Energy sales	4006_Residential Energy Sales	-474,760,705	- 474,761							
	4010_Commercial Energy Sales	-1,569,021,325	- 1,569,021							
	4020_Energy Sales to Large Users	-181,584,398	- 181,584							
	4025_Street Lighting Energy Sales	-19,279,286	- 19,279							
	4035_General Energy Sales	-251,021,568	- 251,022							
	4050_Revenue Adjustment	39,210,601	39,211							
	4062_Billed WMS	-100,285,375	- 100,285							
	4066_Billed NW	-151,982,231	- 151,982							
	4068_Billed CN	-113,435,813	- 113,436							
	4075_Billed LV	0	-							
		-2,822,160,099	- 2,822,160	-	- 28,013	-	- 2,850,173	- 3,017,754	- 167,581	Note 1
Distribution revenue	4080_Distribution Services Revenue	-679,157,674	- 679,158		- 48,578	-	- 727,736	- 724,154	3,582	Note 2
		-3,501,317,774	- 3,501,318	-	- 76,591	-	- 3,577,909	- 3,741,908	- 163,999	
Other income	4082_Retail Services Revenues	-289,666	- 290							
	4084_Service Transaction Requests (STR) Revenues	-14,835	- 15							
	4086_SSS Administration Revenue	-2,269,960	- 2,270							
	4090_Electric Services Incidental to Energy Sales	0	-							
	4210_Rent from Electric Property	-14,763,364	- 14,763							
	4215_Other Utility Operating Income	-1,564,164	- 1,564							
	4220_Other Electric Revenues	-9,229,601	- 9,230							
	4225_Late Payment Charges	-3,696,196	- 3,696							
	4235_Miscellaneous Service Revenues	-7,179,528	- 7,180							
	4245_ Government Assistance Directly Credited to Income	-4,710,955	- 4,711							
	4325_Revenues from Merchandise Jobbing Etc.	-31,227,688	- 31,228							
	4310_Regulatory Credits	-6,583,043	- 6,583							
	4330_Costs and Expenses of Merchandising Jobbing Etc.	29,913,621	29,914							
	4076_Billed Smart Metering Entity Charge	-7,066,705	- 7,067							
		-58,682,082	- 58,682	- 16,536	- 5,236	-	- 80,454	- 96,718	- 16,264	Note 3
Costs										
Energy purchases	4705_Power Purchased	1,172,692,119	1,172,692							
	4707_Charges - Global Adjustment	1,283,764,561	1,283,765							
	4708_Charges-WMS	71,671,510	71,672							
	4714_Charges-NW	151,982,231	151,982							
	4716_Charges-CN	113,435,813	113,436							
	4730_Rural Rate Assistance Expense	28,613,864	28,614							
	4750_Charges LV	0	-							
		2,822,160,099	2,822,160	-	73,744	-	2,895,904	3,063,485	167,581	Note 4
Operating expenses	4380_Expenses of Non-Rate Regulated Operations	5,249,117	5,249							
	4398_Foreign Exchange Gains and Losses Including Amortization	-54,784	- 55							
	5005_Distribution Operation Supervision and Engineering	24,069,938	24,070							
	5010_Distribution Load Dispatching	7,710,962	7,711							
	5012_Station Buildings and Fixtures Expense	0	-							
	5014_Transformer Station Equipment - Operation Labour	453,547	454							
	5015_Transformer Station Equipment - Operation Supplies and Expenses	10,034	10							
	5016_Distribution Station Equipment - Operation Labour	2,624,503	2,625							
	5017_Distribution Station Equipment - Operation Supplies and Expenses	5,712,912	5,713							
	5020_Overhead Distribution Lines and Feeders - Operation Labour	740,680	741							
	5025_Overhead Distribution Lines & Feeders - Operation Supplies and Expenses	1,441,347	1,441							
	5035_Overhead Distribution Transformers- Operation	0	-							
	5040_Underground Distribution Lines and Feeders - Operation Labour	529,753	530							
	5045_Underground Distribution Lines & Feeders - Operation Supplies & Expenses	2,470,332	2,470							
	5055_Underground Distribution Transformers - Operation	1,027	1							
	5065_Meter Expense	617,716	618							
	5070_Customer Premises - Operation Labour	1,345,682	1,346							
	5075_Customer Premises - Materials and Expenses	797,487	797							
	5085_Miscellaneous Distribution Expense	6,414,401	6,414							
	5105_Maintenance Supervision and Engineering	13,822,661	13,823							
	5110_Maintenance of Buildings and Fixtures - Distribution Stations	14,996,119	14,996							
	5112_Maintenance of Transformer Station Equipment	361,379	361							
	5114_Maintenance of Distribution Station Equipment	3,125,251	3,125							
	5120_Maintenance of Poles Towers and Fixtures	512,564	6							
	5125_Maintenance of Overhead Conductors and Devices	16,295,974	17,041							

Toronto Hydro-Electric System Limited - 2.1.13

Statement of Income
December 31, 2017

Filing: April 30, 2018

		Regulated 2017 Actual OEB Acct TB	Regulated 2017 Actual (in thousands)	Unregulated 2017 Actual (in thousands)	Net Movement Adj 2017 Actual (in thousands)	Consol Adj 2017 Actual (in thousands)	Calculated THESL Consol 2017 Actual (in thousands)	Audited THESL Consol 2017 Actual (in thousands)	Diff	Comment
	5130_Maintenance of Overhead Services	242,870	4							
	5135_Overhead Distribution Lines and Feeders - Right of Way	3,331,822	3,332							
	5145_Maintenance of Underground Conduit	3,880	4							
	5150_Maintenance of Underground Conductors and Devices	7,525,324	7,525							
	5155_Maintenance of Underground Services	3,919	4							
	5160_Maintenance of Line Transformers	0	-							
	5165_Maintenance of Street Lighting and Signal Systems	4,147,502	4,148							
	5305_Supervision	198,911	199							
	5310_Meter Reading Expense	3,872,325	3,872							
	5315_Customer Billing	10,125,184	10,125							
	5320_Collecting	15,411,600	15,412							
	5335_Bad Debt Expense	5,299,255	5,299							
	5410_Community Relations - Sundry	0	-							
	5415_Energy Conservation	0	-							
	5420_Community Safety Program	2,307,166	2,307							
	5605_Executive Salaries and Expenses	5,466,485	5,466							
	5610_Management Salaries and Expenses	0	-							
	5615_General Administrative Salaries and Expenses	52,815,260	52,815							
	5620_Office Supplies and Expenses	3,270	3							
	5625_Administrative Expense Transferred Credit	0	-							
	5630_Outside Services Employed	7,006,111	7,006							
	5635_Property Insurance	1,527,559	1,528							
	5640_Injuries and Damages	1,585,786	1,586							
	5655_Regulatory Expenses	5,091,470	5,091							
	5660_General Advertising Expenses	0	-							
	5665_Miscellaneous General Expenses	-45	- 0							
	5675_Maintenance of General Plant	11,707,173	11,707							
	5680_Electrical Safety Authority Fees	448,895	449							
	6105_Taxes Other Than Income Taxes	5,277,110	5,277							
	6205_Donations	957,879	958							Note 9
Note to file: Shared Service Recovery - EE 9949	4375_Revenues from Non-Utility Operations	-4,829,010	- 4,829							
	4751_Charges Smart Metering Entity Chg	7,066,705	7,067							
		255,843,010	255,843	1,446	5,088	-	262,378	284,220	21,842	Note 5
Depreciation and amortization	5705_Depreciation Expense - Property Plant and Equipment	205,161,961	205,162							
	5715_Amortization of Intangibles and Other Electric Plant	23,122,849	23,123							
	4380_Expenses of Non-Rate Regulated Operations	33,367	33							
		228,318,178	228,318	590		-	228,908	222,325	- 6,583	Note 6
		-253,678,569	- 253,679	- 14,499	- 2,995	-	- 271,173	- 268,596	2,577	
Finance costs										
Interest Income	4375_Revenues from Non-Utility Operations	0	-							
	4405_Interest and Dividend Income	-9	- 0							
		-9	- 0	- 346		-	- 346	- 346	-	
Interest Expense, Long-term Debt	6030_Interest on Debt to Associated Companies	87,088,624	87,089	-			87,089	87,089	-	
Interest Expense, Other	5615_General Administrative Salaries and Expenses	2,146,774	2,147					-	-	
	5420_Community Safety Program	27,508	28					-	-	
	6035_Other Interest Expense	2,636,623	2,637			-			-	
	6040_Allowance for Borrowed Funds Used During Construction--Credit	-9,804,020	- 9,804					-	-	
		-4,993,115	- 4,993	1	- 854	-	- 5,846	- 5,846	0	
Gain on disposals of property, plant and equipment	4355_Gain on Disposition of Utility and Other Property	-515,158	- 515							
	4335_Profits and Losses from Financial Instrument Hedges	0	0							
		-515,158	- 515	-	- 9,279		- 9,794	- 9,794	-	
Income Tax Expense	6110_Income Taxes	27,039,751	27,040	-		-	27,040	30,847	3,807	Note 7
	6115_Provision for Future Income Taxes	389,265	389		13,244		13,633	13,365	- 268	Note 8
Net Income		-144,669,212	- 144,669	- 14,844	116	-	- 159,397	- 153,282	6,116	
Net movements in regulatory balances, net of tax		0			- 116		- 116	- 116	- 0	
Net income after net movements in regulatory balances		-144,669,212	- 144,669	- 14,844	0	-	- 159,513	- 153,398	6,116	

Toronto Hydro-Electric System Limited - 2.1.13

Filing: April 30, 2018

Statement of Income
December 31, 2017

Notes: The Uniform System of Account balances are mapped and reconciled to the audited financial statements (AFS) (in dollars thousands).

Note 1: Difference in "Energy sales" of ($167,581): Calculated balance of ($2,850,173) & AFS balance of ($3,017,754), a difference of ($167,581), as follows:	
For RRR Reporting, THESL booked to "Cost of Power expense" the amount of the IESO settlement invoices charge type 142, in the credit amount of $167,581.	-167,581
For the AFS, THESL book IESO settlement invoices charge type 142 to COP revenue.	
Total difference:	
Note 2: Difference in "Distribution revenue" of $3,582: Calculated balance of ($727,736) & AFS balance of ($724,154), a difference of $3,582, as follows:	
a. A "Smart meter recovery" regulatory account was booked for AFS, with AFS Distribution revenue booked on an accrual basis. This is not considered a regulatory account for purposes of RRR reporting. The AFS Distribution revenue amount has been adjusted so the Distribution revenue booked for RRR Reporting is appropriately reflected on a cash basis.	2,376
b. This relates to the reversal of the Account 1575 IFRS-GAAP Transitional PP&E Return on Rate Base. For RRR purposes, as per the APH, Article 510, "The return on rate base shall not be recorded in this account. On disposition of the account balance, the return is applied prospectively in rates as an adjustment to the revenue requirement." In the AFS, the return on rate base was accrued at year-end 2015 since the OEB approved the disposition of Account 1575 with the return on rate base of $4,755. For 2015 RRR purposes, the $4,755 accrual has been reversed. As such, in the AFS, the disposition of the account 1575 includes offsetting entries on the balance sheet related to the disposition of the return on rate base, whereas for RRR purposes, the collection of the return on rate base is recorded in the income statement in accordance with the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6.	1,206
Total difference:	3,582
Note 3: Difference in "Other income" of ($16,264): Calculated balance of ($80,454) & AFS balance of ($96,718), a difference of ($16,264), as follows:	
a. Demand Billable Charges: As per AFS GAAP, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis:	-29,914
b. Smart Metering Entity charge: As per AFS GAAP, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":	7,067
c. As per the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, the approved disposition of the account balance for both Account 1575 and Account 1576 would be reflected as an offset to depreciation expense over the approved amortization period." As well, based on the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, to ensure that only the return on rate base component is recorded in distribution revenues, the offsetting credit entry is recorded in OEB Account 4310 Regulatory Credits.	6,583
Total difference:	-16,264
Note 4: Difference in "Energy purchases" of $167,581: Calculated balance of $2,895,904 & AFS balance of $3,063,485, a difference of $167,581, as follows:	
For RRR Reporting, THESL booked to "Cost of Power expense" the amount of the IESO settlement invoices charge type 142, in the credit amount of $167,581.	167,581
For the AFS, THESL book IESO settlement invoices charge type 142 to COP revenue.	
Note 5: Difference in "Operating expenses" of $21,842: Calculated balance of $262,378 & AFS balance of $284,220, a difference of $21,842, as follows:	
a. Demand Billable Charges: As per AFS GAAP, THESL booked demand billable charges on a gross basis while for RRR it is reported on a net basis:	29,914
b. Smart Metering Entity charge: As per AFS GAAP, THESL books the Smart Metering entity revenue and charge on a net basis, while for RRR it is booked on a gross basis, in the prescribed regulatory accounts 4076 "Billed Smart Metering Entity Charge" and 4751 "Charges Smart Metering Entity Charge":	-7,067
c. This relates to the CIR Costs Deferral re-instatement on the Balance Sheet. For OSC purposes, as a result of the OEB's Decision with regards to the DRO, the CIR costs were considered no longer recoverable, and as such it was considered impaired and written-off to the P&L. For RRR purposes, since the CIR Costs were approved to be recovered over the 5 year term in the original OEB Decision on December 29, 2015 with regards to the 2015-2019 CIR Application, the CIR costs were re-instated on the balance sheet and will be amortized over the 5 years.	-1,005
Total difference:	21,842
Note 6: Difference in "Depreciation and amortization" of ($6,583): Calculated balance of $228,908 & AFS balance of $222,325, a difference of ($6,583), as follows:	-6,583
As per the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, the approved disposition of the account balance for both Account 1575 and Account 1576 would be reflected as an offset to depreciation expense over the approved amortization period." As well, based on the OEB's Accounting Procedures Handbook Guidance - March 2015 - #6, to ensure that only the return on rate base component is recorded in distribution revenues, the offsetting credit entry is recorded in OEB Account 4310 Regulatory Credits.	
Note 7: Difference in "Income tax expense - Income taxes" of $3,807: Calculated balance of $27,040 & AFS balance of $30,847, a difference of $3,807, as follows:	3,807
The difference represents the non-regulated business current income tax expense included in the AFS.	
Note 8: Difference in "Income tax expense - Provision for deferred taxes" of ($268): Calculated balance of $13,633 & AFS balance of $13,365, a difference of ($268), as follows:	-268
For purposes of RRR reporting, an adjustment was made to remove deferred income tax asset in respect of the non-rate regulated assets.	

Note 9: Sub-account LEAP Funding included credit transfer of $9,886.51 applied to customers in 2017 and paid to social service agency in 2018.

TORONTO HYDRO Corporation

FINANCIAL REPORT
DECEMBER 31, 2017

TORONTO HYDRO CORPORATION

TABLE OF CONTENTS

GLOSSARY

CDM – Conservation and demand management

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – City of Toronto

Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”.

Corporation – Toronto Hydro Corporation

Electricity Act – *Electricity Act, 1998* (Ontario), as amended

ERM – Enterprise risk management

ERP – Enterprise resource planning

GAAP – Generally Accepted Accounting Principles

GWh – Gigawatt hour

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

IESO – Independent Electricity System Operator. The IESO and the Ontario Power Authority were merged under the name Independent Electricity System Operator on January 1, 2015

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act* (Canada), as amended

kW – Kilowatt

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

MEU – Municipal electricity utility

OCI – Other comprehensive income

OEB – Ontario Energy Board

OEB Act – *Ontario Energy Board Act, 1998* (Ontario), as amended

OFHP – Ontario’s Fair Hydro Plan

OFHA – *Fair Hydro Act, 2017* (Ontario)

OMERS – Ontario Municipal Employees Retirement System

OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015

OPEB – Other post-employment benefits

OREC – *Ontario Rebate for Electricity Consumers Act*, 2016 (Ontario).

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

TA – *Taxation Act, 2007* (Ontario), as amended

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2017 was $35.1 million and $156.5 million, respectively, compared to $23.4 million and $151.4 million for the comparable periods in 2016;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $148.9 million and $552.9 million for the three months and year ended December 31, 2017, respectively, compared to $149.2 million and $551.7 million for the comparable periods in 2016;
- On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses;
- On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates and the disposition of certain deferral and variance accounts;
- On November 14, 2017, the Corporation issued $200.0 million of 3.485% senior unsecured debentures due February 28, 2048;
- The Corporation's Series 2 debentures in the amount of $250.0 million, matured and were repaid on November 14, 2017; and
- Under the terms of the energy conservation agreement with the IESO for the delivery of CDM programs over the 2015 – 2020 period, the Corporation is entitled to a performance incentive if the verified mid-term electricity savings target is achieved by December 31, 2017. The Corporation exceeded the mid-term energy savings target and recognized a performance incentive of $12.2 million.

Introduction

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2017 and 2016, which were prepared in accordance with IFRS (the "Consolidated Financial Statements").

Copies of these documents are available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Business of Toronto Hydro Corporation

The Corporation is a holding company which wholly owns two subsidiaries:

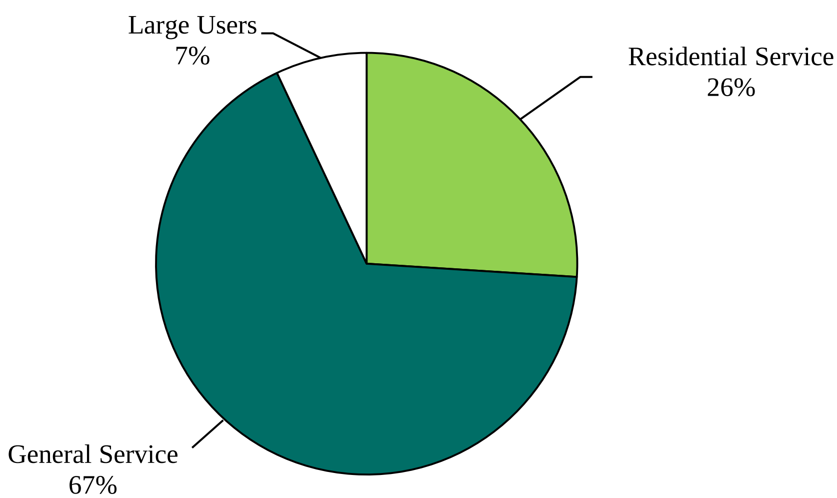
- LDC - distributes electricity and engages in CDM activities; and
- TH Energy - provides street lighting and expressway lighting services in the City.

The Corporation supervises the operations of, and provides corporate, management services and strategic direction to its subsidiaries.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 768,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC and other electricity distributors is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the year ended December 31, 2017, LDC earned energy sales and distribution revenues of $3,742.0 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenues by Class

Year ended December 31, 2017



[1] "general service" means a service supplied to premises other than those receiving "residential service" and "large users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

[2] "residential service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

[3] "large users" means a service provided to a customer with a monthly peak demand of more than 5,000 kW averaged over a twelve-month period.

Electricity Distribution – Industry Overview

In April 1999, the Government of Ontario began restructuring the province's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs from customers in accordance with rate-setting procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate-setting and other legal filings.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through back to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through back to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation is exempt from tax under the ITA if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the TA.

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

Results of Operations

Net Income after Net Movements in Regulatory Balances

Interim Consolidated Statements of Income
Three months ended December 31
(in millions of Canadian dollars)

	2017 $	2016 $	Change $
Revenues			
Energy sales	728.9	813.3	(84.4)
Distribution revenue	181.7	159.0	22.7
Other	27.7	22.0	5.7
	938.3	994.3	(56.0)
Expenses			
Energy purchases	750.7	782.6	31.9
Operating expenses	77.8	78.6	0.8
Depreciation and amortization	62.0	59.6	(2.4)
	890.5	920.8	30.3
Finance costs	(18.9)	(19.5)	0.6
Gain on disposals of PP&E	0.2	2.1	(1.9)
Income before income taxes	29.1	56.1	(27.0)
Income tax expense	(11.1)	(28.0)	16.9
Net income	18.0	28.1	(10.1)
Net movements in regulatory balances	10.9	(30.6)	41.5
Net movements in regulatory balances arising from deferred tax assets	6.2	25.9	(19.7)
Net income after net movements in regulatory balances	35.1	23.4	11.7

The increase in net income after net movements in regulatory balances for the three months ended December 31, 2017 was primarily due to higher 2017 electricity distribution rates, higher electricity consumption, and higher other revenue related to the recognition of the CDM mid-term incentive and pole and duct rentals. These variances were partially offset by amounts being deferred into capital related regulatory accounts for future refunds to customers, higher income taxes (including regulatory balances arising from deferred tax assets), and higher depreciation and amortization related to new in-service asset additions.

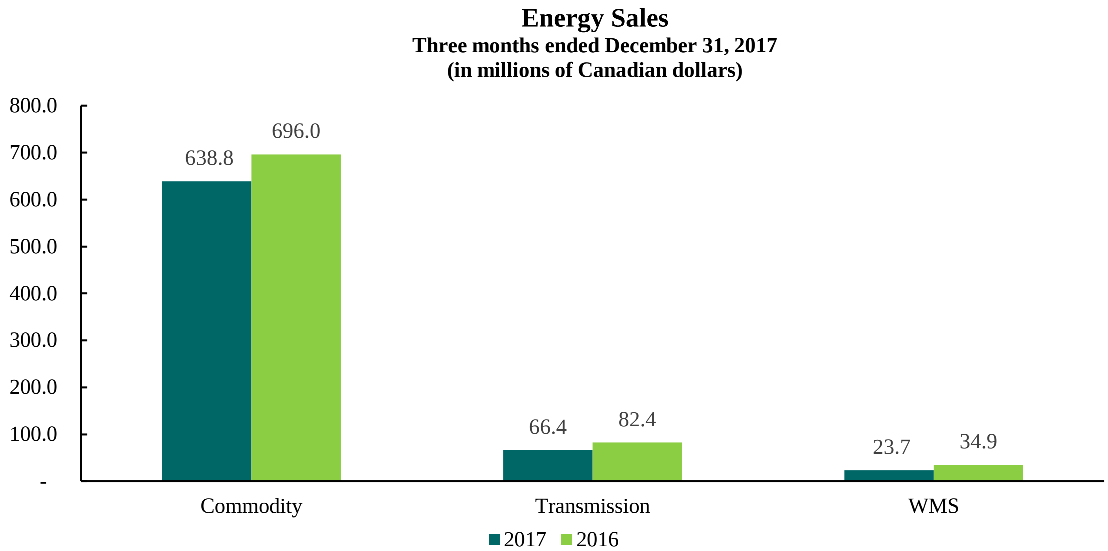
Consolidated Statements of Income
Year ended December 31
(in millions of Canadian dollars)

	2017 $	2016 $	Change $
Revenues			
Energy sales	3,017.8	3,306.2	(288.4)
Distribution revenue	724.2	647.9	76.3
Other	107.7	75.9	31.8
	3,849.7	4,030.0	(180.3)
Expenses			
Energy purchases	3,063.5	3,216.9	153.4
Operating expenses	293.0	277.1	(15.9)
Depreciation and amortization	224.2	212.2	(12.0)
	3,580.7	3,706.2	125.5
Finance costs	(77.7)	(74.2)	(3.5)
Gain on disposals of PP&E	9.8	2.1	7.7
Income before income taxes	201.1	251.7	(50.6)
Income tax expense	(44.7)	(67.1)	22.4
Net income	156.4	184.6	(28.2)
Net movements in regulatory balances	(13.1)	(77.2)	64.1
Net movements in regulatory balances arising from deferred tax assets	13.2	44.0	(30.8)
Net income after net movements in regulatory balances	156.5	151.4	5.1

The increase in net income after net movements in regulatory balances for the year ended December 31, 2017 was primarily due to higher 2017 electricity distribution rates and higher other revenue related to the recognition of the CDM mid-term incentive and pole and duct rentals. These variances were partially offset by lower electricity consumption, higher operating expenses in connection with system maintenance, higher depreciation and amortization related to new in-service asset additions, higher income taxes (including regulatory balances arising from deferred tax assets), amounts being deferred into capital related regulatory accounts for future refunds to customers, and a one-time residual ICM balance recorded as an increase in equity through net movements in regulatory balances in 2016. The 2016 first quarter implementation of the new electricity distribution rates also resulted in $19.2 million of foregone revenue being recorded in net movements in regulatory balances for the comparable period, instead of distribution revenue given IFRS 14 - *Regulatory Deferral Accounts* ("IFRS 14") treatment.

Energy Sales

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets ("Consolidated Balance Sheets") and within net movements in regulatory balances on the consolidated statements of income and comprehensive income ("Consolidated Statements of Income").



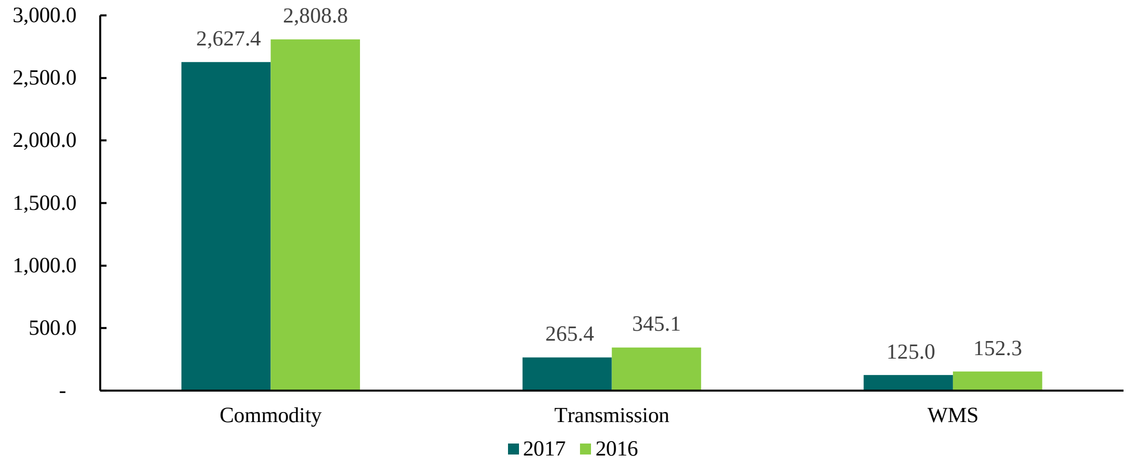
Energy sales for the three months ended December 31, 2017 were $728.9 million compared to $813.3 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($57.2 million) and lower retail transmission charges ($16.0 million). The decrease in commodity and retail transmission charges was primarily due to lower pass-through electricity costs.

Energy Purchases , Energy Sales, and Settlement Variances
Three months ended December 31, 2017
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity Charges	673.1	638.8	34.3
Retail Transmission Charges	65.2	66.4	(1.2)
WMS Charges	12.4	23.7	(11.3)
Total	750.7	728.9	21.8

For the three months ended December 31, 2017, LDC recognized $728.9 million in energy sales to customers and was billed $750.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $21.8 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance ($21.8 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Energy Sales
Year ended December 31, 2017
(in millions of Canadian dollars)



Energy sales for the year ended December 31, 2017 were $3,017.8 million compared to $3,306.2 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($181.4 million) and lower retail transmission charges ($79.7 million). The decrease in commodity and retail transmission charges was primarily due to lower electricity consumption and lower pass-through electricity costs.

Energy Purchases, Energy Sales, and Settlement Variances
Year ended December 31, 2017
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity Charges	2,681.4	2,627.4	54.0
Retail Transmission Charges	281.8	265.4	16.4
WMS Charges	100.3	125.0	(24.7)
Total	3,063.5	3,017.8	45.7

For the year ended December 31, 2017, LDC recognized $3,017.8 million in energy sales to customers and was billed $3,063.5 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $45.7 million settlement variance for the year. The settlement variance was recorded as a decrease to the regulatory credit balance ($45.2 million including carrying charges on the accumulated settlement variance balance, see the regulatory credit balance table in note 9 to the Consolidated Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, and includes revenue collected through OEB-approved rate riders.

Distribution revenue for the three months and year ended December 31, 2017 was $181.7 million and $724.2 million, respectively, compared to $159.0 million and $647.9 million for the comparable periods in 2016.

The increase in distribution revenue for the three months ended December 31, 2017 was primarily due to higher electricity distribution rates ($11.7 million), higher electricity consumption ($5.6 million), and additional revenue collected through OEB-approved rate riders ($5.5 million).

The increase in distribution revenue for the year ended December 31, 2017 was primarily due to higher electricity distribution rates ($48.8 million) and additional revenue collected through OEB-approved rate riders ($22.6 million), partially offset by lower electricity consumption in 2017 ($14.9 million). The remaining increase was related to the recognition of 2016 foregone revenue ($19.2 million) from the implementation of the new electricity distribution rates effective March 1, 2016, which was recorded in net movements in regulatory balances for the year ended December 31, 2016 given the IFRS 14 treatment, instead of distribution revenue.

Other Revenue

Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, amortization of deferred revenue related to capital contributions from customers, and CDM cost efficiency incentives.

Other revenue for the three months and year ended December 31, 2017 was $27.7 million and $107.7 million, respectively, compared to $22.0 million and $75.9 million for the comparable periods in 2016.

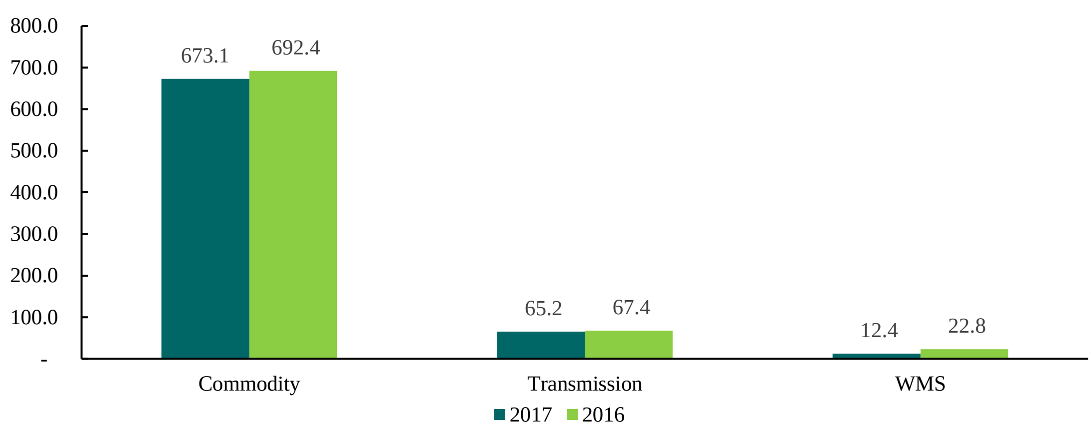
The increase was primarily due to higher revenue in connection with ancillary services, street lighting services, pole and duct rentals, recognition of the CDM mid-term incentive, and deferral of development charges. The development charges are excess expansion deposits retained by LDC where the requested number of connections or demand were not met by the connecting customer (see development charges in note 9(o) to the Consolidated Financial Statements).

The development charges were recorded as a regulatory balance on the Consolidated Balance Sheets, with a corresponding offset in net movements in regulatory balances on the Consolidated Statements of Income. This regulatory balance is expected to offset future electricity distribution rates for customers, although application has yet to be made to dispose of the balance.

Energy Purchases

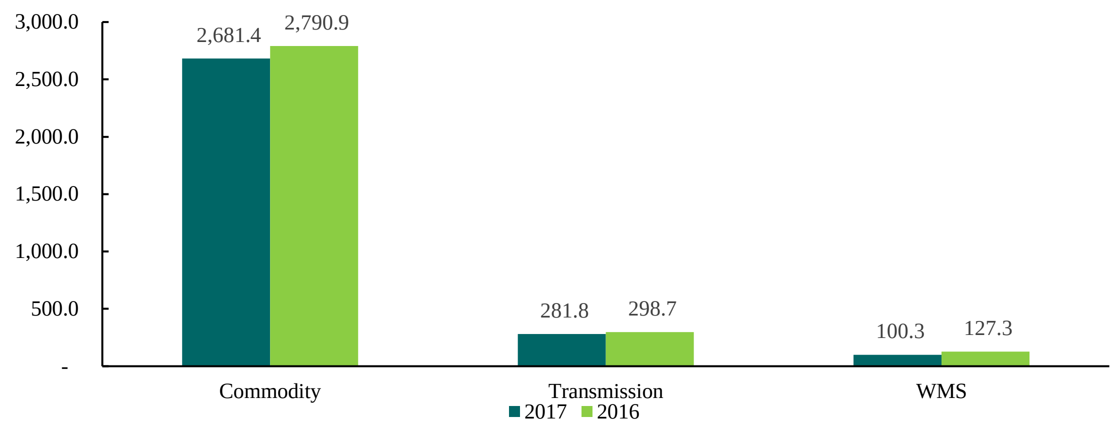
LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
Three months ended December 31, 2017
(in millions of Canadian dollars)



Energy purchases for the three months ended December 31, 2017 were $750.7 million compared to $782.6 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($19.3 million) and lower WMS charges ($10.4 million). The decrease in commodity and WMS charges was primarily due to lower rates.

LDC Energy Purchases
Year ended December 31, 2017
(in millions of Canadian dollars)



Energy purchases for the year ended December 31, 2017 were $3,063.5 million compared to $3,216.9 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($109.5 million) and lower WMS charges ($27.0 million). The decrease in commodity and WMS charges was primarily due to lower electricity consumption and lower rates.

Operating Expenses

Operating expenses for the three months and year ended December 31, 2017 were $77.8 million and $293.0 million, respectively, compared to $78.6 million and $277.1 million for the comparable periods in 2016.

The decrease in operating expenses for the three months ended December 31, 2017 was primarily due to lower street lighting maintenance costs, lower rental expenses due to expiration of rental agreements, and lower service fees for third party warehouse costs, partially offset by higher ancillary service costs.

The increase in operating expenses for the year ended December 31, 2017 was primarily due to higher costs in connection with ancillary services and system maintenance programs, partially offset by lower rental expenses due to expiration of rental agreements and lower street lighting maintenance costs.

Depreciation and Amortization

Depreciation and amortization expense for the three months and year ended December 31, 2017 was $62.0 million and $224.2 million, respectively, compared to $59.6 million and $212.2 million for the comparable periods in 2016.

The increase in depreciation and amortization expense for the three months and year ended December 31, 2017 was primarily due to new in-service asset additions in 2017, partially offset by certain assets being fully depreciated, and lower derecognition of assets removed from service.

Finance Costs

Finance costs for the three months and year ended December 31, 2017 were $18.9 million and $77.7 million, respectively, compared to $19.5 million and $74.2 million for the comparable periods in 2016.

The decrease in finance costs for the three months ended December 31, 2017 was primarily due to a lower average amount of outstanding long-term debt ($2,058.6 million) in the fourth quarter of 2017 compared with the same period in 2016 ($2,084.6 million) (see "Liquidity and Capital Resources" below).

The increase in finance costs for the year ended December 31, 2017 was primarily due to a higher average amount of outstanding long-term debt ($2,078.4 million) during 2017 compared with the same period in 2016 ($2,001.4 million) and lower capitalized borrowing costs (see "Liquidity and Capital Resources" below).

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2017 were $0.2 million and $9.8 million, respectively, compared to $2.1 million for the comparable periods in 2016. The increase in gain on disposals of PP&E for the year ended December 31, 2017 was primarily due to the gain realized on disposal of a surplus property in the second quarter of 2017 ($9.3 million), offset by lower gain realized on other disposals. The gain on disposal of a surplus property, net of tax of $8.0 million was recorded as a regulatory balance on the Consolidated Balance Sheets to reduce future electricity distribution rates for customers, with a corresponding offset in net movements in regulatory balances on the Consolidated Statements of Income.

Income Tax Expense and Income Tax Recorded in Net Movements in Regulatory Balances

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2017 were $4.9 million and $31.5 million, respectively, compared to $2.1 million and $23.1 million for the comparable periods in 2016.

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2017 was primarily due to higher income before taxes (including net movements in regulatory balances), offset by higher net deductions for permanent and temporary differences between accounting and tax treatments.

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2017 was primarily due to higher income before taxes (including net movements in regulatory balances) and lower net deductions for permanent and temporary differences between accounting and tax treatments.

Net Movements in Regulatory Balances

In accordance with IFRS 14, the Corporation separately presents regulatory balances and related net movements on the Consolidated Balance Sheets and Consolidated Statements of Income.

The increase in the regulatory debit ($9.1 million) and the decrease in the regulatory credit ($9.4 million) balances for the year ended December 31, 2017 equals the sum ($18.5 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets, and net movements in regulatory balances related to OCI, net of tax for the relevant period (see “Financial Position” below).

Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within balance sheet regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (see discussion on “settlement variance” under “Results of Operations” above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a period.

Net movements in regulatory balances for the three months ended December 31, 2017 were a recovery of $10.9 million compared to a charge of $30.6 million for the comparable period in 2016. The recovery of $10.9 million for the three months ended December 31, 2017 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by amounts disposed through OEB approved rate riders and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The charge of $30.6 million for the three months ended December 31, 2016 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers.

Net movements in regulatory balances for the year ended December 31, 2017 were a charge of $13.1 million compared to a charge of $77.2 million for the comparable period in 2016. The charge of $13.1 million for the year ended December 31, 2017 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by amounts disposed through OEB approved rate riders and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The charge of $77.2 million for the year ended December 31, 2016 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by the recognition of the 2016 approved foregone revenue per the OEB’s CIR decision and rate order.

Net movements in regulatory balances related to OCI, net of tax for the three months and year ended December 31, 2017 were a recovery of $18.4 million, compared to a charge of $15.5 million for the comparable periods in 2016. The recovery of $18.4 million for the three months and year ended December 31, 2017 was due to the actuarial loss recognized for post-employment benefits. The charge of $15.5 million for the three months and year ended December 31, 2016 was due to the actuarial gain recognized for post-employment benefits.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding December 31, 2017.

Summary of Quarterly Results of Operations
(in millions of Canadian dollars)

	December 31 2017 $	September 30 2017 $	June 30 2017 $	March 31 2017 $
Energy sales	728.9	817.9	721.8	749.2
Distribution revenue	181.7	186.1	178.2	178.2
Other	27.7	36.6	23.0	20.4
Revenues	938.3	1,040.6	923.0	947.8
Net income after net movements in regulatory balances	35.1	46.8	35.0	39.6
	December 31 2016 $	**September 30 2016 $**	**June 30 2016 $**	**March 31 2016 $**
Energy sales	813.3	899.9	801.1	791.9
Distribution revenue	159.0	183.3	158.8	146.8
Other	22.0	21.2	16.8	15.9
Revenues	994.3	1,104.4	976.7	954.6
Net income after net movements in regulatory balances	23.4	52.5	31.2	44.3

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions and rate orders.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2017 as compared to the consolidated balance sheets as at December 31, 2016.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	(54.3)	The decrease was primarily due to lower pass-through electricity costs, partially offset by the recognition of the CDM mid-term incentive receivable.
Assets held for sale	8.7	In 2017, LDC commenced the process to sell a property to a third party and subsequently entered into a sales agreement. Accordingly, the carrying amount of the property of $8.7 million was reclassified from PP&E to Assets held for sale.
PP&E and intangible assets	314.6	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition, and reclassification of assets held for sale during the year.
Deferred tax assets	(6.8)	The decrease was primarily due to lower net deductible temporary differences between tax and accounting values of PP&E and intangible assets.
Liabilities and Equity		
Commercial paper	(102.0)	The decrease was primarily due to repayment using the proceeds from the equity investment received from the City in June 2017 ($250.0 million), offset by issuances required for general corporate purposes (see "Liquidity and Capital Resources" below).
Debentures	(50.6)	The decrease was primarily due to the repayment of the Series 2 debentures ($250.0 million), partially offset by the issuance of Series 13 debentures ($200.0 million) in the fourth quarter of 2017 (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	11.9	The increase was primarily due to timing differences in payments, partially offset by lower electricity costs payable to the IESO.
Deferred revenue	44.5	The increase was primarily due to capital contributions received in 2017.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Post-employment benefits	32.5	The increase was primarily due to the recognized actuarial loss driven by the annually updated actuarial assumptions.
Retained earnings	81.5	The increase was due to net income after net movements in regulatory balances ($156.5 million) offset by dividends paid ($75.0 million).
Regulatory Balances		
Regulatory debit balances	9.1	The increase was primarily due to the OPEB actuarial loss recorded as regulatory debit balance, partially offset by amounts disposed through OEB-approved rate riders primarily related to foregone revenue.
Regulatory credit balances	(9.4)	The decrease was primarily due to balances arising in the period related to settlement variances, partially offset by amounts being deferred into capital related regulatory accounts for future refunds to customers and amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $526.7 million and $770.5 million, respectively, as at December 31, 2017, resulting in a working capital deficit of $243.8 million. The deficit is attributable to the Corporation’s preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation’s ongoing liquidity requirements, including funding of significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation’s primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation’s liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations. See “Liquidity Risk” under note 16 to the Consolidated Financial Statements.

The amount available under the Revolving Credit Facility and the outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

(in millions of Canadian dollars)	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
December 31, 2017	800.0	-	159.0	641.0
December 31, 2016	800.0	-	261.0	539.0

The Corporation is a party to a $20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management (“Working Capital Facility”). As at December 31, 2017, $11.7 million had been drawn under the Working Capital Facility compared to $7.1 million as at December 31, 2016.

Consolidated Statements of Cash Flow Data
(in millions of Canadian dollars)

	Three months ended December 31		Year ended December 31	
	2017 $	2016 $	2017 $	2016 $
Working capital facility beginning of period	(10.1)	(9.1)	(7.1)	(14.2)
Net cash provided by operating activities	211.4	191.7	584.7	571.3
Net cash used in investing activities	(132.3)	(138.2)	(520.9)	(549.4)
Net cash used in financing activities	(80.7)	(51.5)	(68.4)	(14.8)
Working capital facility, end of period	(11.7)	(7.1)	(11.7)	(7.1)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2017 was $211.4 million and $584.7 million, respectively, compared to $191.7 million and $571.3 million for the comparable periods in 2016.

The increase in net cash provided by operating activities for the three months and year ended December 31, 2017 was primarily due to improved working capital mainly related to timing differences in the settlement of receivable and payables (see note 22 to the Consolidated Financial Statements), and lower net movements in regulatory balances arising from deferred tax assets, partially offset by lower collection from energy sales in excess of energy purchases, which were deferred as a settlement variance and timing of income tax instalments paid.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2017 was $132.3 million and $520.9 million, respectively, compared to $138.2 million and $549.4 million for the comparable periods in 2016.

The decrease in net cash used in investing activities for the three months ended December 31, 2017 was due to lower cash spending on capital projects, partially offset by lower proceeds on disposals of PP&E in the fourth quarter of 2017.

The decrease in net cash used in investing activities for the year ended December 31, 2017 was due to lower cash spending on capital projects and higher proceeds on disposals.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

The following table summarizes the Corporation's capital expenditures, both PP&E and intangible assets, which are inclusive of capital accruals, for the periods indicated.

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended December 31		Year ended December 31	
	2017 $	2016 $	2017 $	2016 $
Regulated LDC				
Distribution system				
Planned [1]	103.1	85.1	373.0	365.3
Reactive	12.8	16.9	48.1	47.6
Copeland Station	4.9	7.8	23.2	22.6
Facilities consolidation	-	16.1	35.2	50.6
Technology assets	20.3	17.0	54.9	49.1
Other [2]	5.3	3.8	10.5	10.8
Regulated capital expenditures	146.4	146.7	544.9	546.0
Unregulated capital expenditures [3]	2.5	2.5	8.0	5.7
Total capital expenditures	148.9	149.2	552.9	551.7

1 Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, and the delivery of customer connections.

2 Includes fleet capital and buildings.

3 Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2017 were $146.4 million and $544.9 million, respectively, compared to $146.7 million and $546.0 million for the comparable periods in 2016.

For the three months ended December 31, 2017, spending on regulated capital expenditure year over year was relatively consistent. Changes were primarily related to lower spending on the facilities consolidation program ($16.1 million), partially offset by higher spending on the implementation of an SAP ERP project ($8.1 million), station programs related to the renewal of aging station infrastructure ($4.7 million), network infrastructure ($1.8 million), and metering ($1.7 million).

For the year ended December 31, 2017, the decrease in regulated capital expenditures was primarily related to lower spending on overhead infrastructure ($19.1 million), the radio project ($16.0 million), and the facilities consolidation program ($15.4 million). These variances were partially offset by higher spending on station programs related to the renewal of aging station infrastructure ($26.2 million), the implementation of an SAP ERP project ($19.9 million), and metering ($7.3 million).

The largest capital initiatives in 2017 include the replacement of underground and overhead infrastructures, station programs, delivery of customer connections, the facilities consolidation program, and the construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City.

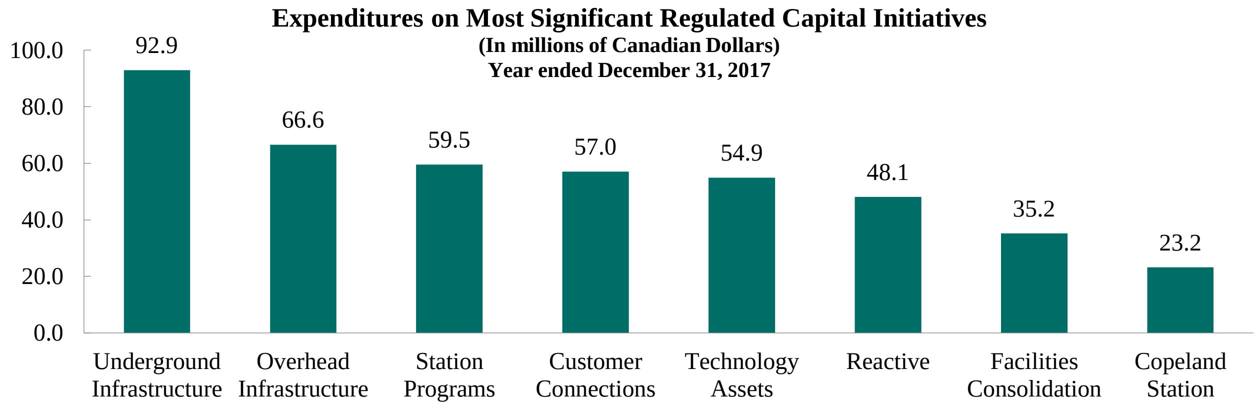
The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2017, capital expenditures for the underground and overhead infrastructures were $92.9 million and $66.6 million, respectively.

The station programs relate to the lifecycle management of electrical equipment installed at each of the Corporation's active Municipal and transformer stations, while ensuring that adequate capacity is available to serve customers. For the year ended December 31, 2017, capital expenditures for the station programs were $59.5 million.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the year ended December 31, 2017, capital expenditures for the delivery of customer connections were $57.0 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In the year ended December 31, 2017, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of $35.2 million.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During 2017, major electrical equipment including power transformers and high and medium voltage switchgear, medium voltage cable, control wiring and DC systems was installed, tested and commissioned, and the high voltage cable was completed. The electric station service equipment was installed and energized. Protection and control equipment was installed and testing and commissioning commenced. In addition, the machine shop installation and landscaping were completed and sidewalks and roadway were paved. HONI, the electricity transmission provider, commenced the installation of their transmission equipment, including high voltage switchgear and protection and control equipment. As at December 31, 2017, the cumulative capital expenditures on the Copeland Station project amounted to $195.1 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the most complex projects ever undertaken by the Corporation and the expected completion date is 2018. The total capital expenditure required to complete the project is approximately $200.0 million, plus capitalized borrowing costs. There may be additional unforeseen delays and expenditures prior to completion of the project. See "Risk Management and Risk Factors" below for further information on the Copeland Station project.



Financing Activities

Net cash used in financing activities for the three months and year ended December 31, 2017 was $80.7 million and $68.4 million, respectively, compared to $51.5 million and $14.8 million for the comparable periods in 2016. The change for the year was primarily due to the repayment of the Corporation's Series 2 debentures and commercial paper and an increase in dividends paid, partially offset by the equity investment received from the City in June 2017.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2022 ("Revolving Credit Facility"), pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022. As at December 31, 2017, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing up to $600.0 million of unsecured short-term promissory notes (“Commercial Paper Program”) to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes.

For the three months and year ended December 31, 2017, the average aggregate outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $140.2 million and $210.3 million respectively, with a weighted average interest rate of 1.21% and 0.93% (compared to $253.2 million and $348.7 million with a weighted average interest rate of 0.83% and 0.89% for the three months and year ended December 31, 2016).

Additionally, the Corporation is a party to a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC’s prudential requirements with the IESO (“Prudential Facility”). As at December 31, 2017, $38.4 million of letters of credit were issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated May 8, 2017 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1.0 billion during the 25-month period following the date of the prospectus.

On November 14, 2017, the Corporation issued $200.0 million senior unsecured debentures at a rate of 3.485% (“Series 13”). The Series 13 debentures due on February 28, 2048 were priced at $999.29 per $1,000 principal amount and bear interest payable semi-annually in arrears. The net proceeds were used to repay certain existing indebtedness and for general corporate purposes. Debt issuance costs of $1.4 million relating to the Series 13 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2017 and are amortized to finance costs using the effective interest method.

The Corporation’s Series 2 debentures matured and were repaid on November 14, 2017.

As at December 31, 2017, the Corporation had debentures outstanding in the principal amount of $2.0 billion. These debentures will mature between 2019 and 2063. As at December 31, 2017, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

The following table sets out the current credit ratings of the Corporation:

Credit Ratings
As at December 31, 2017

	DBRS		**Standard & Poor’s**	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Stable
Senior unsecured debentures	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next twelve months.

On March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the first quarter of 2017 (March 31, 2016 – $44.6 million), which was paid to the City on March 31, 2017.

On May 11, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the second quarter of 2017 (June 30, 2016 – $6.25 million), which was paid to the City on June 30, 2017.

In connection with receipt of the equity investment from the City, the Board of Directors of the Corporation declared dividends payable to the City and approved amendments to the Corporation’s Dividend Policy, as follows:

- In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of the two previously declared and paid instalments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

- In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

On March 7, 2018, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $23.5 million, payable to the City by March 31, 2018.

Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

Summary of Contractual Obligations and Other Commitments
As at December 31, 2017
(in millions of Canadian dollars)

	Total **$**	**2018** **$**	**2019/2020** **$**	**2021/2022** **$**	**After 2022** **$**
Working Capital Facility	11.7	11.7	-	-	-
Commercial paper [1]	159.0	159.0	-	-	-
Debentures – principal repayment	2,045.0	-	250.0	300.0	1,495.0
Debentures – interest payments	1,471.3	75.7	143.1	121.3	1,131.2
Operating leases	1.4	0.3	0.6	0.5	-
Capital projects [2] and other	46.0	17.5	27.5	1.0	-
Finances leases	1.5	1.5	-	-	-
Total contractual obligations and other commitments	3,735.9	265.7	421.2	422.8	2,626.2

1 The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
2 Primarily commitments for construction services and estimated capital contributions.

Corporate Developments

Changes to the Corporation's Board of Directors and Audit Committee

Effective January 1, 2017, the City, as the sole shareholder of the Corporation, re-appointed Councillor Paul Ainslie, Deputy Mayor Stephen Holyday (as the Mayor's designate), and Deputy Mayor Denzil Minnan-Wong to the Board of Directors for a term ending November 30, 2018, or until their successors are appointed.

On March 2, 2017, the Board of Directors of the Corporation confirmed the Chair of the Corporation, David McFadden, as an ex officio member of each of its Audit, Corporate Governance and Nominating, and Human Resources and Environment Committees, with all the responsibilities and privileges of the regular members of each committee.

Effective April 26, 2017, the City appointed Juliana Lam to the Board of Directors. The appointment is effective for a term ending April 26, 2019, or until her successor is appointed. Juliana Lam was appointed by the Board of Directors to the Audit Committee to replace Brian Chu who retired from the Audit Committee, effective May 11, 2017.

Effective December 10, 2017, the City re-appointed David McFadden, Brian Chu, Heather Zordel, the Honourable Howard Weston, Senator, Mary Ellen Richardson, Michael Nobrega and Tamara Kronis to the Board of Directors for a term ending December 10, 2019, or until their successors are appointed.

Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On March 1, 2016 pursuant to LDC's 2015 – 2019 CIR application, the OEB set 2018 distribution rates on an interim basis. On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts.

Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced the OFHP, which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the OREC, which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the OFHA, which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the Consolidated Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. The OFHP reduces electricity bills by 25% on average for eligible customers, which includes the 8% OREC rebate. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable, unbilled revenue, accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

CDM Activities

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to its customers and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015.

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. ("Oakville Hydro") for the delivery of CDM programs over the 2015-2020 period. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro are only being offered under the full cost recovery funding method.

The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. Oakville Hydro's programs under the joint CDM plan started on January 1, 2016. LDC received $44.9 million as at December 31, 2016 and $57.4 million in the year ended December 31, 2017 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. As at December 31, 2017, LDC estimated that approximately $12.9 million qualified as a joint mid-term incentive, of which $12.2 million represents LDC's portion and is included within accounts receivable.

Effective October 16, 2017, LDC entered into an agreement to transfer $4.0 million of funding and a corresponding 20 GWh of its energy savings target to another local distribution company. This agreement will decrease the joint CDM plan funding with Oakville Hydro to $421.0 million, with a revised energy savings target of 1,648 GWh. The revised CDM plan was approved by the IESO on December 14, 2017.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers. There have been no material changes in legal proceedings as disclosed in note 25 to the Consolidated Financial Statements.

Share Capital

Share capital consists of the following:

	Number of Shares	$
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. All shares issued were fully paid.		
Issued and outstanding		
Common shares, beginning of the year	1,000	567.8
Common shares issued [1]	200	250.0
Common shares issued and outstanding, end of the year	1,200	817.8

[1] On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

Transactions with Related Parties

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties. The Corporation provides electricity, street lighting and ancillary services to the City. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Summary of Transactions with Related Parties
(in millions of Canadian dollars)

	Year ended December 31	
	2017 $	**2016 $**
Revenues	**283.3**	275.3
Operating expenses and capital expenditures	**22.2**	26.9
Dividends	**75.0**	63.4

Summary of Amounts Due to/from Related Parties
(in millions of Canadian dollars)

	As at December 31	
	2017 $	**2016 $**
Accounts receivable	**13.8**	12.7
Unbilled revenue	**26.3**	23.2
Accounts payable and accrued liabilities	**40.1**	41.0
Customer deposits	**15.7**	14.1
Deferred revenue	**1.9**	3.5

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City.

Accounts receivable represents receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a “Venture Issuer”. As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the year ended December 31, 2017 and 2016. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

The Corporation faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. The Corporation executes its ERM activities via an ERM framework that is aligned to industry best practices and international guidelines. The Corporation views ERM as a management activity undertaken to add value and improve overall operations. It helps the Corporation by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of the Corporation and is routinely considered in forecasting, planning and executing all aspects of the business.

The ERM framework is operationalized by a consistent, disciplined methodology that clearly defines the risk management process which incorporates subjective elements, risk quantification and risk interdependencies.

While the Corporation's philosophy is that ERM is the responsibility of all business units, at all levels, in strategic and operational matters, the ERM governance structure is comprised of three key levels.

At the top level is the Board, which works to maintain a general understanding of the Corporation's risk profile, the risk categories, the types of risks to which the Corporation may be exposed and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key risks that represent the greatest threats to achieving the Corporation's strategic objectives.

The second level is the executive team, the lead body to ensure systems are in place to identify, manage, and monitor risks. Through its review of reports from the business and other areas, the executive team assesses the appropriateness and consistent application of systems to manage risks within the Corporation. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across the Corporation who actively engage in the day-to-day management of risks. Working with the executive team, this group oversees the Corporation's risk profile, its performance against the defined risk appetite and determines appropriate risk responses. They also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

The Corporation's business is subject to a variety of risks including those described in the following sections. There can be no assurance that any steps the Corporation may take to manage risks will avoid future loss resulting from the occurrence of such risks.

Risks from External Influences

Ownership by the City and Inconsistent Policy Risk

The Corporation is subject to the risk that its shareholder can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles. Under the Shareholder Direction, the City also has the power to direct the Corporation and its subsidiaries to conduct their affairs and govern their operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time. These council approved directions can be inconsistent and/or divergent with the Shareholder Direction principles and could materially adversely affect the Corporation's business, operations, financial condition or prospects if the Corporation is required to comply with such directions.

Regulatory Risk

The Corporation is subject to the risk that its business activities may be impeded by the OEB (includes both traditional regulated Cost of Service work and non-traditional new ancillary service model work). There is a risk that future changes to Ontario's regulatory model, manner of regulation and/or broader government policy framework does not align with the Corporation's business direction and could materially adversely affect the Corporation's strategic goals and financial results.

Ontario's electricity industry regulatory developments may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to deliver effective and efficient operations and reliable service to its customers, and as well as create barriers to LDC achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates, at levels that will permit LDC to carry out its planned capital expenditures required to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- all capital expenditures incurred by LDC will be approved by the OEB. In particular, capital cost overruns due to project delays or increased costs may not be recoverable in distribution rates;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates;
- the OEB will not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Any future regulatory decision to disallow or limit the recovery of costs could lead to potential asset impairment and charges to results from operations, which could have a material adverse effect on the Corporation.

Political and Legislative Risk

The Corporation is subject to the risk that government bodies and policy priorities of government may impact the Corporation’s ability to deliver effective and efficient operations and meet business objectives. Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation could materially adversely affect the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that could have a material adverse effect on the Corporation. The OEB may not allow recovery for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Risks to Maintaining Operations

Human Capital Risk

The Corporation is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support the Corporation’s future talent requirements. All retirements pose risks for knowledge management and business continuity, both at the Corporation and the industry. Development and retention of talent to meet the evolving needs of the business requires LDC to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions including reaching a new collective bargaining agreement with Power Workers' Union. There can be no assurance that the Corporation will be able to secure the support of its labour unions.

Strategy and Business Model Risk

The Corporation is subject to the risk that it may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage, which could materially adversely affect the Corporation. The OEB distribution licence issued to LDC stipulates a service area that reflects the territory within the City. By law, only the OEB can grant such a licence for a service area and only an entity with such a licence can provide licenced services to the public-at-large within a service area. The OEB has not granted any other distribution licence that permits distribution within LDC's service area. In addition to this regulatory barrier to entry, there are other barriers to entry, including the cost of constructing an electricity distribution system, physical space limitations within and legal access to the right-of-way, the specialized skills associated with the distribution business, the level of expertise required to achieve operational and regulatory compliance, and LDC's relationships with its customers. There can be no assurance that these barriers will continue to be sufficient to prevent this type of competition. Other regulated and unregulated entities have always competed with LDC and its predecessors to provide customers with other sources of energy, including electricity. The pervasiveness of this competition and its effects on LDC's distribution business have varied over time and continue to vary based on many factors, including the relative price of energy source (e.g., natural gas, grid-supplied electricity, behind-the-meter generation) and technology advancements (e.g., multi-unit building sub-metering, micro-grids, electricity storage).

There can be no assurance that the future nature, prevalence, or effects of these forms of competition will be comparable to current or historic experience. Failure to effectively scan our external and internal environment could lead to missed business opportunities and loss of competitive advantage (see "Customer Risk" section for additional details).

Asset Integrity Risk

The Corporation is subject to the risk that it may be unable to maintain continuous supply due to failure of the existing distribution infrastructure and assets which could materially adversely affect the Corporation. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure (such as the Copeland Station project) to address safety, reliability and customer service requirements.

LDC estimates that approximately one-third of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period. At the same time, Toronto is a growing city, and LDC must make system upgrades to expand its capacity to keep pace with urban intensification and electrification. In addition, as the City, Ontario and the Government of Canada implement policies and programs to respond to climate change, the pressures on the Corporation's system will only increase. Widespread adoption of electric vehicles, fuel switching and changing emissions standards make electricity the comparatively clean energy choice. This drives the need for significant capital expenditures for system upgrades so that the grid can handle such increased load. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of the Corporation to fund additional infrastructure, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

One of LDC's largest capital initiatives currently in progress is the construction of Copeland Station, which is also one of the most complex projects ever undertaken by the Corporation. Due to unforeseen delays, the expected completion date for the Copeland Station project has been extended to 2018 and it is currently anticipated that the total expenditure required to complete the project will increase from $195.0 million to approximately $200.0 million, plus capitalized borrowing costs as applicable. There may be additional unforeseen delays and expenditures prior to the completion of the project. On January 25, 2017, the Corporation was informed that Carillion Construction Inc., the general contractor for the Copeland Station Project, filed for creditor protection under the Companies' Creditors Arrangement Act after its affiliate, Carillion plc, went into compulsory liquidation in the United Kingdom.

All capital projects for new and replacement infrastructure have risks related to delays or increased costs due to many factors, including: necessary modifications to project plans; the availability, scheduling and cost of materials, equipment and qualified personnel; LDC's ability to obtain necessary environmental and other regulatory and governmental approvals; and the impact of weather conditions, site conditions and contractor performance.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. However, if LDC is unable to carry out these plans in a timely and optimal manner or becomes subject to significant unforeseen equipment failures, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

Occupational Health and Safety Risk

The Corporation is subject to the risk that employees may be exposed to serious or fatal injuries or illness as a result of the work environment in which they operate. Due to the nature of the Corporation's business and business activities, occupational safety is an integral part of our corporate culture. Employees could be exposed to hazards when performing their work duties. This includes hazards such as electrical contact, working in confined spaces, fires and explosions, slips, trips and falls and motor vehicle accidents. The Corporation is subject to compliance with provincial Health and Safety legislation. The Corporation's management approach to occupational safety is to meet or excel on legal compliance and eliminate or safeguard known occupational hazards and risks. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of our corporate values, including safety. LDC received OHSAS 18001 certification in 2013 and conducts annual third party audits to maintain certification, in addition occupational health and safety legal compliance audits are conducted every two years.

Customer Risk

The Corporation is subject to the risk that it may fail to identify and meet its customers' needs and expectations, within approved OEB funding levels, and consequently customers leave the Corporation's distribution area or opt for alternative sources of electricity. This includes all customer classes, but is primarily related to general service and large users. This may lead to erosion of the Corporation's revenue base and monopoly position. It is important that the Corporation maintains its relationship with its customers to better understand the specific needs and expectations of each class. The political environment and government policy regarding the energy sector may impact customer satisfaction and perception of value, especially with concerns around hydro costs. The Corporation is taking steps to help its customers through cost saving CDM programs. Service interruptions due to increasing weather events, or unexpected events could further impact customer satisfaction and service quality (see "Business Interruption Risk" section for additional details).

Advances in technology may compete with the Corporation by affecting energy consumption levels and, as a result, customer demand for the Corporation's services could be negatively impacted in a material way. As customers increasingly prioritize energy efficiency and awareness of energy costs, and governments increasingly provide subsidies to encourage energy efficiency, primarily in response to climate change concerns, there will be a corresponding increase in the demand for technologies that enable customers to better monitor and minimize their energy consumption and otherwise exercise greater control over their electricity supply and demand. For example, distributed generation technologies draw on renewable sources of energy, such as solar power and wind, allowing customers to generate their own supply of electricity. The effect of such technologies may be reduced reliance on larger-scale utilities such as the Corporation. Likewise, energy-efficient homes and improvements to energy storage technologies like batteries may further affect consumption levels and the demand for the Corporation's services. Although OEB's current policy is moving residential customers to fixed delivery charges as opposed to consumption-based delivery charges, as technologies continue to advance and become more widely adopted, the Corporation may be required to make changes to its business and operations, which may present additional risks and challenges for the Corporation.

The Corporation is affected by energy demand which may change as a result of technology change, available customer choice and CDM programs, as well as general economic conditions, energy prices, disposable income and population growth, among other things. Reduced or increased energy demand could have a material adverse effect on the Corporation's business, operations, financial condition or prospects, as well as on the Corporation's need for, and ability to, fund future capital expenditures.

Information Technology and Cybersecurity Risk

The Corporation is subject to the risk that it may be unable to preserve the confidentiality, integrity, authenticity, availability, accountability and non-repudiation of information assets. The Corporation's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and the Corporation's financial, billing and business systems to capture data and to produce timely and accurate information. Failures of any one of the financial, business and operating systems could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The Corporation mitigates this risk through various methods including the implementation of high availability and redundancy in its core infrastructure and application components. Operational technology systems are isolated from business systems and operate independently.

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. The Corporation has implemented security controls aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, corruption or unavailability of critical data or confidential employee or customer information. A significant breach could materially adversely affect the financial performance of the Corporation or its reputation and standing with customers, regulators and in the financial markets. It could also expose the Corporation to third-party claims.

LDC must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, contractors, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity incident or other unauthorized access, which could materially adversely affect the Corporation and also result in third-party claims against the Corporation.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that the Corporation can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, the Corporation may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

Brand and Reputation Risk

The Corporation is subject to the risk that an action or inaction by it or its representatives will impair the Corporation's image in the community, public confidence or brand. The Corporation is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Failure to deliver on our commitment could impact the public's perception of the Corporation. In addition, events and/or external factors that draw negative media attention to the Corporation could cause reputational damages and impact the Corporation's business and relationship with its stakeholders.

Business Interruption Risk

The Corporation is subject to the risk that it may be unable to maintain continuing and sustainable business operations, or recover from business interruption, in an effective manner. The Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions and natural disasters, as well as terrorism and pandemics. Although the Corporation's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to the Corporation's facilities or interruption of the Corporation's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Risks to Maintaining Financial Condition

Capital Structure Risk

The Corporation is subject to the risk that it may not be able to optimize its debt to equity ratio or access capital markets at effective rates. There can be no assurance that debt or equity financing will be available or sufficient to meet the Corporation's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to the Corporation.

The Corporation relies on debt financing through its MTN Program, CP Program or existing credit facilities to finance the Corporation's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, the regulatory environment in Ontario, the Corporation's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market.

In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its commercial paper obligations as they become due.

Market and Credit Risk

The Corporation is directly and indirectly subject to various market and credit fluctuations which could materially adversely affect the Corporation. For example, LDC is exposed to credit risk with respect to customer non-payment of electricity bills. LDC is permitted, at certain times of the year, to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis. LDC's security interest or other measures, if any, may also not provide sufficient protection. Additionally, security interests and other measures taken by, or in favour of, LDC, if any, may not provide sufficient protection.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of the Corporation, as at December 31, 2017, by $46.8 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2017, by $60.2 million.

The Corporation is exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.3 million to annual finance costs.

The Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2017 was not material.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 26(b) – Recognition and measurement of regulatory balances;
- Note 26(j) – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 26(f) and 26(g) – Determination of useful lives of depreciable assets;
- Notes 26(m) and 14 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 26(o) and 21 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 25 – Recognition and measurement of provisions and contingencies.

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. The significant accounting policies of the Corporation are summarized in notes 2 and 26 to the Consolidated Financial Statements.

Changes in Accounting Policies

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The additional disclosures relating to changes in liabilities arising from financing activities are included in note 22 to the Consolidated Financial Statements and have no impact to the Corporation's financial position or results of operations.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017, and have not yet been applied in preparing the Consolidated Financial Statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two methods for recognizing revenue: at a point in time or over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach. The Corporation has completed its assessment of the key revenue streams. The majority of the Corporation's revenue (energy sales and distribution revenue) is generated from electricity distribution at regulated prices. The Corporation concluded that IFRS 15 will not have a material impact on the accounting for these revenue streams. Upon adoption of IFRS 15, there will be a $167.6 million income statement reclassification between Energy Sales and Energy Purchases for the comparative year ended December 31, 2017 and no impact to opening retained earnings as at January 1, 2018. The

Corporation is currently finalizing its assessment on capital contributions. The Corporation has determined that IFRS 15 will also increase its required disclosure on revenue streams.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation has assessed the impact of adopting IFRS 9, and concluded that the new classification under IFRS 9 will not have a material impact on the consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* ("IAS 17") and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the current distinction between finance and operating leases. It requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. In addition, the nature and timing of expenses related to leases will change, as IFRS 16 replaces the straight-line operating leases expense with the depreciation expense for the assets and interest expense on the lease liabilities. Lessor accounting remains substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, and may be applied either retrospectively or using a modified retrospective approach. Early adoption is permitted if IFRS 15 is also adopted.

The Corporation intends to early adopt IFRS 16 on January 1, 2018. The Corporation has completed its assessment of existing operating leases. IFRS 16 will not have a significant impact on the Corporation's consolidated financial statements and the Corporation has assessed the quantitative impact of adopting IFRS 16 to be $nil in opening retained earnings, and an increase of $1.6 million in total assets and total liabilities for the right-of-use assets and the lease liabilities, respectively, as at January 1, 2018.

Forward-Looking Information

Certain information included in this MD&A constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "budgets", "committed", "can", "could", "estimates", "expects", "focus", "forecasts", "future", "intends", "may", "might", "plans", "propose", "projects", "schedule", "seek", "should", "trend", "will", "would", "objective", "outlook" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the effect of changes in energy consumption on future revenue as described in the sections entitled "Summary of Quarterly Results of Operations" and "Risk Management and Risk Factors"; the Corporation's plans to finance the investment in LDC's infrastructure and, the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled "Liquidity and Capital Resources"; the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled "Liquidity and Capital Resources"; the expected capital expenditures required to complete Copeland Station and the anticipated completion date for Copeland Station as described in the section entitled "Liquidity and Capital Resources" and "Risk Management and Risk Factors"; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled "Liquidity and Capital Resources"; the payment of dividends as described in the section entitled

"Liquidity and Capital Resources"; plans to meet CDM targets as described in the section entitled “Corporate Developments”; the Corporation’s expectation that cash generated from operations, after the payment of dividends, is not expected to be sufficient to repay existing indebtedness, fund capital expenditures and meet other liquidity requirements over the next 12 months as described in the section entitled “Risk Management and Risk Factors”; the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled “Legal Proceedings”; the Corporation's reliance on debt financing through its medium-term note program, Commercial Paper Program or existing credit facilities to finance the Corporation's daily operations, repay existing indebtedness, and fund capital expenditures as described in the section entitled “Risk Management and Risk Factors”; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the section entitled “Risk Management and Risk Factors”; the Corporation's plans to attract, train and retain skilled employees and mitigate risks from retiring employees as described in the section entitled “Risk Management and Risk Factors”; the possibility that advances in technology may compete with the Corporation by affecting energy consumption levels and, as a result, customer demand for the Corporation’s services as described in the section entitled “Risk Management and Risk Factors”; the expectation that one-third of the Corporation’s electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period as described in the section entitled “Risk Management and Risk Factors”;; and the adoption and impact of new standards, amendments and interpretations on the Corporation’s consolidated financial statements in the section entitled “Future Accounting Pronouncements”.

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation’s capital projects (including Copeland Station), no unforeseen changes in the legislative and operating framework for Ontario's electricity market, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the receipt of applicable IESO approvals for mid-term CDM incentives, the ability of the Corporation to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner, the receipt of favourable judgments, no unforeseen changes in rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the level of interest rates and the Corporation's ability to borrow, and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of the Corporation’s capital and maintenance programs necessary to maintain the performance of our aging distribution assets and make required infrastructure improvements; risks associated with capital projects, including Copeland Station; risks associated with electricity industry regulatory developments and other governmental policy changes; risks associated with the timing and results of regulatory decisions regarding the Corporation’s revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risk to the Corporation’s facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and the Corporation’s limited insurance coverage for losses resulting from these events; risks associated with being controlled by the City, including the risk that the City could introduce rules, policies or directives that can potentially limit the Corporation’s ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to the Corporation’s work force demographic and its potential inability to attract, train and retain skilled employees; risks associated with possible labour disputes and the Corporation’s ability to negotiate appropriate collective agreements; risk that the Corporation may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that the Corporation is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk of downgrades to the Corporation’s credit rating; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of the Corporation’s recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled “Risk Management and Risk Factors” in this MD&A. Please review this section – “Risk Management and Risk Factors” in detail. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section of this MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2017, 2016 and 2015. This information has been derived from the Corporation's consolidated financial statements.

Selected Annual Consolidated Financial Information
(in millions of Canadian dollars)

	2017 $	2016 $	2015 $
Year Ended December 31			
Total Revenues [1]	3,849.7	4,030.0	3,539.9
Net income after net movements in regulatory balances [1]	156.5	151.4	126.7
As at December 31			
Total assets and regulatory balances [2]	5,226.2	4,954.4	4,686.9
Total debentures [2,3]	2,034.0	2,084.6	1,885.1
Other non-current financial liabilities [4]	9.1	17.3	16.6
Total equity [2]	1,760.4	1,428.9	1,340.9
Dividends [5]	75.0	63.4	56.3

1 See "Results of Operations" for further details on distribution revenue, other revenue, and net income after net movements in regulatory balances.

2 See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.

3 Total debentures include current and long-term debentures.

4 Other non-current financial liabilities include primarily non-current obligations under capital lease and non-current customer deposits. Under IFRS, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

5 See "Liquidity and Capital Resources" for further details on dividends.

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Toronto, Canada

March 7, 2018

TORONTO HYDRO Corporation

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2017

March 29, 2018

TABLE OF CONTENTS

PART 1 - FORWARD-LOOKING INFORMATION

Certain information included in this AIF constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "budgets", "committed", "can", "could", "estimates", "expects", "focus", "forecasts", "future", "intends", "may", "might", "plans", "propose", "projects", "schedule", "seek", "should", "trend", "will", "would", "objective", "outlook" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in this AIF includes, but is not limited to, the statements regarding: anticipated capacity to be provided by Copeland Station, the expected completion date of Copeland Station and the expected capital expenditures required to complete Copeland Station as described in the sections entitled "LDC's Electricity Distribution System" and "Asset Integrity Risk"; the future financial and operational effects of LDC's environmental protection requirements as described in the section entitled "Financial and Operational Effects of Environmental Protection Requirements"; wage increases for employees as described in the section entitled "Employees"; the effect of changes in energy consumption on future revenue as described in the section entitled "Seasonal Effects"; electricity distribution rates and rate applications as described in the section entitled "Rate Applications"; the plans to meet CDM targets as described in the section entitled "Conservation and Demand Management"; the payment of dividends as described in the section entitled "Dividends"; the effects of the Corporation or a subsidiary ceasing to be exempt from tax under the ITA and the TA and the payment of transfer taxes and the prescribed transfer tax rate for any future transfer of interest by the Corporation and its subsidiaries, or any changes to tax rates, as described in the section entitled "Tax Regime"; the Corporation's reliance on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund Capital Expenditures as described in the section entitled "Capital Structure Risk"; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the section entitled "Market and Credit Risk"; the Corporation's plans to attract, train and retain skilled employees and mitigate risks from retiring employees as described in the section entitled "Human Capital Risk"; the possibility that advances in technology may compete with Toronto Hydro by affecting energy consumption levels and, as a result, customer demand for Toronto Hydro's services as described in the section entitled "Customer Risk"; the expectation that one-third of Toronto Hydro's electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period as described in the section entitled "Asset Integrity Risk"; and the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled "Legal Proceedings".

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation's capital projects (including Copeland Station), no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the receipt of applicable IESO approvals for mid-term CDM incentives, the ability of the Corporation to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the level of interest rates and the Corporation's ability to borrow, and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of our aging distribution assets and make required infrastructure improvements; risks associated with capital projects, including

Copeland Station; risks associated with electricity industry regulatory developments and other governmental policy changes; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risk to LDC's facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and LDC's limited insurance coverage for losses resulting from these events; risks associated with being controlled by the City, including the risk that the City could introduce rules, policies, or directives that can potentially limit Toronto Hydro's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic and its potential inability to attract, train and retain skilled employees; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that Toronto Hydro may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under Part 8 "Risk Factors" in this AIF.

All of the forward-looking information included in this AIF is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Factors" section of this AIF. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this AIF or as of the date specified in this AIF, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

PART 2 - GLOSSARY OF DEFINED TERMS

"Affiliate Relationships Code" refers to the Affiliate Relationships Code for Electricity Distributors and Transmitters that was published by the OEB and became effective on April 1, 1999, as amended.

"AIF" refers to the Corporation's Annual Information Form for the year ended December 31, 2017.

"Board" refers to the board of directors of the Corporation.

"CAIDI" refers to the Customer Average Interruption Duration Index and is a measure (in hours) of the average duration of interruptions experienced by customers, not including MED. CAIDI represents the quotient obtained by dividing SAIDI by SAIFI.

"Canadian Environmental Protection Act" refers to the *Canadian Environmental Protection Act, 1999* (Canada), as amended.

"Capital Assets" refers to the sum of property, plant and equipment and intangible assets, net of accumulated depreciation and amortization. See note 6, note 7, note 26(f) and note 26(g) to the Consolidated Financial Statements.

"Capital Expenditures" refers to expenditures relating to property, plant and equipment and intangible assets.

"CDM" refers to conservation and demand management.

"CEA" refers to the Canadian Electricity Association.

"CEO" refers to the President and Chief Executive Officer of the Corporation.

"CFO" refers to the Executive Vice-President and Chief Financial Officer or Interim, Chief Financial Officer of the Corporation.

"CIR" refers to Custom Incentive Rate-setting.

"City" refers to the city incorporated under the *City of Toronto Act, 1997* (Ontario), as amended, and comprised of the former municipalities of Metropolitan Toronto, Toronto, East York, Etobicoke, North York, Scarborough and York.

"City Council" refers to Toronto City Council.

"City Councillor" refers to a councillor of City Council.

"Conservation and Demand Management Code" refers to the Conservation and Demand Management Code for Electricity Distributors that was published and became effective on September 16, 2010.

"Consolidated Financial Statements" refers to the comparative audited consolidated financial statements of the Corporation together with the auditors' report thereon and the notes thereto as at and for the years ended December 31, 2017 and December 31, 2016, a copy of which is available on the SEDAR website at www.sedar.com.

"Consumer Price Index" refers to the index measuring price movements published by Statistics Canada.

"Consumer Protection Act" refers to the *Consumer Protection Act, 2002* (Ontario), as amended.

"Copeland Station" refers to the Clare R. Copeland transformer station, formerly called "Bremner Station".

"Corporation" refers to Toronto Hydro Corporation.

"CPAB" refers to Canadian Public Accountability Board.

"CP Program" refers to the commercial paper program established by the Corporation under which the Corporation issues commercial paper. See section 9.3 under the heading "Credit Facilities".

"Dangerous Goods Transportation Act" refers to the *Dangerous Goods Transportation Act, 1990* (Ontario), as amended.

"DBRS" refers to DBRS Limited.

"Debentures" has the meaning set forth under section 9.2 under the heading "Debentures".

"Distribution System Code" refers to the Distribution System Code that was published by the OEB on July 14, 2000, as amended.

"EHSMS" refers to the Environment, Health and Safety Management System.

"Electricity Act" refers to the *Electricity Act, 1998* (Ontario), as amended.

"Electricity Property" refers to a municipal corporation's or an MEU's interest in real or personal property used in connection with generating, transmitting, distributing or retailing electricity.

"Electricity Restructuring Act" refers to the *Electricity Restructuring Act, 2004* (Ontario), as amended.

"Energy Competition Act" refers to the *Energy Competition Act, 1998* (Ontario), as amended.

"Energy Consumer Protection Act" refers to the *Energy Consumer Protection Act, 2010* (Ontario), as amended.

"Environmental Protection Act" refers to the *Environmental Protection Act, 1990* (Ontario), as amended.

"ERM" refers to Enterprise Risk Management.

"Fire Protection and Prevention Act" refers to the *Fire Protection and Prevention Act, 1997* (Ontario), as amended.

"GWh" refers to a gigawatt-hour, a standard unit for measuring electrical energy produced or consumed over time. One GWh is equal to one million kWh.

"Hydro One" refers to Hydro One Limited, Hydro One Inc. or Hydro One Networks Inc. and their respective subsidiaries, as appropriate.

"ICD.D" refers to the designation granted by the Institute of Corporate Directors, through the Directors Education Program at University of Toronto.

"ICM" refers to Incremental Capital Module. See section 4.3(e)(i) under the heading "Rate Setting Mechanism" for more information.

"IEEE" refers to the Institute of Electrical and Electronic Engineers.

"IESO" refers to the Independent Electricity System Operator. Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

"IRM" refers to Incentive Regulation Mechanism. See section 4.3(e)(i) under the heading "Rate Setting Mechanism" for more information.

"ISO" refers to the International Organization for Standardization.

"ITA" refers to the *Income Tax Act, 1985* (Canada), as amended.

"kW" refers to a kilowatt, a common measure of electrical power equal to 1,000 Watts.

"kWh" refers to a kilowatt-hour, a standard unit for measuring electrical energy produced or consumed over time. One kWh is the amount of electricity consumed by ten 100 Watt light bulbs burning for one hour.

"LDC" refers to the Corporation's wholly-owned subsidiary, Toronto Hydro-Electric System Limited.

"Management's Discussion and Analysis" or "MD&A" refers to Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation for the year ended December 31, 2017, a copy of which is available on the SEDAR website at www.sedar.com.

"MED" refers to Major Event Days as defined by IEEE Std 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices.

"Mercer" refers to Mercer (Canada) Limited.

"MEU" refers to a Municipal Electricity Utility in the Province of Ontario.

"Moody's" refers to Moody's Canada Inc.

"MTN Program" refers to the medium term note program established by the Corporation under which the Corporation issues debentures. See section 9.2 under the heading "Debentures" for the debentures currently outstanding.

"Named Executive Officer" or **"NEO"** means, collectively, the Corporation's CEO, the CFO, and/or a person serving in either of those capacities during the year and the three most highly compensated executive officers of Toronto Hydro who were serving as executive officers as at December 31, 2017, and each individual who would be amongst the three most highly compensated executive officers for Toronto Hydro, but for the fact that such individual was not an executive officer on December 31, 2017, if any.

"Oakville Hydro" refers to Oakville Hydro Electricity Distribution Inc.

"OBCA" refers to the *Business Corporations Act* (Ontario), as amended.

"OEB" refers to the Ontario Energy Board.

"OEB Act" refers to the *Ontario Energy Board Act, 1998* (Ontario), as amended.

"OEFC" refers to the Ontario Electricity Financial Corporation.

"OFHA" refers to the *Fair Hydro Act, 2017* (Ontario).

"OFHP" refers to Ontario's Fair Hydro Plan.

"OHSAS" refers to the Occupational Health and Safety Assessment Series.

"OMERS" refers to the Ontario Municipal Employees Retirement System, a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province for employees of municipalities, local boards and school boards in Ontario.

"OPA" refers to the Ontario Power Authority. Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

"Open Access" refers to the opening of the Province's wholesale and retail electricity markets to competition pursuant to the requirement under the Electricity Act that transmitters and distributors of electricity in the Province provide generators, retailers and consumers with non-discriminatory access to their transmission and electricity distribution systems. Open Access commenced on May 1, 2002.

"OPG" refers to Ontario Power Generation Inc.

"**OREC**" refers to *Ontario Rebate for Electricity Consumers Act*, 2016 (Ontario).

"OSC" refers to the Ontario Securities Commission.

"PCBs" refers to polychlorinated biphenyls, a synthetic chemical compound consisting of chlorine, carbon and hydrogen. PCBs are used primarily as insulating and cooling elements in electrical equipment. Secondary uses include hydraulic and heat transfer fluids, flame proofing adhesives, paints, sealants and cable insulating paper.

"PILs" refers to the Payments In Lieu of Corporate Taxes regime contained in the Electricity Act pursuant to which MEUs that are exempt from tax under the ITA and the TA are required to make, for each taxation year, payments in lieu of corporate taxes to the OEFC. See note 26(o) and note 21 to the Consolidated Financial Statements.

"PP&E" refers to property, plant and equipment.

"Province" refers to the Province of Ontario.

"Residential Tenancies Act" refers to the *Residential Tenancies Act, 2006* (Ontario), as amended.

"Retail Settlement Code" refers to the Retail Settlement Code that was published by the OEB on December 13, 2000 and became effective on the commencement of Open Access (except with respect to "Service Agreements", as that term is defined in the Retail Settlement Code, which came into effect on March 1, 2001), as amended.

"S&P" refers to Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc.

"SAIDI" means System Average Interruption Duration Index and is a measure (in hours) of the annual system average interruption duration for customers served, not including MED. SAIDI represents the quotient obtained by dividing the total customer hours of interruptions longer than one minute by the number of customers served.

"SAIFI" means System Average Interruption Frequency Index and is a measure of the frequency of service interruptions for customers served, not including MED. SAIFI represents the quotient obtained by dividing the total number of customer interruptions longer than one minute by the number of customers served.

"SEDAR" refers to the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval. SEDAR's website is www.sedar.com.

"Shareholder Direction" refers to the Shareholder Direction adopted by the Council of the City with respect to the Corporation, as amended and/or restated from time to time, pursuant to which the City has set out certain corporate governance principles with respect to the Corporation.

"Smart Meter" refers to a metering device capable of recording and transmitting hourly consumption information of a residential or general service customer.

"Standard Supply Customers" refers to persons connected to an electricity distributor's distribution system who are not served by retailers or whose retailer is unable to sell them electricity or who request the distributor to sell electricity to them.

"Standard Supply Service" refers to an electricity distributor's obligation to sell electricity to Standard Supply Customers, or to give effect to such rates as determined by the OEB under section 79.16 of the OEB Act.

"Standard Supply Service Code" refers to the Standard Supply Service Code for Electricity Distributors that was published by the OEB on December 8, 1999 and became effective on the commencement of Open Access, as amended.

"TA" refers to the *Taxation Act, 2007* (Ontario), as amended.

"Technical Standards and Safety Act" refers to the *Technical Standards and Safety Act, 2000* (Ontario), as amended.

"TH Energy" refers to the Corporation's wholly-owned subsidiary, Toronto Hydro Energy Services Inc.

"Toronto Hydro" refers to Toronto Hydro Corporation and its subsidiaries.

"Total Recordable Injury Frequency" refers to the number of recordable injuries multiplied by 200,000 divided by exposure hours, as per CEA standards.

"Transfer By-law" refers to By-law No. 374-1999 of the City made under section 145 of the Electricity Act pursuant to which the Toronto Hydro-Electric Commission and the City transferred their assets and liabilities and employees in respect of the electricity distribution system to LDC and in respect of electricity generation, co-generation and energy services to TH Energy. The Transfer By-law permits the Treasurer of the City to adjust the fair market value of the assets and the consideration paid in respect of the electricity distribution assets transferred to LDC as a consequence of OEB rate orders and permitted rates of return for 2000 or any subsequent year.

"Transportation of Dangerous Goods Act" refers to the *Transportation of Dangerous Goods Act, 1992* (Canada), as amended.

"Unit Smart Meter" refers to a unit Smart Meter installed by LDC in a unit of a multi-unit complex where the multi-unit complex is not connected solely to a bulk meter, and includes such other meters as may be prescribed by the Energy Consumer Protection Act.

"Watt" or **"W"** refers to a common measure of electrical power. One Watt equals the power used when one ampere of current flows through an electrical circuit with a potential of one volt.

Unless otherwise specified, all references to statutes are to statutes of the Province and all references to dollars are to Canadian dollars.

PART 3 - CORPORATE STRUCTURE

3.1 Name, Address, Incorporation

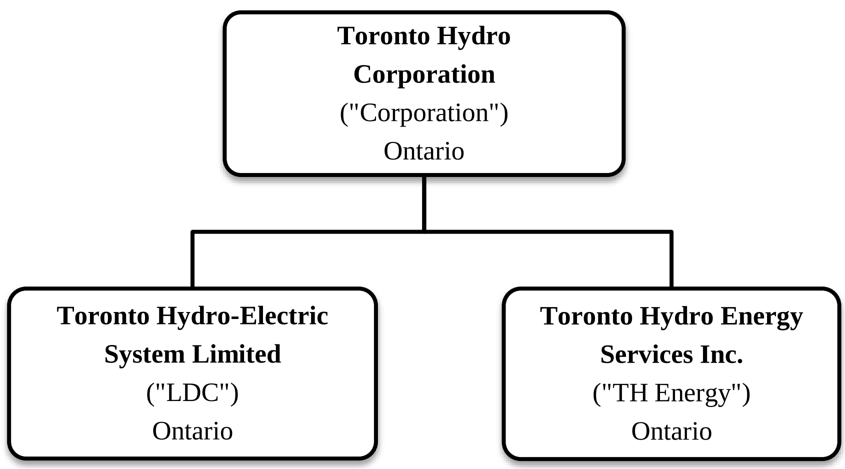
On January 1, 1998, the former municipalities of Metropolitan Toronto, Toronto, East York, Etobicoke, North York, Scarborough and York amalgamated to form the City. At the same time, the electric commissions of Toronto, East York, Etobicoke, North York, Scarborough and York were combined to form the Toronto Hydro-Electric Commission. Toronto Hydro is the successor to the Toronto Hydro-Electric Commission.

The Corporation, LDC and TH Energy were incorporated under the OBCA on June 23, 1999. Pursuant to the Transfer By-law, the Toronto Hydro-Electric Commission and the City transferred their assets and liabilities in respect of the electricity distribution system to LDC and electricity generation, co-generation and energy services to TH Energy.

The registered and head office of the Corporation is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

3.2 Inter-corporate Relationships

The sole shareholder of the Corporation is the City. The Corporation, in turn, owns 100% of the shares of the principal subsidiaries listed below:



PART 4 - BUSINESS OF TORONTO HYDRO

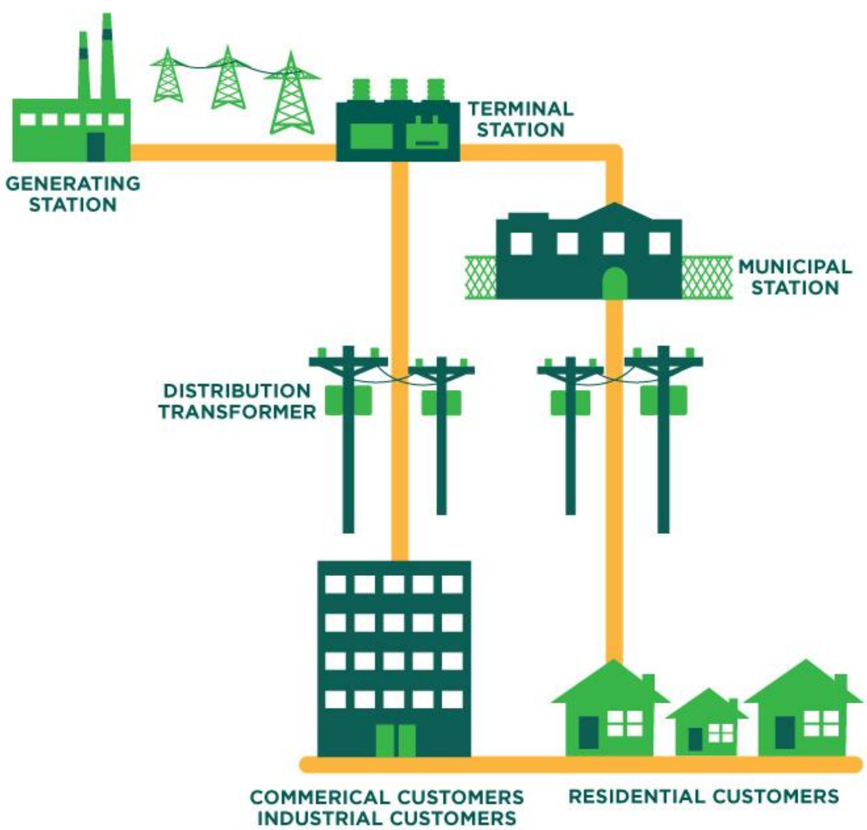
4.1 Industry Structure

The electricity industry in the Province is divided into four principal segments:

- Generation - the production of electricity at generating stations using nuclear, fossil, hydro, solar, wind or other sources of energy;
- Transmission - the transfer of electricity from generating stations to local areas using large, high-voltage power lines;
- Distribution - the delivery of electricity to homes and businesses within local areas using relatively low-voltage power lines; and
- Retailing - the purchase of electricity from generators and its sale to consumers together with a range of related services.

Electricity produced at generating stations is boosted to high voltages by nearby transformers so that the electricity can be transmitted long distances over transmission lines with limited power loss. The voltage is then reduced (stepped down) at terminal stations for supply to electricity distributors or large customers. Electricity distributors carry the electricity to distribution transformers that further reduce the voltage for supply to local customers. Electricity is distributed in the Province through a network of local electricity distributors that includes municipal electricity distributors, privately owned electricity distributors, and Hydro One.

The following diagram illustrates the basic structure of an electricity infrastructure system:



4.2 Toronto Hydro Corporation

Toronto Hydro Corporation is a holding company which wholly-owns two subsidiaries:

- LDC – distributes electricity and engages in CDM activities; and
- TH Energy – provides street lighting and expressway lighting services in the City.

The Corporation supervises the operations of, and provides corporate, management services and strategic direction to its subsidiaries.

4.3 Toronto Hydro-Electric System Limited ("LDC")

The principal business of Toronto Hydro is the distribution of electricity by LDC. LDC owns and operates $4.4 billion of Capital Assets comprised primarily of an electricity distribution system that delivers electricity to approximately 768,000 customers located in the City. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in the Province.

(a) LDC's Electricity Distribution System

Electricity produced at generating stations is transmitted through transmission lines owned by Hydro One to terminal stations at which point the voltage is then reduced (or stepped down) to distribution-level voltages. Distribution-level voltages are then distributed across LDC's electricity distribution system to distribution class transformers at which point the voltage is further reduced (or stepped down) for supply to end use customers. Electricity typically passes through a meter before reaching a distribution board or service panel that directs the electricity to end use circuits.

LDC's electricity distribution system is serviced from 1 control centre, 34 terminal stations and 1 transmission system terminal station, and is comprised of approximately 17,350 primary switches, approximately 60,540 distribution transformers, 153 in-service municipal substations, approximately 15,540 kilometres of overhead wires supported by approximately 178,800 poles and approximately 13,220 kilometres of underground wires.

(i) *Control Centre*

LDC has one control centre. The control centre co-ordinates and monitors the distribution of electricity throughout LDC's electricity distribution assets, and provides isolation and work protection for LDC's construction and maintenance crews and external customers. LDC's control centre utilizes supervisory control and data acquisition (SCADA) systems to monitor, operate, sectionalize and restore the electricity distribution system.

(ii) *Terminal Stations*

LDC receives electricity at 34 terminal stations at which high voltage is stepped down to distribution-level voltages. These terminal stations contain power transformers and high-voltage switching equipment that are owned by Hydro One. These terminal stations also contain equipment such as circuit breakers, switches and station busses.

(iii) *Transmission System Terminal Stations*

LDC receives electricity at Cavanagh transmission system terminal station at which high voltage is stepped down to distribution-level voltages. The transmission system terminal station contains power transformers, high-voltage switching equipment, and low-voltage equipment such as circuit breakers, switches and station busses that are owned by LDC.

One of LDC's largest capital initiatives currently in progress is the construction of Copeland Station in response to the developing need for distribution solutions in the downtown core of the City. Copeland Station will be considered a transmission system terminal station.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. It will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During 2017, major electrical equipment including power transformers and high and medium voltage switchgear, medium voltage cable, control wiring and DC systems was installed, tested and commissioned and high voltage cable was installed. The electric station service equipment was installed and energized. Protection and control equipment was installed and testing and commissioning commenced. In addition, the machine shop installation and landscaping were completed and sidewalks and roadway were paved. Hydro One, the electricity transmission provider, commenced the installation of their equipment, including high voltage switchgear and protection and control equipment. As at December 31, 2017, the cumulative capital expenditures on the Copeland Station project amounted to $195.1 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E. The total capital expenditures required to complete the project are approximately $200.0 million, plus capitalized borrowing costs. There may be additional unforeseen delays and expenditures prior to completion of the project. See Part 8 under the heading "Risk Factors" below for further information on the Copeland Station project.

(iv) *Distribution Transformers and Municipal Substations*

Electricity at distribution voltages is distributed from the terminal stations to distribution transformers that are typically located in buildings or vaults or mounted on poles or surface pads that are used to reduce or step down voltages to utilization levels for supply to customers. The electricity distribution system includes approximately 60,540 distribution transformers. The electricity distribution system also includes 153 in-service municipal substations that are located in various parts of the City and are used to reduce or step down electricity voltage prior to delivery to distribution transformers. LDC also delivers electricity at distribution voltages directly to certain commercial and industrial customers that own their own substations.

(v) *Wires*

LDC distributes electricity through a network comprised of an overhead circuit of approximately 15,540 kilometres supported by approximately 178,800 poles and an underground circuit of approximately 13,220 kilometres.

(vi) *Metering*

LDC provides its customers with meters through which electricity passes before reaching a distribution board or service panel that directs the electricity to end use circuits on the customer's premises. The meters are used to measure electricity consumption. LDC owns the meters and is responsible for their maintenance and accuracy.

As part of its metering services, LDC also installs Unit Smart Meters in multi-unit complexes that fall within the Competitive Sector Multi-Unit Residential rate class. As at December 31, 2017, LDC had installed approximately 74,000 Unit Smart Meters in these types of multi-unit complexes.

(vii) *Reliability of Distribution System*

The table below sets forth certain industry recognized measurements of system reliability with respect to LDC's electricity distribution system and the composite measures reported by LDC and the CEA for the twelve month periods ending December 31 in the years indicated below.

	LDC 2017	**LDC 2016**	**CEA 2016 (1)**
SAIDI	0.99	0.95	4.39
SAIFI	1.43	1.40	2.78
CAIDI	0.69	0.68	1.58

Note:

(1) Data was extracted from the CEA's 2016 Service Continuity Report on Distribution System Performance in Electrical Utilities, excluding significant events. At the date of this AIF, such report for the year 2017 has not been published by the CEA.

(b) LDC's Service Area and Customers

LDC is the sole provider of electricity distribution services in the City, and serves approximately 768,000 customers. The City is the largest city in Canada with a population of approximately 2.8 million. The City is a financial centre with large and diversified service and industrial sectors.

The table below sets out LDC's customer classes and certain operating data with respect to each class for each of the years in the two-year period ended December 31, 2017:

	Year ended December 31	
	2017	**2016**
Residential Service [1]		
Number of customers (as at December 31)...………………..	685,292	679,717
kWh..	4,933,060,853	5,313,163,852
Revenue	$983,275,614	$967,852,216
% of total service revenue	26.3%	24.5%
General Service [2]		
Number of customers (as at December 31)	82,233	81,321
kWh	17,276,676,523	17,835,656,434
Revenue	$2,515,519,940	$2,713,668,691
% of total service revenue	67.2%	68.6%
Large Users [3]		
Number of customers (as at December 31)	44	44
kWh	2,171,461,259	2,224,615,859
Revenue..	$243,176,259	$272,532,953
% of total service revenue	6.5%	6.9%
Total		
Number of customers (as at December 31)	767,569	761,082
kWh..	24,381,198,635	25,373,436,145
Revenue	$3,741,971,813	$3,954,053,860

Notes:

(1) "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

(2) "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

(3) "Large Users" means a service provided to a customer with a monthly peak demand of more than 5,000 kW averaged over a twelve-month period.

(c) LDC's Real Property

The following table sets forth summary information with respect to the principal real property owned, leased or otherwise used by LDC as at December 31, 2017:

Property	**Total**
Terminal stations	34 sites
Transmission system terminal stations	1 site
Municipal substations	153 sites
Decommissioned municipal substations	18 sites
Control centre[(1)]	1 site
Operation centres[(2)]	5 sites
Other[(3)]	35 sites

Notes:

(1) LDC's control centre is located within one of its operation centres.

(2) LDC's operation centres accommodate office, staff, crews, vehicles, equipment and material necessary to operate and monitor the electricity distribution system.

(3) Other properties include locations under construction (including Copeland Station), small work centres and surplus properties.

Under the OEB Act, electricity distributors are entitled to apply to the OEB for authority to expropriate land required in connection with new or expanded electricity distribution lines or interconnections. If, after a hearing, the OEB is of the opinion that the expropriation of land is in the public interest, the OEB may make an order authorizing expropriation upon payment of specified compensation. The Electricity Act grandfathered thousands of existing unregistered easements, principally for distribution over third-party lands. The Electricity Act also authorizes electricity distributors to locate assets on, over or under public streets and highways.

(d) Regulation of LDC

(i) *Legislative Framework*

The Electricity Act and the OEB Act provide the broad legislative framework for the Province's electricity market.

The Electricity Act restructured the Province's electricity industry. Under the Electricity Act, the former Ontario Hydro was reorganized into five separate corporations (listed below under their current names):

- OPG, the entity responsible for the former Ontario Hydro's generation business;
- Hydro One, the entity responsible for the former Ontario Hydro's electricity transmission, distribution and energy services businesses;
- OEFC, the entity responsible for managing and retiring the former Ontario Hydro's outstanding indebtedness and remaining liabilities;
- IESO, a non-profit corporation responsible for central market operations, long-term planning, procurement and conservation efforts; and
- Electrical Safety Authority, a non-profit corporation responsible for the electric installation inspection function.

Additionally, the Electricity Act requires electricity distributors in the Province to keep their distribution businesses separate from their other businesses.

The business of LDC and other electricity distributors is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, the regulation of electricity distribution rates charged by LDC and other electricity distributors and transmission rates charged by Hydro One and other transmitters. The OEB Act states that, subject to certain exceptions, LDC and other electricity distributors shall not carry on any business activity other than the distribution of electricity, except through affiliated companies. As an exception to the general restriction on its business activities, the OEB Act permits LDC to provide additional services related to the promotion of CDM activities and alternative, cleaner and renewable sources of energy and energy storage. As well, the OEB may authorize LDC to carry on a non-distribution business activity.

In 2004, the Electricity Restructuring Act established the OPA as a non-profit, self-financed organization with the mandate to ensure long-term electricity supply adequacy in the Province. The OPA is authorized and has the responsibility to implement an integrated power system supply plan and deliver CDM programs in the Province.

Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

The Energy Consumer Protection Act came into force on January 1, 2011. The Energy Consumer Protection Act amends several statutes, including the OEB Act, the Electricity Act, the Consumer Protection Act and the Residential Tenancies Act. The Energy Consumer Protection Act also enables and sets out the requirements relating to LDC's installation of Unit Smart Meters in multi-unit complexes and provides new rules regarding the manner in which energy consumers are to be billed for their electricity consumption.

On December 3, 2015, Bill 112 – Strengthening Consumer Protection and Electricity System Oversight Act, 2015 received Royal Assent and certain provisions thereunder were proclaimed into force effective as of March 4, 2016. The bill's measures as proclaimed into force amend the Energy Consumer Protection Act and the OEB Act by further enhancing consumer protection and increasing the OEB's powers with regard to utility regulation, including increases to potential administrative penalties for non-compliance. The bill also eliminates limitations on LDC affiliate lines of business and gives the OEB the discretion to authorize LDC and other electricity distributors to carry on a non-distribution business activity.

(ii) *Licences*

Distribution Licence

The OEB has granted LDC a distribution licence. The term of the current licence is until October 16, 2023. The licence allows LDC to own and operate an electricity distribution system in the City. Among other things, the licence provides that LDC must keep financial records associated with distributing electricity separate from its financial records associated with other activities, may not impose charges for the distribution of electricity except in accordance with distribution rate orders approved by the OEB and must comply with industry codes established by the OEB.

Electricity Generation Licence

On December 18, 2002, the OEB issued an electricity generation licence to TH Energy and TREC Windpower Co-operative (No.1) Incorporated (the co-venturers), in connection with a wind turbine located at Exhibition Place in the City. The licence allows the co-venturers to generate electricity or provide ancillary services for sale through the IESO-administered markets, or directly to another person, subject to certain terms and conditions. This licence terminates on December 17, 2022, although the term may be extended by the OEB.

(iii) *Industry Codes*

The OEB has established the Affiliate Relationships Code, the Distribution System Code, the Retail Settlement Code, the Standard Supply Service Code, and the Conservation and Demand Management Code. These codes prescribe minimum standards of conduct, as well as standards of service, for electricity distributors in the non-competitive electricity market, and have been assigned the following ranking in the event there is a conflict between them:

(1) Affiliate Relationships Code
(2) Distribution System Code
(3) Retail Settlement Code
(4) Standard Supply Service Code
(5) Conservation and Demand Management Code

These codes are summarized below.

Affiliate Relationships Code

The Affiliate Relationships Code establishes standards and conditions for the interaction between electricity distributors and their affiliated companies. It is intended to minimize the potential for an electricity distributor to cross-subsidize competitive or non-monopoly activities, protect the confidentiality of consumer information collected by an electricity distributor and ensure that there is no preferential access to regulated services. The Affiliate Relationships Code prescribes standards of conduct for an electricity distributor with respect to the following: the degree of separation from affiliates; sharing of services and resources; transfer pricing; financial transactions with affiliates; equal access to services; and confidentiality of customer information.

Distribution System Code

The Distribution System Code establishes the minimum conditions that an electricity distributor must meet in carrying out its obligations to distribute electricity under its licence and under the Energy Competition Act, and has been amended as the regulatory environment has evolved. Generally, the Distribution System Code prescribes the rights and responsibilities of electricity distributors and electricity distribution customers with respect to the following: connections; connection agreements and conditions of service; expansion projects; alternative bids (available to customers for work otherwise done by an electricity distributor); metering; operations; disconnection and security deposits; and other matters.

Retail Settlement Code

The Retail Settlement Code outlines the obligations of an electricity distributor with respect to its relationship with retail market participants and its role as a retail market settlements administrator. Under the terms of the Retail Settlement Code, an electricity distributor is required to do the following: unbundle the costs of competitive electricity services and non-competitive electricity services; record, in variance accounts, the difference between amounts billed by the IESO to the electricity distributor for competitive and non-competitive electricity services, and the aggregate amounts billed by the electricity distributor to consumers, retailers and others for the same services; and provide electricity billing and settlement services to retailers and customers.

Standard Supply Service Code

The Standard Supply Service Code requires an electricity distributor to act as a default supplier and provide Standard Supply Service to persons connected to the electricity distributor's distribution system. The Standard Supply Service Code also specifies the conditions and manner by which OEB approved Standard Supply Service rates are to be charged to customers. Under the Standard Supply Service Code, an electricity distributor's rates for Standard Supply Service must be approved by the OEB and must consist of the price of electricity and an administrative charge that will allow the electricity distributor to cover its costs of providing the service.

Conservation and Demand Management Code

CDM activities over the January 1, 2015 to December 31, 2020 timeframe are governed by the OEB's Conservation and Demand Management Requirement Guidelines for Electricity Distributors issued on December 19, 2014. See section 5.4 under the heading "Conservation and Demand Management" for more information on LDC's CDM activities.

(e) Distribution Rates

(i) *Rate Setting Mechanism*

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. A cost of service review uses a future test-year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base (i.e. the aggregate of approved investment in PP&E and intangible assets excluding work in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital). IRM adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

Administratively, the OEB currently regulates the electricity rates for distributors through one of three specific rate-setting methods: Price Cap Incentive Rate-setting (suitable for most distributors), CIR (suitable for distributors with large or highly variable capital requirements), and Annual Incentive Rate-setting Index (suitable for distributors requiring limited rate adjustments). Under each of these methods, the OEB also allows recovery of costs arising from significant events satisfying certain criteria which are considered external to the regulatory regime and beyond the control of management.

Under the Price Cap Incentive Rate-setting method, rates are set on a single forward test-year cost of service basis for the first year and indexed for four subsequent years through an industry-standard IRM adjustment (using the 4th generation price cap index formula). Under this method, the ICM is available to address any incremental capital investment needs that may arise during the term. In order to determine whether a distributor is eligible for the ICM, the OEB conducts a review of the distributor's ICM application by way of a detailed examination of evidence and consideration of a number of criteria, such as materiality, need and prudence.

Under the CIR method, rates are set for a minimum period of five years, typically on a forward test-year cost of service basis for the first year with subsequent annual adjustments based on a distributor-specific custom index. The particular mechanics through which rates are set and adjusted are determined by the OEB on a case-by-case basis.

The Annual Incentive Rate-setting Index method sets a distributor's rates through an industry-standard IRM adjustment (using a limited form of the 4th generation price cap index formula) for one or more years.

Under each method, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On July 31, 2014, LDC filed a rate application with the OEB under the CIR method which sought approval of LDC's 2015 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective May 1, 2015, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2016 and ending on December 31, 2019. On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order.

See section 5.2 under the heading "Rate Applications" for more information on LDC's rate applications.

(ii) *Other Regulated Charges*

The OEB's 2006 Electricity Distribution Rate Handbook provides standard rates and guidelines to electricity distributors with respect to other regulated charges that are non-competitive in nature, required under OEB codes and guidelines, governed by the market rules or are under the direction of the Province, including transmission charges and retail service charges relating to services provided by electricity distributors to electricity retailers in accordance with the Retail Settlement Code. As part of its rate application filed on July 31, 2014, LDC sought the OEB's approval to update its other regulated charges commencing on May 1, 2015. In the CIR decision and rate order, the OEB approved updates to these other regulated charges.

4.4 Toronto Hydro Energy Services Inc.

TH Energy owns and operates $35.6 million of Capital Assets as of December 31, 2017. TH Energy owns certain street lighting assets located in the City, and has an agreement with the City to provide street lighting system maintenance and capital improvement services to the City. TH Energy sub-contracts street lighting services to LDC.

TH Energy also operates a wind turbine located at the Better Living Centre (Exhibition Place) in a joint venture with TREC Windpower Cooperative (No.1) Incorporated.

4.5 Environmental Matters

(a) Environmental Protection Requirements

Toronto Hydro is subject to extensive federal, provincial and local regulation relating to the protection of the environment. The principal federal legislation is the Canadian Environmental Protection Act which regulates the use, import, export and storage of toxic substances, including PCBs and ozone-depleting substances. Toronto Hydro is also subject to the federal Transportation of Dangerous Goods Act which prescribes safety standards and requirements for the handling and transportation of hazardous goods including PCBs and sets reporting, training and inspection requirements relating thereto.

The principal provincial legislation is the Environmental Protection Act which regulates releases and spills of contaminants, including PCBs, ozone-depleting substances and other halocarbons, contaminated sites, waste management, and the monitoring and reporting of airborne contaminant discharge. The provincial Technical Standards and Safety Act also applies to Toronto Hydro's operations with respect to the handling of and training related to compressed gas, propane and liquid fuels. The provincial Fire Protection and Prevention Act requires Toronto Hydro to incorporate procedures and training for dealing with any spills of flammable or combustible liquids. The provincial Dangerous Goods Transportation Act prescribes safety standards and requirements for the transportation of dangerous goods on provincial highways and sets out inspection requirements related thereto.

Municipal by-laws regulate discharges of industrial sewage and storm water run-off to the municipal sewer system and the reporting of the release of certain toxic substances into the environment.

(b) Financial and Operational Effects of Environmental Protection Requirements

In 2017, LDC spent approximately $10.0 million to meet environmental protection requirements. These costs are not anticipated to significantly increase for future years, and do not currently have a material impact on Toronto Hydro's financial and operational results.

Toronto Hydro recognizes a liability for its best estimate of the future removal and handling costs for contamination in electricity distribution equipment in service. The liability is recognized when the decommissioning provision is incurred and when the fair value is determined. Actual future environmental costs may vary materially from the estimates used in the calculation of the decommissioning provision on Toronto Hydro's balance sheet.

(c) Environmental Policy and Oversight

Toronto Hydro has a strong commitment to the environment through the enforcement of a well-defined Environmental Policy. Conformance with the Environmental Policy is managed by Toronto Hydro's Environmental, Health and Safety department led by the Executive Vice-President and Chief Human Resources & Safety Officer. The content of the Environmental Policy is reviewed and approved annually by the Board.

Toronto Hydro's Environmental Policy identifies several core environmental principles, which include:

- Commitment from leadership to provide suitable and sufficient resources for the environmental management system;
- Compliance with all applicable laws, codes and standards;
- Continual improvement of environmental performance through the establishment of annual objectives, targets and programs;
- Employee engagement through education, training and providing general awareness of the Environmental Policy requirements and the environmental management system;
- Stakeholder engagement including consultation and engagement of environmental issues within the community and various stakeholders such as suppliers, customers, regulators, industry and the public;
- Pollution prevention through the implementation of policies, programs and procedures; and
- Integration of environmental considerations into our business processes.

LDC manages its environmental aspects in conformance with ISO 14001:2015 and was certified on November 18, 2017 as meeting the requirements of the ISO 14001:2015 standard by a third party auditor.

Legislative environmental reporting for federal, provincial and municipal governments is compiled and submitted annually. Third party environmental compliance audits are also conducted biennially in conformance with LDC's environment, health and safety audit plan.

Toronto Hydro's environmental policies, programs and procedures are reviewed and approved by management. Quarterly updates are presented to the Board's Human Resources and Environment Committee covering current environmental risks, environmental compliance audit findings, mitigation strategies and other material environmental matters.

4.6 Additional Information Regarding Toronto Hydro

(a) Employees

At December 31, 2017, Toronto Hydro had approximately 1,440 employees. Included in Toronto Hydro's employees are 804 members of bargaining units represented by the Power Workers' Union ("PWU"), and 67 engineers represented by the Society of Energy Professionals. Toronto Hydro employees currently represented by PWU were formerly represented by Canadian Union of Public Employees, Local One ("CUPE One"), which merged with PWU on October 6, 2016.

On February 13, 2014, CUPE One ratified collective agreements governing inside and outside employees for a four-year period expiring January 31, 2018. The collective agreements implemented a wage increase of 1.5% on February 1, 2014 and provide for general wage increases of 1.75%, effective on each of February 1, 2015 and February 1, 2016, respectively, and 2% effective February 1, 2017. The collective agreements also contain cost of living escalator clauses that provide for wage adjustments corresponding to the percentage change in the Consumer Price Index. The escalator clauses only become effective if certain prescribed thresholds are exceeded. Bargaining for a new collective agreement between the PWU and Toronto Hydro began on October 23, 2017. Negotiations are ongoing. The terms and conditions of the 2014-2018 collective agreements continue to apply until a new collective agreement is reached.

On July 7, 2016, the Society of Energy Professionals ratified a new collective agreement for a four-year period expiring December 31, 2019. The collective agreement implemented wage increases of 1.25% retroactive to January 1, 2016, 1.25% effective on January 1, 2017, 1.5% effective on January 1, 2018 and 2.0% effective on January 1, 2019.

Full time employees of Toronto Hydro participate in the OMERS pension plan. Plan benefits are determined based on a formula that takes into account the highest 5-year average contributory earnings and the number of years of service and are indexed to increases in the Consumer Price Index, subject to an annual maximum of 6%. Any increase in the Consumer Price Index above 6% per year is carried forward for later years. Both participating employers and participating employees are required to make equal plan contributions based on participating employees' eligible contributory earnings. All obligations to make payments to retirees under the OMERS pension plan are the responsibility of OMERS.

In addition to OMERS, Toronto Hydro provides other employment and post-employment benefits to employees, including medical, dental and life insurance benefits. See note 26(m) and note 14 to the Consolidated Financial Statements.

(b) Specialized Skills and Knowledge

Trades and technical jobs play a critical role in the safe and reliable design, construction and maintenance of LDC's electricity distribution system. These jobs include overhead, underground, and stations trades as well as controllers, designers and engineers. LDC hires experienced workers when available, along with apprentices to trades and technical positions. Trade apprentices require between 4 and 6 years to become fully competent and capable of performing all aspects of their job. LDC provides trades, legislative and compliance training through its apprenticeship program.

(c) Health and Safety

Toronto Hydro is committed to a safe and injury free work environment for all employees, contractors, visitors and the public. Through LDC's EHSMS, based on British Standards Institution OHSAS 18001:2007 Standard "*Occupational Health and Safety Management System - Requirements*", LDC maintains and reviews procedures, programs and the Occupational Health and Safety Policy which outlines several core principles including:

- Compliance
- Continual Improvement
- Engagement and Consultation
- Communication
- Accountability
- Risk Management
- Contractor Management
- Incident Investigation
- Performance Monitoring

The content of the Occupational Health and Safety Policy is reviewed and approved annually by the Board.

Toronto Hydro's health and safety performance is reviewed periodically by the Human Resources and Environment Committee of the Board. In 2017, the Total Recordable Injury Frequency was 1.06 recordable injuries per 200,000 hours worked compared to 0.80 in 2016.

LDC's legislated occupational health and safety requirements come under provincial jurisdiction exclusively and all legislated occupational health and safety reporting requirements are complied with. Management assurance that these requirements are met is accomplished by commissioning third party health and safety compliance audits conducted in conformance with LDC's environmental, health and safety audit plan.

Toronto Hydro's occupational health and safety policies, programs and procedures are reviewed and approved by management. Quarterly updates are presented to the Board covering current occupational health and safety risks, performance, compliance audit findings, mitigation strategies and other occupational health and safety matters.

(d) Code of Business Conduct and Whistleblower Procedure

All employees, officers and directors of Toronto Hydro are required to comply with the principles set out in the Code of Business Conduct and Whistleblower Procedure (the "Code"), which was originally implemented by Toronto Hydro in 2003, and is reviewed, revised and approved by the Board from time to time. The Code provides guidance to all employees in situations of perceived conflict of interest. All employees, officers and directors of Toronto Hydro are required to complete training in respect of the Code and sign an attestation in accordance with the Code upon commencement of employment and every three years thereafter.

The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. Where the complaint involves the conduct of a director or officer of Toronto Hydro, the Ethics Officer is required to report it to the Chair of the Human Resources and Environment Committee of the Board, or, where such conduct relates to questionable auditing or accounting matters, to the Chair of the Audit Committee of the Board, who oversees the investigation of that complaint. In addition to the provisions of the Code, the Ethics Officer reports quarterly to the Human Resources and Environment Committee of the Board on the nature of complaints received and the Vice-President, Audit and Corporate Compliance reports quarterly to the Audit Committee on matters related to audit and accounting. A copy of Toronto Hydro's Code of Business Conduct and Whistleblower Procedure is available on the SEDAR website at www.sedar.com.

(e) Insurance

Toronto Hydro's current insurance policies provide coverage for a variety of losses and expenses which might arise from time to time, including:

- comprehensive general liability insurance;
- all risk property, property terrorism, boiler and machinery insurance;
- automobile liability insurance;
- directors and officers liability insurance;
- cyber insurance;
- crime insurance; and
- insurance covering loss or damage on certain physical assets.

Toronto Hydro believes that the coverage, amounts and terms of its insurance arrangements are consistent with industry practice.

(f) Intangible Property

The Corporation owns various intangible assets, such as computer software systems used in the course of business, and intellectual property, including the "Toronto Hydro" brand name and the trademark Toronto Hydro & Star Design. The Corporation also owns the trademarks peakSAVER®, POWERSHIFT® and PEAKSAVER PLUS®. The trademarks peakSAVER® and PEAKSAVER PLUS® have been licensed by the Corporation to the IESO and sub-licensed to various electricity distributors in the Province for the promotion of a province-wide demand response CDM program.

(g) Seasonal Effects

Toronto Hydro's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. Toronto Hydro's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions and rate orders.

PART 5 - GENERAL DEVELOPMENT OF THE BUSINESS

5.1 Business Operations

(a) Three Year History

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2017, 2016 and 2015. This information has been derived from the Consolidated Financial Statements and is presented in millions of dollars.

	Year ended December 31		
	2017	**2016**	**2015**
Net income after net movements in regulatory balances	$156.5	$151.4	$126.7
Capital expenditures	$552.9	$551.7	$537.2
Total assets and regulatory balances	$5,226.2	$4,954.4	$4,686.9
Total equity	$1,760.4	$1,428.9	$1,340.9

(b) Business Operations

Over the past three years, Toronto Hydro continued to streamline its business operations to focus on LDC's core businesses of distributing electricity and engaging in CDM activities. See section 5.4 under the heading "Conservation and Demand Management" for more information on LDC's CDM activities.

5.2 Rate Applications

The following is an overview of LDC's rate applications from 2015 to date.

(a) 2015-2019 Rate Application

On July 31, 2014, LDC filed a rate application with the OEB under the CIR method which sought approval of LDC's 2015 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective May 1, 2015, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application included requests for approval of capital expenditures of approximately $2.5 billion over the 2015-2019 period. The rate application also sought approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters.

On April 28, 2015, the OEB declared LDC's existing rates as interim rates, effective May 1, 2015, pending a final CIR decision and rate order. On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the 2015-2019 rate application filed on July 31, 2014. The CIR decision and rate order approved a rate base of $3,232.0 million and revenue requirement of $633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved, on an interim basis, subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The OEB-approved revenue requirement generates an increase in funded capital expenditures over the CIR period.

The OEB approved new deferral and variance accounts including accounts to capture variances related to revenue requirement for ICM capital work undertaken from 2012 to 2014 and revenue requirement associated with capital work during the CIR term. The OEB approved recovery of the $15.8 million forecasted net book value relating to the stranded meters. The OEB also approved foregone revenue rate riders for the May 1, 2015 to February 29, 2016 period as well as other requested rate riders. In addition, the OEB approved the transfer of LDC's street lighting assets into rate base effective January 1, 2015 at a transfer price of $39.8 million, representing the opening net book value of the assets in 2015. The financial impact of the OEB's CIR decision and rate order has been reflected in 2015.

The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively.

On August 22, 2016, LDC filed its 2017 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2017 and ending on December 31, 2017. On December 21, 2016, the OEB issued a decision finalizing LDC's 2017 rates and providing for other deferral and variance account dispositions.

On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts.

(b) 2012-2014 ICM True-Up Application

The OEB's decision and rate order on LDC's 2012-2014 rate application directed that a reconciliation process take place to reflect the difference between the revenue collected pursuant to the ICM and the actual revenue requirement associated with actual in-service assets eligible for ICM funding. On March 8, 2016, LDC filed a rate application to reconcile those amounts, in accordance with the OEB directive. The rate application requests approval to recover an additional $11.1 million from ratepayers.

On July 28, 2016, the OEB approved a settlement proposal submitted by LDC and intervenors to the ICM rate application, which provided that there would be no change to the 2015–2019 rate base previously approved in the CIR decision and the 2012-2014 ICM process would be closed with no future disposition to or from ratepayers. Further to this approval, $9.8 million previously recorded as an ICM regulatory credit balance was recorded as an increase in equity through net movements in regulatory balances in the third quarter of 2016.

5.3 Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced the OFHP which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the OREC, which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the OFHA, which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the Consolidated Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. The OFHP reduces electricity bills by 25% on average for eligible customers, which includes the 8% OREC rebate. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable, unbilled revenue, accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

5.4 Conservation and Demand Management

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to its customers and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015.

Under the energy conservation agreement with the IESO, LDC submitted a joint CDM plan with Oakville Hydro for the delivery of CDM programs over the 2015-2020 period on April 30, 2015. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro are only being offered under the full cost recovery funding method.

The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. Oakville Hydro’s programs under the joint CDM plan started on January 1, 2016. LDC received $44.9 million as at December 31, 2016 and $57.4 million in the year ended December 31, 2017 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. As at December 31, 2017, LDC estimated that approximately $12.9 million qualified as a joint mid-term incentive, of which $12.2 million represents LDC’s portion and is included within accounts receivable.

Effective October 16, 2017, LDC entered into an agreement to transfer $4.0 million of funding and a corresponding 20 GWh of its energy savings target to another local distribution company. This agreement will decrease the joint CDM plan funding with Oakville Hydro to $421.0 million, with a revised energy savings target of 1,648 GWh. The revised CDM plan was approved by the IESO on December 14, 2017.

PART 6 - RELATIONSHIP WITH THE CITY

6.1 Shareholder Direction

As sole shareholder of the Corporation, the City has adopted the Shareholder Direction that sets out the following corporate governance principles with respect to Toronto Hydro:

- the objectives and principles that govern the operations of Toronto Hydro;
- the matters in addition to those set out in the OBCA that require the approval of the City as the sole shareholder of the Corporation; and
- certain financial and administrative arrangements between the Corporation and the City.

The Shareholder Direction requires Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as directed by City Council from time to time.

(a) Shareholder Objectives and Principles

The Shareholder Direction provides that the following objectives and principles shall govern the operations of Toronto Hydro:

- to operate Toronto Hydro on an efficient and commercially prudent basis;
- to optimize the City's return on equity as the sole shareholder of the Corporation and operate Toronto Hydro with a view to meeting the financial performance objectives of the City as set out in the Shareholder Direction;

- to provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the City;
- to operate Toronto Hydro in an environmentally responsible manner consistent with the City's energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;
- to ensure that the business is managed in material compliance with all law; and
- to engage in recruitment and procurement practices designed to attract employees and suppliers from the City's diverse community.

The Shareholder Direction provides that the Board is responsible for determining and implementing the appropriate balance among these objectives and principles and for causing Toronto Hydro to conduct its affairs in accordance with the same.

(b) Shareholder Approval

In addition to those matters set out in the OBCA, the following matters, among others, require the approval of the City as the sole shareholder of the Corporation:

- subject to certain exceptions in the case of LDC, creating any security over the assets of the Corporation or LDC;
- in the case of LDC, providing any financial assistance to any person other than in accordance with the Shareholder Direction;
- in the case of the Corporation and LDC, making any investment in or providing any financial assistance to any subsidiary of the Corporation (other than LDC), other than trade payables incurred in the ordinary course of business on customary terms and an investment in or financial assistance to a subsidiary that originally was an investment in or financial assistance to LDC, in excess of 12% of the shareholder's equity of LDC as shown in its most recent financial statements; and
- acquiring any interest in the electricity distribution system, undertaking or securities of a distributor operating outside the City unless, among other things, the acquisition does not adversely affect the dividend payable to the City and there is no dilution of the City's shareholding in the Corporation.

The City has authorized the Corporation to provide financial assistance to its subsidiaries for the purpose of enabling them to carry on their respective businesses, including, in the case of LDC, for the purpose of satisfying the prudential requirements of the IESO. The Shareholder Direction limits the financial assistance that may be provided by the Corporation to its subsidiaries to an aggregate amount of $500.0 million, except in the case of LDC, which financial assistance is unlimited.

(c) Financial Performance

The Shareholder Direction provides that the Board will use its best efforts to ensure that Toronto Hydro meets certain financial performance standards, including those relating to the credit rating and dividends.

(d) Credit Rating

The Shareholder Direction provides that the Corporation will obtain and maintain a rating of A minus or higher (or its equivalent rating, depending on the credit rating agency) on its senior debt securities, as rated by two accredited credit rating agencies in Ontario (which include S&P, DBRS and Moody's).

(e) Equity Contribution

In December 2016, City Council approved making an equity contribution to the Corporation. On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

(f) Dividends

In connection with receipt of the equity contribution of $250.0 million from the City on June 28, 2017, the Board declared dividends payable to the City and approved amendments to the Corporation’s Dividend Policy, as follows:

- In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of two previously declared installments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

- In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation’s consolidated net income after net movements in regulatory balances for the prior fiscal year shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

The revised Dividend Policy was set out in further detail, including that any dividends will be subject to restrictions imposed by law and the Shareholder Direction, in an amendment of the Shareholder Direction, which included the Corporation’s former Dividend Policy. These changes also superseded the Board’s previous decision announced in November 2016 that it would reduce dividend payments to the City to $25.0 million per year until further notice.

The Corporation declared and paid dividends to the City totalling $56.25 million in 2015, $63.35 million in 2016, and $75.0 million in 2017.

On March 7, 2018, the Board declared a quarterly dividend in the amount of $23.48 million, payable to the City by March 31, 2018.

LDC declared and paid $nil dividends to the Corporation in 2015 and 2016, and declared and paid $2.1 million in 2017.

TH Energy declared and paid $nil dividends to the Corporation in 2015, 2016, and 2017.

6.2 Services Provided to the City

Toronto Hydro provides certain services to the City at commercial and regulated rates, including street lighting services. Ongoing street lighting services are provided by TH Energy and sub-contracted to LDC. See section 4.4 under the heading "Toronto Hydro Energy Services Inc." for more information. See note 23 to the Consolidated Financial Statements.

6.3 Shareholder Engagement

The Corporation believes that regular and constructive engagement with its shareholder is an important part of creating an open, candid and informed dialogue. In addition to the Corporation’s annual shareholder meetings, representatives of the Corporation engage with the shareholder through formal attendance at City of Toronto Council meetings and other engagements with Councillors throughout the year as required. Other means of communications with the shareholder include the Corporation’s annual and quarterly financial and management reports, and ward-specific updates.

PART 7- TAXATION

7.1 Tax Regime

The Corporation is exempt from tax under the ITA, if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the TA.

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the OEFC in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

If the Corporation or a subsidiary ceases to be exempt from tax under the ITA and the TA, it will become subject to tax under those statutes, will no longer be required to make PILs payments to the OEFC, and will be deemed to have disposed of its assets for proceeds of disposition equal to their fair market value at that time and to have reacquired its assets at the same amount with the result that:

- such corporation would become liable to make a PILs payment in respect of any income or gains arising as a result of these deemed dispositions; and
- the amount of annual taxes payable by the corporation under the ITA, and the TA may be different from the PILs payment that would be payable without a loss of tax-exempt status to reflect, among other things, the consequences of these deemed dispositions and acquisitions.

The Electricity Act also provides that a municipal corporation or an MEU is required to pay a transfer tax when it transfers Electricity Property. An interest in Electricity Property includes any interest in a corporation, partnership or other entity that derives its value in whole or in part from Electricity Property. The transfer tax is the prescribed percentage (33% for transfers occurring prior to January 1, 2016, 22% for transfers occurring between January 1, 2016 and December 31, 2018, and 33% for transfers occurring thereafter) of the fair market value of the interest transferred. The amount of transfer tax payable where the interest that is transferred is an interest in a corporation, partnership or other entity, is calculated in accordance with a special rule. The amount of transfer tax payable by an MEU on a transfer of Electricity Property may be reduced by:

- any PILs payment made by the MEU in respect of the part of the taxation year up to and including the date that the transfer takes place or a previous taxation year; and
- any amount that the MEU has paid as tax under Part III of the TA in respect of the part of the taxation year up to and including the date of the transfer or a previous taxation year.

Transfers of Electricity Property made to a municipal corporation, a MEU, Hydro One or OPG, and where the transferee is exempt from tax under the ITA at the time of transfer, the transfer will be an excluded transfer and thereby exempt from the transfer tax. Capital gains arising from a transfer of Electricity Property occurring between January 1, 2016 and December 31, 2018 are also exempt from the transfer tax.

In addition, a refund of transfer tax may be made where such tax had been paid on the sale or transfer of Electricity Property and where the proceeds of that transfer were reinvested in certain other capital or depreciable assets used in connection with generating, transmitting, distributing or retailing electricity in Ontario and, subject to certain deeming rules, before the end of the second taxation year following the taxation year in which the liability to pay the transfer tax arose.

PILs payments are deductible in computing the transfer tax only to the extent that they have not been previously applied to reduce transfer tax payable by a municipal corporation or a MEU.

7.2 PILs Recoveries through Rates

The OEB's Filing Requirements for Electricity Distribution Rate Applications provides for electricity distribution rate adjustments to permit recoveries relating to PILs payments. These recoveries are recalculated and submitted for recovery by LDC in each cost of service or rebasing distribution rate application. LDC is also generally at risk for variances between forecasted and actual PILs paid, excluding variances arising from changes in tax legislation not assumed in the setting of rates for the period in question, which variances are disposed of through deferral accounts under cost of service, IRM or CIR. See note 9(j) to the Consolidated Financial Statements.

PART 8 - RISK FACTORS

Risk Oversight

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. Toronto Hydro executes its ERM activities via an ERM framework that is aligned to industry best practices and international guidelines. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations. It helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing all aspects of the business.

The ERM framework is operationalized by a consistent, disciplined methodology that clearly defines the risk management process which incorporates subjective elements, risk quantification and risk interdependencies.

While Toronto Hydro's philosophy is that ERM is the responsibility of all business units, at all levels, in strategic and operational matters, the ERM governance structure is comprised of three key levels.

At the top level is the Board, which works to maintain a general understanding of Toronto Hydro’s risk profile, the risk categories, the types of risks to which Toronto Hydro may be exposed and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key risks that represent the greatest threats to achieving the Corporation's strategic objectives.

The second level is the executive team, the lead body to ensure systems are in place to identify, manage, and monitor risks. Through its review of reports from the business and other areas, the executive team assesses the appropriateness and consistent application of systems to manage risks within Toronto Hydro. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across Toronto Hydro who actively engage in the day-to-day management of risks. Working with the executive team, this group oversees Toronto Hydro's risk profile, its performance against the defined risk appetite and determines appropriate risk responses. They also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

Toronto Hydro's business is subject to a variety of risks including those described in the following sections. There can be no assurance that any steps Toronto Hydro may take to manage risks will avoid future loss resulting from the occurrence of such risks.

Risks from External Influences

Ownership by the City and Inconsistent Policy Risk

The Corporation is subject to the risk that its shareholder can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles. Under the Shareholder Direction, the City also has the power to direct the Corporation and its subsidiaries to conduct their affairs and govern their operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time. These council approved directions can be inconsistent and/or divergent with the Shareholder Direction principles and could materially adversely affect the Corporation's business, operations, financial condition or prospects if the Corporation is required to comply with such directions.

Regulatory Risk

Toronto Hydro is subject to the risk that its business activities may be impeded by the OEB (includes both traditional regulated Cost of Service work and non-traditional new ancillary service model work). There is a risk that future changes to Ontario's regulatory model, manner of regulation and/or broader government policy framework does not align with Toronto Hydro's business direction and could materially adversely affect the Corporation's strategic goals and financial results.

Ontario's electricity industry regulatory developments may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to deliver effective and efficient operations and reliable service to its customers, and as well as create barriers to LDC achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates, at levels that will permit LDC to carry out its planned capital expenditures required to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- all capital expenditures incurred by LDC will be approved by the OEB. In particular, capital cost overruns due to project delays or increased costs may not be recoverable in distribution rates;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates;
- the OEB will not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Any future regulatory decision to disallow or limit the recovery of costs could lead to potential asset impairment and charges to results from operations, which could have a material adverse effect on Toronto Hydro.

Political and Legislative Risk

Toronto Hydro is subject to the risk that government bodies and policy priorities of government may impact Toronto Hydro's ability to deliver effective and efficient operations and meet business objectives. Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by Toronto Hydro could materially adversely affect Toronto Hydro. There can be no assurance that Toronto Hydro will be able to comply with applicable future laws, rules, regulations and policies. Failure by Toronto Hydro to comply with applicable laws, rules, regulations and policies may subject Toronto Hydro to civil or regulatory proceedings that could have a material adverse effect on Toronto Hydro. The OEB may not allow recovery for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Risks to Maintaining Operations

Human Capital Risk

Toronto Hydro is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support Toronto Hydro's future talent requirements. All retirements pose risks for knowledge management and business continuity, both at Toronto Hydro and the industry. Development and retention of talent to meet the evolving needs of the business requires LDC to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances. Toronto Hydro's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions including reaching a new collective bargaining agreement with PWU. There can be no assurance that Toronto Hydro will be able to secure the support of its labour unions.

Strategy and Business Model Risk

Toronto Hydro is subject to the risk that it may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage, which could materially adversely affect the Corporation. The OEB distribution licence issued to LDC stipulates a service area that reflects the territory within the City. By law, only the OEB can grant such a licence for a service area and only an entity with such a licence can provide licenced services to the public-at-large within a service area. The OEB has not granted any other distribution licence that permits distribution within LDC's service area. In addition to this regulatory barrier to entry, there are other barriers to entry, including the cost of constructing an electricity distribution system, physical space limitations within and legal access to the right-of-way, the specialized skills associated with the distribution business, the level of expertise required to achieve operational and regulatory compliance, and LDC's relationships with its customers. There can be no assurance that these barriers will continue to be sufficient to prevent this type of competition. Other regulated and unregulated entities have always competed with LDC and its predecessors to provide customers with other sources of energy, including electricity. The pervasiveness of this competition and its effects on LDC's distribution business have varied over time and continue to vary based on many factors, including the relative price of energy source (e.g., natural gas, grid-supplied electricity, behind-the-meter generation) and technology advancements (e.g., multi-unit building sub-metering, micro-grids, electricity storage).

There can be no assurance that the future nature, prevalence, or effects of these forms of competition will be comparable to current or historic experience. Failure to effectively scan our external and internal environment could lead to missed business opportunities and loss of competitive advantage (see "Customer Risk" section for additional details).

Asset Integrity Risk

Toronto Hydro is subject to the risk that it may be unable to maintain continuous supply due to failure of the existing distribution infrastructure and assets which could materially adversely affect the Corporation. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure (such as the Copeland Station project) to address safety, reliability and customer service requirements.

LDC estimates that approximately one-third of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period. At the same time, Toronto is a growing city, and LDC must make system upgrades to expand its capacity to keep pace with urban intensification and electrification. In addition, as the City, Ontario and the Government of Canada implement policies and programs to respond to climate change, the pressures on Toronto Hydro's system will only increase. Widespread adoption of electric vehicles, fuel switching and changing emissions standards make electricity the comparatively clean energy choice. This drives the need for significant capital expenditures for system upgrades so that the grid can handle such increased load. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of Toronto Hydro to fund additional infrastructure, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

As described in section 4.3(a)(iii) under the heading "Transmission System Terminal Stations", one of LDC's largest capital initiatives currently in progress is the construction of Copeland Station, which is also one of the most complex projects ever undertaken by Toronto Hydro. Due to unforeseen delays, the expected completion date for the Copeland Station project has been extended to 2018 and it is currently anticipated that the total expenditure required to complete the project will increase from $195.0 million to approximately $200.0 million, plus capitalized borrowing costs as applicable. There may be additional unforeseen delays and expenditures prior to the completion of the project. On January 25, 2017, Toronto Hydro was informed that Carillion Construction Inc., the general contractor for the Copeland Station Project, filed for creditor protection under the Companies' Creditors Arrangement Act after its affiliate, Carillion plc, went into compulsory liquidation in the United Kingdom.

All capital projects for new and replacement infrastructure have risks related to delays or increased costs due to many factors, including: necessary modifications to project plans; the availability, scheduling and cost of materials, equipment and qualified personnel; LDC's ability to obtain necessary environmental and other regulatory and governmental approvals; and the impact of weather conditions, site conditions and contractor performance.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. However, if LDC is unable to carry out these plans in a timely and optimal manner or becomes subject to significant unforeseen equipment failures, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

Occupational Health and Safety Risk

Toronto Hydro is subject to the risk that employees may be exposed to serious or fatal injuries or illness as a result of the work environment in which they operate. Due to the nature of Toronto Hydro's business and business activities, occupational safety is an integral part of our corporate culture. Employees could be exposed to hazards when performing their work duties. This includes hazards such as electrical contact, working in confined spaces, fires and explosions, slips, trips and falls and motor vehicle accidents. Toronto Hydro is subject to compliance with provincial Health and Safety legislation. Toronto Hydro's management approach to occupational safety is to meet or excel on legal compliance and eliminate or safeguard known occupational hazards and risks. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of our corporate values, including safety. LDC received OHSAS 18001 certification in 2013 and conducts annual third party audits to maintain certification, in addition occupational health and safety legal compliance audits are conducted every two years.

Customer Risk

Toronto Hydro is subject to the risk that it may fail to identify and meet its customers' needs and expectations, within approved OEB funding levels, and consequently customers leave Toronto Hydro's distribution area or opt for alternative sources of electricity. This includes all customer classes, but is primarily related to general service and large users. This may lead to erosion of Toronto Hydro's revenue base and monopoly position. It is important that Toronto Hydro maintains its relationship with its customers to better understand the specific needs and expectations of each class. The political environment and government policy regarding the energy sector may impact customer satisfaction and perception of value, especially with concerns around hydro costs. Toronto Hydro is taking steps to help its customers through cost saving CDM programs. Service interruptions due to increasing weather events, or unexpected events could further impact customer satisfaction and service quality (see "Business Interruption Risk" section for additional details).

Advances in technology may compete with Toronto Hydro by affecting energy consumption levels and, as a result, customer demand for Toronto Hydro's services could be negatively impacted in a material way. As customers increasingly prioritize energy efficiency and awareness of energy costs, and governments increasingly provide subsidies to encourage energy efficiency primarily in response to climate change concerns, there will be a corresponding increase in the demand for technologies that enable customers to better monitor and minimize their energy consumption and otherwise exercise greater control over their electricity supply and demand. For example, distributed generation technologies draw on renewable sources of energy, such as solar power and wind, allowing customers to generate their own supply of electricity. The effect of such technologies may be reduced reliance on larger-scale utilities such as Toronto Hydro. Likewise, energy-efficient homes and improvements to energy storage technologies like batteries may further affect consumption levels and the demand for Toronto Hydro's services. Although OEB's current policy is moving residential customers to fixed delivery charges as opposed to consumption-based delivery charges, as technologies continue to advance and become more widely adopted, Toronto Hydro may be required to make changes to its business and operations, which may present additional risks and challenges for Toronto Hydro.

The Corporation is affected by energy demand which may change as a result of technology change, available customer choice and CDM programs, as well as general economic conditions, energy prices, disposable income and population growth, among other things. Reduced or increased energy demand could have a material adverse effect on the Corporation's business, operations, financial condition or prospects, as well as on the Corporation's need for, and ability to, fund future capital expenditures.

Information Technology and Cybersecurity Risk

Toronto Hydro is subject to the risk that it may be unable to preserve the confidentiality, integrity, authenticity, availability, accountability and non-repudiation of information assets. Toronto Hydro's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and Toronto Hydro's financial, billing and business systems to capture data and to produce timely and accurate information. Failures of any one of the financial, business and operating systems could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. Toronto Hydro mitigates this risk through various methods including the implementation of high availability and redundancy in its core infrastructure and application components. Operational technology systems are isolated from business systems and operate independently.

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. Toronto Hydro has implemented security controls aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, corruption or unavailability of critical data or confidential employee or customer information. A significant breach could materially adversely affect the financial performance of the Corporation or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims.

LDC must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, contractors, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity incident or other unauthorized access, which could materially adversely affect Toronto Hydro and also result in third-party claims against Toronto Hydro.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

Brand and Reputation Risk

Toronto Hydro is subject to the risk that an action or inaction by it or its representatives will impair Toronto Hydro's image in the community, public confidence or brand. Toronto Hydro is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Failure to deliver on our commitment could impact the public's perception of Toronto Hydro. In addition, events and/or external factors that draw negative media attention to Toronto Hydro could cause reputational damages and impact Toronto Hydro's business and relationship with its stakeholders.

Business Interruption Risk

Toronto Hydro is subject to the risk that it may be unable to maintain continuing and sustainable business operations, or recover from business interruption, in an effective manner. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions and natural disasters, as well as terrorism and pandemics. Although Toronto Hydro's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Risks to Maintaining Financial Condition

Capital Structure Risk

Toronto Hydro is subject to the risk that it may not be able to optimize its debt to equity ratio or access capital markets at effective rates. There can be no assurance that debt or equity financing will be available or sufficient to meet the Corporation's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to the Corporation.

The Corporation relies on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, the regulatory environment in Ontario, the Corporation's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market.

In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its commercial paper obligations as they become due.

Market and Credit Risk

Toronto Hydro is directly and indirectly subject to various market and credit fluctuations which could materially adversely affect the Corporation. For example, LDC is exposed to credit risk with respect to customer non-payment of electricity bills. LDC is permitted, at certain times of the year, to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis. LDC's security interest or other measures, if any, may also not provide sufficient protection. Additionally, security interests and other measures taken by, or in favour of, LDC, if any, may not provide sufficient protection.

Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. Toronto Hydro estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of Toronto Hydro, as at December 31, 2017, by $46.8 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2017, by $60.2 million.

The Corporation is exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. Toronto Hydro estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.3 million to annual finance costs.

Toronto Hydro had limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2017 was not material.

PART 9 - CAPITAL STRUCTURE

9.1 Share Capital

The authorized capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,200 common shares are issued and outstanding as at the date of this AIF.

The City is the sole shareholder of the Corporation. See note 17 to the Consolidated Financial Statements.

9.2 Debentures

As at December 31, 2017, the Corporation had the following debentures (the "Debentures") outstanding, which have been issued pursuant to its MTN Program:

- $250.0 million of 4.49% Series 3 senior unsecured debentures, due November 12, 2019;
- $200.0 million of 5.54% Series 6 senior unsecured debentures due May 21, 2040;
- $300.0 million of 3.54% Series 7 senior unsecured debentures, due November 18, 2021;
- $250.0 million of 2.91% Series 8 senior unsecured debentures due April 10, 2023;
- $245.0 million of 3.96% Series 9 senior unsecured debentures due April 9, 2063;
- $200.0 million of 4.08% Series 10 senior unsecured debentures due September 16, 2044;
- $200.0 million of 3.55% Series 11 senior unsecured debentures due July 28, 2045;
- $200.0 million of 2.52% Series 12 senior unsecured debentures due August 25, 2026; and
- $200.0 million of 3.485% Series 13 senior unsecured debentures due February 28, 2048.

The Debentures are not listed, posted for trading or quoted on any stock exchange or quotation system.

The Debentures have been issued under the CDSX book entry system administered by CDS Clearing and Depository Services Inc. ("CDS") with BNY Trust Company of Canada as trustee. Accordingly, a nominee of CDS is the registered holder of the Debentures and beneficial ownership of the Debentures is evidenced through book entry credits to securities accounts of CDS participants (e.g., banks, trust companies and securities dealers), who act as agents on behalf of beneficial owners who are their customers, rather than by physical certificates representing the Debentures.

9.3 Credit Facilities

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ("Revolving Credit Facility"), pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by $100.0 million from $700.0 million to $800.0 million and the maturity date extended by one year from October 10, 2019 to October 10, 2020. On August 19, 2016, the maturity date was extended by an additional year to October 10, 2021. On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022. Borrowings under the Revolving Credit Facility bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Corporation's credit rating.

The Revolving Credit Facility contains certain covenants, the most significant of which is a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2017, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a CP Program allowing up to $600.0 million of unsecured short-term promissory notes to be issued in various maturities of no more than one year. On July 30, 2015, the amount the Corporation may issue under this program was increased by $100.0 million from $500.0 million to $600.0 million. The CP Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the CP Program are used for general corporate purposes. Borrowings under the CP Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to:

- a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"); and
- a $20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management ("Working Capital Facility").

The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and CP Program are as follows:

	Revolving Credit Facility Limit	**Revolving Credit Facility Borrowings**	**Commercial Paper Outstanding**	**Revolving Credit Facility Availability**
December 31, 2017...............	$800.0 million	-	$159.0 million	$641.0 million
December 31, 2016...............	$800.0 million	-	$261.0 million	$539.0 million

For the year ended December 31, 2017, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and CP Program were $210.3 million with a weighted average interest rate of 0.93%.

As at December 31, 2017, $11.7 million had been drawn under the Working Capital Facility and $38.4 million of letters of credit had been issued against the Prudential Facility.

9.4 Credit Rating

As at December 31, 2017, the credit ratings of the Corporation were as follows:

	DBRS		S&P	
	Credit Rating	**Trend**	**Credit Rating**	**Outlook**
Issuer rating	A	Stable	A	Stable
Debentures	A	Stable	A	-
Commercial paper	R-l (low)	Stable	-	-

On April 25, 2017, S&P announced its decision to maintain the credit rating on the Corporation as "A" and revised their outlook from negative to stable.

On April 27, 2017, DBRS announced its decision to maintain the credit rating on the Corporation as "A" with a stable trend.

DBRS rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". All rating categories other than AAA and D also contain the subcategories "(high)" and "(low)" to indicate relative standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "A" category, however, may be vulnerable to future events, but qualifying negative factors are considered manageable.

DBRS rates short-term debt instruments by rating categories ranging from a high of "R-1 (high)" to a low of "D". An R-1 (low) rating is the third highest of the ten rating categories. Short-term debt instruments which are rated in the "R-1 (low)" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "R-1 (low)" category, however, may be vulnerable to future events, but qualifying negative factors are considered manageable.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

For the years ended December 31, 2017 and 2016, payments were made to both DBRS and S&P for credit rating services only.

PART 10 - DIRECTORS AND OFFICERS

10.1 Nomination of Directors

As at the date of this AIF, the Board consists of eleven directors, all of whom are appointed by the sole shareholder of the Corporation, the City.

Pursuant to the Shareholder Direction, in electing directors to the Board, the City gives due regard to the qualifications of a candidate, including: experience or knowledge; commercial sensitivity and acumen; independence of judgment; and personal integrity. The City seeks candidates with experience and knowledge in: public utility commissions or boards of major corporations or other commercial enterprises; corporate finance; corporate governance; market development; large system operation and management; urban energy industries; and public policy issues and laws relating to Toronto Hydro, the electricity industry, environmental matters, labour relations and occupational health and safety issues. Each citizen director is elected to serve for a term of up to two years or until his or her successor is appointed, and may be elected for a maximum of four consecutive terms for a maximum of eight consecutive years or such longer term until a successor is appointed. Each City Councillor director is elected to serve for two years or until his or her successor is elected. As at the date of this AIF, female directors constituted 36.4% (4 of 11) of the members of the Corporation's Board.

10.2 Committees of the Board of Directors

The Board had established three standing committees (Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee) as shown in the following chart.

Board of Directors

Audit Committee	**Corporate Governance and Nominating Committee**	**Human Resources and Environment Committee**
Michael Nobrega (Chair)	Tamara Kronis (Chair)	Brian Chu (Chair)
Heather Zordel	Brian Chu	Juliana Lam
Juliana Lam	Mary Ellen Richardson	Michael Nobrega
	Councillor Paul Ainslie	Deputy Mayor Stephen Holyday

(a) Audit Committee

The Audit Committee is responsible for overseeing the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures and financial risk management systems. The Audit Committee reviews the Corporation's quarterly and annual financial statements as well as financial statements prepared in connection with the requirements of applicable regulatory authorities, reviews the audit plans of the external auditors, oversees the internal audit of the Corporation, reviews and makes recommendations to the Board with respect to the payment of dividends or distribution of capital by the Corporation, and recommends the external auditor to the Board for appointment by the Corporation's sole shareholder. See Part 11 under the heading "Audit Committee" below for further information on the Audit Committee.

(b) Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is responsible for considering and making recommendations to the Board with respect to matters relating to the corporate governance of Toronto Hydro, including board and committee composition and mandates, and guidelines for assessing the effectiveness of the Board and its committees and procedures to ensure that the Board functions independently from management.

As part of its governance function, the Corporate Governance and Nominating Committee reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's sole shareholder by the Board. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of LDC for approval by the Corporation's Board of Directors as required by the Affiliate Relationships Code. The Corporate Governance and Nominating Committee reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The Corporate Governance and Nominating Committee is also responsible for periodically reviewing reports on the activities of Toronto Hydro’s corporate compliance and customer advocate functions.

The Corporate Governance and Nominating Committee is comprised of Tamara Kronis (Chair), Brian Chu, Mary Ellen Richardson and Councillor Paul Ainslie. Ms. Kronis, Mr. Chu and Ms. Richardson are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Councillor Ainslie is not independent within the meaning of applicable Canadian securities laws.

(c) Human Resources and Environment Committee

The Human Resources and Environment Committee is responsible for reviewing and assisting the Board in overseeing the recruitment and assessment of the CEO and the compensation of the CEO, reviewing and approving the compensation of the executive officers, reviewing and making recommendations to the Board concerning executive compensation disclosure under applicable securities laws, and reviewing and making recommendations to the Board regarding the compensation structure and benefit plans and programs of Toronto Hydro. The Human Resources and Environment Committee is also responsible for reviewing and approving the parameters of collective bargaining negotiations, the oversight of health and safety related matters and processes, and the oversight of environmental related matters and processes of Toronto Hydro. See section 12.1(a) under the heading "Human Resources and Environment Committee" for further information on the Human Resources and Environment Committee.

10.3 Directors

The following summaries set forth, for each of the directors of the Corporation, his or her name, province and country of residence, the date on which he or she became a director and the expiry date of his or her current term, his or her relevant education and experience, principal occupations within the five preceding years and board memberships with other reporting issuers. The following tables also summarize the attendance of individual directors at the Board and standing committee meetings held during 2017 and 2018 as of the date of this AIF.

David McFadden, Chair of the Board
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Mr. McFadden is a lawyer whose practice focuses on the energy, infrastructure, financial services and aerospace industries. He is currently Counsel at Gowling WLG, and a former member of the firm's Board of Trustees and Executive Committee. Mr. McFadden currently serves as Chair of the Board of Directors of 407 International Inc. and PCI Geomatics Inc. He also serves on the Board of Directors of Cricket Energy Holdings Inc. Mr. McFadden is currently a member of the Board of Directors of the Ontario Energy Association, having previously served as Chair of the Board. He is also a member of the Smart Grid Forum of the Independent Electricity System Operator and serves on the Advisory Board of the MaRS Advanced Energy Centre and on the Council for Clean & Reliable Electricity. Mr. McFadden was named the Energy Leader of the Year by the Ontario Energy Association in 2013. In the past, Mr. McFadden has served as co-chair of the Electricity Transition Committee of the Ontario Government, and also served on the Ontario Government's Electricity Distribution Sector Review Panel and the Ontario Government's Electricity Conservation and Supply Task Force. Mr. McFadden has also been active in the higher education sector. He served as Chair of the Ontario Centres of Excellence from 2004-2010 and currently is a member of the Board of Governors of York University. Mr. McFadden holds a Bachelor of Laws at Osgoode Hall Law School and a Bachelor of Arts at the University of Toronto, and is a member of the Law Society of Ontario.

Mr. McFadden currently serves as Chair of the Board of Directors. He is also an *ex-officio* member of the Audit Committee, Human Resources and Environment Committee, and Corporate Governance and Nominating Committee.

Principal Occupation:
Counsel, Gowling WLG

Board/Committee Membership	**2017 Attendance**	
Board	8 of 8	100.0%
	2018 Attendance(1)	
Board	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
407 International Inc.

Note:

(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Brian Chu, Vice-Chair of the Board
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Mr. Chu is a founding partner of the law firm of Bogart Robertson & Chu LLP, whose practice focuses on corporate and commercial real estate law. Mr. Chu currently serves on the Board of Directors of the Technical Standards & Safety Authority and is a member of its Safety and Regulatory Affairs Committee. He also served as Trustee and Chair of the Centennial Centre of Science and Technology (Ontario Science Centre). He was formerly President of Laidlaw Foundation, Chair of the Board of Governors of Ontario College of Arts and Design, and Vice-Chair of Centennial College. Mr. Chu has been a member of the Canadian Tax Foundation since 1986. Mr. Chu holds a Juris Doctor from the University of Toronto and is a member of the Law Society of Ontario. Mr. Chu has extensive experience in compensation practices and policies, including determining executive compensation and setting, as well as communicating and reviewing, chief executive officer performance objectives. In his role at the Ontario Science Centre, he was accountable to the Minister of Tourism, Culture and Sport on all matters related to the hiring and termination of the chief executive officer. Mr. Chu is also responsible for human resources matters, salary and compensation relating to all staff at Bogart Robertson & Chu LLP.

Mr. Chu currently serves as Vice-Chair of the Board of Directors, and is the Chair of the Human Resources and Environment Committee. Mr. Chu also served as a director of the Corporation from August 1, 2005 to April 14, 2013, during which time he served as a member of the Audit Committee and the Corporate Governance Committee, the Chair of the Corporate Governance Committee (from August 25, 2005 to November 30, 2008) and the Chair of the Audit Committee (from December 1, 2008 to April 14, 2013).

Principal Occupation:
Partner at Bogart Robertson & Chu LLP

Board/Committee Membership	**2017 Attendance**	
Board	7 of 8	87.5 %
Audit Committee(1)	3 of 3 (2)	100.0 %
Corporate Governance and Nominating Committee(1)	2 of 2 (2)	100.0 %
Human Resources and Environment Committee	5 of 5	100.0 %
	2018 Attendance(3)	
Board	1 of 1	100.0%
Corporate Governance and Nominating Committee	1 of 1	100.0%
Human Resources and Environment Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Mr. Chu ceased to be a member of the Audit Committee and was reappointed to the Corporate Governance and Nominating Committee on May 11, 2017.

(2) Three Audit Committee meetings occurred until date on which Mr. Chu ceased to be a member of that committee, and two Corporate Governance and Nominating Committee meetings occurred since date of Mr. Chu's appointment to that committee.

(3) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Heather Zordel
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Ms. Zordel is a lawyer whose practice focuses on corporate finance, securities regulatory compliance and governance for listed companies and investment funds. Ms. Zordel is currently a partner in the Securities Group at Gardiner Roberts LLP. She is also a Co-Director and Course Director for Osgoode Hall Law School's Master of Laws program in Securities Law. In the past, Ms. Zordel has served as Chair of the OSC Securities Advisory Committee, a member of the Federal Expert Panel on Securities Regulation, a member of the Board of Directors of the Metro Toronto Convention Centre and a member of other corporate, non-profit and condominium boards. She is also an author and regular media commentator. Ms. Zordel holds a Bachelor of Commerce from University of Saskatchewan, and a Juris Doctor and Master of Laws (Securities Law) from Osgoode Hall Law School. She is a member and a Bencher of the Law Society of Ontario. She is a member of the Audit Committee and Government Relations Committee of the Law Society of Ontario.

Ms. Zordel currently serves as Chair of the Board of Directors of TH Energy.

Principal Occupation:
Partner and Securities Lawyer, Gardiner Roberts LLP
Former Partner at Cassels Brock and Blackwell LLP

Board/Committee Membership	**2017 Attendance**	
Board	8 of 8	100.0%
Audit Committee	5 of 5	100.0%
	2018 Attendance[(1)]	
Board	1 of 1	100.0%
Audit Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

The Honourable Howard Wetston, Senator
Ontario, Canada

Director since: December 10, 2015
Expiry of current term: December 10, 2019, or effective date of appointment of a successor director

The Honourable Mr. Wetston, Senator was appointed to the Senate of Canada and assumed office on November 10, 2016. Mr. Wetston also serves as counsel at Goodmans LLP. He is a distinguished lawyer with a breadth of experience and expertise in competition law and policy, securities regulation, energy regulation and administrative law. In 2016, Mr. Wetston was awarded the Order of Canada for his significant contributions as a public servant, jurist and regulator. Mr. Wetston has served as Chair and Chief Executive Officer of the OSC, as Vice-Chair of the OSC, and as Chair and Chief Executive Officer of the OEB. During his time as Chair and Chief Executive Officer of the OSC, Mr. Wetston played a significant role in Canadian and international securities regulatory bodies by serving as a senior member of the Canadian Securities Administrators and as a Vice Chair of the International Organization of Securities Commissions. Mr. Wetston has served as a Judge of the Federal Court of Canada, Trial Division, an ex-officio member of the Federal Court's Appeal Division, and Director of Investigations and Research at the Bureau of Competition Policy. Mr. Wetston is a Senior Fellow of the C.D. Howe Institute and has served on several Advisory Boards, including the Program on Ethics in Law and Business at the University of Toronto, and the Shannon School of Business at Cape Breton University. He is an Advisory Board member of Spark Power Corp. Mr. Wetston is also a Trustee of the International Valuations Standards Council and the C.D. Howe Institute's Competition Policy Counsel. Mr. Wetston holds a Bachelor of Laws from Dalhousie University and a Bachelor of Science from Mount Allison University, and holds an ICD.D designation from the Institute of Corporate Directors and he has also received special recognition as a Board Diversity Champion from Catalyst Canada Honours. Mr. Wetston holds honorary doctorate degrees from Cape Breton University and Dalhousie University and he is a recipient of the Queen Elizabeth II Diamond Jubilee Medal.

Mr. Wetston currently serves as Chair of the Board of Directors of LDC.

Principal Occupation:
Senator
Counsel, Goodmans LLP

Board/Committee Membership	**2017 Attendance**	
Board	6 of 8	75.0 %
Corporate Governance and Nominating Committee(1)	0 of 2(2)	0.0 %
	2018 Attendance(3)	
Board	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) The Honourable Mr. Wetston, Senator ceased to be a member of the Corporate Governance and Nominating Committee on May 11, 2017.

(2) Only two Corporate Governance and Nominating Committee meetings occurred until date on which the Honourable Mr. Wetston, Senator ceased to be a member that committee.

(3) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Juliana Lam
Ontario, Canada

Director since:	April 26, 2017
Expiry of current term:	April 26, 2019, or effective date of appointment of a successor director

Ms. Lam has extensive senior level financial management experience in diverse industries including mining, manufacturing, services and distribution. She is currently serving as Executive Vice-President and Chief Operating Officer of Chartered Professional Accountants of Ontario. Prior to that, Ms. Lam was the Executive Vice-President and Chief Financial Officer of Uranium One Inc. Previously, Ms. Lam served as Senior Vice-President Finance at Kinross Gold Corporation, Chief Financial Officer of Nexans Canada Inc., and has held senior finance roles within other publicly traded companies. She holds a Bachelor of Arts from the University of Toronto, an MBA from the Richard Ivey School of Business, University of Western Ontario, is a Chartered Professional Accountant (CPA, CA), and holds the ICD.D designation from the Institute of Corporate Directors. In addition to being a member of the board and the board committees of Toronto Hydro Corporation, Ms. Lam serves the community on the boards and board committees of two not-for-profit organizations in the Greater Toronto Area.

Principal Occupation:
Executive Vice-President & Chief Operating Officer, Chartered Professional Accountants of Ontario
Former Executive Vice-President & Chief Financial Officer, Uranium One Inc.

Board/Committee Membership	**2017 Attendance (from date of appointment)**	
Board	5 of 5[2]	100.0 %
Audit Committee[1]	2 of 2[2]	100.0 %
Human Resources and Environment Committee[1]	3 of 3[2]	100.0 %
	2018 Attendance[3]	
Board	1 of 1	100.0%
Audit Committee	1 of 1	100.0%
Human Resources and Environment Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Ms. Lam was appointed to the Audit Committee and the Human Resources and Environment Committee on May 11, 2017.

(2) Only five Board Meetings, two Audit Committee meetings and three Human Resources and Environment Committee occurred since date of appointment.

(3) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Mary Ellen Richardson
Ontario, Canada

Director since:	December 11, 2016
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Ms. Richardson is an independent consultant to the energy sector, with extensive experience in the oil, natural gas and electricity industries. Ms. Richardson currently serves as a member of the Board of Directors, is a member of the Human Resources and Governance & Finance and Audit Committees, and Chair of the Government Relations Committee of Markham District Energy Inc. In the past, Ms. Richardson has served as President of the Canadian District Energy Association, Vice-President, Corporate Affairs and Vice-President, Conversation Programs and External Relations at the OPA, President of the Association of Major Power Consumers in Ontario, and was a member of the Board of Directors and Human Resources Committee of Guelph Municipal Holdings Inc. Ms. Richardson has also served on the management board of the Ontario Centre of Excellence in Energy, on the Board of Directors of Environmental Careers Organization of Canada, on the Ontario Government's Electricity Conservation and Supply Task Force, on the Executive of the Stakeholders' Alliance for Competition and Customer Choice, and on Hydro One's Customer Advisory Board. Ms. Richardson holds an Honours degree in Economics from the University of Calgary, and the ICD.D designation.

Principal Occupation:
President, Mary Ellen Richardson Inc.

Board/Committee Membership	**2017 Attendance**	
Board	8 of 8	100.0%
Corporate Governance and Nominating Committee	4 of 4	100.0%
	2018 Attendance(1)	
Board	1 of 1	100.0%
Corporate Governance and Nominating Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Michael Nobrega
Ontario, Canada

Director since:	May 10, 2016
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Mr. Nobrega is a Chartered Accountant with extensive experience in finance and business. Mr. Nobrega has served as President & Chief Executive Officer of OMERS, Chief Investment Officer of OMERS, and as President & Chief Executive Officer of Borealis (OMERS) Infrastructure. Mr. Nobrega is currently Chair of Ontario Centres of Excellence and is a member of the Board of Directors of IBI Group Inc. In the past, Mr. Nobrega was also president of a merchant bank, a tax partner at Arthur Anderson, Chartered Accountants, and a member of the Board of Directors of the Global Risk Institute. Mr. Nobrega earned an Honours Bachelor of Arts (Economics and Mathematics) from the University of Toronto, where, in 2002, he was honoured with the Arbor Award for outstanding community service. He holds a chartered accountancy designation from the Institutes of Chartered Accountants of Ontario and Canada, and was named a Fellow of the Institute of Chartered Accountants of Ontario in 2009. Mr. Nobrega has considerable experience in executive compensation matters from his years as the Chief Executive Officer of OMERS and Borealis (OMERS) Infrastructure. He is familiar with the structure of compensation systems and related benefit programs, and is experienced in executive performance evaluation.

Principal Occupation:
Chair, Ontario Centres of Excellence
Former President & Chief Executive Officer of OMERS (from March 2007- March 2014)

Board/Committee Membership	**2017 Attendance**	
Board	7 of 8	87.5 %
Audit Committee	5 of 5	100.0 %
Human Resources and Environment Committee	4 of 5	80.0 %
	2018 Attendance(1)	
Board	1 of 1	100.0%
Audit Committee	1 of 1	100.0%
Human Resources and Environment Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
IBI Group Inc.

Note:

(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Tamara Kronis
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Ms. Kronis is a Toronto-based entrepreneur, goldsmith and lawyer. She is currently owner of Studio1098, a custom fine jewellery design studio, where she works as a goldsmith, gemmologist and jewellery designer. Prior to opening Studio1098, Ms. Kronis worked as a commercial lawyer whose practice included several transactions related to the Ontario energy market. Her past experience includes positions as Legal Counsel, Vertex Customer Management/Vertex Outsourcing, Associate Lawyer at Torys LLP, Director of Advocacy at EGALE Canada and Trial Assistant, United Nations (International Criminal Tribunal for the Former Yugoslavia). Ms. Kronis holds a Master of Arts in Political Science and a Bachelor of Laws from the University of Toronto, and a Bachelor of Arts in Politics and Economics from Brandeis University. She is a Fellow of the Canadian Gemmological Association and the Gemmological Association of Great Britain. Ms. Kronis is a member of the Law Society of Ontario.

Principal Occupation:
Owner, Chief Goldsmith, Gemmologist and Jewellery Designer, Studio1098

Board/Committee Membership	**2017 Attendance**	
Board	8 of 8	100.0 %
Human Resources and Environment Committee(1)	2 of 2(2)	100.0 %
Corporate Governance and Nominating Committee (1)	2 of 2(2)	100.0 %
	2018 Attendance(3)	
Board	1 of 1	100.0%
Corporate Governance and Nominating Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Ms. Kronis ceased to be a member of the Human Resources and Environment Committee and was reappointed to the Chair of the Corporate Governance and Nominating Committee on May 11, 2017.

(2) Two Human Resources and Environment Committee meetings occurred until date on which Ms. Kronis ceased to be a member of that committee, and two Corporate Governance and Nominating Committee meetings occurred since date of Ms. Kronis' appointment to that committee.

(3) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Denzil Minnan-Wong
Ontario, Canada

Director since:	December 3, 2014
Expiry of current term:	November 30, 2018, or effective date of appointment of a successor director

Deputy Mayor Minnan-Wong has been the City Councillor for Ward 34 – Don Valley East since 1997. Deputy Mayor Minnan-Wong is currently serving as Chair of City Council's Civic Appointments Committee, Chair of City Council's Employee and Labour Relations Committee, Chair of City Council's Striking Committee, and Vice-Chair of City Council's Executive Committee. He also sits on City Council's Committee of Revision, North York Community Council, City Council's Debenture Committee, the Toronto Transit Commission Board, and City Council's Corporations Nominating Panel. Deputy Mayor Minnan-Wong is the Mayor's designate on the Board of Directors for Waterfront Toronto. Deputy Mayor Minnan-Wong's past experience includes serving as Chair of City Council's Public Works and Infrastructure Committee, Chair of City Council's Economic Development Committee, Chair of North York Community Council, and a member of City Council's Planning and Transportation Committee, City Council's Works and Emergency Services Committee, City Council's Audit Committee, and the Toronto Financial Service Advisory Committee. He was formerly on the Board of Directors for BUILD Toronto, and Invest Toronto. Deputy Mayor Minnan-Wong holds a Juris Doctor from Osgoode Hall Law School, and is a member of the Law Society of Ontario.

Principal Occupation:
Deputy Mayor and Councillor, City of Toronto

Board/Committee Membership	**2017 Attendance**	
Board	7 of 8	87.5%
	2018 Attendance[(1)]	
Board	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Paul Ainslie
Ontario, Canada

Director since:	February 10, 2015
Expiry of current term:	November 30, 2018, or effective date of appointment of a successor director

Councillor Ainslie has been the City Councillor for Ward 43 – Scarborough East since December 2006. Councillor Ainslie is currently serving as Chair of City Council's Government Management Committee and the Chair of the Toronto Zoo Board of Management, and also sits on City Council's Executive Committee, Scarborough Community Council, and the Toronto Public Library. Mr. Ainslie is a member of the Board of Directors of the Federation of Ontario Public Libraries, the Ontario Good Roads Association, the Canadian National Exhibition Association, Municipal Section, Toronto and Region Conservation Authority, and the Guild Renaissance Group. Councillor Ainslie's past experience includes serving as Co-Chair of the Rouge Valley Health System Centenary Buy A Bed fundraising campaign and Chair of the Board of Directors of Haliburton Club.

Principal Occupation:
Councillor, City of Toronto

Board/Committee Membership	**2017 Attendance**	
Board	5 of 8	62.5%
Corporate Governance and Nominating Committee	3 of 4	75.0%
	2018 Attendance(1)	
Board	1 of 1	100.0%
Corporate Governance and Nominating Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

Stephen Holyday
Ontario, Canada

Director since: December 3, 2014
Expiry of current term: November 30, 2018, or effective date of appointment of a successor director

Deputy Mayor Holyday is the Mayor's designate to the Board effective as of December 3, 2014. Deputy Mayor Holyday has been the City Councillor for Ward 3 - Etobicoke Centre since December 2014, and was appointed Deputy Mayor in September 2017 Deputy Mayor Holyday is currently serving as Chair of City Council's Audit Committee, Vice-Chair of City Council's Employee and Labour Relations Committee, and Vice-Chair of Public Works and Infrastructure Committee. He sits on the Etobicoke York Community Council and George Bell Arena Nominating Panel. Deputy Mayor Holyday is a Mayor's Designate on the Board of Directors of The Atmospheric Fund. Deputy Mayor Holyday is a member of the Board of Directors of the Hockey Hall of Fame, and a member of the Canadian National Exhibition Association - Municipal Section. Before being elected to public office, Deputy Mayor Stephen Holyday was Manager, Service Management at the Ontario Ministry of Energy. He holds a Bachelor of Technology in Architectural Science from Ryerson University. Through his experience as Vice-Chair of City Council's Employee and Labour Relations Committee, Mr. Holyday is familiar with compensation systems and related benefit programs at all levels.

Principal Occupation:
Deputy Mayor and Councillor, City of Toronto
Acting Manager and Manager, Service Management, Ontario Ministry of Energy (From May 2009 to November 2014)

Board/Committee Membership	**2017 Attendance**	
Board	8 of 8	100.0%
Human Resources and Environment Committee	5 of 5	100.0%
	2018 Attendance[(1)]	
Board	1 of 1	100.0%
Human Resources and Environment Committee	1 of 1	100.0%

Board Memberships for other Reporting Issuers:
None

Note:
(1) 2018 attendance is for the period of January 1, 2018 to the date of this AIF.

10.4 Executive Officers

The following table sets forth the name, province and country of residence, office, and principal occupation for each of executive officers of the Corporation. 33.3% (1 out of 3) of the executive officers of the Corporation are female. 25.0% (2 out of 8) of the executive officers of LDC are female.

Name	Residence	Office	Principal Occupation
Anthony Haines(1)	Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Toronto Hydro Corporation
Sean Bovingdon(2)	Ontario, Canada	Executive Vice-President, Chief Financial Officer	Executive Vice-President, Chief Financial Officer, Toronto Hydro Corporation
Amanda Klein(3)	Ontario, Canada	Executive Vice-President, Regulatory Affairs and General Counsel	Executive Vice-President, Regulatory Affairs and General Counsel, Toronto Hydro Corporation

Notes:

(1) Mr. Haines has been the President of LDC since September 2006. He was also appointed the CEO of the Corporation effective October 1, 2009.

(2) Sean Bovingdon was appointed as the Corporation's Executive Vice-President and Chief Financial Officer effective as of April 3, 2017. Prior to joining Toronto Hydro, Mr. Bovingdon was the Chief Financial Officer of Argent Energy Ltd from June 2011 until his appointment as the President of Argent Energy Ltd effective April 2015.

(3) Ms. Klein was Senior Regulatory Counsel (from June 20, 2011 to August 22, 2012) and then Director, Rates and Regulatory Affairs (from August 23, 2012 to December 31, 2014) until her appointment as Vice-President, Regulatory Affairs and General Counsel of the Corporation effective January 1, 2015. Ms. Klein was appointed Executive Vice-President, Regulatory Affairs and General Counsel of the Corporation effective September 1, 2016.

10.5 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. McFadden was a director of Atlantis Systems Corp. when its directors and officers were subject to a management cease trade order from April 1, 2008 and May 12, 2008 for their failure to file the corporation's annual audited financial statements, management's discussion and analysis and annual information form by the regulatory filing deadline. The cease trade order is no longer in effect.

Mr. Bovingdon served as the Chief Financial Officer of Argent Energy Ltd. (the "Administrator"), the administrator of Argent Energy Trust ("the Trust"), from June 2011 until August 2016 and he also served as President of the Administrator from April 2015 until August 2016. The units of the Trust were listed on the Toronto Stock Exchange ("TSX"). On February 17, 2016, the Trust sought and obtained protection under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA"). On August 30, 2016, the Court of Queen's Bench of Alberta entered an Order, among other things, terminating the CCAA proceeding for the Trust effective August 31, 2016. On August 31, 2016, the Trust made an assignment into bankruptcy, and on vesting of the Trust's assets with the bankruptcy trustee, the Trust was deemed to be terminated by operation of law. During the CCAA proceedings, certain securities commissions in Canada (including the Alberta Securities Commission, the British Columbia Securities Commission, the Manitoba Securities Commission, and the OSC) issued cease trade orders against the Trust for failing to file interim and annual financial statements. In addition, the Trust units and convertible debentures of the Trust were delisted from the TSX effective at the close of market on March 24, 2016 for failure of the Trust to meet the continued listing requirements of the TSX.

Except as noted above, no director or executive officer of the Corporation is, as at the date of this AIF, or has within ten years prior to the date of this AIF:

(a) been a director, chief executive officer or chief financial officer of any company (including the Corporation) that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer;

(b) been a director, chief executive officer or chief financial officer of any company (including the Corporation) that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

(c) been a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, 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; or

(d) become 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 the assets of such director or executive officer.

No director, executive officer, or to the Corporation's knowledge, the City, has been subject to:

(a) 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

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

10.6 Independence

As at the date of this AIF, the Board consists of eleven directors, all of whom are appointed by the City in its capacity as sole shareholder of the Corporation. Three of the directors are Councillors of the City and are not considered independent because of their positions. None of the other directors have a direct or indirect material relationship with the Corporation and are independent within the meaning of applicable Canadian securities law.

No members of management sit on the Board. The Board meets regularly to discuss the management of the Corporation. A portion of each Board and Board committee meeting is reserved for Directors to meet without management present. Under its mandate, the Board is authorized to retain independent legal counsel and other advisors if it considers this appropriate. The mandate also provides that the Board shall have unrestricted access to the officers of the Corporation and is authorized to invite officers and employees of the Corporation and others to attend or participate in its meetings and proceedings if it considers this appropriate. The full text of the Board's written mandate is attached as Annex B.

The Corporation has developed a written position description for the Chair of the Board. The Chair is responsible for reporting to the Board, leading the directors and managing the day-to-day activities of the Board. The Chair is also responsible for engaging in discussions with the shareholder and its representatives as are necessary and desirable, maintaining an active and cooperative relationship with the CEO and other senior management of the Corporation, acting as the principal interface between the Board and the CEO of the Corporation, and providing advice and counsel to the CEO and other senior management of the Corporation.

The Board has also developed written position descriptions for the chair of each Board committee and the CEO.

10.7 Board Orientation and Continuing Education

Each new director, upon joining the Board, is given an orientation session with comprehensive set of materials designed to provide him/her with a summary of the key organizational, financial, regulatory, and operational aspects of Toronto Hydro. These materials also contain information on the various Toronto Hydro boards and their committees.

On an on-going basis, as part of regular and special board meetings, directors receive presentations, reports and training on topics related to Toronto Hydro's businesses and the obligations and responsibilities of directors. Topics covered are either suggested by management or requested by the directors. As well, directors receive information from management in response to any actions arising at a board meeting or otherwise. Educational programs through external service providers are also made available to the directors.

10.8 Board, Committee and Director Assessments

The Corporate Governance and Nominating Committee oversees a process used to evaluate the effectiveness of the Board as a whole, its committees and the individual directors. The process may be facilitated by an independent consultant with expertise in board assessments as selected by the Board. Alternatively, the Board may complete an internal assessment. The process may consist of an in-person interview and/or a written questionnaire evaluating the Board, its committees and the individual directors that are completed periodically by each director. The directors' responses to the questionnaire and/or interviews related to the operation of the Board and its committees are compiled into a summary report that is reviewed by the Corporate Governance and Nominating Committee. This report and recommended remedial actions are presented to the Board for review, consideration and implementation.

10.9 Board Oversight and Management of Risks

In accordance with its mandate, the Board is responsible for overseeing the identification of the principal risks of the business and implementation of appropriate systems to manage these risks. In 2009, Toronto Hydro adopted an ERM program to add value and improve the Corporation's operations through enabling the attainment of its strategic goals and objectives. The ERM program helps the Corporation achieve this by bringing a systematic and disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks applicable to Toronto Hydro. Accordingly, ERM is an integral part of the strategic management of the Corporation's business and is routinely considered in forecasting, planning and executing all aspects of Toronto Hydro’s operations. The ERM program follows industry best practice and adopts a rigorous top-down / bottom-up approach towards the management of risks.

See Part 8 under the heading "Risk Factors" above for further information on ERM.

10.10 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 the Corporation or any of its subsidiaries had any outstanding indebtedness to the Corporation 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 the Corporation or any of its subsidiaries.

PART 11 - AUDIT COMMITTEE

11.1 Composition, Independence and Financial Literacy

The Audit Committee is comprised of Michael Nobrega (Chair), Juliana Lam and Heather Zordel, each of whom is independent and financially literate within the meaning of applicable Canadian securities laws. Prior to May 11, 2017, the Audit Committee was comprised of Michael Nobrega (Chair), Brian Chu and Heather Zordel. See section 10.3 under the heading "Directors" for more information about the relevant education and experience of each member.

11.2 Audit Committee Charter

Under the terms of its charter, the Audit Committee is responsible for: managing the relationship between Toronto Hydro and its external auditors; overseeing the external audit; overseeing the internal audit; reviewing and recommending to the Board for approval the financial statements, management's discussion and analysis and interim reports of the Corporation and its subsidiaries, the annual information form and other public disclosure of financial information extracted from the financial statements of the Corporation; overseeing internal financial control structure and financial risk management systems; establishing and reviewing certain procedures and policies; reviewing policy reporting; and reviewing and making recommendations to the Board with respect to the payment of dividends or distribution of capital by the Corporation.

The full text of Corporation's Audit Committee Charter is attached as Annex A.

11.3 Policy on the Provision of Services by the External Auditors

The Audit Committee has developed a Policy on the Provision of Services by the External Auditors. Under the terms of the Policy:

- the external auditors may not provide services to Toronto Hydro that impair or have the potential to impair the independence and objectivity of the external auditors in relation to the external audit function (generally, prohibited services include services where the external auditors participate in activities that are normally undertaken by management of Toronto Hydro, are remunerated through a "success fee" structure, act in an advocacy role for Toronto Hydro or may be required to audit their own work);

- the Audit Committee has pre-approved certain audit and permitted non-audit services as services that the auditors may provide to Toronto Hydro, including: services that constitute the agreed scope of the external audit or interim reviews of Toronto Hydro; services that are outside the agreed scope of, but are consistent with, the external audit or interim reviews of Toronto Hydro; tax services that do not compromise the independence and objectivity of the external auditors in relation to the external audit; and other services of an advisory nature that do not compromise the independence and objectivity of the external auditors in relation to the external audit work; and

- an authorization process has been established which provides, among other things: the Chief Financial Officer may authorize in advance all engagements of the external auditors to provide pre-approved services (other than audit services) to Toronto Hydro up to a maximum of $25,000 for any engagement and up to a maximum of $100,000 for all engagements in any fiscal quarter (the Chief Financial Officer must report all such authorized engagements to the Audit Committee at its next meeting); the Chair of the Audit Committee may authorize in advance all engagements of the external auditors to provide pre-approved services (other than audit services) to Toronto Hydro up to a maximum of $50,000 for any engagement and up to a maximum of $100,000 for all engagements in any fiscal quarter (the Chair must report all such authorized engagements to the Audit Committee at its next meeting); and the Audit Committee must authorize in advance all engagements of the external auditors to provide pre-approved services to Toronto Hydro above the prescribed thresholds and all engagements to provide services that are not pre-approved services regardless of the dollar value of the services.

Exceptions can be made to this Policy where the exceptions are in the interests of Toronto Hydro and appropriate arrangements are established to ensure the independence and objectivity of the external auditors in relation to the external audit. Any exception must be authorized by the Audit Committee and must be reported to the Board.

11.4 External Auditors Service Fees

The table below sets out the fees charged by Toronto Hydro's external auditor, KPMG LLP, on an accrual basis, for each of last two fiscal years in respect of the services noted below.

	Year ended December 31,	
	2017	**2016**
Audit fees[(1)]	$683,720	$707,241
Audit-related fees[(2)]	$32,000	$54,210
Tax fees[(3)]	-	-
All other fees	-	$10,000

Notes:

(1) Fees for audit services and interim reviews, excluding CPAB levy.

(2) Fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under (1) above, specifically French translation.

(3) Fees for tax advisory services.

PART 12 - EXECUTIVE COMPENSATION

12.1 Compensation Governance

(a) Human Resources and Environment Committee

(i) *Composition and Independence*

The Human Resources and Environment Committee, under the direction of the Board has oversight for Toronto Hydro’s senior executive compensation program. The Human Resources and Environment Committee is comprised of Brian Chu (Chair), Juliana Lam, Michael Nobrega, and Deputy Mayor Stephen Holyday. Mr. Chu, Ms. Lam, and Mr. Nobrega are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Deputy Mayor Holyday is not independent within the meaning of applicable Canadian securities laws. The appointment of one of the Corporation’s City Councillor directors to the Human Resources and Environment Committee is a requirement under the Shareholder Direction. Prior to May 11, 2017, the Human Resources and Environment Committee was comprised of Brian Chu (Chair), Deputy Mayor Stephen Holyday, Michael Nobrega and Tamara Kronis. See section 10.3 under the heading "Directors" for more information about the relevant education and experience of each member.

(ii) *Human Resources and Environment Committee Charter*

The Human Resources and Environment Committee operates under a written charter adopted by the Board. One of the primary functions of the Human Resources and Environment Committee is to advise and assist the Board in overseeing Toronto Hydro's compensation program and assessing the performance and compensation of the CEO and the other senior executive officers of Toronto Hydro. Specifically, under the terms of its charter, the Human Resources and Environment Committee is responsible for assisting the Board in fulfilling its responsibilities with respect to: the recruitment and assessment of the performance of the CEO; the review and approval of the compensation of the CEO and the other senior executive officers of Toronto Hydro; the review and approval of senior executive compensation policies; the review and approval of senior executive compensation disclosure; the review of the alignment of compensation programs with Toronto Hydro’s strategic plans and risk profile; and the general oversight of the compensation structure and benefit plans and programs for Toronto Hydro.

(b) Compensation Risk Oversight

Toronto Hydro has a rigorous risk management and governance structure in place to assist the Board with its oversight and management of all of Toronto Hydro's risks, including risks related to Toronto Hydro's compensation policies and practices. While the Board and the Human Resources and Environment Committee have not conducted a formal assessment of the implications of risks specifically associated with Toronto Hydro's compensation policies and practices, the Human Resources and Environment Committee has and continues to consider the Corporation's strategic objectives, plans and risk strategy in its review and recommendations regarding Toronto Hydro's compensation program. In addition to Toronto Hydro's ERM program, the practices, processes and systems in place to identify and mitigate compensation policies and practices that could encourage an executive officer to take inappropriate or excessive risks include: the periodic review and audit of Toronto Hydro's senior executive compensation program by Toronto Hydro's internal auditor; the development and application of a management control reporting system providing transparency and control to compensation measures; the use of a balanced scorecard of corporate, divisional and individual performance objectives; the periodic benchmarking of Toronto Hydro's compensation program; the review of Toronto Hydro's compensation program by an independent compensation consultant and, from time to time, the OEB; and the application of maximum payout amounts for achievement of individual performance goals. See sections 8 under the heading "Risk Oversight" and 10.9 under the heading "Board Oversight and Management of Risks" for more information on Toronto Hydro's ERM program, section 12.2(c)(ii) under the heading "Benchmarking" for more information on Toronto Hydro's benchmarking of its compensation program, section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the Corporation's compensation consultant and section 12.2(d)(ii) under the heading "Performance-Based Incentive Compensation" for more information on Toronto Hydro's performance-based incentive compensation program.

12.2 Compensation Discussion and Analysis

(a) Named Executive Officers

This Compensation Discussion and Analysis describes and explains all significant elements of compensation awarded to, earned by, paid to, or payable to the NEOs for the financial year ended December 31, 2017. The NEOs are:

(i) **Anthony Haines**
President and Chief Executive Officer, Toronto Hydro Corporation

(ii) **Sean Bovingdon**[(1)]
Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation

(iii) **Laura Foster**[(2)]
Interim, Chief Financial Officer, Toronto Hydro Corporation

(iv) **Dino Priore**
Executive Vice-President and Chief Engineering and Construction Officer, Toronto Hydro-Electric System Limited

(v) **Ben La Pianta**[(3)]
Executive Vice-President and Chief Electric Operations and Procurement Officer, Toronto Hydro-Electric System Limited

(vi) **Ave Lethbridge**
Executive Vice-President and Chief Human Resources and Safety Officer, Toronto Hydro-Electric System Limited

Notes:

(1) Effective April 3, 2017, Mr. Bovingdon began his role as Executive Vice-President and Chief Financial Officer.

(2) Effective April 3, 2017, Ms. Foster ceased her role as Interim, Chief Financial Officer and began her role as Vice-President Audit and Corporate Compliance.

(3) Effective January 1, 2018 Mr. La Pianta began his role as Executive Vice-President and Chief Customer Care and Electric Operations & Procurement Officer.

(b) General Objectives of Compensation Program

Toronto Hydro's senior executive compensation program is designed to attract and retain executives who have the skills and experience to help the Corporation achieve its strategic goals, to motivate executives to achieve such corporate goals and to reward senior executives for superior performance and achievement of corporate, divisional and individual objectives.

(c) Process for Establishing Compensation

(iii) *Policies and Practices*

Toronto Hydro's overall senior executive compensation policy, structure and program is developed and supervised by the Human Resources and Environment Committee with the assistance of a compensation consultant, and approved by the Board. See section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the compensation consultant.

Pursuant to the terms of its charter, the Human Resources and Environment Committee has the responsibility to annually, and more frequently if appropriate, review and make recommendations to the Board with respect to the individual performance-based incentive compensation goals and objectives related to the compensation of the CEO and to assess the CEO's performance against those goals and objectives. The Human Resources and Environment Committee also makes recommendations to the Board with respect to the overall compensation and benefits of the CEO. The Board ultimately sets and approves the CEO's compensation.

The CEO has the responsibility to annually, and more frequently if appropriate, review and approve the individual performance-based incentive compensation goals and objectives related to the compensation of the other senior executive officers, including the NEOs, and assess the other senior executive officers' performance against those goals and objectives. The CEO proposes the other senior executive officers' performance-based incentive compensation and overall compensation, subject to the Human Resources and Environment Committee's review and approval.

(iv) *Benchmarking*

Toronto Hydro periodically benchmarks the compensation it provides to the NEOs to ensure reasonableness, competitiveness and effectiveness of Toronto Hydro's compensation program, including the level and type of compensation provided. The Human Resources and Environment Committee periodically engages a compensation consultant to conduct executive compensation benchmarking for the NEOs, to ensure that Toronto Hydro is able to attract, retain and motivate high-performing senior executives in the markets in which we compete for talent.

Toronto Hydro's objective is to pay competitively with other Canadian Utility and Energy Industry companies of comparable size and complexity. NEO compensation is generally benchmarked against:

- industry comparators in the public sector of like size: publicly owned utility/ energy companies in Canada with revenues of approximately ½ to 2x Toronto Hydro's distribution revenue and / or total revenue;
- publicly and privately owned (including publicly traded) utility/ energy companies in Canada with revenues of approximately ½ to 2x Toronto Hydro's distribution revenue and / or total revenue;
- industrial companies in the Greater Toronto Area ("GTA");
- industrial companies in Canada; and
- public sector organizations in Canada.

The benchmark data comes from proprietary compensation surveys, and publicly disclosed executive compensation information in Canada.

Toronto Hydro's flow-through revenue for electricity transmission and generation is excluded for purposes of identifying comparable general industry (i.e., non-local-distribution-company) peer companies, except in the case of the CFO, where the Toronto Hydro's full revenue is also considered because Toronto Hydro believes this role's accountability for cash management more closely matches organizations with similar total revenues. The senior executive compensation information derived from the benchmarking analysis is designed to assist the Human Resources and Environment Committee in establishing, over a reasonable period of time, total cash compensation for NEOs in the range of the median total cash compensation of the benchmark data. Total cash compensation to NEOs may exceed the median of the marketplace when corporate, divisional and individual performance significantly exceeds objectives.

(v) *Compensation Consultants and Advisors*

The Human Resources and Environment Committee began engaging the services of Willis Towers Watson for senior executive compensation consulting services in 2016 and previously engaged Mercer for these services. The consulting services provided to the Human Resources and Environment Committee include providing advice on the competitiveness and appropriateness of Toronto Hydro's senior executive compensation program, compensation benchmarking services, and other compensation related matters that may arise from time to time. The Corporation also engages Willis Towers Watson for actuarial services. The Human Resources and Environment Committee or the Board is required to pre-approve the actuarial services Willis Towers Watson provides to Toronto Hydro in accordance with the Corporation's Policy on the Provision of Services by Compensation Advisors. The actuarial services provided by Willis Towers Watson do not present any conflicts with the services provided as compensation advisor to the Human Resources and Environment Committee.

The table below sets out the fees billed by Mercer and Willis Towers Watson for each of last two fiscal years in respect of the services noted below.

	Year ended December 31,			
	2017		**2016**	
	Mercer	Willis Towers Watson	Mercer	Willis Towers Watson
Executive Compensation – Related Fees[(1)]	—	$94,906	$11,021	$94,514
All Other Fees[(2)]	—	$42,427	$39,060	$100,503

Notes:

(1) Aggregate fees billed by Mercer and Willis Towers Watson, or any of its affiliates, for services related to determining compensation for any of Toronto Hydro's directors and executive officers.

(2) Aggregate fees billed by Mercer and Willis Towers Watson, or any of its affiliates, for services related to employee compensation and benefits management consultation or actuarial services that are not reported under (1) above.

(d) Elements of Compensation

The principal components of compensation for NEOs are:

- base salary;
- performance-based incentive compensation;
- personal benefits and perquisites;
- pension plan;
- post-employment benefits;
- retirement allowances; and
- termination payments.

As the Corporation has a single shareholder that is the registered and beneficial owner of all of its issued and outstanding shares, the Corporation is not able to offer an equity incentive plan or other stock-based compensation to its NEOs.

(vi) *Base Salary*

In accordance with the general objectives and process for establishing compensation noted above, Toronto Hydro provides NEOs with a base salary to compensate them for services rendered during the fiscal year. Toronto Hydro provides reasonably competitive market-based base salaries to help attract, motivate, and retain NEOs who are critical to the Corporation's success.

Annually, adjustments to base salaries for NEOs are driven by market benchmarking data and the NEO's individual performance rating. The performance rating is determined, in the case of the CEO, by the Human Resources and Environment Committee and, in the case of the other NEOs, by the CEO, based on the achievement of performance-based incentive compensation objectives, knowledge, skills, and competencies related to day-to-day performance, as well as demonstration of desired corporate behaviours, subject to the Human Resources and Environment Committee's review and approval.

(vii) *Performance-Based Incentive Compensation*

All NEOs receive a portion of their annual compensation in the form of performance-based cash payments. The performance-based incentive compensation is designed to retain, motivate and reward NEOs for reaching corporate, divisional and individual performance objectives established at the beginning of each calendar year.

The annual performance-based incentive compensation is calculated as a percentage of the NEO's base salary for the year and, if earned, paid in one lump sum in the next fiscal year.

In order for a NEO to earn and receive the performance-based incentive compensation, the Corporation and the NEO must each achieve certain pre-determined performance objectives. Each NEO's performance-based incentive compensation is based on a weighting of corporate, divisional and individual performance objectives, whose weightings and objectives are determined at the start of each year and vary by role to reflect the performance focus of the role. The weighting and objectives are reviewed and set each year in order to reflect the Corporation's overall strategy and objectives.

Each year the board reviews and approves the Corporation's objectives. Each performance objective is weighted to reflect relative importance and includes threshold, target and outstanding expectations of performance. Specific performance targets are approved by the Board giving consideration to the Corporation's business plans and priorities for the upcoming year, the prior year's performance and a review of forecasted results based on a historical analysis of performance. Similarly divisional objectives are approved by the CEO and reviewed by the Human Resources and Environment Committee to recognize unique divisional priorities and ensure alignment with the Corporation's overall objectives.

The CEO's individual objectives are reviewed and approved by the Board. The individual objectives of the other NEOs are reviewed and approved by the CEO. Each NEO's individual objectives are based on areas of strategic and operational emphasis related to their respective responsibilities and portfolios.

The NEO's individual objectives are intended to be reasonably difficult to attain and to encourage success in the NEO's performance. Individual objectives are often but not always achieved by a NEO in any given year. NEOs review their objectives and measurements throughout the year, with one formal mid-year review with the Chair of the Board (in the case of the CEO), and with the CEO (in the case of the other NEOs), to track achievement to-date and revise performance goals as may be necessary to reflect any change in corporate strategy or priorities.

In the case of the CEO, an annual performance evaluation in respect of his individual performance goals is conducted by the Chair of the Board who provides a recommendation to the Human Resources and Environment Committee regarding the performance-based incentive compensation to be paid to the CEO. The amount paid to the CEO is approved by the Board after review of the recommendation of the Human Resources and Environment Committee.

In the case of each of the other NEOs, an annual performance evaluation in respect of the individual objectives for each individual is conducted by the CEO, who proposes the amount of performance-based incentive compensation to be paid to each other NEO. The Human Resources and Environment Committee reviews and approves the amounts of performance-based incentive compensation to be paid to each of the other NEOs.

The Human Resources and Environment Committee may exercise its discretion to increase or reduce the performance-based incentive compensation paid to the CEO or NEOs, as applicable, including in certain circumstances, absent attainment of a relevant performance goal or similar condition.

(viii) *Personal Benefits and Perquisites*

Toronto Hydro provides NEOs with other personal benefits and perquisites that Toronto Hydro believes are reasonable and consistent with its overall compensation program to better enable the Corporation to attract and retain superior employees for key positions. Benefits include group health, dental, group life insurance, short-term and long-term disability, accidental death & dismemberment, a gym subsidy, and educational reimbursements, all of which are generally available to all salaried employees.

(ix) *Pension Plan*

All full-time employees of Toronto Hydro, including the NEOs, are required to participate in the OMERS pension plan. Pursuant to the terms of the OMERS pension plan, NEOs are required to make equal plan contributions based on their eligible pensionable earnings. In 2017, Toronto Hydro and each NEO was required to contribute 9% equally of the first $55,300 of pensionable earnings and thereafter 14.6% equally on all earnings over $55,300 and up to $170,797. From $170,797 and up to a maximum of $387,100, contributions continue equally at 14.6% towards a Retirement Compensation Arrangement (RCA), which is governed separately under the Canadian Income Tax Act. The OMERS pension plan is generally available to all other salaried employees. See section 4.6 (a) under the heading "Employees" for more information on the OMERS pension plan.

(x) *Post-employment Benefits*

NEOs are eligible to receive post-employment health, dental and life insurance benefits after a minimum of five years of service with Toronto Hydro if they retire from Toronto Hydro and begin collecting under the OMERS pension plan upon retirement. The post-employment benefits provided to eligible NEOs are the same as are generally available to all other salaried employees. Post-employment benefits aid in attracting and retaining key executives to ensure the long-term success of Toronto Hydro.

(xi) *Retirement Allowances*

From time to time, in certain circumstances, Toronto Hydro enters into retirement allowance agreements with its NEOs. The retirement allowance agreements are designed to recognize service, and to promote retention, stability and continuity, of the NEOs. These agreements are made on a case-by-case basis based on a NEO's years of service and position. Any retirement allowance provided to the CEO is approved by the Board after review of the recommendation of the Human Resources and Environment Committee. In the case of each of the other NEOs, any retirement allowance agreement is proposed by the CEO and reviewed and amended or approved by the Human Resources and Environment Committee. Retirement allowance payments are typically paid in one or two lump sum instalments following termination or retirement of the NEO.

(xii) *Termination Payments*

From time to time, Toronto Hydro enters into agreements with NEOs which provide for payments upon termination. These agreements are made on a case-by-case basis based on the NEO's age, years of service and position. Any such agreement for the CEO is approved by the Board after review of the recommendation of the Human Resources and Environment Committee. In the case of each of the other NEOs, any such agreement is proposed by the CEO and reviewed and approved by the Human Resources and Environment Committee. Typically, termination payments are paid either as a lump sum or as salary continuation for an agreed period following termination.

12.3 Compensation of Named Executive Officers

(a) Summary Compensation Table

The following table provides a summary of the compensation earned during the years ended December 31, 2017, 2016 and 2015, by the NEOs:

Summary Compensation Table[1]

NEO Name and Principal Position[5]	Year	Salary[2] ($)	Non-Equity Incentive Plan Compensation[3] ($)	All Other Compensation[4] ($)	Total Compensation ($)
Anthony Haines President and Chief Executive Officer, Toronto Hydro Corporation	2017 2016 2015	$548,490 $522,286 $509,459	$528,138 $508,551 $488,301	$10,452 $10,301 $10,210	$1,087,080 $1,041,138 $1,007,970
Sean Bovingdon Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation	2017	$274,039 [6]	$166,500	$200,000	$640,539
Laura Foster[7] Interim, Chief Financial Officer, Toronto Hydro Corporation	2017 2016 2015	$209,808 $189,918 $157,997	$92,610 $89,285 $62,801	$1,560 $1,440 $1,835	$303,978 $280,643 $222,633
Dino Priore Executive Vice-President and Chief Engineering and Construction Officer, Toronto Hydro –Electric System Limited	2017 2016 2015	$338,019 $326,019 $311,120	$211,371 $192,889 $184,584	$4,108 $2,330 $1,931	$553,498 $521,238 $497,635
Ben La Pianta Executive Vice-President and Chief Electric Operations and Procurement Officer, Toronto Hydro –Electric System Limited	2017 2016 2015	$298,103 $287,100 $273,165	$195,137 $169,295 $161,120	$5,005 $3,823 $3,376	$498,245 $460,218 $437,661
Ave Lethbridge Executive Vice-President and Chief Human Resources and Safety Officer, Toronto Hydro –Electric System Limited	2017 2016 2015	$265,775 $254,833 $244,865	$158,145 $151,454 $142,614	$3,655 $9,132 $8,193	$427,575 $415,419 $395,672

Notes:

(1) Amounts shown in this table are in Canadian dollars and have been rounded to the nearest dollar.

(2) Amounts shown reflect actual amounts paid during the year.

(3) Each NEO's annual performance-based incentive compensation for a fiscal year is determined and paid in the next fiscal year. Accordingly, amounts reflected in respect of a particular year (i.e. 2016) represent the annual performance-based incentive compensation earned by the NEO for the achievement of performance objectives in respect of that fiscal year (i.e. 2016) but which amounts are paid in the following fiscal year (i.e. 2017).

(4) Amounts shown in this column reflect all other compensation earned by the NEO during the year. The amounts shown include the aggregate value of perquisites and other personal benefits provided to the NEO, where such perquisites and personal benefits are not generally available to all employees and have been calculated by using the actual cost. In 2017, 2016 and 2015, perquisites and personal benefits were not worth $50,000 or more for any NEO, nor were they worth 10% or more of any NEO's total salary for the year, with the exception of Mr. Bovingdon. Mr. Bovingdon received a one-time $200,000 relocation allowance when he joined the Corporation in 2017.

(5) Effective December 15, 2015, Jean-Sebastien Couillard ceased to be Executive Vice-President, Chief Financial Officer of the Corporation. See section 12.3(b)(vii) under the heading "Termination Payments" for a discussion regarding additional amounts respecting termination.

(6) Effective April 3, 2017, Mr. Bovingdon is the Executive Vice-President and Chief Financial Officer and his annual base salary was $375,000.

(7) Effective December 16, 2015, Ms. Foster began acting in the capacity of Interim, Chief Financial Officer of the Corporation until April 3, 2017 when she accepted the role of Vice-President, Audit and Corporate Compliance. As a result of Ms. Foster acting in the capacity of Interim, Chief Financial Officer, her annual base salary increased to $180,000 in 2015, $200,000 in 2016 and $210,000 in 2017. Ms. Foster's target performance-based incentive was 30% of salary for 2017.

(b) Compensation of NEOs in 2017 – Narrative Discussion

(xiii) *Base Salaries*

The NEOs' annual base salaries for 2017 were: $549,000 in the case of Mr. Haines, $375,000 in the case of Mr. Bovingdon, $210,000 in the case of Ms. Foster, $353,250 in the case of Mr. Priore, $328,315 in the case of Mr. La Pianta, and $265,987 in the case of Mrs. Lethbridge.

(xiv) *Performance-Based Incentive Compensation*

The targets and component weightings for the 2017 performance-based incentive compensation were as follows:

Position	Target Performance-Based Incentive (% of salary)	Individual Performance (% weighting)	Divisional Performance (% weighting)	Corporate Performance (% weighting)
CEO	65%	20%	—	80%
CFO	40%	20%	20%	60%
Other NEOs	40%	20%	20%	60%

The performance-based incentive compensation amount payable to each NEO may exceed the respective target % of base salary indicated above when results exceed corporate, divisional and individual objectives and may be below the respective target % of base salary indicated above when the corporate, divisional and individual objectives are not achieved. The component weightings outlined above have been unchanged since 2011.

The performance objectives of the Corporation for 2017 were as follows:

Corporate Key Performance Indicators	Measure	Target	Weight (%)
Net income after net movements in regulatory balances ($ millions)	Net Income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements.	$145.0	45%
LDC Regulated Capital ($ millions) (1)	Achievement of LDC's capital work program.	$370.5	15%
System Average Interruption Duration Index (SAIDI) (in minutes) (Defective equipment only)	Measure of the annual system average interruption duration per customer served, not including Major Event Days.	29.71	10%
System Average Interruption Frequency Index (SAIFI) (number of interruptions) (Defective equipment only)	Measure of the frequency of service interruptions per customer served, not including Major Event Days.	0.56	10%
First Call Resolution	Percentage of telephone enquiries resolved within one call, within a 21-day time period.	83%	4%
Bill Accuracy	The percentage of issued bills that are considered accurate or inaccurate as defined by the Ontario Energy Board.	98.6%	4%
New Services Connected On Time	Percentage of connections for new low-voltage (<750 volts) service requests completed within five business days from the day on which all applicable service conditions are satisfied, or at such later date as agreed to by the customer	96%	2%
Safety	Number of recordable injuries x 200,000 / exposure hours.	1.50	10%

Note:
(1) This is a non-GAAP measure as it includes all eligible capital expenditures, net of capital contributions related to regulated operations excluding Copeland and the facilities consolidation program.

Corporate KPIs are cascaded down in the organization to create appropriate divisional performance objectives with strong line of sight. Divisional KPIs support operational, financial, customer and employee targets. Weightings for these KPIs ranged from 5% to 20% of divisional performance. All divisional KPIs support achievement in the four areas of focus i.e. Customer, People, Operations, and Financial. These measures are aimed at increasing customer satisfaction, improving reliability, accomplishing LDC's work program safely and meeting regulatory requirements. Prioritization of these KPI's is determined based on divisional accountabilities. Some examples of Divisional measures are Customer Connection Index, Safety Inspections per Leader, Distribution System Health Index & Operating Expenses.

Performance-based incentives also include individual performance objectives which are set annually and are tied to business priorities and each individual's particular accountabilities. The number and weighting of individual objectives vary by individual and from year to year. Examples of the 2017 individual performance objectives for the

NEOs include, but are not limited to, continuous improvement of operational processes to enhance performance and engagement.

In 2017, the Corporation exceeded all of its corporate targets represented by its KPIs. The NEOs exceeded the majority of their divisional and individual performance targets for 2017. Each of the corporate, divisional and individual performance targets were reasonably difficult to attain and served to encourage success in the NEOs performance and in the Corporation's overall results.

(iii) *Personal Benefits and Perquisites*

In 2017, the NEOs received personal benefits and perquisites as described in section 12.2(d)(iii) under the heading "Personal Benefits and Perquisites", and as quantified in the Summary Compensation Table in section 12.3(a) above.

(iv) *Pension Plan*

In 2017, each of the NEOs participated in the OMERS pension plan. The OMERS pension plan is a group pension plan that is generally available to all salaried employees. See section 4.6(a) under the heading "Employees" and section 12.2(d)(iv) under the heading "Pension Plan" for further information on the OMERS pension plan.

(v) *Post-employment Benefits*

As of December 31, 2017, Mr. Haines, Mr. Priore, Mr. La Pianta and Mrs. Lethbridge have each provided Toronto Hydro with more than five years of service and are therefore eligible for post-employment medical, dental, and life insurance benefits if they retire from Toronto Hydro and begin collecting under the OMERS pension plan upon retirement.

(vi) *Retirement Allowance*

Mr. Haines is the only NEO entitled to retirement allowances, which allowances are calculated based on completed years of service and are payable in the form of lump-sum cash payments following Mr. Haines' termination (without cause) or retirement from the Corporation.

Under the terms of Mr. Haines' existing retirement allowance (the "Existing Allowance"), if Mr. Haines is terminated (without cause) or retires from the Corporation during 2018, he will receive a $625,000 retirement allowance. The amount of the Existing Allowance payable to Mr. Haines will thereafter be increased by an additional $125,000 per year (from 2018 to 2020) for each full calendar year of service completed. The maximum Existing Allowance payable to Mr. Haines is $1,000,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2020. In the event that Mr. Haines becomes permanently disabled while in active service for the Corporation, he will be deemed to remain in active service for the Corporation until December 31, 2020, at which point he will be considered to have retired and earned the maximum Existing Allowance of $1,000,000. In the event of the death of Mr. Haines while in active service for the Corporation, the Existing Allowance which Mr. Haines would have earned as of the date of his death will be paid to his designated beneficiary or to the legal representative of Mr. Haines' estate.

As part of his compensation package, Mr. Haines also participates in the OMERS defined benefit pension plan. See "Pension Plan" above in section 12.3(b)(iv). OMERS made significant unilateral changes to its defined benefit pension plan that significantly reduce the value of Mr. Haines' pension benefit under the OMERS pension plan. In order to mitigate the impact of these changes in a manner consistent with the terms of his existing employment relationship with the Corporation, the Corporation has awarded Mr. Haines a second retirement allowance (the "Second Allowance"). Under the terms of the Second Allowance, if Mr. Haines is terminated (without cause) or retires from the Corporation during 2018, he will receive a $750,000 retirement allowance. The amount of the Second Allowance payable to Mr. Haines will thereafter be increased by an additional $225,000 per year (from 2018 to 2021) for each full calendar year of service completed. The maximum Second Allowance payable to Mr. Haines is $1,650,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2021. In the event that Mr. Haines becomes permanently disabled while in active service for the Corporation, he will be deemed to remain in active service for the Corporation until December 31, 2021, at which point he will be considered to have retired and earned the maximum Second Allowance of $1,650,000. The provisions relating to entitlement on death are identical to those established for the Existing Allowance.

(vii) *Termination Payments*

Mr. Haines has entered into an agreement with the Corporation which provides for certain payments upon termination.

If the employment of Mr. Haines is terminated without cause by the Corporation, then Mr. Haines is entitled to a payment equal to 24 months of base salary and performance pay that would have been paid had he continued to work for 24 months (approximately $2,114,660 as at December 31, 2017), with the performance pay calculated based on the average annual performance pay earned by Mr. Haines during the 3 years preceding the date of termination. Mr. Haines would also be entitled to continued group health and dental benefit coverage for a period of 24 months from the date of termination.

Mr. Bovingdon has entered into an agreement with the Corporation which provides for certain payments upon termination.

If the employment of Mr. Bovingdon is terminated without cause by the Corporation, then Mr. Bovingdon is entitled to 12 months of working notice of termination or pay in lieu thereof and would continue to be eligible for performance pay that would otherwise have been earned and/or paid during the 12 month period. Mr. Bovingdon would also be entitled, during the 12 month period, to any benefits to which he was entitled during employment.

In addition, and in connection with Mr. Couillard ceasing employment with the Corporation, Mr. Couillard was entitled to a termination payment in the aggregate amount of $708,852, representing 18 months of base salary and performance pay, with the performance pay calculated based on the average annual performance pay earned by Mr. Couillard during the three years preceding the date of termination. All amounts owing were paid as of December 31, 2017.

12.4 Compensation of Directors

(a) Director Compensation Table

Director Name	**Total**[(1)] **($)**
David McFadden	$75,000
Brian Chu	$30,000
Heather Zordel	$25,500
Howard Wetston	$18,500
Juliana Lam[(2)]	$19,375
Mary Ellen Richardson	$24,500
Michael Nobrega	$29,500
Tamara Kronis	$26,500
Deputy Mayor Denzil Minnan-Wong	$Nil
Councillor Paul Ainslie	$Nil
Deputy Mayor Stephen Holyday	$Nil

Notes:

(1) There was no compensation paid to directors during 2017 other than in respect of director retainer fees and meeting attendance fees.

(2) Effective April 26, 2017, Juliana Lam was appointed as a director of the Corporation.

(b) Compensation of Directors – Narrative Discussion

Directors of the Corporation, other than Councillors of the City, are compensated for their services as directors through a combination of retainer fees and meeting attendance fees. These fees are set by the sole shareholder of the Corporation, the City. The annual retainer fees are as follows: chair of the Board – $75,000 and each of the other directors – $12,500. The meeting attendance fees are as follows: each meeting of the Board and the subsidiaries attended – $1,000 and each meeting of the Audit Committee, Corporate Governance and Nominating Committee, Human Resources and Environment Committee, or other Board committee attended – $1,000, subject to annual maximum fees per committee member of $5,000 for the Audit Committee, Corporate Governance Committee, Human Resources and Environment Committee or any other committee of the Board. The Board does, from time to time and in the normal course, strike ad hoc committees to streamline and expedite certain matters as they come before the Board. Any compensation Directors have earned from their attendance at these committees has been included in the table above. The Chair receives no meeting attendance fees. Councillors receive no remuneration for their services as directors of the Corporation. The other directors, other than the Chair, are subject to a maximum annual total retainer and attendance fees of $30,000.

PART 13 - LEGAL PROCEEDINGS

In the ordinary course of business, Toronto Hydro is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, Toronto Hydro assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, Toronto Hydro would make a claim under any applicable liability insurance policies which Toronto Hydro believes would cover any damages which may become payable by Toronto Hydro in connection with these actions, subject to such claim not being disputed by the insurers.

PART 14 - MATERIAL CONTRACTS

Except for the indenture and the supplemental indentures under which the Debentures were issued, Toronto Hydro has not entered into any material contract (other than contracts entered into in the ordinary course of business) in the most recently completed financial year, or before the most recently completed financial year, if such contract is still in effect.

Copies of these material contracts are available on the SEDAR website at www.sedar.com.

PART 15 - NAMED AND INTERESTS OF EXPERTS

The external auditor of the Corporation is KPMG LLP. KPMG LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PART 16 - TRANSFER AGENTS AND REGISTRARS

The trustee and registrar for the outstanding Debentures of the Corporation is BNY Trust Company of Canada, located in Toronto, Ontario.

PART 17 - ADDITIONAL INFORMATION

Additional information relating to the Corporation, including additional financial information provided in the Consolidated Financial Statements and Management's Discussion and Analysis, is available on the SEDAR website at www.sedar.com.

ANNEX A - CHARTER – AUDIT COMMITTEE

1. General

(1) The board of directors ***(Board)*** of Toronto Hydro Corporation ***(Corporation)*** has established the Audit Committee ***(Committee)*** to assist the Board in fulfilling its corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit and external audit functions.

(2) The composition, responsibilities and authority of the Committee are set out in this Charter.

(3) This Charter and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Committee may adopt from time to time shall govern the meetings and procedures of the Committee.

2. Composition

(1) The Committee shall be composed of at least three persons who are directors of the Corporation ***(Members)***:

(a) all Members must be *independent,* (as determined by the Board in accordance with the meaning of "independence", as the context requires, given to it in the Canadian Securities Administrators' National Instrument 52-110 Audit Committees, as the same may be amended and/or replaced from time to time); and

(b) at least one of whom, including the chair of the Committee (***Chair***) is *financially literate* (ie, have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the accounting issues that can reasonably be expected to be raised by the financial statements of the Corporation).

(2) Members shall be appointed by the Board on the recommendation of the Chair of the Board and shall serve until they resign, cease to be a Director or are removed or replaced by the Board.

(3) The Board shall designate one of the Members as Chair. The Committee shall periodically review the position description of the Chair and make recommendations to the Board.

(4) The Secretary of the Corporation shall be secretary of the Committee ***(Secretary)***.

(5) The Chair of the Corporation's Board of Directors shall be an *ex-officio* Member of the Committee with all of the responsibilities and privileges thereof.

3. Responsibilities

The Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit functions, external audit functions, and the payment of dividends by the Corporation.

The Committee shall have the responsibilities set out below.

(1) ***Managing the Relationship between the Corporation and its External Auditors***

The Committee shall be responsible for managing the relationship between the Corporation and its external auditors, including:

(a) appointing and replacing the external auditors, subject to shareholder approval;

(b) setting the compensation of the external auditors subject to the approval of the board of directors or shareholder, as applicable;

(c) overseeing the work of the external auditors, including resolving disagreements between management and the external auditors with respect to financial reporting;

(d) pre-approving all audit services and permitted non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors in accordance with the "Policy on the Provision of Services by the External Auditors";

(e) having the external auditors report to the Committee in a timely manner with respect to all required matters, including those set out in paragraph 3(2);

(f) ensuring the rotation of the audit partner having primary responsibility for the external audit of the Corporation, the audit partner responsible for reviewing the external audit and the external auditors at such intervals as may be required; and

(g) reviewing and assessing the performance, independence and objectivity of the external auditors.

(2) ***Overseeing the External Audit***

The Committee shall be responsible for overseeing the external audit of the Corporation, including:

(a) reviewing and approving the engagement letter and the audit plan, including financial risk areas identified by the external auditors and management;

(b) reviewing and assessing the accounting and reporting practices and principles used by the Corporation in preparing its financial statements, including:

(1) all significant accounting policies and practices used, including changes from preceding years and any proposed changes for future years;

(2) all significant financial reporting issues, estimates and judgments made;

(3) all alternative treatments of financial information discussed by the external auditors and management, the results of such discussions and the treatments preferred by the external auditors;

(4) any major issues identified by the external auditors with respect to the adequacy of internal control systems and procedures and any special audit steps adopted in light of material deficiencies and weaknesses;

(5) the effect of regulatory and accounting initiatives and off-balance sheet transactions or structures on the financial statements;

(6) any errors or omissions in, and any required restatement of, the financial statements for preceding years;

(7) all significant tax issues;

(8) the reporting of all material contingent liabilities; and

(9) any material written communications between the external auditors and management;

(c) reviewing and assessing the results of the external audit and the external auditors' opinion on the financial statements;

(d) reviewing and discussing with the external auditors and management any management or internal control letters issued or proposed to be issued by the external auditors;

(e) reviewing and discussing with the external auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management); and

(f) reviewing and discussing with legal counsel any legal matters that may have a material impact on the financial statements, operations, assets or compliance policies of the Corporation and any material reports or enquiries received by the Corporation and its subsidiary entities from regulators or government agencies.

(3) ***Overseeing the Internal Audit***

The Committee shall be responsible for overseeing the internal audit of the Corporation, including:

(a) periodically reviewing the Internal Audit Charter and making recommendations to the Board;

(b) reviewing and approving the audit plan, including significant risk exposures identified by the internal auditor and management;

(c) reviewing and discussing with the internal auditor and management the results of any internal audits;

(d) reviewing and discussing with the internal auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management);

(e) appointing and replacing the internal auditor;

(f) reviewing and assessing the performance of the internal auditor;

(g) ensuring the Committee is kept informed of emerging trends and successful practices in internal auditing; and

(h) confirming there is effective and efficient coordination of activities between internal and external auditors.

(4) ***Reviewing and Recommending to the Respective Boards for Approval the Financial Statements, MD&A and Interim Reports of the Corporation and its Subsidiaries***

The Committee shall review and recommend to the Board for approval, the financial statements, management's discussion and analysis of financial condition and results of operations ***(MD&A)*** and interim financial reports of the Corporation and its subsidiaries, annual information form **(*AIF*)** of the Corporation and other public disclosure of financial information extracted from the financial statements of the Corporation and its subsidiaries with particular focus on:

(a) the quality and appropriateness of accounting and reporting practices and principles and any changes thereto;

(b) major estimates or judgments, including alternative treatments of financial information discussed by management and the external auditors, the results of such discussions and the treatment preferred by the external auditors;

(c) material financial risks;

(d) material transactions;

(e) material adjustments;

(f) compliance with loan agreements;

(g) material off-balance sheet transactions and structures;

(h) compliance with accounting standards;

(i) compliance with legal and regulatory requirements; and

(j) disagreements with management.

(5) ***Overseeing Internal Financial Control Structure and Financial Risk Management Systems***

The Committee shall be responsible for overseeing the internal financial control structure and financial risk management systems of the Corporation, including:

(a) reviewing and discussing with management and the external auditors the quality and adequacy of internal control over financial reporting structures of the Corporation, including any major deficiencies or weakness and the steps taken by management to rectify these deficiencies or weaknesses;

(b) reviewing and discussing with management, the internal auditor and the external auditors the risk assessment and risk management policies of the Corporation, the major financial risk exposures of the Corporation and the steps taken by management to monitor and control these exposures;

(c) reviewing and discussing with the Chief Executive Officer and the Chief Financial Officer of the Corporation the procedures undertaken by them in connection with the certifications required to be given by them in connection with annual and other filings required to be made by the Corporation under applicable securities laws; and

(d) periodically reviewing the Treasury Policy and signing policies for the Corporation and its subsidiaries, making recommendations to the Board in respect of such policies and reviewing performance under those polices with Management.

(6) ***Establish and Review Certain Procedures and Policies***

The Committee shall establish adequate policies and procedures, or require that adequate policies and procedures are established, with respect to the following, and shall annually, or on such other schedule as stated herein, assess the adequacy of these procedures:

(a) the review of the public disclosure of financial information extracted from the financial statements of the Corporation;

(b) the receipt, retention and treatment of complaints received by the Corporation with respect to accounting, internal controls or auditing matters;

(c) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

(d) the approval by the Committee of the hiring policies for any present or former partner or employee of the current and former external auditor into a position of senior management with the Corporation or its subsidiaries; and

(e) the periodic review of the Expense Reimbursement Policy, and provision of recommendations to the Board in respect of the same.

(7) ***Review of Policy Reporting***

(a) The Committee shall be responsible, on a quarterly basis, for reviewing and reporting to the Board in respect of the report of Internal Audit with respect to incidents regarding questionable accounting or auditing matters investigated under the Code of Business Conduct during the previous quarter.

(b) The Committee shall be responsible for reviewing, on a quarterly basis, the report of Internal Audit concerning executive and Board expense reimbursements made in accordance with the Corporation's Expense Reimbursement Policy for the immediately preceding quarter.

(8) ***Review and Recommendations for Dividend Payment***

(a) The Committee shall be responsible for reviewing and making recommendations to the Board with respect to the declaration of dividends or distribution of capital by the Corporation.

4. Authority

(1) The Committee is authorized to carry out its responsibilities as set out in this Charter and to make recommendations to the Board arising therefrom.

(2) The Committee may delegate by written policy to the Chair and the Chief Financial Officer of the Corporation ***(CFO)*** the authority, within specified limits, to authorize in advance all engagements of the external auditors to provide pre-approved services to the Corporation and its subsidiary entities. The Chair and the CFO shall report all engagements authorized by them to the Committee at its next meeting.

(3) The Committee shall have direct and unrestricted access to the external and internal auditors, officers and employees and information and records of the Corporation.

(4) The Committee is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.

(5) The Committee is authorized to invite officers and employees of the Corporation and its subsidiaries and outsiders with relevant experience and expertise to attend or participate in its meetings and proceedings if it considers this appropriate.

(6) The external auditors shall have direct and unrestricted access to the Committee and shall report directly to the Committee.

(7) The Corporation shall pay directly or reimburse the Committee for the expenses incurred by the Committee in carrying out its responsibilities, in accordance with the Corporation's Expense Reimbursement Policy.

5. Meetings and Proceedings

(1) The Committee shall meet as frequently as required but not less frequently than four times each year.

(2) Any Member or the Secretary may call a meeting of the Committee. The external auditors or the CFO may ask a Member to call a meeting of the Committee.

(3) The Chair shall approve the agenda of each meeting of the Committee, including input from the officers and employees of the Corporation, external auditors, other Members and other directors of the Corporation as appropriate. Meetings will include presentations by management or professional advisors and consultants when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

(4) Unless waived by all Members, a notice of each meeting of the Committee confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded, electronically or otherwise, to each Member at least three days before the date of the meeting.

(5) The quorum for each meeting of the Committee is at least 50% of the Members. In the absence of the Chair, the other Members may appoint one of their number as chair of a meeting. The Chair of a meeting shall not have a second or casting vote.

(6) The Chair or a delegate of the Chair shall report to the Board following each meeting of the Committee.

(7) The Secretary or a delegate of the Secretary shall keep minutes of all meetings of the Committee, including all resolutions passed by the Committee. Minutes of all meetings shall be distributed to the Members. The minutes shall be available for review by the other directors of the Corporation after approval thereof by the Committee.

(8) An individual who is not a Member may be invited to attend a meeting of the Committee for all or part of the meeting. A standing invitation to all meetings shall be given to the President and Chief Executive Officer of the Corporation and the CFO except where the meeting, or part of the meeting, is for Members only or a private session with the internal auditor or the external auditors. A standing invitation should be given to the internal auditor and the engagement partners of the external auditors for all meetings where financial information is reviewed and approved.

(9) The Committee shall meet regularly alone and in private sessions with the Director of Internal Audit, the external auditors and management of the Corporation to facilitate full communication.

6. Review

(1) This Charter shall be reviewed by the Corporate Governance and Nominating Committee of the Corporation every 2 years and any recommended changes shall be referred first to the Audit Committee for review and comment and second, after consideration of the input from the Audit Committee, to the Board of the Corporation for consideration and disposition.

(2) In addition to the biennial review, the Audit Committee may at any time review the Charter and make recommendations to the Corporate Governance and Nominating Committee for their review and recommendations to the Board with respect thereto.

ANNEX B - MANDATE – BOARD OF DIRECTORS

1. General

(1) The board of directors ***(Board)*** of *Toronto Hydro Corporation* ***(Corporation)*** is responsible for supervising the management of the business and affairs of the Corporation and its subsidiary entities ***(Group)***.

(2) The composition, responsibilities, and authority of the Board are set out in this Mandate.

(3) This Mandate, the Shareholder Direction issued by the City of Toronto ***(Shareholder)*** and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Board may adopt from time to time shall govern the meetings and procedures of the Board.

2. Composition

(1) The directors of the Corporation ***(Directors)*** should have a mix of competencies and skills necessary to enable the Board and Board committees to properly discharge their responsibilities.

(2) All of the Directors shall be residents of Canada.

(3) The Shareholder shall appoint Directors every two years.

(4) In appointing Directors the Shareholder shall give due regard to the qualifications of the candidates including:

(a) experience on a public utility commission or board of a major corporation or other commercial enterprise and/or the completion of formal training in directorship / governance;

(b) experience in regulated electricity utility sector at a senior management level;

(c) experience at an executive level in resource and performance management / compensation, including ability to appoint and evaluate the performance of the CEO and senior executives; oversee strategic human resource management, including workforce planning, compensation models, and labour relations; and oversee large scale organizational change;

(d) educational background, including university degrees and professional designations;

(e) experience or knowledge with respect to:

i) strategic planning, including ability to identify and critically assess strategic opportunities and threats to the organization;

ii) risk management, including ability to assess key risks to the organization on an enterprise basis and monitor the risk management framework systems;

iii) corporate finance / accounting / audit / securities, including ability to analyze financial statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements;

iv) corporate governance;

v) market development;

vi) large system operation and management;

vii) urban energy industries;

viii) public policy issues and laws relating to the Corporation and its subsidiary entities and the electricity industry;

ix) environmental matters, including experience in environmental management;

x) labour relations;

xi) occupational health and safety issues;

xii) information technology governance, including privacy, data management and security;

xiii) legal and regulatory compliance, including ability to monitor compliance of legal and regulatory requirements;

xiv) stakeholder engagement / advocacy / communications, including ability to effectively engage and communicate to industry stakeholders and advocate on behalf of the organization;

(f) the following interpersonal skills and attributes:

i) leadership, including ability to make, and take responsibility for, decisions and take necessary actions in the best interest of the organization, set appropriate Board and organizational culture and represent the organization favourably;

ii) personal integrity / ethics, including understanding and fulfilling the duties and responsibilities of a director, being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining Board confidentiality;

iii) communications skills, including ability to listen constructively and appropriately debate others' viewpoints, develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders;

iv) constructive questioning, including preparedness to ask questions and challenge management and peer directors in a constructive and appropriate manner;

v) critical and innovative thinking / decision making, including ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems;

vi) influencing and negotiating, including ability to negotiate outcomes and influence others to agree with those outcomes and gain stakeholder support for the Board's decisions;

vii) crisis management, including ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders;

viii) individual and team contribution, including ability to work as part of a team, and demonstrate the passion and time to make a genuine and active contribution to the Board and the organization;

ix) commercial sensitivity and acumen; and

x) independence of judgement;

(g) at least three directors with financial management expertise.

(5) For the purposes of determining whether a Director is independent, the Board shall use the definition of independence within the meaning of National Instrument 52-110 *Audit Committee* adopted by the Canadian Securities Administrators.

(6) The Board shall appoint a Chair of the Board upon the nomination of the Shareholder from time to time.

(7) The Secretary of the Corporation shall be secretary of the Board ***(Secretary)***.

3. Responsibilities

(1) The Board is responsible for supervising the management of the business and affairs of the Group, including the following specific matters:

(a) establishing sound financial principles and performance objectives;

(b) approving any dividend payment or distribution of capital;

(c) appointing the officers of the Corporation;

(d) approving the overall business strategy and related business plan;

(e) approving the financing strategy, including the selection of financial institutions and related banking authorities;

(f) directing labour and employee relations matters; and

(g) approving the financial statements in accordance with the requirements of the Business Corporations Act (Ontario).

(2) In discharging their responsibilities, the Directors owe the following duties to the Corporation:

- a fiduciary duty: they must act honestly and in good faith with a view to the best interests of the Corporation; and

- a duty of care: they must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In discharging their responsibilities, the Directors are entitled to rely on the honesty and integrity of the senior officers of the Corporation and the auditors and other professional advisors of the Corporation.

In discharging their responsibilities, the Directors are also entitled to directors and officers liability insurance purchased by the Corporation and indemnification from the Corporation to the fullest extent permitted by law and the constating documents of the Corporation.

(3) The Board has specifically recognized its responsibilities for:

(a) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer ***(CEO)*** and other senior officers of the Corporation and that the CEO and other senior officers of the Corporation create a culture of integrity throughout the Group;

(b) adopting a strategic planning process and approving annually (or more frequently if appropriate) a strategic plan which takes into account, among other things, the opportunities and risks of the business of the Group;

(c) overseeing the identification of the principal risks of the business of the Group and overseeing the implementation of appropriate systems to manage these risks;

(d) overseeing the integrity of the internal control and management information systems of the Group;

(e) succession planning (including appointing, training and monitoring the senior officers of the Corporation);

(f) recruiting and assessing the performance of the CEO, the compensation of the CEO and other officers of the Group, executive compensation disclosure and oversight of the compensation structure and benefit plans and programs of the Group;

(g) assessing the effectiveness of the Board;

(h) adopting a disclosure policy for the Group;

(i) developing and overseeing the orientation of new Directors, and the continuing education of existing Directors, of the Group; and

(j) developing the approach of the Corporation to corporate governance including a periodic review of the Code of Business Conduct and Whistleblower Procedure of the Group.

(4) In addition to those matters which must by law be approved by the Board, the Board oversees the development of, and reviews and approves, significant corporate plans and initiatives, including the annual business plan and budget, major acquisitions and dispositions and other significant matters of corporate strategy or policy, including the Environmental Policy, Occupational Health and Safety Policy, Code of Business Conduct and Whistleblower Procedure, Disclosure Policy, Signing Policy and Treasury Policy.

(5) The Board shall periodically review the Shareholder Direction and make recommendations to the Shareholder to facilitate and clarify interaction and communication between the Shareholder and the Board.

(6) The Board shall periodically review the performance of the Board against the Shareholder Direction.

(7) The Board shall periodically review the structure and mandate of each Board committee, the effectiveness of each committee, and the appointment and removal of committee members.

(8) The Board shall periodically review performance under the Environmental Policy with management.

(9) To assist the Directors in discharging their responsibilities, the Board expects management of the Corporation to:

(a) review and update annually (or more frequently if appropriate) the strategic plan and report regularly to the Board on the implementation of the strategic plan in light of evolving conditions;

(b) prepare and present to the Board annually (or more frequently if appropriate) a business plan and budget and report regularly to the Board on the Corporation's performance against the business plan and budget; and

(c) report regularly to the Board on the Corporation's business and affairs and on any matters of material consequence for the Corporation and its Shareholder.

Additional expectations are developed and communicated during the annual strategic planning and budgeting process and during regular Board and Board committee meetings.

(10) The Board considers that generally management should speak for the Corporation in its communications with securities holders and the public. The Corporation's investor relations personnel are required to respond to inquiries from securities holders and the public after review and discussion, as appropriate, by senior management and the Board and Board committees. The Corporation's investor relations personnel are available to the securities holders by telephone, fax and e-mail. The Corporation maintains an investor relations section on its website. Presentations at investor conferences are posted promptly on the Corporation's website. They are also available on request. The Board reviews the Corporation's major communications with securities holders and the public. All disclosures on behalf of the Corporation are to be made in compliance with the Corporation's disclosure policy.

(11) Directors are expected to attend Board meetings and meetings of Board committees of which they are members. Directors are also expected to spend the time needed, and to meet as frequently as necessary, to discharge their responsibilities.

(12) Directors are expected to undertake such activities as are required from them to remain current in their knowledge of issues relating to the business of the Group and matters relating to any Board committee of which they are members.

(13) Directors are expected to comply with the Code of Business Conduct and Whistleblower Procedure of the Group.

4. Authority

(1) The Board is authorized to carry out its responsibilities as set out in this Mandate.

(2) The Board is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.

(3) The Board is authorized to invite officers and employees of the Corporation and others to attend or participate in its meetings and proceedings if it considers this appropriate.

(4) The Directors have unrestricted access to the officers of the Corporation. The Directors will use their judgment to ensure that any such contact is not disruptive to the operations of the Corporation and, except for the chair of any committee established by the Board advise the Chair and the Chief Executive Officer of the Corporation of any direct communications between them and the officers of the Corporation.

(5) The Board and the Directors have unrestricted access to the advice and services of the Secretary.

(6) The Board may delegate certain of its functions to Board committees, each of which will have its own charter.

5. Meetings and Proceedings

(1) The Board shall meet as frequently as is determined to be necessary but not less than four times each year.

(2) Any Director or the Secretary may call a meeting of the Board.

(3) The Chair is responsible for the agenda of each meeting of the Board, including input from other Directors and the officers and employees of the Corporation as appropriate. Meetings will include presentations by management and others when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

(4) Unless waived by all Directors, a notice of each meeting of the Board confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded to each Director at least 48 hours before the date of the meeting.

(5) The quorum for each meeting of the Board is a majority of the number of Directors. In the absence of the Chair, the other Directors shall appoint one of their number as chair of a meeting. The chair of a meeting shall not have a second or casting vote.

(6) The Secretary or his delegate shall keep minutes of all meetings of the Board, including all resolutions passed by the Board. Minutes of meetings shall be distributed to the Directors.

(7) An individual who is not a Director may be invited to attend a meeting of the Board for all or part of the meeting.

(8) The Directors shall meet regularly alone to facilitate full communication.

6. Review

(1) This Mandate shall be reviewed by the Corporate Governance Committee of the Corporation every 2 years and any recommended changes shall be brought to the Board of the Corporation for consideration and disposition.

PUBLIC DEBT OFFERING

In accordance with s. 2.1.9 of the OEB's Filing Requirements,[1] this schedule provides Toronto Hydro-Electric System Limited's public debt offering information, as follows:

- Appendix A: Base Shelf Prospectus 2017
- Appendix B: 11th Supplemental Trust Indenture, Sep 2014
- Appendix C: 12th Supplemental Trust Indenture, Mar 2015
- Appendix D: 13th Supplemental Trust Indenture, Jun 2016
- Appendix E: 14th Supplemental Trust Indenture, Nov 2017

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (July 12, 2018).

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

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

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws, and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act). See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the* Corporate Secretary *of Toronto Hydro Corporation at 14 Carlton Street, Toronto, Ontario, M5B 1K5, (416) 542-3100 and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

New Issue

May 8, 2017

TORONTO HYDRO CORPORATION

$1,000,000,000 DEBENTURES

(unsecured)

Toronto Hydro Corporation (the "Corporation") may offer and issue from time to time unsecured debentures (the "Debentures") in one or more series in an aggregate principal amount of up to $1,000,000,000 (or the equivalent thereof in foreign currencies or currency units based on the applicable exchange rate at the time of offering) during the twenty-five months from the date of issuance of the receipt for this prospectus.

The Debentures will be issued under a trust indenture dated May 7, 2003 (as supplemented from time to time by supplemental indentures), will be direct unsecured obligations of the Corporation and will rank *pari passu* (except as to sinking funds and to the extent prescribed by law) with all other unsecured and unsubordinated indebtedness of the Corporation. The Debentures will have a term to maturity of not less than one year and will be issuable in denominations of $1,000 and multiples thereof. The Debentures may be issued in Canadian dollars or any foreign currency or currency unit determined at the time of issue.

The specific terms of an offering of Debentures (including the aggregate principal amount of the Debentures being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate, the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling the Corporation to extend the maturity date of the Debentures, the name(s) of the dealer(s) offering the Debentures, the commission payable to such dealer(s), the method of distribution and the net proceeds to the Corporation) will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. The Corporation reserves the right to set forth in a pricing supplement specific terms of Debentures which are not within the parameters set forth in this prospectus.

(continued on next page)

(continued from cover)

The sole shareholder of the Corporation is the City of Toronto. The Debentures will not be obligations of, and will not be guaranteed in any manner by, the City of Toronto.

Investing in the Debentures involves risks. See "Risk Factors" in this prospectus, which may be amended or supplemented in any prospectus supplement or pricing supplement.

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors". Unless otherwise indicated in a pricing supplement, the Debentures will not be listed on any securities exchange.

RATES ON APPLICATION

Pursuant to the dealer agreement referred to under the heading "Plan of Distribution", the Debentures may be offered for sale severally and on a continuous basis by one or more of CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Scotia Capital Inc. and such other dealers as may be selected from time to time by the Corporation (collectively, the "Dealers" and each a "Dealer"), in each case, acting as agent of the Corporation or as principal. Where the Debentures are offered by the Dealer(s) as agent(s), the commissions payable by the Corporation in connection with sales of such Debentures shall be agreed from time to time between the Corporation and any such Dealer(s). Where the Debentures are purchased by the Dealer(s) as principal, the Debentures shall be purchased at such prices and with such commissions as may be agreed from time to time between the Corporation and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Debentures by purchasers exceeds or is less than the price paid by such Dealer, when purchasing as principal, to the Corporation. The commissions payable in connection with sales of Debentures will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. In connection with any offering of Debentures, the Dealers may over-allot or effect transactions which stabilize or maintain the market price of the Debentures offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution". The Corporation may also offer the Debentures directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commissions will be paid to the Dealers. The Corporation and, if applicable, the Dealers, may reject any offer to purchase the Debentures in whole or in part. The Corporation also reserves the right to withdraw, cancel or modify the offering of the Debentures under this prospectus without notice.

The Corporation may be considered to be a connected issuer of CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Scotia Capital Inc. within the meaning of Canadian securities legislation. CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Scotia Capital Inc. are wholly-owned subsidiaries of banks which are currently lenders to the Corporation. See "Plan of Distribution".

The offering of the Debentures is subject to the approval of certain legal matters on behalf of the Corporation by Norton Rose Fulbright Canada LLP and on behalf of the Dealers by Blake, Cassels & Graydon LLP.

The registered and head office of the Corporation is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

TABLE OF CONTENTS

Page

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Corporation filed with the provincial securities regulatory authorities in Canada are incorporated by reference in this prospectus for the purposes of the offering of Debentures hereunder:

(a) the annual information form (the "AIF") of the Corporation for the year ended December 31, 2016 dated March 31, 2017;

(b) the comparative audited consolidated financial statements of the Corporation together with the auditors' report thereon and the notes thereto as at December 31, 2016 and December 31, 2015, and for the years ended December 31, 2016 and December 31, 2015; and

(c) management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months and years ended December 31, 2016 and December 31, 2015 (the "Annual MD&A").

Updated earnings coverage ratios will be filed quarterly with the provincial securities regulatory authorities in Canada, either as prospectus supplements or as exhibits to the Corporation's unaudited interim and audited consolidated financial statements, and will be deemed to be incorporated by reference in this prospectus for the purposes of the offering of Debentures hereunder.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including the documents of the type referred to above, interim financial statements and related MD&A, material change reports (except confidential material change reports) and business acquisition reports filed by the Corporation with the provincial securities regulatory authorities in Canada after the date of this prospectus and prior to termination of any offering hereunder will be deemed to be incorporated by reference in this prospectus.

Upon a new AIF and new annual financial statements and related MD&A being filed by the Corporation with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this prospectus, the previous AIF, the previous annual financial statements and related MD&A, all previous interim financial statements and related MD&A, previous material change reports and previous business acquisition reports filed by the Corporation prior to the end, and in case of business acquisition reports prior to the commencement, of the financial year of the Corporation in respect of which the new AIF is filed will be deemed no longer to be incorporated by reference into this prospectus for purposes of future offers and sales of Debentures hereunder. Upon unaudited interim financial statements and the accompanying interim MD&A being filed by the Corporation with the applicable securities regulatory authorities during the currency of this prospectus, all unaudited interim financial statements and the accompanying interim MD&A filed prior to the new unaudited interim financial reports shall be deemed no longer to be incorporated by reference into this prospectus for purposes of future offers and sales of Debentures hereunder.

A pricing supplement containing the specific variable terms for an offering of Debentures will be delivered to purchasers of such Debentures together with this prospectus and will be deemed to be incorporated by reference in this prospectus as of the date of the pricing supplement, solely for the purposes of the Debentures offered under that pricing supplement.

Certain marketing materials (as that term is defined in applicable securities legislation) may be used in connection with a distribution of Debentures under this prospectus and any applicable pricing supplement. Any template version (as that term is defined in applicable securities legislation) of marketing materials pertaining to a distribution of Debentures, and filed by the Corporation after the date of the applicable pricing supplement for the offering and before termination of the distribution of such Debentures, will be deemed to be incorporated by reference in such pricing supplement for the purposes of the distribution of Debentures to which the pricing supplement pertains.

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

FORWARD-LOOKING INFORMATION

Certain information included or incorporated by reference in this prospectus constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact included or incorporated by reference in the prospectus, which address activities, events or developments that the Corporation expects or anticipates may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "budgets", "committed", "can", "could", "estimates", "expects", "focus", "forecasts", "intends", "may", "might", "plans", "propose", "projects", "schedule", "should", "will", "would", "objective", "outlook" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in this prospectus includes statements under the headings "Use of Proceeds" and "Plan of Distribution". Additional forward-looking information is identified in the various documents incorporated by reference in this prospectus, including, without limitation, the section entitled "Forward-Looking Information" in the Corporation's AIF and the section entitled "Forward-Looking Information" in the Corporation's MD&A.

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the completion of issuances of Debentures under this prospectus, the amount of indebtedness of the Corporation at such time, changes in funding requirements, the future course of the economy and financial markets, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the ability of the Corporation to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the level of interest rates and the Corporation's ability to borrow, and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information, which are discussed in more detail under "Risk Factors" in this prospectus and in any pricing supplement and in the comparable sections of the documents incorporated or deemed to be incorporated by reference in this prospectus (including the sections entitled "Forward-Looking Information" and "Risk Factors" in the Corporation's AIF and the sections entitled "Forward-Looking Information" and "Risk Management and Risk Factors" in the Corporation's MD&A). All of the forward-looking information included or incorporated by reference in this prospectus is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Factors" section of this prospectus and in the comparable sections of the documents incorporated or deemed to be incorporated by reference in this prospectus (including the sections entitled "Forward-Looking Information" and "Risk Factors" in the Corporation's AIF and the sections entitled "Forward-Looking Information" and "Risk Management and Risk Factors" in the Corporation's MD&A). These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein or in the documents incorporated by reference. Furthermore, the forward-looking information contained or incorporated by reference herein is dated as of the date of this prospectus or as of the date specified in the documents incorporated by reference into this prospectus, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Capitalized terms used in this section without definition, have the meanings given to them elsewhere in this prospectus. Unless otherwise specified, all references to dollars contained in this prospectus are to Canadian dollars.

TORONTO HYDRO

Toronto Hydro Corporation (the "Corporation" and, together with its subsidiaries, "Toronto Hydro") is a holding company which wholly-owns two subsidiaries:

- *Toronto Hydro-Electric System Limited* ("LDC") – distributes electricity and engages in conservation and demand management activities; and

- *Toronto Hydro Energy Services Inc.* – provides street lighting and expressway lighting services in the City of Toronto.

The principal business of Toronto Hydro is the distribution of electricity by LDC, which owns and operates the electricity distribution system for Canada's largest city. A leader in conservation and demand management, it has 761,000 customers located in the City of Toronto and distributes approximately 19% of the electricity consumed in Ontario.

The sole shareholder of the Corporation is the City of Toronto.

USE OF PROCEEDS

The Debentures will be issued from time to time at the discretion of the Corporation in an aggregate principal amount not to exceed $1,000,000,000 (or the equivalent thereof in foreign currencies or currency units based on the applicable exchange rate at the time of offering). Unless otherwise specified in a pricing supplement, the net proceeds from the sale of Debentures will be used by the Corporation to reduce certain indebtedness of the Corporation, including, but not limited to, indebtedness that the Corporation may have with the bank affiliates of one or more of the Dealers, to finance the Corporation's capital expenditure program and for general corporate purposes. The net proceeds from the sale of Debentures cannot be estimated at the date hereof since the amount thereof will depend on the terms and conditions of the Debentures and the extent to which the Debentures are issued under this prospectus. Any commissions payable to the Dealers relating to a particular offering of Debentures will be netted out of the proceeds thereof and all other expenses relating thereto will be paid out of the Corporation's general funds or netted out of the proceeds of such offering.

PLAN OF DISTRIBUTION

Pursuant to the terms of a dealer agreement dated May 8, 2017 (the "Dealer Agreement"), the Debentures may be offered for sale severally and on a continuous basis by one or more of the Dealers, in each case, acting as agent of the Corporation or as principal. Where the Debentures are offered by the Dealer(s) as agent(s), the commissions payable by the Corporation in connection with sales of such Debentures shall be agreed from time to time between the Corporation and any such Dealer(s). Where the Debentures are purchased by the Dealer(s) as principal, the Debentures shall be purchased at such prices and with such commissions as may be agreed from time to time between the Corporation and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Debentures by purchasers exceeds or is less than the price paid by the Dealer, when purchasing as principal, to the Corporation. The commissions payable in connection with sales of Debentures will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. The Corporation may also offer the Debentures directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commissions will be paid to the Dealers.

The obligations of a Dealer under the Dealer Agreement to purchase any particular issue of Debentures as principal may be terminated at its discretion upon the occurrence of certain stated events. Such events are set out in detail in the Dealer Agreement and include, but are not limited to: (i) an event which prevents or restricts the trading in the Debentures or any other securities of the Corporation or the distribution of the Debentures; (ii) the occurrence of any material change in the business, affairs, operations, assets, liabilities (contingent or otherwise), capital or ownership of Toronto Hydro taken as a whole; (iii) a public announcement by DBRS Limited ("DBRS") or Standard & Poor's ("S&P") that it has placed under surveillance or review, with possible negative or uncertain implications, its rating of any debt securities of the Corporation; and (iv) certain downgrades of the ratings assigned by S&P and DBRS to the long-term debt securities of the Corporation. In addition, the Corporation has agreed under the terms of the Dealer Agreement to reimburse the Dealers for certain expenses and to indemnify the Dealers against certain liabilities.

The Corporation and, if applicable, the Dealers, may reject any offer to purchase the Debentures in whole or in part. The Corporation also reserves the right to withdraw, cancel or modify the offering of the Debentures under this prospectus without notice.

In connection with any offering of Debentures, the Dealers may over-allot or effect transactions which stabilize or maintain the market price of the Debentures offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. In addition, the Dealers may from time to time purchase and sell the Debentures in the secondary market but are not obliged to do so. There can be no assurance that there will be a secondary market for the Debentures. The offering price and other terms for such sales in the secondary market may, from time to time, be varied by the Dealers.

RELATIONSHIP BETWEEN THE CORPORATION AND THE DEALERS

The Dealers are wholly-owned subsidiaries of banks which are currently lenders to the Corporation under certain credit facilities, including an $800 million revolving credit facility (the "THC Revolving Credit Facility"), of which up to $210 million is available in the form of letters of credit, a $75 million demand facility for the purpose of issuing letters of credit mainly to support LDC's prudential obligations with the IESO (the "Prudential Facility") and a $20 million demand facility for the purpose of working capital management (the "Working Capital Facility"). As at December 31, 2016, no borrowings were outstanding under the THC Revolving Credit Facility, $7.1 million had been drawn under the Working Capital Facility and $33.4 million of letters of credit had been issued against the Prudential Facility. The Corporation also reserves capacity under the THC Revolving Credit Facility for amounts of commercial paper outstanding under its commercial paper program; hence, available borrowing under the THC Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. As at December 31, 2016, the Corporation had $261 million of commercial paper outstanding. The Revolving Credit Facility, the Prudential Facility and the Working Capital Facility are unsecured and the Corporation is, and has been since the establishment of such facilities, in compliance with the terms of the respective agreements governing such facilities. As of the date hereof, the Corporation has not been required to obtain a waiver in respect of any breach under such facilities and the Corporation's financial position has not adversely changed in a material manner since such facilities were put in place. Proceeds from the sale of the Debentures may be used to repay indebtedness to the bank affiliates of CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Scotia Capital Inc. under the THC Revolving Credit Facility, the Prudential Facility or the Working Capital Facility or other bank facilities. Accordingly, the Corporation may be considered to be a connected issuer of CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Scotia Capital Inc. within the meaning of Canadian securities legislation. The decision to distribute the Debentures will be made by the Corporation and the terms and conditions of distribution will be determined through negotiations between the Corporation and the Dealers. The lenders will not have any involvement in such decision or determination. Other than payment of their portion of the commissions, if applicable, none of the proceeds of offerings of the Debentures will be applied, directly or indirectly, for the benefit of CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., National Bank Financial Inc. and Scotia Capital Inc.

The Debentures have not and will not be registered under the U.S. Securities Act, or any state securities laws, and may not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act) unless registered under the U.S. Securities Act and applicable state securities laws or an exemption therefrom is available. Each of the Dealers will agree not to buy or offer to buy, to sell or offer to sell, or solicit any offer to buy any Debentures in the United States of America and its territories or possessions, or to, or for the account or benefit of, U.S. Persons, except to "qualified institutional buyers" in accordance with Rule 144A under the U.S. Securities Act. Debentures issued to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will be represented by definitive certificates and will be subject to certain restrictions on transfer set forth therein and in the supplemental indenture and will bear a legend regarding such restrictions as set forth in the supplemental indenture. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Debentures in the United States. In addition, until 40 days after the commencement of the offering of an issue of Debentures, an offer or sale of that issue within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act or pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act.

RATINGS

The outstanding senior unsecured debentures of the Corporation have been assigned a rating of "A" with a stable trend by DBRS and "A" by S&P.

DBRS rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". All rating categories other than AAA and D also contain the subcategories "(high)" and "(low)" to indicate relative standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. An "A" rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "A" category, however, may be vulnerable to future events, but qualifying negative factors are considered manageable.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An "A" rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

The Corporation has made, and anticipates making, payments to each of DBRS and S&P pursuant to the ratings agency services agreements entered into with such credit rating organizations with respect to, among other things, the ratings assigned to the long-term debt of the Corporation, the Corporation's commercial paper rating, the Corporation's rating and ratings assigned to the Debentures of a particular series. There have been no other services provided by any of such credit rating organizations to the Corporation within the last two years.

EARNINGS COVERAGE RATIOS

For the twelve-month period ended December 31, 2016, the consolidated earnings of the Corporation before interest on the consolidated long-term debt of the Corporation and before income taxes was $256.1 million. Interest expense on the consolidated long-term debt of the Corporation for this period, without giving effect to the issue of any Debentures that may be distributed under this prospectus, was $81.6 million. The earnings coverage ratio for the Corporation for the twelve-month period ended December 31, 2016, based on audited information, without giving effect to the issue of any Debentures that may be distributed under this prospectus, was 3.14.

DESCRIPTION OF THE DEBENTURES

The Debentures will be issued in one or more series under a trust indenture dated May 7, 2003 between the Corporation and BNY Trust Company of Canada (the "Trustee" which term shall include, unless the context requires otherwise, its successors), as supplemented from time to time by supplemental indentures (together, the "Indenture"). The Indenture permits the issuance of an unlimited principal amount of debentures of the Corporation in one or more series. The terms of each series of debentures issued pursuant to the Indenture will be specified in a supplemental indenture to the Indenture. A copy of the Indenture is available electronically at www.sedar.com.

The specific terms of an offering of Debentures (including the aggregate principal amount of the Debentures being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate, the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling the Corporation to extend the maturity date of the Debentures, the name(s) of the Dealer(s) offering the Debentures, the commission payable to such Dealer(s), the method of distribution and the net proceeds to the Corporation) will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. Unless otherwise indicated in a pricing supplement, the Debentures will not be listed on any securities exchange. The Corporation reserves the right to set forth in a pricing supplement specific terms of Debentures which are not within the parameters set forth in this prospectus.

The following is a summary of the material attributes of the Debentures. This summary does not purport to be complete. For a complete description of the Debentures, reference should be made to the Indenture. Certain capitalized terms used in this summary are defined below under "Definitions".

Term, Denomination and Currency

The Debentures will have a term to maturity of not less than one year and will be issuable in denominations of $1,000 and multiples thereof. The Debentures may be issued in Canadian dollars or any foreign currency or currency unit determined at the time of issue.

Interest

The Debentures will bear interest at fixed or floating rates as set out in the applicable pricing supplement to this prospectus.

Rank

The Debentures will be direct unsecured obligations of the Corporation and will rank *pari passu* with all other Debentures from time to time outstanding under the Indenture and, except as to sinking funds and to the extent prescribed by law, with all other unsecured and unsubordinated indebtedness of the Corporation from time to time outstanding, including, but not limited to, indebtedness of the Corporation under the THC Revolving Credit Facility, the Prudential Facility, the Working Capital Facility, its commercial paper program and debentures of every other series from time to time outstanding issued pursuant to the Indenture.

The Debentures will not be obligations of, and will not be guaranteed in any manner by, the City of Toronto.

Redemption

If so specified in the applicable pricing supplement, a series of Debentures may be redeemed, at the Corporation's option, in whole at any time or in part from time to time, prior to maturity, on not more than 60 and not less than 15 business days prior notice, at the redemption price or at par, together in each case with accrued and unpaid interest to, but not including, the date fixed for redemption. The applicable pricing supplement will specify the redemption price (or the manner of calculating the redemption price), if any, for the series of Debentures.

If less than all Debentures of any series of Debentures are to be redeemed, the Debentures to be redeemed will be selected by the Trustee on a *pro rata* basis or by lot or such other means as the Trustee may deem equitable and expedient.

Purchase for Cancellation

The Corporation may, at any time, purchase Debentures for cancellation, in the open market, by tender or by private contract, at any price.

Covenants

Negative Pledge

The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than Permitted Encumbrances, on or over any of its assets (present or future) to secure any Obligation, unless at the same time it shall secure equally and rateably therewith all the debentures issued pursuant to the Indenture then outstanding.

Limitation on Funded Indebtedness

The Corporation will not, and will not permit any Designated Subsidiary to, directly or indirectly, issue, incur, assume or otherwise become liable for or in respect of any Funded Indebtedness unless, after giving effect thereto, Consolidated Funded Indebtedness would not exceed 75% of Total Consolidated Capitalization. This covenant will not operate to prevent the Corporation or a Designated Subsidiary from issuing, incurring, assuming or otherwise becoming liable for or in respect of any Inter-Company Indebtedness and Non-Speculative Financial Instrument Obligations. This covenant will operate to prevent the Corporation or a Designated Subsidiary from assigning any Inter-Company Indebtedness to a person other than the Corporation or a Designated Subsidiary.

Limitation on Designated Subsidiary Indebtedness

The Corporation will not permit a Designated Subsidiary to, directly or indirectly, issue, incur, assume or otherwise become liable for or in respect of any Indebtedness except:

(a) Inter-Company Indebtedness of the Designated Subsidiary;

(b) Non-Recourse Debt of the Designated Subsidiary;

(c) Non-Speculative Financial Instrument Obligations of the Designated Subsidiary;

(d) Permitted Capital Lease Obligations of the Designated Subsidiary;

(e) Prudential and Bilateral Credit Support Obligations of the Designated Subsidiary;

(f) Purchase Money Obligations of the Designated Subsidiary; and

(g) any other Indebtedness of the Designated Subsidiary (in addition to the Indebtedness referred to in paragraphs (a) to (f)) if, after giving effect to the Indebtedness, the aggregate amount of all Indebtedness of all Designated Subsidiaries permitted by this paragraph (g) only would not exceed 5% of Consolidated Net Worth.

For the purposes of this covenant, the assignment by the Corporation to a third party of Inter-Company Indebtedness owing by a Designated Subsidiary will be considered to be an incurrence of Indebtedness by such Designated Subsidiary.

Designation of Subsidiaries as Designated Subsidiaries

LDC is a Designated Subsidiary. The board of directors of the Corporation may designate a subsidiary of the Corporation in addition to LDC as a Designated Subsidiary if:

(a) at the time of and after giving effect to the designation, no Event of Default or event that, with the passing of time or the giving of notice or both, would constitute an Event of Default has occurred and is continuing;

(b) after giving effect to the designation, the Corporation would be entitled under the Indenture to issue Funded Indebtedness in the amount of at least $1.00; and

(c) none of the shares of the subsidiary is owned by another subsidiary of the Corporation that is not a Designated Subsidiary.

The board of directors of the Corporation may terminate the designation of a subsidiary of the Corporation other than LDC as a Designated Subsidiary if:

(a) at the time of and after giving effect to the termination, no Event of Default or event that, with the passing of time or the giving of notice or both, would constitute an Event of Default has occurred and is continuing;

(b) after giving effect to the termination, the Corporation would be entitled under the Indenture to issue Funded Indebtedness in the amount of at least $1.00; and

(c) the subsidiary does not own any Funded Indebtedness of the Corporation or any shares or Funded Indebtedness of any other Designated Subsidiary.

Restriction on Mergers and Dispositions

The Corporation will not, directly or indirectly through a Designated Subsidiary, enter into a transaction or series of transactions in which all or substantially all of the undertaking, property and assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis would become the property of any other person, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale, lease or otherwise, unless:

(a) the person is a corporation organized and existing under the laws of Canada or a province or territory thereof and expressly assumes, by a supplemental indenture satisfactory in form to the Trustee and its counsel and executed and delivered to the Trustee, all of the covenants and obligations of the Corporation under the Indenture and all debentures issued pursuant to the Indenture; and

(b) at the time of and after giving effect to the reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale, lease or other transaction, no Event of Default or event that, with the passing of time or the giving of notice or both, would constitute an Event of Default has occurred and is continuing.

Events of Default

The following are Events of Default applicable to all series of debentures, including each series of Debentures, issued pursuant to the Indenture:

(a) failure to pay principal or premium (if any) on the debentures when due;

(b) failure to pay interest on the debentures when due if such failure continues for a period of 30 days;

(c) the sale, transfer, lease or other disposition of all or substantially all of the property and assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis other than in accordance with the covenants described above under " – Covenants – Restriction on Mergers and Dispositions";

(d) failure to observe or perform any other covenant or condition contained in the Indenture if such failure continues for a period of 60 days after written notice thereof has been given to the Corporation by the Trustee or the holders of at least 25% in principal amount of the debentures of any affected series then outstanding;

(e) failure by the Corporation or any Material Subsidiary to pay principal, premium (if any) or interest due on any Indebtedness, the principal amount of which is more than $50 million in the aggregate, beyond the applicable grace period;

(f) failure by the Corporation or any Material Subsidiary to observe or perform any provision of any agreement under which Indebtedness is created if such failure has the effect of causing more than $50 million of such Indebtedness in the aggregate to become due and payable or to be required to be redeemed or repurchased before its stated maturity;

(g) the rendering by a court of competent jurisdiction of one or more judgments against the Corporation or any Material Subsidiary in an aggregate amount of more than $50 million if the judgments remain undischarged or unstayed for more than 30 days; and

(h) specified events of bankruptcy, insolvency or reorganization affecting the Corporation or any Material Subsidiary.

Default

If an Event of Default described in paragraphs (a) to (g) above occurs and is continuing, the Trustee or the holders of not less than 25% of the principal amount of debentures of a series of debentures issued pursuant to the Indenture then outstanding may declare the principal amount of, and the premium (if any) and accrued and unpaid interest on all debentures of that series then outstanding to be due and payable immediately.

If an Event of Default described in paragraph (h) above occurs and is continuing, the principal amount of and the premium (if any) and accrued and unpaid interest on all debentures issued pursuant to the Indenture then outstanding shall be due and payable immediately without any declaration or other action by the Trustee or the holders of the debentures.

Protection of Trustee

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an event of default applicable to a series of debentures issued pursuant to the Indenture occurs and is continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any holders of such debentures unless the Trustee is sufficiently indemnified in accordance with the provisions of the Indenture. Subject to the provisions of the Indenture providing for the indemnification of the Trustee, the holders of the requisite principal amount of such debentures will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any rights or powers of the Trustee in respect of such debentures.

Modification

The Indenture provides that certain rights, privileges, restrictions and conditions of debentures issued and outstanding under the Indenture may be modified if such modifications are authorized by extraordinary resolution.

The term "extraordinary resolution" is defined in the Indenture to mean:

(a) in the case of modifications which affect a particular series of debentures issued pursuant to the Indenture, a resolution passed by the affirmative votes of the holders of not less than 66⅔% in principal amount of debentures of that series then outstanding represented and voting at a meeting or an instrument in writing signed by the holders of not less than 66⅔% in principal amount of debentures of that series then outstanding; and

(b) in the case of modifications which affect all debentures issued pursuant to the Indenture, a resolution passed by the affirmative votes of the holders of not less than 66⅔% in principal amount of all debentures then outstanding represented and voting at a meeting or an instrument in writing signed by the holders of not less than 66⅔% in principal amount of all debentures then outstanding, treated in each case as a single class.

Defeasance

The Indenture requires the Trustee to release the Corporation from its obligations in respect of a series of debentures issued pursuant to the Indenture if specified conditions are met, including the deposit by the Corporation of cash or certain cash-equivalent securities for the payment of all principal and interest and any other amounts on the debentures of such series and the payment of the expenses of the Trustee.

Form, Transfer and Payment Mechanics

Except as described under "Plan of Distribution" or as set out in a pricing supplement, the Debentures will be represented by one or more global Debentures (collectively, the "Global Debenture") registered in the name of CDS Clearing and Depository Services Inc. or a successor thereof (the "Depository") or its nominee and held by or on behalf of the Depository as custodian for institutions (including the Dealers) which participate directly or indirectly in the Depository's book-entry only registration system ("BEO Participants"). Interests in the Debentures represented by the Global Debenture will be evidenced by credits to book-entry accounts of BEO Participants maintained with the Depository. Interests of the owners of Debentures represented by the Global Debenture will be evidenced by credits to accounts maintained with such BEO Participants on behalf of such owners.

Except as described under "Plan of Distribution" and as described below or as set out in a pricing supplement, purchasers of Debentures represented by the Global Debenture will not be entitled to certificates or other instruments from the Corporation or the Depository evidencing their ownership of Debentures. Beneficial owners of Debentures represented by the Global Debenture will not be shown on the registers maintained by the Trustee or the records maintained by the Depository but will be shown through book-entry accounts of BEO Participants. The rights of beneficial owners of Debentures represented by the Global Debenture may be exercised only through the BEO Participants with which such book-entry accounts are maintained. Purchasers of Debentures represented by the Global Debenture will receive a customer confirmation of purchase from the selling Dealer.

Purchasers of Debentures represented by the Global Debenture will receive definitive Debentures registered in their name only:

(a) if the Corporation determines that the Depository is no longer willing, able or qualified to discharge properly its responsibilities as holder of the Global Debenture in connection with the Debentures and the Corporation is unable to locate a qualified successor;

(b) if the Corporation elects to terminate the book-entry only registration of Debentures through the Depository; or

(c) in certain other specified circumstances.

Transfers of interests in Debentures represented by the Global Debenture will be effected through records maintained by the Depository or its nominee (with respect to interests of BEO Participants) and on the records of BEO Participants (with respect to interests of persons other than BEO Participants).

Beneficial owners of Debentures represented by the Global Debenture who are not BEO Participants but who desire to transfer any interest in Debentures may do so only through BEO Participants.

Payments of interest and principal on the Global Debenture will be made to the Depository or its nominee as registered holder of the Global Debenture. As long as the Depository or its nominee is the registered owner of the Global Debenture, the Depository or its nominee will be considered the sole owner of the Global Debenture for the purposes of receiving payment on the Global Debenture and for all other purposes under the Indenture and the Global Debenture.

The Corporation expects that the Depository or its nominee, upon receipt of any payment of principal or interest in respect of the Global Debenture, will credit the accounts of BEO Participants, on the date principal or interest is payable, with payments in amounts proportionate to their respective interests in the principal amount of the Global Debenture as shown on the records of the Depository or its nominee. The Corporation also expects that payments of principal and interest by BEO Participants to the owners of interests in the Debentures represented by the Global Debenture held through accounts maintained with BEO Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of BEO Participants. The responsibility and liability of the Corporation and the Trustee in respect of Debentures represented by the Global Debenture is limited to making payment of any principal and interest due on the Global Debenture to the Depository or its nominee.

Governing Law

The Indenture is and the Debentures will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

Definitions

The following defined terms used in this section of the prospectus are defined in the Indenture substantially as set out below.

"**Capital Lease**" means, with respect to a person, a lease or other arrangement in respect of real or personal property that is required to be classified and accounted for as a capital lease on a balance sheet of the person in accordance with GAAP.

"**Capital Lease Obligation**" means, with respect to a person, the obligation of the person to pay rent or other amounts under a Capital Lease.

"**Consolidated Funded Indebtedness**" means the aggregate amount of all Funded Indebtedness of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP.

"**Consolidated Net Worth**" means the shareholder's equity of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP. For greater certainty, the shareholder's equity of a subsidiary of the Corporation that is not a Designated Subsidiary will not be included in making such determination.

"**Contingent Liability**" means, with respect to a person, any agreement, undertaking or arrangement by which the person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the obligation, debt or other liability of any other person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other person. The amount of any Contingent Liability will, subject to any limitation contained therein, be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the obligation, debt or other liability to which the Contingent Liability relates.

"**Deferred Purchase Price Obligation**" means, with respect to a person, an obligation issued, incurred or assumed by the person in connection with the acquisition by the person of an asset in respect of the deferred purchase price of the asset.

"**Designated Subsidiary**" means Toronto Hydro-Electric System Limited and, until such designation is terminated in accordance with the covenants described above under "– Covenants – Designation of Subsidiaries as Designated Subsidiaries", any other subsidiary of the Corporation designated as a Designated Subsidiary by the board of directors of the Corporation in accordance with the covenants described above under "– Covenants – Designation of Subsidiaries as Designated Subsidiaries".

"**Event of Default**" means an event of default under the Indenture.

"**Financial Instrument Obligations**" means, with respect to any person, obligations arising under:

(a) interest rate swap agreements, forward rate agreements, floor, cap or collar agreements, futures or options, insurance or other similar agreements or arrangements, or any combination thereof, entered into or guaranteed by the person where the subject matter thereof is interest rates or the price, value or amount payable thereunder is dependent or based upon interest rates or fluctuations in interest rates in effect from time to time (but excluding conventional floating rate indebtedness);

(b) currency swap agreements, cross-currency agreements, forward agreements, floor, cap or collar agreements, futures or options, insurance or other similar agreements or arrangements, or any combination thereof, entered into or guaranteed by the person where the subject matter thereof is currency exchange rates or the price, value or amount payable thereunder is dependent or based upon currency exchange rates or fluctuations in currency exchange rates in effect from time to time; and

(c) any agreement for the making or taking of any commodity (including coal, natural gas, oil and electricity), swap agreement, floor, cap or collar agreement or commodity future or option or other similar agreement or arrangement, or any combination thereof, entered into or guaranteed by the person where the subject matter thereof is any commodity or the price, value or amount payable thereunder is dependent or based upon the price or fluctuations in the price of any commodity;

or any other similar transaction, including any option to enter into any of the foregoing, or any combination of the foregoing, in each case to the extent of the net amount due or accruing due by the person under the obligations determined by marking the obligations to market in accordance with their terms.

"**Funded Indebtedness**" means Indebtedness (other than Subordinated Indebtedness) that, on the date of issue or assumption of liability, has a term to maturity (including any right of extension or renewal) greater than 18 months.

"**GAAP**" means, as at any date of determination:

(a) accounting principles which are generally recognized as being generally accepted in Canada, if the Corporation is then preparing its financial statements in accordance with such principles; or

(b) accounting principles which are generally recognized as being generally accepted in the United States, if the Corporation is then preparing its financial statements in accordance with such principles.

"**Indebtedness**" means, with respect to a person, without duplication:

(a) all obligations of the person for borrowed money, including obligations with respect to bankers' acceptances and contingent reimbursement obligations relating to letters of credit and other financial instruments;

(b) all Financial Instrument Obligations of the person;

(c) all Deferred Purchase Price Obligations of the person;

(d) all Capital Lease Obligations and Purchase Money Obligations of the person;

(e) all Prudential and Bilateral Credit Support Obligations of the person; and

(f) all Contingent Liabilities of the person with respect to obligations of another person if such obligations are of the type referred to in paragraphs (a) to (e).

"**Inter-Company Indebtedness**" means, with respect to the Corporation, indebtedness of the Corporation to a Designated Subsidiary and, with respect to a Designated Subsidiary, indebtedness of the Designated Subsidiary to the Corporation or to another Designated Subsidiary.

"**Material Subsidiary**" means a Designated Subsidiary and any other subsidiary of the Corporation:

(a) the total assets of which represent more than 10% of the total assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP; or

(b) the total revenues of which represent more than 10% of the total revenues of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP.

For greater certainty, the assets and revenues of a subsidiary of the Corporation that is not a Designated Subsidiary will not be included in making such determinations.

"**Non-Recourse Debt**" means, with respect to a person, any indebtedness incurred to finance the creation, development, construction or acquisition of an asset of the person (and any extensions, renewals or refunding of any such indebtedness) provided that the recourse of the obligee thereof against the person is limited in all circumstances (other than in respect of false or misleading representations or warranties) to the asset (including all rights and benefits related to or arising out of the asset).

"**Non-Speculative Financial Instrument Obligations**" means, with respect to a person, Financial Instrument Obligations of the person entered into by the person in the ordinary course of business for risk management purposes and not for speculative or capital raising purposes.

"**Obligations**" means, with respect to a person, without duplication, all items which, in accordance with GAAP, would be included as liabilities on the liability side of the balance sheet of the person and all Contingent Liabilities of the person.

"**Permitted Capital Lease Obligations**" means, with respect to a Designated Subsidiary, the obligation of the Designated Subsidiary to pay rent or other amounts under a Capital Lease, other than a Capital Lease entered into as part of a Sale and Leaseback Transaction unless:

(a) the property which is the subject matter of the Sale and Leaseback Transaction is owned by the Designated Subsidiary;

(b) the proceeds of sale of such property have been determined by the board of directors of the Designated Subsidiary to be at least equal to its fair value; and

(c) either of the following is applicable:

(1) at the time of the Sale and Leaseback Transaction, the cost of acquiring such property could have been financed pursuant to a Purchase Money Obligation; or

(2) within 120 days after completion of the Sale and Leaseback Transaction, the Designated Subsidiary reduces its Indebtedness, other than Indebtedness permitted pursuant to paragraphs (a) to (e) above under "– Covenants – Limitation on Designated Subsidiary Indebtedness", by an amount at least equal to the net proceeds from the Sale and Leaseback Transaction.

"**Permitted Encumbrances**" means:

(a) any Security Interest securing Obligations of a Designated Subsidiary that:

(1) exists before and at the time that the Designated Subsidiary becomes a Designated Subsidiary;

(2) was not created or assumed in contemplation or as a result of the Designated Subsidiary becoming a Designated Subsidiary; and

(3) immediately before and after the Designated Subsidiary becomes a Designated Subsidiary, does not attach to the assets or secure Obligations of the Corporation or any other Designated Subsidiary;

(b) any Purchase Money Mortgage or Capital Lease of the Corporation or a Designated Subsidiary;

(c) any Security Interest in an asset created or assumed by the Corporation or a Designated Subsidiary to secure Non-Recourse Debt of the Corporation or the Designated Subsidiary in respect of such asset;

(d) any Security Interest in cash, marketable debt securities or accounts receivable created or assumed by the Corporation or a Designated Subsidiary to or in favour of a bank or other lending institution to secure indebtedness of the Corporation or the Designated Subsidiary that is payable on demand or that, on the date of issue or assumption of liability, has a term to maturity (including any right of extension or renewal) of 18 months or less and that is incurred by the Corporation or the Designated Subsidiary in the ordinary course of business and for the purpose of carrying on the same;

(e) any Security Interest in cash or marketable debt securities created or assumed by the Corporation to secure Non-Speculative Financial Instrument Obligations of the Corporation if the aggregate value of such cash and marketable debt securities is not more than 105% of the aggregate amount of the Non-Speculative Financial Instrument Obligations;

(f) any Security Interest created or assumed by a Designated Subsidiary in favour of the Corporation or any Wholly-Owned Designated Subsidiary;

(g) any Security Interest in an asset acquired by the Corporation or a Designated Subsidiary that secures Obligations of any other person, whether or not such Obligations are assumed by the Corporation or the Designated Subsidiary provided that the Security Interest:

(1) exists before and at the time that the asset is acquired by the Corporation or the Designated Subsidiary;

(2) was not created or assumed in contemplation or as a result of the asset being acquired by the Corporation or the Designated Subsidiary; and

(3) immediately before and after the asset is acquired by the Corporation or the Designated Subsidiary, does not attach to the assets or secure Obligations of the Corporation or any other Designated Subsidiary;

(h) any Security Interest in cash or marketable debt securities in a sinking fund account established by the Corporation in support of a series of debentures issued pursuant to the Indenture;

(i) any Security Interest or deposit under workers' compensation, social security or similar legislation or in connection with bids, tenders, leases, contracts or expropriation proceedings or to secure public or statutory obligations, surety and appeal bonds or costs of litigation where required by law;

(j) any Security Interest or privilege imposed by law, such as builders', mechanics, material men's, carriers', warehousemen's and landlords' liens and privileges; or any Security Interest or privilege arising out of judgments or awards with respect to which the Corporation or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending such appeal or proceedings for review; or any Security Interest for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by the Corporation or a Designated Subsidiary in good faith; or any undetermined or inchoate Security Interest or privilege incidental to current operations that has not been filed pursuant to law against the Corporation or a Designated Subsidiary or that relates to obligations not due or delinquent; or the deposit of cash or securities in connection with any Security Interest or privilege referred to in this paragraph (j);

(k) any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, licence, franchise, grant or permit held or acquired by the Corporation or a Designated Subsidiary, or by any statutory provision, to terminate the lease, licence, franchise, grant or permit or to purchase assets used in connection therewith or to require annual or other periodic payments as a condition of the continuance thereof;

(l) any Security Interest or right of distress reserved in or exercisable under any lease for rent to which the Corporation or a Designated Subsidiary is a party and for compliance with the terms of the lease;

(m) any Security Interest created or assumed by the Corporation or a Designated Subsidiary in favour of a public utility or any municipality or governmental or other public authority when required by the utility, municipality or other authority in connection with the operations of the Corporation or a Designated Subsidiary;

(n) any reservations, limitations, provisos and conditions expressed in original grants from the Crown;

(o) any minor encumbrances, such as easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other persons, rights-of-way for sewers, electric lines, telegraph and telephone lines, oil and natural gas pipelines and other similar purposes, or zoning or other restrictions applicable to the Corporation's or a Designated Subsidiary's use of real property, that do not in the aggregate materially detract from the value of the property or materially impair its use in the operation of the business of the Corporation or the Designated Subsidiary;

(p) any extension, renewal, alteration, substitution or replacement, in whole or in part, of a Security Interest referred to in paragraphs (a) to (o) provided that the Security Interest is limited to all or part of the same assets, the principal amount of the secured Obligations is not increased by that action, the term of the secured Obligations is not shortened and the terms and conditions of the Security Interest are no more restrictive in any material respect than the Security Interest so extended; and

(q) any other Security Interest created or assumed by the Corporation or a Designated Subsidiary (in addition to the Security Interests referred to in paragraphs (a) to (p)) if, after giving effect to the Security Interest, the aggregate amount of all Indebtedness secured by

Security Interests permitted by this paragraph only does not at that time exceed 5% of Consolidated Net Worth.

"**Prudential and Bilateral Credit Support Obligations**" means, without duplication, the following obligations:

(a) all contingent reimbursement obligations of the Corporation relating to letters of credit and other financial instruments and all Contingent Liabilities of the Corporation in respect of Obligations of a subsidiary of the Corporation for the purchase or sale of electricity or natural gas; and

(b) all obligations of a Designated Subsidiary for borrowed money, including contingent reimbursement obligations relating to letters of credit and other financial instruments under credit facilities established for participants in the wholesale market for electricity administered by the Independent Electricity System Operator ("IESO"), in respect of the Obligations of the Designated Subsidiary for the purchase or sale of electricity or natural gas;

if such obligations were incurred or assumed to satisfy:

(x) prescribed prudential requirements in the wholesale market for electricity administered by the IESO;

(y) credit support arrangements required by electricity distribution companies under the terms of the Retail Settlement Code established by the Ontario Energy Board; or

(z) credit support requirements of counterparties under bilateral contracts or customers under purchase contracts.

"**Purchase Money Mortgage**" means, with respect to a person, any Security Interest created or assumed by the person to secure a Purchase Money Obligation provided that such Security Interest is limited to the asset financed by such Purchase Money Obligation and is created or assumed not later than three months after such Purchase Money Obligation is issued, incurred or assumed.

"**Purchase Money Obligation**" means, with respect to a person, indebtedness of the person issued, incurred or assumed to finance all or part of the cost of acquiring any asset for the person, other than shares, bonds and other securities, or constructing, installing or improving any real property or fixtures of the person, provided that the indebtedness is issued, incurred or assumed within twelve months after such acquisition, construction, installation or improvement, and includes any extension, renewal or refunding of such indebtedness so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased.

"**Sale and Leaseback Transaction**" means, with respect to a person, a transaction or series of transactions pursuant to which the person sells or transfers real or personal property owned by the person to a third party and subsequently leases such real or personal property.

"**Security Interest**" means any security interest, assignment by way of security, mortgage, charge (whether fixed or floating), hypothec, pledge, lien or other encumbrance on or interest in property or assets that secures the payment of Obligations.

"**Subordinated Indebtedness**" means all indebtedness of the Corporation in respect of which, upon any distribution of assets of the Corporation upon any dissolution, winding-up, liquidation or reorganization of the Corporation (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors, or any other marshalling of the assets and liabilities of the Corporation or otherwise), the payment of all indebtedness and liabilities of the Corporation in connection with all debentures issued pursuant to the Indenture including principal, interest, fees and expenses, must be satisfied in full prior to any amount being applied to such indebtedness.

"**Tax Act**" means, collectively, the *Income Tax Act* (Canada) and the *Income Tax Regulations*;

"**Total Consolidated Capitalization**" means, without duplication, the sum of:

(a) the principal amount of all Consolidated Funded Indebtedness;

(b) the principal amount of all Subordinated Indebtedness; and

(c) the Consolidated Net Worth;

in each case, as determined by the Corporation and its Designated Subsidiaries.

"**Wholly-Owned Designated Subsidiary**" means a Designated Subsidiary all of the outstanding shares in the capital of which are owned by the Corporation or one or more Wholly-Owned Designated Subsidiaries.

RISK FACTORS

An investment in the Debentures is subject to a variety of risks. Before deciding whether to invest in any Debentures, prospective purchasers of Debentures should consider carefully various risks, including the risk factors described below and contained in the documents incorporated or deemed to be incorporated by reference in this prospectus (including the sections entitled "Forward-Looking Information" and "Risk Factors" in the Corporation's AIF and the sections entitled "Forward-Looking Information" and "Risk Management and Risk Factors" in the Corporation's MD&A). This prospectus, including the documents incorporated or deemed to be incorporated by reference in this prospectus, does not describe all of the risks of an investment in the Debentures. Prospective purchasers should consult their own financial and legal advisors about the risks entailed by an investment in the Debentures and the suitability of such investment in light of their particular circumstances. Debentures will not be an appropriate investment for a prospective purchaser if the purchaser does not understand the terms of the Debentures or financial matters in general. A prospective purchaser should not purchase Debentures unless the prospective purchaser understands, and can bear, all of the investment risks related to the Debentures.

Rank of Debentures and Holding Company Structure

The Debentures will be direct unsecured obligations of the Corporation and will rank *pari passu* with all other unsecured and unsubordinated indebtedness of the Corporation from time to time outstanding, including, but not limited to, indebtedness of the Corporation under the THC Revolving Credit Facility, the Prudential Facility, the Working Capital Facility, its commercial paper program and debentures of every other series issued pursuant to the Indenture. A default by the Corporation under the Indenture will constitute an event of default under the THC Revolving Credit Facility and an event of default or repayment event under the Working Capital Facility and the Prudential Facility. There can be no assurance that sufficient funds would be available to the Corporation at the time of any such default to make any required payment under the Debentures.

The Corporation is a holding company and substantially all of its business activities are carried on by its subsidiaries. Therefore, the Corporation's ability to meet its financial obligations is dependent primarily upon the receipt of interest and principal, management fees, cash dividends and other payments from its subsidiaries, together with proceeds raised by the Corporation through the issuance of debt. The Corporation is wholly-owned by the City of Toronto and does not currently raise funds through the issuance of share capital. The payment of dividends and the making of loans, advances and other payments to the Corporation by its subsidiaries may be subject to statutory or contractual restrictions, will depend on the earnings of the subsidiaries and will be subject to various business and other considerations.

The Corporation's subsidiaries are separate legal entities and have no legal obligation, contingent or otherwise, to pay any amount due under the Debentures or to make any amounts available to the Corporation, whether by dividends, interest, loans or other payments. In addition, these subsidiaries have not guaranteed the Debentures. Therefore, the Debentures will be effectively subordinated to the current and future liabilities, including trade payables and other indebtedness, of the Corporation's subsidiaries. The creditors of those subsidiaries will have the right to be paid before payment on the Debentures from any cash received or held by those subsidiaries. In the event of any bankruptcy, dissolution, liquidation or reorganization of one of those subsidiaries, following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets to make payments to the Corporation in its capacity as an equityholder of such subsidiary.

Absence of Public Market for the Debentures

The Debentures will be newly issued securities for which there is no existing trading market. The Corporation does not intend to list the Debentures on any Canadian, U.S. or other securities exchange. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. There can be no assurance that a secondary market will develop for the Debentures or that any secondary market that does develop will continue. Accordingly, purchasers may not be able to sell the Debentures. In addition, if a trading market develops for the Debentures, the Debentures could trade at prices that may be higher or lower than their initial offering prices, depending on many factors, including prevailing interest rates, general economic conditions, the Corporation's results of operations and financial position, the ratings assigned to the Debentures and the Corporation's other debt securities and the markets for similar debt securities.

Ratings

The Corporation's perceived creditworthiness and changes in ratings of the Debentures may affect the market price or value and the liquidity of the Debentures. There is no assurance that any rating assigned to the Debentures issued hereunder will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such rating may have an adverse effect on the market value of the Debentures.

Ratings may not reflect all risks associated with an investment in the Debentures. The ratings applied to the Debentures are an assessment of the Corporation's ability to pay its obligations. The ratings, however, may not reflect the potential impact of risks related to structure, market or other factors discussed in this prospectus or documents incorporated or deemed to be incorporated by reference in this prospectus on the value of the Debentures.

Additional Debt Financing

The Corporation expects to borrow to repay the Debentures when required to do so under the terms of the Debentures and to fund capital expenditures, including the renewal of LDC's electricity distribution assets. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, the ratings assigned to the Corporation and its debt securities by credit rating agencies, the current timing of debt maturities and general economic conditions.

Interest Rate Risks

Prevailing interest rates will affect the market price or value of the Debentures. Generally, the market price or value of the Debentures will decline as prevailing interest rates for comparable debt instruments rise and increase as prevailing interest rates for comparable debt instruments decline. Fluctuations in interest rates may also impact borrowing costs of the Corporation which may adversely affect its creditworthiness.

Risks Associated with Floating Rate Debentures

The Debentures will bear interest at fixed or floating rates as set out in the applicable pricing supplement to this prospectus. Investments in floating rate Debentures entail risks not associated with investments in fixed rate Debentures. The resetting of the applicable rate on a floating rate Debenture may result in a lower interest rate as compared to a fixed rate Debenture issued at the same time. The applicable rate on a floating rate Debenture will fluctuate in accordance with fluctuations in the instrument or obligation or other measure on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which the Corporation has no control.

Foreign Currency Risks

An investment in Debentures that are denominated or payable in a currency other than Canadian dollars entails significant risks that are not associated with a similar investment in a security denominated in Canadian dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the Canadian dollar and the applicable foreign currency unit, the possibility of the imposition or modification of foreign exchange controls by either the Canadian or foreign governments and potential illiquidity in the secondary market. These risks generally depend on circumstances over which the Corporation has no control, including political events, government policy and macroeconomic conditions. These risks will vary depending upon the currency or currencies involved and, where appropriate, will be more fully described in a pricing supplement.

This prospectus does not describe all the risks of an investment in the Debentures denominated or payable other than in Canadian dollars and prospective investors should consult their own financial and legal advisor as to the risk entailed with respect thereto. Debentures denominated in other than Canadian dollars are not appropriate investments for investors who are unfamiliar with foreign currency transactions.

The Debentures will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. A judgment by a Canadian court relating to any Debenture may be awarded only in Canadian currency and such judgment may be based on a rate of exchange in existence on a day other than the day of payment.

Shareholder Direction

Council of the City of Toronto has adopted a shareholder direction (the "Shareholder Direction") which sets out certain corporate governance principles with respect to Toronto Hydro. The Shareholder Direction is summarized in the AIF under "Relationship with the City". The Shareholder Direction is not for the benefit of, or enforceable by, the holders of the Debentures.

ELIGIBILITY FOR INVESTMENT

In the opinion of Norton Rose Fulbright Canada LLP, counsel to the Corporation, and Blake, Cassels & Graydon LLP, counsel to the Dealers, unless otherwise specified in the applicable pricing supplement, the Debentures, if issued on the date hereof, would be, as at that date, qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP"), registered disability savings plan ("RDSP"), deferred profit sharing plan (other than a trust governed by a deferred profit sharing plan to which the Corporation or an employer with which the Corporation does not deal at arm's length within the meaning of the Tax Act, has made a contribution) or a tax-free savings account ("TFSA").

Notwithstanding that the Debentures may be a qualified investment for a trust governed by an RRSP, RRIF or TFSA, the annuitant under an RRSP or RRIF or the holder of a TFSA will be subject to a penalty tax if such Debentures are a "prohibited investment" for the RRSP, RRIF or TFSA within the meaning of the Tax Act. The Debentures will not be a prohibited investment for a trust governed by an RRSP, RRIF or TFSA provided that the annuitant of the RRSP or the RRIF or the holder of the TFSA, as the case may be, deals at "arm's length" (within the meaning of the Tax Act) with the Corporation and does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation. Under tax proposals to amend the Tax Act contained in the federal budget released on March 22, 2017, the prohibited investment rules will also apply to a trust governed by a RESP or RDSP, effective after March 22, 2017. Prospective purchasers are advised to consult their own advisors in this regard.

LEGAL MATTERS

Certain legal matters in connection with any offering hereunder will be passed on for the Corporation by Norton Rose Fulbright Canada LLP and for the Dealers by Blake, Cassels & Graydon LLP. The partners and associates of Norton Rose Fulbright Canada LLP and Blake, Cassels & Graydon LLP, respectively, beneficially own, directly or indirectly, less than one per cent of the securities of the Corporation or any associate or affiliate of the Corporation.

AUDITORS

The auditors of the Corporation are KPMG LLP, Chartered Professional Accountants ("KPMG LLP"), at their office at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5. KPMG LLP have been the auditors of the Corporation since April 12, 2011. KPMG LLP have confirmed they are independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE CORPORATION

Dated: May 8, 2017

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

(Signed) Anthony Haines President and Chief Executive Officer	(Signed) Sean Bovingdon Executive Vice-President and Chief Financial Officer

On behalf of the Board of Directors

(Signed) David McFadden Director and Chair of the Board of Directors	(Signed) Michael Nobrega Director

CERTIFICATE OF THE DEALERS

Dated: May 8, 2017

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

CIBC WORLD MARKETS INC.

By: (Signed) Scott Burrows

TD SECURITIES INC.

By: (Signed) Patrick Scace

BMO NESBITT BURNS INC.

By: (Signed) Andrew Hainsworth

RBC DOMINION SECURITIES INC.

By: (Signed) Robert Brown

NATIONAL BANK FINANCIAL INC.

By: (Signed) John B. Carrique

SCOTIA CAPITAL INC.

By: (Signed) Murray Neal

ELEVENTH SUPPLEMENTAL TRUST INDENTURE

Made as of September 16, 2014

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

4.08% Senior Unsecured Debentures
due 2044 (Series 10)

TABLE OF CONTENTS

ELEVENTH SUPPLEMENTAL TRUST INDENTURE

THIS ELEVENTH SUPPLEMENTAL TRUST INDENTURE made as of September 16, 2014,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures; and

(N) This Eleventh Supplemental Trust Indenture is entered into for the purpose of providing for the issue of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures.

NOW THEREFORE THIS ELEVENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Eleventh Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Eleventh Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Eleventh Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Eleventh Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Eleventh Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 10 Debentures by this Eleventh Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Eleventh Supplemental Trust Indenture, the meaning given to the term in this Eleventh Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Eleventh Supplemental Trust Indenture and in the Series 10 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to maturity of the Series 10

Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the price equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 10 Debentures, using a discount rate equal to the sum of the Canada Yield and 36 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 10 Debentures.

(c) ***Series 10 Debentures*** means the 4.08% Senior Unsecured Debentures due 2044 (Series 10) referred to in Section 2.1.

(d) ***Series 10 Debentures Debt Account*** means the deposit account established in respect of the Series 10 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 10 Debentures Debt Account".

(e) ***Series 10 Debentures Interest Payment Date*** means March 16 and September 16 in each year that the Series 10 Debentures are outstanding.

(f) ***Series 10 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 10 Debentures and the immediately preceding Series 10 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 10 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 10 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Eleventh Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "4.08% Senior Unsecured Debentures due 2044 (Series 10)", having the terms set out in this Eleventh Supplemental Trust Indenture.

2.2 Limitation on Issue

The aggregate principal amount of Series 10 Debentures which may be issued under this Eleventh Supplemental Trust Indenture including any supplement hereto will be limited to $500,000,000.

2.3 Date of Issue and Maturity

The Series 10 Debentures shall be dated September 16, 2014 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on September 16, 2044 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 10 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 4.08% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 10 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 10 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 10 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 10 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 10 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 10 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 10 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 10 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 10 Debentures

(a) The Series 10 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to March 16, 2044, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 10 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after March 16, 2044, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to 100% of the principal amount of the Series 10 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 10 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 10 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

2.8 Form of Series 10 Debentures

(a) Except as set out in 2.8(b) below, the Series 10 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 10 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 10 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 10 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 10 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 10 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 10 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 10 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 10 Debentures.

2.9 Signatures on Series 10 Debentures

The Series 10 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 10 Debenture issued shall be obligatory or shall entitle the Holder of such Series 10 Debenture to the benefits of this Eleventh Supplemental Trust Indenture until it has been certified by manual signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 10 Debenture shall be conclusive evidence that such Series 10 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 10 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Eleventh Supplemental Trust Indenture, and such Series 10 Debenture.

(b) The certificate of the Trustee on any Series 10 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Eleventh Supplemental Trust Indenture or of the Series 10 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 10 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 10 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 10 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 10 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Eleventh Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Eleventh Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Eleventh Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Eleventh Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Eleventh Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: *"Anthony Haines"*

Name: Anthony Haines

Title: President and Chief Executive Officer

By: *"Jean-Sebastien Couillard"*

Name: Jean-Sebastien Couillard

Title: Executive Vice-President and Chief Financial Officer

BNY TRUST COMPANY OF CANADA

By: *"J. Steven Broude"*

Name: J. Steven Broude

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 10

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Debenture is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any debenture issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this debenture herein and it is a violation of its rights for another person to hold, transfer or deal with this debenture.

No. 10-000

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2044 (SERIES 10)

ISIN CA89119ZAG87
CUSIP 89119ZAG8

Issue Date	September 16, 2014
Stated Maturity	September 16, 2044
Interest Rate Per Annum	●%
Interest Payment Dates	March 16 and September 16 in each year
Initial Interest Payment Date	March 16, 2015
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this ●% Senior Unsecured Debenture due September 16, 2044 (Series 10) (the "**Series 10 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 10 Debenture, at the address of the registered holder hereof appearing on the register of Series 10 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is

each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 10 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 10 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 10 Debenture is one of an authorized issue of debentures designated as ●% Senior Unsecured Debentures due September 16, 2044 (Series 10) and forming the series of debentures created and issued under an eleventh supplemental trust indenture made as of ●, 2014 (the "**Eleventh Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the Eleventh Supplemental Trust Indenture and the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 10 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 10 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 10 Debenture and to each of which the registered holder of this Series 10 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 10 Debentures that may be created and issued under the Trust Indenture is limited to $500,000,000 in lawful money of Canada Series 10 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 10 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 10 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to March 16, 2044, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 10 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after March 16, 2044, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 10 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 10 Debentures in the open market, by tender or by private contract, at any price. Series 10 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 10 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 10 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 10 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 10 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2044 (SERIES 10)

ISIN CA89119ZAG87
CUSIP 89119ZAG8

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 10 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 10

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

No. 10-000

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2044 (SERIES 10)

Issue Date	September 16, 2014
Stated Maturity	September 16, 2044
Interest Rate Per Annum	●%
Interest Payment Dates	March 16 and September 16 in each year
Initial Interest Payment Date	March 16, 2015
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this ●% Senior Unsecured Debenture due September 16, 2044 (Series 10) (the "**Series 10 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 10 Debenture, at the address of the registered holder hereof appearing on the register of Series 10 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 10 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 10 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 10 Debenture is one of an authorized issue of debentures designated as ●% Senior Unsecured Debentures due September 16, 2044 (Series 10) and forming the series of debentures created and issued under an eleventh supplemental trust indenture made as of ●, 2014 (the “**Eleventh Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the Eleventh Supplemental Trust Indenture and the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 10 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 10 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 10 Debenture and to each of which the registered holder of this Series 10 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 10 Debentures that may be created and issued under the Trust Indenture is limited to $500,000,000 in lawful money of Canada. Series 10 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 10 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 10 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to March 16, 2044, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 10 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after March 16, 2044, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 10 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 10 Debentures in the open market, by tender or by private contract, at any price. Series 10 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 10 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 10 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 10 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 10 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2044 (SERIES 10)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

TWELFTH SUPPLEMENTAL TRUST INDENTURE

Made as of March 16, 2015

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

3.55% Senior Unsecured Debentures
due 2045 (Series 11)

TABLE OF CONTENTS

TWELFTH SUPPLEMENTAL TRUST INDENTURE

THIS TWELFTH SUPPLEMENTAL TRUST INDENTURE made as of March 16, 2015,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures; and

(O) This Twelfth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures.

NOW THEREFORE THIS TWELFTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Twelfth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Twelfth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Twelfth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Twelfth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Twelfth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 11 Debentures by this Twelfth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Twelfth Supplemental Trust Indenture, the meaning given to the term in this Twelfth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Twelfth Supplemental Trust Indenture and in the Series 11 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to January 28, 2045 of the Series 11 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the price equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 11 Debentures that would have been payable to January 28, 2045 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 33.5 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 11 Debentures.

(c) ***Series 11 Debentures*** means the 3.55% Senior Unsecured Debentures due 2045 (Series 11) referred to in Section 2.1.

(d) ***Series 11 Debentures Debt Account*** means the deposit account established in respect of the Series 11 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 11 Debentures Debt Account".

(e) ***Series 11 Debentures Interest Payment Date*** means January 28 and July 28 in each year that the Series 11 Debentures are outstanding.

(f) ***Series 11 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 11 Debentures and the immediately preceding Series 11 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 11 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 11 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Twelfth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "3.55% Senior Unsecured Debentures due 2045 (Series 11)", having the terms set out in this Twelfth Supplemental Trust Indenture.

2.2 Limitation on Issue

The aggregate principal amount of Series 11 Debentures which may be issued under this Twelfth Supplemental Trust Indenture including any supplement hereto will be limited to $500,000,000.

2.3 Date of Issue and Maturity

The Series 11 Debentures shall be dated March 16, 2015 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on July 28, 2045 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 11 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 3.55% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 11 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 11 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 11 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 11 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 11 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 11 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 11 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 11 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 11 Debentures

(a) The Series 11 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to January 28, 2045, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 11 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after January 28, 2045, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to 100% of the principal amount of the Series 11 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 11 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 11 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

2.8 Form of Series 11 Debentures

(a) Except as set out in 2.8(b) below, the Series 11 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 11 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 11 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 11 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT"**) OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 11 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Ac**t") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 11 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 11 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 11 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 11 Debentures.

2.9 Signatures on Series 11 Debentures

The Series 11 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 11 Debenture issued shall be obligatory or shall entitle the Holder of such Series 11 Debenture to the benefits of this Twelfth Supplemental Trust Indenture until it has been certified by manual signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 11 Debenture shall be conclusive evidence that such Series 11 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 11 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Twelfth Supplemental Trust Indenture, and such Series 11 Debenture.

(b) The certificate of the Trustee on any Series 11 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Twelfth Supplemental Trust Indenture or of the Series 11 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 11 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 11 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 11 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 11 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Twelfth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Twelfth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Twelfth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Twelfth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Twelfth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: *"Anthony Haines"*

Name: Anthony Haines

Title: President and Chief Executive Officer

By: *"Jean-Sebastien Couillard"*

Name: Jean-Sebastien Couillard

Title: Executive Vice-President and Chief Financial Officer

BNY TRUST COMPANY OF CANADA

By: *"Ismail Bawa"*

Name: Ismail Bawa

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 11

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

No. 11-000

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2045 (SERIES 11)

ISIN CA89119ZAH60
CUSIP 89119ZAH6

Issue Date	March 16, 2015
Stated Maturity	July 28, 2045
Interest Rate Per Annum	●%
Interest Payment Dates	January 28 and July 28 in each year
Initial Interest Payment Date	July 28, 2015
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this ●% Senior Unsecured Debenture due July 28, 2045 (Series 11) (the "**Series 11 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 11 Debenture, at the address of the registered holder hereof appearing on the register of Series 11 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is

each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 11 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 11 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 11 Debenture is one of an authorized issue of debentures designated as ●% Senior Unsecured Debentures due July 28, 2045 (Series 11) and forming the series of debentures created and issued under a twelfth supplemental trust indenture made as of ●, 2015 (the "**Twelfth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, and the Twelfth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 11 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 11 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 11 Debenture and to each of which the registered holder of this Series 11 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 11 Debentures that may be created and issued under the Trust Indenture is limited to $500,000,000 in lawful money of Canada Series 11 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 11 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 11 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to January 28, 2045, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 11 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after January 28, 2045, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the

Series 11 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 11 Debentures in the open market, by tender or by private contract, at any price. Series 11 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 11 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 11 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 11 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: __________________________________

Name: ●

Title: ●

By: __________________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 11 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2045 (SERIES 11)

ISIN CA89119ZAH60
CUSIP 89119ZAH6

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 11 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 11

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

No. 11-000

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2045 (SERIES 11)

Issue Date	March 16, 2015
Stated Maturity	July 28, 2045
Interest Rate Per Annum	●%
Interest Payment Dates	January 28 and July 28 in each year
Initial Interest Payment Date	July 28, 2015
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this ●% Senior Unsecured Debenture due July 28, 2045 (Series 11) (the "**Series 11 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 11 Debenture, at the address of the registered holder hereof appearing on the register of Series 11 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two

Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 11 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 11 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 11 Debenture is one of an authorized issue of debentures designated as ●% Senior Unsecured Debentures due July 28, 2045 (Series 11) and forming the series of debentures created and issued under a twelfth supplemental trust indenture made as of ●, 2015 (the “**Twelfth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, and the Twelfth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 11 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 11 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 11 Debenture and to each of which the registered holder of this Series 11 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 11 Debentures that may be created and issued under the Trust Indenture is limited to $500,000,000 in lawful money of Canada. Series 11 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 11 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 11 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to January 28, 2045, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 11 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after January 28, 2045, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 11 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 11 Debentures in the open market, by tender or by private contract, at any price. Series 11 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 11 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 11 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 11 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 11 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
●% SENIOR UNSECURED DEBENTURES DUE 2045 (SERIES 11)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

THIRTEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of June 14, 2016

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

2.52% Senior Unsecured Debentures
due 2026 (Series 12)

TABLE OF CONTENTS

THIRTEENTH SUPPLEMENTAL TRUST INDENTURE

THIS THIRTEENTH SUPPLEMENTAL TRUST INDENTURE made as of June 14, 2016,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of Series 9 Debentures; and

(Q) This Thirteenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures.

NOW THEREFORE THIS THIRTEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Thirteenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Thirteenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Thirteenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Thirteenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Thirteenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 12 Debentures by this Thirteenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Thirteenth Supplemental Trust Indenture, the meaning given to the term in this Thirteenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Thirteenth Supplemental Trust Indenture and in the Series 12 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to May 25, 2026 of the Series 12 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 12 Debentures that would have been payable to May 25, 2026 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 33 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 12 Debentures.

(c) ***Series 12 Debentures*** means the 2.52% Senior Unsecured Debentures due 2026 (Series 12) referred to in Section 2.1.

(d) ***Series 12 Debentures Debt Account*** means the deposit account established in respect of the Series 12 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 12 Debentures Debt Account".

(e) ***Series 12 Debentures Interest Payment Date*** means February 25 and August 25 in each year that the Series 12 Debentures are outstanding.

(f) ***Series 12 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 12 Debentures and the immediately preceding Series 12 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 12 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 12 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Thirteenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "2.52% Senior Unsecured Debentures due 2026 (Series 12)", having the terms set out in this Thirteenth Supplemental Trust Indenture.

2.2 Limitation on Issue

The aggregate principal amount of Series 12 Debentures which may be issued under this Thirteenth Supplemental Trust Indenture including any supplement hereto will be limited to $500,000,000.

2.3 Date of Issue and Maturity

The Series 12 Debentures shall be dated June 14, 2016 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on August 25, 2026 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 12 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 2.52% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 12 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 12 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 12 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 12 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 12 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 12 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 12 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 12 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 12 Debentures

(a) The Series 12 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to May 25, 2026, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 12 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after May 25, 2026, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to 100% of the principal amount of the Series 12 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 12 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 12 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

2.8 Form of Series 12 Debentures

(a) Except as set out in 2.8(b) below, the Series 12 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 12 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 12 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 12 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 12 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Ac**t") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United

States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 12 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 12 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 12 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 12 Debentures.

2.9 Signatures on Series 12 Debentures

The Series 12 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 12 Debenture issued shall be obligatory or shall entitle the Holder of such Series 12 Debenture to the benefits of this Thirteenth Supplemental Trust Indenture until it has been certified by manual signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 12 Debenture shall be conclusive evidence that such Series 12 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 12 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Thirteenth Supplemental Trust Indenture, and such Series 12 Debenture.

(b) The certificate of the Trustee on any Series 12 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Thirteenth Supplemental Trust Indenture or of the Series 12 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 12 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 12 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 12 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 12 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Thirteenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Thirteenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Thirteenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Thirteenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Thirteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________________

Name: Anthony Haines
Title: President and Chief Executive Officer

By: ______________________________

Name: Laura Foster
Title: Interim, Chief Financial Officer

BNY TRUST COMPANY OF CANADA

By: ______________________________

Name: Ismail Bawa
Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 12

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

No. 12-000

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.52**% SENIOR UNSECURED DEBENTURES DUE 2026 (SERIES 12)**

ISIN CA 89119ZAJ27
CUSIP 89119ZAJ2

Issue Date	June 14, 2016
Stated Maturity	August 25, 2026
Interest Rate Per Annum	2.52%
Interest Payment Dates	February 25 and August 25 in each year
Initial Interest Payment Date	August 25, 2016
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.52% Senior Unsecured Debenture due August 25, 2026 (Series 12) (the "**Series 12 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 12 Debenture, at the address of the registered holder hereof appearing on the register of Series 12 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is

each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 12 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 12 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 12 Debenture is one of an authorized issue of debentures designated as 2.52% Senior Unsecured Debentures due August 25, 2026 (Series 12) and forming the series of debentures created and issued under a thirteenth supplemental trust indenture made as of June 14, 2016 (the "**Thirteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, and the Thirteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 12 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 12 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 12 Debenture and to each of which the registered holder of this Series 12 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 12 Debentures that may be created and issued under the Trust Indenture is limited to $500,000,000 in lawful money of Canada Series 12 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 12 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 12 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to May 25, 2026, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 12 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after May 25, 2026, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 12 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 12 Debentures in the open market, by tender or by private contract, at any price. Series 12 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 12 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 12 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 12 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 12 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.52**% SENIOR UNSECURED DEBENTURES DUE 2026 (SERIES 12)**

ISIN CA 89119ZAJ27
CUSIP 89119ZAJ2

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 12 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 12

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

No. 12-000

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.52**% SENIOR UNSECURED DEBENTURES DUE 2026 (SERIES 12)**

Issue Date	June 14, 2016
Stated Maturity	August 25, 2026
Interest Rate Per Annum	2.52%
Interest Payment Dates	February 25 and August 25 in each year
Initial Interest Payment Date	August 25, 2016
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.52% Senior Unsecured Debenture due August 25, 2026 (Series 12) (the "**Series 12 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 12 Debenture, at the address of the registered holder hereof appearing on the register of Series 12 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two

Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 12 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 12 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 12 Debenture is one of an authorized issue of debentures designated as 2.52% Senior Unsecured Debentures due August 25, 2026 (Series 12) and forming the series of debentures created and issued under a thirteenth supplemental trust indenture made as of June 14, 2016 (the "**Thirteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, and the Thirteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 12 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 12 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 12 Debenture and to each of which the registered holder of this Series 12 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 12 Debentures that may be created and issued under the Trust Indenture is limited to $500,000,000 in lawful money of Canada. Series 12 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 12 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 12 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to May 25, 2026, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 12 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after May 25, 2026, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series

12 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 12 Debentures in the open market, by tender or by private contract, at any price. Series 12 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 12 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 12 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 12 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 12 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.52**% SENIOR UNSECURED DEBENTURES DUE 2026 (SERIES 12)**

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

FOURTEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of November 14, 2017

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

3.485% Senior Unsecured Debentures
due 2048 (Series 13)

TABLE OF CONTENTS

FOURTEENTH SUPPLEMENTAL TRUST INDENTURE

THIS FOURTEENTH SUPPLEMENTAL TRUST INDENTURE made as of November 14, 2017,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures; and

(R) This Fourteenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures.

NOW THEREFORE THIS FOURTEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Fourteenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Fourteenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Fourteenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Fourteenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Fourteenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 13 Debentures by this Fourteenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Fourteenth Supplemental Trust Indenture, the meaning given to the term in this Fourteenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Fourteenth Supplemental Trust Indenture and in the Series 13 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to August 28, 2047 of the Series 13 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 13 Debentures that would have been payable to August 28, 2047 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 30 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 13 Debentures.

(c) ***Series 13 Debentures*** means the 3.485% Senior Unsecured Debentures due 2048 (Series 13) referred to in Section 2.1.

(d) ***Series 13 Debentures Debt Account*** means the deposit account established in respect of the Series 13 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 13 Debentures Debt Account".

(e) ***Series 13 Debentures Interest Payment Date*** means February 28 and August 28 in each year that the Series 13 Debentures are outstanding.

(f) ***Series 13 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 13 Debentures and the immediately preceding Series 13 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 13 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 13 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Fourteenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "3.485% Senior Unsecured Debentures due 2048 (Series 13)", having the terms set out in this Fourteenth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 13 Debentures which may be issued under this Fourteenth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 13 Debentures shall be dated November 14, 2017 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on February 28, 2048 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 13 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 3.485% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 13 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 13 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 13 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 13 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 13 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 13 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 13 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 13 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 13 Debentures

(a) The Series 13 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to August 28, 2047, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 13 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after August 28, 2047, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to 100% of the principal amount of the Series 13 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 13 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 13 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

2.8 Form of Series 13 Debentures

(a) Except as set out in 2.8(b) below, the Series 13 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 13 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 13 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 13 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 13 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

> "The undersigned (A) acknowledges that the sale of the _______________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 13 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 13 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 13 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 13 Debentures.

2.9 Signatures on Series 13 Debentures

The Series 13 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 13 Debenture issued shall be obligatory or shall entitle the Holder of such Series 13 Debenture to the benefits of this Fourteenth Supplemental Trust Indenture until it has been certified by manual signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 13 Debenture shall be conclusive evidence that such Series 13 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 13 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Fourteenth Supplemental Trust Indenture, and such Series 13 Debenture.

(b) The certificate of the Trustee on any Series 13 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Fourteenth Supplemental Trust Indenture or of the Series 13 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 13 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 13 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 13 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 13 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Fourteenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Fourteenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Fourteenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Fourteenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Fourteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: *"Anthony Haines"*

Name: Anthony Haines

Title: President and Chief Executive Officer

By: *"Sean Bovingdon"*

Name: Sean Bovingdon

Title: Executive Vice-President and Chief Financial Officer

BNY TRUST COMPANY OF CANADA

By: *“Pierre Tremblay"*

Name: Pierre Tremblay

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 13

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 13-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.485% SENIOR UNSECURED DEBENTURES DUE 2048 (SERIES 13)

ISIN CA 89119ZAK99
CUSIP 89119ZAK9

Issue Date	November 14, 2017
Stated Maturity	February 28, 2048
Interest Rate Per Annum	3.485%
Interest Payment Dates	February 28 and August 28 in each year
Initial Interest Payment Date	February 28, 2018
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 3.485% Senior Unsecured Debenture due February 28, 2048 (Series 13) (the "**Series 13 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 13 Debenture, at the address of the registered holder hereof appearing on the register of Series 13 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is

each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 13 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 13 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 13 Debenture is one of an authorized issue of debentures designated as 3.485% Senior Unsecured Debentures due February 28, 2048 (Series 13) and forming the series of debentures created and issued under a fourteenth supplemental trust indenture made as of November 14, 2017 (the "**Fourteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, and the Fourteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 13 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 13 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 13 Debenture and to each of which the registered holder of this Series 13 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 13 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 13 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 13 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 13 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to August 28, 2047, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 13 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after August 28, 2047, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 13 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 13 Debentures in the open market, by tender or by private contract, at any price. Series 13 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 13 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 13 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 13 Debenture to be signed by its • and its •.

TORONTO HYDRO CORPORATION

Per: ______________________________
Name: •
Title: •

Per: ______________________________
Name: •
Title: •

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 13 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.485% SENIOR UNSECURED DEBENTURES DUE 2048 (SERIES 13)

ISIN CA 89119ZAK99
CUSIP 89119ZAK9

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 13 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 13

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 13-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.485% SENIOR UNSECURED DEBENTURES DUE 2048 (SERIES 13)

Issue Date	November 14, 2017
Stated Maturity	February 28, 2048
Interest Rate Per Annum	3.485%
Interest Payment Dates	February 28 and August 28 in each year
Initial Interest Payment Date	February 28, 2018
Principal Amount	$•

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 3.485% Senior Unsecured Debenture due February 28, 2048 (Series 13) (the "**Series 13 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at 11th Floor, 320 Bay Street, Toronto, Ontario M5H 4A6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 13 Debenture, at the address of the registered holder hereof appearing on the register of Series 13 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two

Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 13 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 13 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 13 Debenture is one of an authorized issue of debentures designated as 3.485% Senior Unsecured Debentures due February 28, 2048 (Series 13) and forming the series of debentures created and issued under a fourteenth supplemental trust indenture made as of November 14, 2017 (the "**Fourteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, and the Fourteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 13 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 13 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 13 Debenture and to each of which the registered holder of this Series 13 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 13 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 13 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 13 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 13 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to August 28, 2047, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 13 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after August 28, 2047, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the

Series 13 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 13 Debentures in the open market, by tender or by private contract, at any price. Series 13 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 13 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 13 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 13 Debenture to be signed by its • and its •.

TORONTO HYDRO CORPORATION

Per: ______________________________
Name: •
Title: •

Per: ______________________________
Name: •
Title: •

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 13 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.485% SENIOR UNSECURED DEBENTURES DUE 2048 (SERIES 13)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

RATING AGENCY REPORTS

In accordance with s. 2.1.9 of the OEB's Filing Requirements,[1] this schedule provides Toronto Hydro-Electric System Limited's rating agency reports, as follows:

- Appendix A: Standard and Poor's, 30 April 2018
- Appendix B: DBRS, 27 April 2018

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (July 12, 2018).

S&P Global Ratings

RatingsDirect®

Summary:

Toronto Hydro Corp.

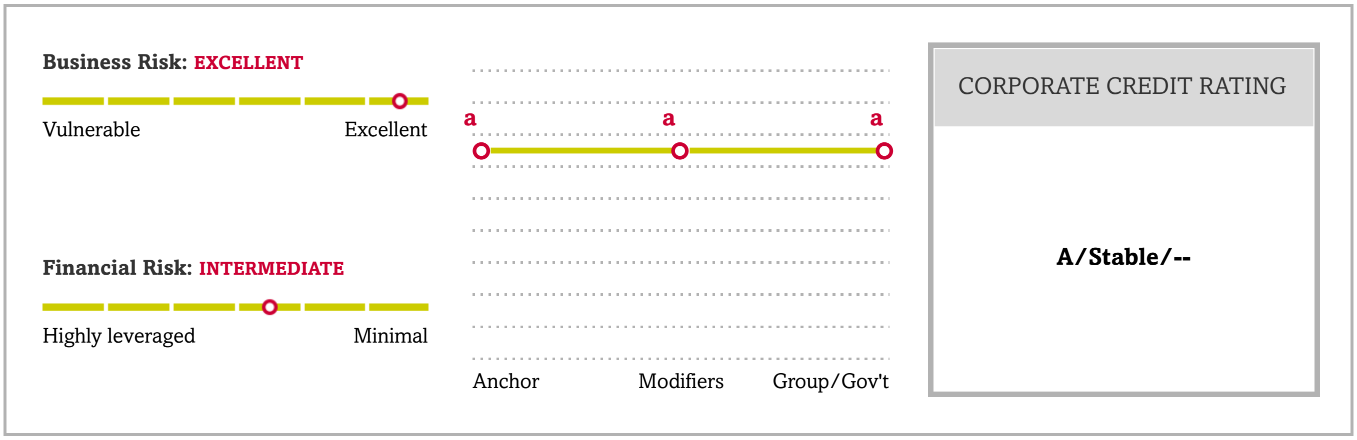
Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contact:
Vinod Makkar, CFA, Toronto + (416) 507-3271; vinod.makkar@spglobal.com

Table Of Contents

Summary:

Toronto Hydro Corp.



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• A strong regulatory structure that is transparent, predictable, consistent, and independent, supporting the regulated electricity distribution business' stable cash flows • Minimal exposure to unregulated businesses • A diverse customer base and economic activity within the service territory, with no meaningful concentration risk • No exposure to commodity cost risk because tariffs allow the pass-through of electricity costs to customers • Lack of geographical and regulatory diversity	• Steady and stable regulated cash flow • Large capital programs related to expansion and replacement of aging infrastructure

Outlook: Stable

The stable outlook reflects S&P Global Ratings' view that Toronto Hydro Corp. will continue to focus on its regulated electricity distribution operation and generate stable and predictable cash flow. For 2018, we expect adjusted funds from operations (AFFO)-to-debt to be low at about 12%-13%, primarily due to the settlement of variance account related to refund of the over-collection of energy costs from 2016. We expect AFFO-to-debt in 2019-2020 will normalize and improve to 15%-16%.

Downside scenario

We could take a negative rating action on Toronto Hydro if the company's credit metrics were to deteriorate materially, with AFFO-to-debt approaches 10% with no prospect for improvement, a two-notch downgrade to the utility's stand-alone credit profile (SACP). This could happen if there are significant cost overruns with capital programs or if Toronto Hydro experiences adverse regulatory decisions, including material cost disallowance or materially lower return on equity (ROE) and equity thickness.

Given our current view of the moderate likelihood that the utility to receive extraordinary support from its government owner, a one-notch downgrade either to the City of Toronto or a one-notch revision to the company's SACP on its own would have no rating impact.

Upside scenario

We could take a positive rating action on Toronto Hydro if the company sustainably improves its financial position, with sustained AFFO-to-debt approaching 20%. However, we believe this is unlikely during our two-year outlook period given that rates are regulated and that the company is going through a period of intense capital spending. Alternatively, a positive rating action to Toronto would also result in one on Toronto Hydro based on our view of the likelihood of government support the utility would receive from the city.

Our Base-Case Scenario

Assumptions

- Electricity distribution rates for 2018 and 2019 will be set under the custom incentive ratemaking mechanism
- The regulatory regime will be relatively stable and Toronto Hydro will not experience any material, adverse regulatory decisions
- The company will earn an expected ROE of about 9.3% per the Ontario Energy Board's (OEB) directive in 2016 based on the deemed capital structure with 60% debt and 40% equity
- Capital expenditures of about C$500 million on average in 2018-2019
- Dividend payments of about C$90 million in 2018

Key Metrics

	2017A	2018E	2019E
AFFO/debt	15.9%	12%-13%	15%-16%
Debt-to-capital	58.3%	60%-61%	60%-61%

AFFO--Adjusted funds from operations. A--Actual. E--Estimate.

Company Description

Toronto Hydro is a utility holding company. Its primary operation is Toronto Hydro-Electric System Ltd.'s (THESL) monopoly electricity distribution business, which delivers electricity throughout Toronto. THESL represented virtually all of Toronto Hydro's revenue (net of commodity pass-through) in 2017. It is one of Ontario's largest local distribution companies serving approximately 768,000 customers in the city and delivers approximately 19% of the electricity consumed in the Province of Ontario.

Business Risk: Excellent

Our view of Toronto Hydro's business risk has not changed. The utility continues to operate under a supportive regulatory regime. The OEB, the provincial regulator, continues to provide a transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model, which we view as a key credit strength. Toronto Hydro has limited exposure to commodity risk because electricity cost is flow through to ratepayers. The tariff structure also allows the operator to recover prudently spent operating cost, capital expenditures, or other unexpected material losses in a timely manner.

Further supporting our assessment of the excellent business risk profile is Toronto Hydro's large and diverse customer base, with no meaningful concentration risk. The utility's largest customer is the City of Toronto (AA/Stable/A-1+), an investment-grade counterparty. Residential and small businesses account for more than 90% of customers. In our view, this customer profile is less sensitive to macroeconomic stress and business cycles. Nevertheless, the residential customer base has some sensitivity to volume fluctuations, primarily weather-driven, although we do not believe the fluctuations would stress credit metrics enough to affect the rating, especially given that residential distribution rates are moving to a fixed rate structure thereby mitigating associating volume risk. We do not expect the utility's customer composition to change materially over the next two years.

Overall, we assess Toronto Hydro's business risk profile at the lower half of the business risk profile category, reflecting the relatively limited geographic footprint of the utility's operations and its exposure to only a single regulatory regime.

Financial Risk: Intermediate

We assess Toronto Hydro's financial measures against our most relaxed benchmarks because virtually all of the utility's cash flow is from the low end of the utility risk spectrum in electricity distribution under a supportive regulatory framework. We expect the company's large capital programs will continue to pressure credit metrics and that the utility will continue to rely on both internal generated funds and external funds to finance its capital programs.

For 2018, we expect Toronto Hydro's credit metrics to be lower than expected with adjusted funds from operations (AFFO)-to-debt of 12%-13%. This is primarily due to refund of about C$90 million related to over-collection of energy cost from 2016. The OEB has approved the return of this amount to rate-payers in 2018. As a result, FFO will fall by a similar amount resulting in lower cash flow and credit metrics. In 2019-2020, we forecast AFFO-to-debt to return to 15%-16%.

Liquidity: Adequate

We consider Toronto Hydro's liquidity adequate. We expect liquidity sources will exceed uses by more than 1.1x over the next 12 months. In the event of a 10% drop in EBITDA, we believe the utility has sufficient liquidity sources to cover uses. In our view, Toronto Hydro has sound relationships with banks and generally satisfactory standing in the credit markets. In the event of unexpected financial stress, we expect the utility would scale back on its capital expenditures and has the flexibility to suspend dividend payments to preserve credit metrics.

In our view, Toronto Hydro has manageable long-term debt maturities in the next three years, with C$250 million of senior unsecured debt maturing in 2019. We believe the company maintains good access to capital markets to refinance its debt maturities.

Principal Liquidity Sources	Principal Liquidity Uses
• Projected FFO of C$380 million-C$400 million in 2018 • Committed credit facility of C$800 million of which about C$640 million is available as of Dec 31, 2017. The credit facility matures in October 2022	• Debt maturities, including commercial paper, of about C$160 million • Capital spending of about C$500 million in 2018 • Dividends of approximately C$90 million in 2018

Government Influence

We continue to believe there is a moderate likelihood that the utility's owner, the City of Toronto, would provide timely and sufficient extraordinary support in the event of financial distress. This is evident with the cash injection by the city in 2017, which demonstrates Toronto is willing to provide financial support to the utility during financial stress.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

- **Likelihood of government support:** Moderate (no impact)

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2017, Toronto Hydro had total consolidated long-term debt of about C$2 billion at holding company level.

Analytical conclusions

All debt is at the holding company level, so we do not consider Toronto Hydro's senior unsecured debt as structurally subordinated. As a result, we equalize our issue-level rating on the senior unsecured debt with our 'A' long-term issuer credit rating on the utility.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Toronto Hydro Corporation

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 23, 2018, DBRS Limited (DBRS) confirmed Toronto Hydro Corporation's (THC or the Company) Issuer Rating and Senior Unsecured Debentures & MTNs rating at "A" and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings reflect THC's low-risk electricity distribution business, underpinned by a transparent and supportive regulatory framework that serves an economically strong franchise area, and provides relatively predictable earnings.

DBRS expects the regulatory regime in Ontario to remain transparent and supportive, allowing the Company to recover prudently incurred costs in a timely manner and to earn an adequate return on equity (ROE; 9.30% for 2015 to 2019). The Company is in the fourth year of a five-year Custom Incentive Rate-Setting (CIR) model approved by the Ontario Energy Board (OEB), which has provided THC with funding certainty for its ongoing large capital program. THC is expected to file a CIR application for the 2020–2024 period in mid-2018. In June 2017, the Company received a $250 million equity contribution from its sole shareholder, the City of Toronto (the City; rated AA with a Stable trend by DBRS). In response to the equity contribution, THC amended its dividend policy to pay the City $75 million for 2017, up from $25 million, and 60% of THC's previous year's consolidated net income for subsequent years. DBRS views the capital contribution by the City as a positive outcome as it has alleviated the pressure on THC's credit metrics in the near term. However, the new dividend policy to pay 60% of the Company's previous year's net income is expected to offset the benefit of the equity contribution in the medium term. (Please refer to DBRS's press release, *DBRS Comments on Toronto Hydro Receiving Equity from the City of Toronto*, dated June 29, 2017.)

The Company's key credit metrics as at December 31, 2017, remained reasonable for the current rating. THC's significant capital expenditure (capex) program, however, continues to pressure its credit metrics. The Company's capital program is largely non-discretionary as it is focused on meeting growing customer demand and maintaining the reliability of the distribution grid. DBRS expects annual capex to to remain consistent with 2017 levels (gross capex of $553 million) over the next several years and result in a steady growth in the rate base. Although THC's operating cash flow is expected to grow modestly, the significant capital program and the dividend policy is expected to result in free cash flow deficits that are likely to be funded with debt. DBRS notes that while a rating upgrade for THC is unlikely in the near term, the ratings could be adversely affected should the Company fail to maintain cash flow-to-debt and debt-to-capital at or near 15% and 60%, respectively, in the medium term.

Financial Information

	For the year ended December 31 2				
(CAD millions where applicable)	2017	2016	2015	2014	2013
Cash flow/Total debt 1	16.7%	15.9%	15.2%	14.9%	18.4%
Total debt in capital structure 1	55.6%	62.4%	62.8%	61.1%	57.6%
EBIT gross interest coverage (times) 1	2.78	2.70	2.37	2.62	2.45

1 Including operating leases. 2 2014 to 2017 based on IFRS; 2013 based on USGAAP.

Issuer Description

THC is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), which distributes electricity and engages in Conservation and Demand Management activities and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (the City).

Rating Considerations

Strengths	Challenges

Strengths

1. Reasonable regulatory environment

Nearly all of THC's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year CIR framework with an approved ROE of 9.30% (2015–2019) that allows THC to generate relatively stable earnings and cash flow. The Company's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. DBRS views the regulatory framework in Ontario as consistent and supportive for regulated distribution operators.

2. Strong and growing franchise area

THC operates in Toronto, which is one of the largest metropolitan cities in North America and has a reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 19% of the electricity consumed in Ontario and serves a customer base of approximately 768,000 customers. THC's customer base grew marginally by 0.9% in 2017. The Company's electricity throughput is predominantly distributed to residential and general service customers, who account for 93% of THC's revenue. This reduces the Company's exposure to cyclicality.

3. Reasonable financial profile

THC's credit metrics, including DBRS-adjusted cash flow-to-total debt at 16.7%, total debt-to-capital at 55.6% and EBIT interest coverage at 2.8x for 2017, have remained reasonable for the "A" rating category.

Challenges

1. Balance sheet pressure as a result of high capex

The Company has a substantial capex program of approximately $2.2 billion for the 2015 to 2019 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits in the medium term. Historically, THC has depended entirely on debt to fund its cash flow deficits, causing leverage to rise to 62.4% for 2016, from 57.6% for 2013. Although the equity contribution from the City has alleviated the pressure on leverage in 2017, DBRS expects credit metrics to weaken over the next two to three years after factoring in the higher dividend policy implemented in 2017. DBRS expects the Company to maintain leverage in line with the regulated capital structure (60% debt to 40% equity), consistent with the current rating category.

2. Limited access to equity market

The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, THC's cash flow deficits are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for electricity distribution companies are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality and weather variability have a direct impact on the volume of electricity sold and, therefore, on revenue earned from electricity sales. However, this sensitivity is expected to be reduced through the introduction of a fixed charge for residential customers that will reduce weather sensitivities and volume risk for all Ontario-based LDCs. The Company is phasing in a higher fixed monthly rate and lower volumetric rate for its residential customers over the 2017 to 2020 period.

Earnings and Outlook

(CAD millions where applicable)	For the year ended December 31 [1] 2017	2016	2015	2014	2013
Net Revenue	761	726	665	639	578
EBITDA	468	449	390	371	323
EBIT	244	237	196	186	179
Gross interest expense	88	87	81	70	72
Earning before taxes	166	163	125	124	113
Net income before non-recurring items	140	142	124	111	112
Non-recurring items	16	9	3	1	9
Reported net income	157	151	127	112	121
Return on equity	8.80%	10.28%	9.46%	8.71%	9.49%
Allowed ROE	9.30%	9.30%	9.30%	9.58%	9.58%
Rate Base [2]	3,890	3,574	3,232	2,298	2,298

1 2014 to 2017 financials based on IFRS; 2013 based on USGAAP. 2 2017 Rate base has not been approved by the OEB.

2017 Summary

- THC continued to generate stable and predictable earnings that are supported by its stable regulated operations.
- Increase in EBIT compared with 2016 was primarily due to higher electricity distribution rates, partially offset by higher operating expenses in connection with system maintenance, and higher depreciation and amortization related to new in-service asset additions.

2018 Outlook

- EBIT for 2018 is expected to grow modestly in line with annual rate adjustments, largely for growth in rate base.

Financial Profile

	For the year ended December 31 2				
(CAD millions where applicable)	**2017**	**2016**	**2015**	**2014**	**2013**
Net income before non-recurring items	140	142	124	111	112
Depreciation & amortization	224	212	194	185	173
Deferred income taxes and other	3	20	22	(3)	16
Cash Flow From Operations	**368**	**374**	**340**	**292**	**301**
Dividends paid	(75)	(63)	(56)	(61)	(43)
Capital expenditures	(483)	(507)	(539)	(544)	(413)
Free Cash Flow (Bef. Working Cap. Changes)	**(190)**	**(196)**	**(255)**	**(313)**	**(156)**
Changes in non-cash work. cap. items	62	(15)	24	38	(45)
Changes in regulatory assets & liabilities	13	77	(52)	(67)	(20)
Net Free Cash Flow	**(115)**	**(134)**	**(283)**	**(341)**	**(220)**
Acquisitions & long-term investments	0	0	0	0	0
Short-term investments	0	0	0	0	0
Proceeds on asset sales	13	2	14	2	2
Net equity change	250	0	0	0	0
Net debt change	(151)	127	266	343	147
Other	3	5	2	(3)	(5)
Change in Cash	**0**	**(0)**	**0**	**(0)**	**(77)**
Total debt	2,205	2,353	2,223	1,955	1,618
Cash and cash equivalents	0	0	0	0	0
Total debt in capital structure 1	55.6%	62.4%	62.8%	61.1%	57.6%
Cash flow/Total debt 1	16.7%	15.9%	15.2%	14.9%	18.4%
EBIT gross interest coverage (times) 1	2.78	2.70	2.37	2.62	2.45
Dividend payout ratio	53.4%	44.6%	45.6%	54.8%	38.4%

1 Including operating leases. 2 2014 to 2017 based on IFRS; 2013 based on USGAAP.

2017 Summary

- THC's financial profile and key credit metrics remained reasonable with the current rating category. The debt-to-capital ratio strengthened in 2017 following the equity contribution from the City.
- Cash flow from operations was slightly lower compared with 2016 primarily because of lower electricity consumption, rebate of settlement variances through rates and higher taxes, partially offset by higher electricity distribution rates and conservation and demand management incentives received.
- Capex moderated compared with the last several years in line with OEB approvals. The Company continues to replace its aging electricity infrastructure to maintain and improve the electricity distribution system.
- THC continued to generate free cash flow deficits, which were funded by a $250 million equity contribution from the City.
- DBRS views the equity contribution by the City as a positive outcome as it alleviated pressure on credit metrics in 2017. However, the benefit is expected to be offset by higher dividend payouts in 2017 and future years.

2018 Outlook

- Operating cash flow is expected to be lower compared with 2017 because of higher cash taxes and settlement variances.
- DBRS expects annual capex to remain consistent with 2017 levels (gross capex of $553 million) over the next several years.
- Dividends are expected to be higher as the Company's policy beginning 2018 is to pay out 60% of the previous year's net income after net movements in regulatory balances.
- THC's high capex needs and dividends are expected to generate cash flow deficits that are likely to be funded by debt. Leverage is likely to be modestly higher than 2017 levels; however, it is expected to remain within the regulatory capital structure (60% debt: 40% equity).

Liquidity and Long-Term Debt Maturities

Liquidity

For the year ended December 31, 2017 (CAD millions)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash & Cash Equivalents	-	-	-	-
Revolving Credit Facility	800.0	159.0	641.0	Oct 10, 2022
Prudential Facility	75.0	38.4	36.6	Demand
Working Capital Facility	20.0	11.7	8.3	Demand
Total			**685.9**	

- The Company's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $686 million of available facilities.
- THC has a $600 million CP program. The CP program is backstopped by the $800 million revolving credit facility with a maturity date of October 10, 2022. As at December 31, 2017, $159 million was drawn under this facility for CP issuance.
- The Company also has a $75 million Prudential Facility (demand facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the Independent Electricity System Operator (rated A (high) with a Stable trend by DBRS) and a $20 million Working Capital Facility.

Debentures

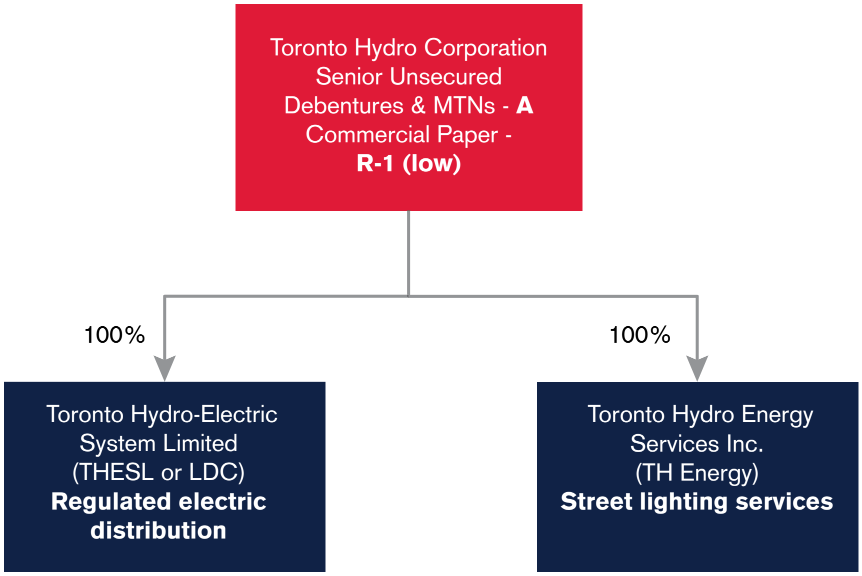
	Maturity	Outstanding (CAD millions)
Series 3 - 4.49%	Nov. 12, 2019	250
Series 6 - 5.54%	May 21, 2040	200
Series 7 - 3.54%	Nov. 18, 2021	300
Series 8 - 2.91%	Apr. 10, 2023	250
Series 9 - 3.96%	Apr. 9, 2063	245
Series 10 - 4.08%	Sep. 16, 2044	200
Series 11 - 3.55%	Jul. 28, 2045	200
Series 12 - 2.52%	Aug. 25, 2026	200
Series 13 - 3.485%	Feb. 28, 2048	200
Total Debentures		**2,045**
Less: Unamortized debt issuance costs		(11)
Long-Term Portion of Debentures		**2,034**

Debentures Maturities

	2018	2019	2020	2021	2022	2022+	Total
Debentures (CAD millions)	-	250	-	300	-	1,495	2,045
% of Total	0%	12%	0%	15%	0%	73%	100%

- Debt maturities are reasonably staggered and manageable, and THC continues to have adequate access to debt capital markets.
- The Company filed a base shelf prospectus on May 8, 2017, for issue of debentures up to $1.0 billion.
- On November 14, 2017, $250.0 million of THC's Series 2 debentures matured and were repaid with proceeds from the issue of $200 million of 3.485% senior unsecured debentures due February 28, 2048.

Corporate Structure



- THC is a holding company with the following subsidiaries operating in the Toronto area:
  - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue).
  - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- The Company serves approximately 768,000 customers.
- A large portion of the energy produced in Ontario is generated by Ontario Power Generation Inc. (rated A (low) and R-1 (low) with Stable trends by DBRS), then transmitted to THC's networks by Hydro One Inc. (rated A (high) and R-1 (low) with Stable trends by DBRS). THC distributes the power to its customers via overhead and underground power lines, has a peak load of approximately 4,400 megawatts and distributes 19% of the electricity distributed in Ontario.

Regulation

- THESL is regulated by the OEB and operates under a supportive regulatory environment (Please refer to page 7). The Company has a good track record of prudently managing its regulatory risk.
- THESL operates with a deemed capital structure of 60% debt (56% long term and 4% short term), 40% equity and an allowed ROE of 9.30% from 2015 to 2019.
- The CIR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM) for a five-year term. The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking. CIR is suited to distributors with large, broad, multi-year investment needs over a five-year period or more and to distributors who require certainty of funding several years in advance.
- THESL filed a rate application with the OEB under CIR in July 2014, seeking approval of its 2015 test-year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period January 1, 2016, to December 31, 2019.
- On December 29, 2015, the OEB approved THESL's application and issued a final rate order on March 1, 2016, as follows:
  1. THESL's rates set on a five-year CIR basis effective May 1, 2015, to December 31, 2019.
  2. Total capex funding of approximately $2.2 billion approved for the 2015–2019 period, an approximate 10% reduction from the $2.5 billion applied for by THESL.
  3. OEB also approved an annual rate adjustment based on a custom index (2017 inflation of 1.9% and a stretch factor of 0.6%), allowing for rates to rise by approximately 1.3% in 2017, in addition to a capital factor mechanism for enhanced incremental capex funding.
  4. THESL is required to share non-capital-related earnings in excess of 100 basis points (bps) over the allowed ROE (9.3%) equally between the Company and its customers.
  5. THESL can request a regulatory review (off ramp) should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).

Regulation (CONTINUED)

Criteria	Score	Analysis
Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL's distribution business to have a deemed equity of 40%, which has been consistent historically.
Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The OEB has approved the ROE at 9.3% from 2015 to 2019.
Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk, as THESL is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers, and THESL collects the payments from its customers on a monthly basis effective Jan 2017.
Capital Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Major capital costs are pre-approved for a five-year period by the OEB and recoveried through distribution rates.
COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under the CIR (hybrid of COS and IRM) from 2015 to 2019. Productivity and inflation factors are reasonable.
Political Interference	Excellent Good **Satisfactory** Below Average Poor	The government of Ontario plays a significant role in the electricity sector in Ontario, given that the majority of the utilities are government owned (THC is owned by City). Furthermore, stakeholders such as independent Electricity System Operator is also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	THC has a limited history of stranded costs. Most prudently incurred or budgeted capital expenditures are approved by the OEB. DBRS notes that there can be some regulatory lag in the approval of capital expenditures.
Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	From 2002 to 2005, as a result of rising rates during Ontario's experimental utility deregulation phase, a province-wide distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Toronto Hydro Corporation

Balance Sheet

(CAD millions)

	December 31		
	2017	2016	2015
Assets			
Cash & equivalents	0	0	0
Accounts receivable	218	230	192
Inventories	9	10	10
Unbilled revenue	278	321	320
Prepaid expenses & other	21	14	20
Total Current Assets	**527**	**574**	**542**
Net fixed assets	4,143	3,907	3,589
Future income tax assets	57	64	114
Goodwill & intangibles	296	218	199
Regulatory assets	173	173	232
Investments & others	30	19	11
Total Assets	**5,226**	**4,954**	**4,687**

	December 31		
	2017	2016	2015
Liabilities & Equity			
Bank indebtedness	171	268	338
Accounts payable	516	504	474
Current portion L.T.D.	0	250	0
Customer advanced deposits	49	39	38
Deferred revenue	11	5	5
Other current liab.	24	17	21
Total Current Liab.	**771**	**1,083**	**876**
Long-term debt	2,034	1,835	1,885
Deferred income taxes	68	83	141
Provisions	313	281	297
Regulatory liabilities	51	65	12
Other L.T. liab.	229	179	136
Shareholders' equity	1,760	1,429	1,341
Total Liab. & SE	**5,226**	**4,954**	**4,687**

	For the year ended December 31 2				
Liquidity & Capital Ratios	2017	2016	2015	2014	2013
Current ratio	0.68	0.53	0.62	0.62	0.80
Total debt in capital structure	55.6%	62.2%	62.4%	60.6%	57.0%
Total debt in capital structure 1	55.6%	62.4%	62.8%	61.1%	57.6%
Cash flow/Total debt	16.7%	15.9%	15.3%	14.9%	18.6%
Cash flow/Total debt 1	16.7%	15.9%	15.2%	14.9%	18.4%
(Cash flow-dividends)/Capex (times)	0.61	0.61	0.53	0.43	0.62
Dividend payout ratio	53.4%	44.6%	45.6%	54.8%	38.4%
Coverage Ratios (times)					
EBIT gross interest coverage	2.78	2.72	2.40	2.67	2.50
EBITDA gross interest coverage	5.34	5.16	4.79	5.33	4.51
Fixed-charges coverage	2.78	2.70	2.37	2.62	2.45
EBIT gross interest coverage 1	2.78	2.70	2.37	2.62	2.45
Profitability Ratios					
EBITDA margin	61.5%	61.8%	58.7%	58.0%	55.9%
EBIT margin	32.0%	32.6%	29.4%	29.1%	31.0%
Profit margin	18.4%	19.6%	18.6%	17.3%	19.4%
Return on equity	8.8%	10.3%	9.5%	8.7%	9.5%
Return on capital	6.3%	6.4%	5.7%	5.7%	6.5%

1 Including operating leases. 2 2014 to 2017 based on IFRS; 2013 based on USGAAP.

Rating History

	Current	2017	2016	2015	2014	2013	2012
Issuer Rating	A	A	A	A	A (high)	A (high)	A (high)
Senior Unsecured Debentures & MTNs	A	A	A	A	A (high)	A (high)	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	NR

Previous Action

- "DBRS Confirms Ratings of Toronto Hydro Corporation with Stable Trends," April 23, 2018.

Related Research

- "DBRS Comments on Toronto Hydro Receiving Equity from the City of Toronto," June 29, 2017.

Commercial Paper Limit

- CAD 600 million.

Previous Report

- Toronto Hydro Corporation: Rating Report, April 27, 2017.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/225752/highlights.pdf.

EXISTING ACCOUNTING ORDERS AND DEPARTURES FROM USoA

Toronto Hydro confirms that it has, to the best of its knowledge, materially complied with the Uniform System of Accounts ("USoA") as set out in the OEB's Accounting Procedures Handbook ("APH"), and with the following utility-specific accounting orders:

- Impact for USGAAP Deferral Account, effective January 1, 2012, to record the financial impacts resulting from the transition to and implementation of USGAAP;[1]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, effective June 1, 2013, relating to Incremental Capital Module ("ICM") amounts;[2]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the costs and revenues associated with wireless pole attachments;[3]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and approved revenue requirement related to third party initiated relocation and expansion projects;[4]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and approved amounts related to derecognition of assets;[4]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the incremental costs and savings related to the transition of Residential and General Service customers to monthly billing;[4]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and forecasted gains net of tax with the gross up for the PILs tax savings related to the sale of 5800 Yonge and 28 Underwriters properties;[4]

[1] EB-2012-0079, Decision and Order (June 7, 2012).
[2] EB-2012-0064, Rate Order (May 9, 2013).
[3] EB-2012-0234, Decision and Accounting Order (June 5, 2014).
[4] EB-2014-0116, Decision and Order (December 29, 2015).

- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the revenue requirement impact relating to the ICM true-up process;[4]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and approved cumulative 2015 – 2019 capital in-service additions related revenue requirement included in rates;[4]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the difference between the forecasted other post-employment benefit costs calculated using the accounting accrual method versus actual cash payments made;[4] and
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record any earnings outside of Toronto Hydro's approved annual return on equity exceeding a +/- 100 basis-point dead band.[4]

Toronto Hydro-Electric System Limited
EB-2018-0165
Exhibit 1C
Tab 3
Schedule 10
ORIGINAL
(120 pages)

ENERGIZING GROWTH AND INNOVATION

2017 ANNUAL REPORT

TORONTO HYDRO®
Corporation

MESSAGE

FROM THE CHAIR OF THE BOARD, AND PRESIDENT AND CHIEF EXECUTIVE OFFICER

We're pleased to present Toronto Hydro's 2017 Annual Report, which we've titled *Energizing Growth and Innovation*. The title reflects the corporation's commitment to effectively and sustainably power the growth of Toronto, and to employ innovative approaches across our business to meet the city's evolving needs. In 2017, we continued to invest in and maintain the city's electricity system, while also focusing on new ways to safely store and distribute power to Canada's largest city.

PRIORITIZING EMPLOYEE AND PUBLIC SAFETY – Ensuring the safety of our employees and the public is our number one priority. In 2017, we were recognized again as one of Canada's safest employers, receiving the 2017 Canadian Electricity Association President's Award of Excellence for Employee Safety. We also continued with our efforts to increase the electrical safety knowledge of our customers to help keep them safe.

Our commitment to safety extends to emergency preparedness. Internally, we continued to implement our Grid Emergency Management program established in 2014 to help improve our response to extreme weather events. As part of our commitment to mutual assistance, we also deployed mutual aid resources to four American utilities following severe weather events.

DELIVERING CUSTOMER VALUE – Customer service and delivering customer value is a core part of how we do business, and we believe that openness and transparency is an important part of serving our customers better. To that end, we launched a Customer Value Scorecard that we publicly release on our website every quarter, and introduced Customer Advisory Panels to help align our approach with the needs and preferences of our customers. We also offered our customers enhanced tools and services to help make doing business with us simple, easy and convenient. This included the launch of ***Power****Lens*®, a new platform that shows customers how their homes use electricity so they can take steps towards saving. In recognition of our customer service initiatives, we were awarded the 2017 Customer Service award by the Ontario Energy Association.

Helping our customers save electricity and better manage their bills remains one of our biggest priorities. In 2017, our CDM programs led to an estimated energy savings of 353,000 MWh and reduced summer peak demand by 43 MW. We also assisted the government by implementing its Fair Hydro Plan developed to reduce electricity costs through a number of initiatives. For our most vulnerable residents, we continued to promote assistance programs such as the Low-Income Energy Assistance Program, the Home Assistance Program and the Ontario Electricity Support Program.

ENERGIZING GROWTH AND INNOVATION

PROGRESSIVE AND SUSTAINABLE SOLUTIONS – To meet the challenge of growing electricity demand, we're focusing on innovative, integrated energy solutions to help us build the grid of the future. In 2017, we continued to monitor the world's first grid-scale pole-mounted energy storage system, which is showing promising results in the early stages of a pilot program. We also announced a collaboration with Metrolinx to build a battery energy storage system capable of providing backup and emergency power for the Eglinton Crosstown light rail transit (LRT) line.

AS TORONTO CONTINUES TO GROW, WE'RE WORKING HARD TO ENSURE THAT WE'RE PREPARED TO MEET OUR CITY'S EVOLVING NEEDS.

We've been recognized as a Sustainable Electricity Company™ by the Canadian Electricity Association (CEA) since 2014, and we continue to pursue strategic projects to promote a sustainable future for Toronto. In order to encourage our employees to transition to electric vehicles (EVs), in 2017, we installed four charging stations at our location at 500 Commissioners Street. We also sponsored Plug'n Drive, a non-profit organization helping to accelerate the adoption of EVs, and powered two charging stations at the Plug'n Drive Electric Vehicle Discovery Centre in Toronto.

INVESTING IN INFRASTRUCTURE RENEWAL – We invested $552.9 million primarily to renew our aging infrastructure to address service reliability, safety and customer service requirements. In addition, we invested approximately $60 million in an upgrade to Hydro One's transmission grid serving the west end of the city, which is expected to benefit thousands of residents and businesses in Toronto. We also supported major capital investment projects across the city, including Metrolinx's Light Rail Transit (LRT) expansion and the City of Toronto's revitalization and relocation projects.

STRONG FINANCIAL RESULTS – Once again, Toronto Hydro had a highly successful year, resulting in a $156.5 million net income after net movements in regulatory balances. Our strong 2017 results were a reflection of our commitment to customer service and operational excellence. We also received a $250 million equity investment from the City of Toronto, and in connection with that investment, we declared the following dividends payable to the City and approved amendments to our Dividend Policy: an aggregate amount of $75 million in respect of fiscal 2017, and in respect of fiscal 2018 and subsequent fiscal years, 60% of Toronto Hydro's immediately previous year's annual consolidated net income after net movements in regulatory balances.

We're proud of the advancements we made in 2017, and encourage you to read more about our accomplishments in the Progress section of this report.

On behalf of the Board of Directors and the senior management team, we thank our customers and stakeholders for their continued support of Toronto Hydro. We would especially like to thank all of our employees for their hard work over the past year. Toronto Hydro's accomplishments are a result of your determination, perseverance and dedication to this organization.

David McFadden
Chair

Anthony Haines
President and Chief Executive Officer

Toronto Hydro Corporation Board of Directors

GOVERNANCE

Corporate Governance

The Corporation has developed sound corporate governance practices. The Corporation's Board of Directors and management believe that strong corporate governance is essential for creating shareholder value and maintaining investor confidence.

Board of Directors

The Board of Directors of the Corporation is responsible for supervising the management of the business and affairs of the Corporation and, along with the subsidiary boards of directors, its subsidiary entities. The Board of Directors of the Corporation is composed of eight independent directors and three city councillors. All directors are appointed by the sole shareholder of the Corporation. The Board of Directors has four regularly scheduled meetings each year but meets as often as is necessary to fulfill its responsibilities to the Corporation.

The Board of Directors has put in place a system of corporate governance that meets the requirements of applicable provincial legislation and Canadian securities rules. As part of its ongoing commitment to good corporate governance, the Board of Directors operates in accordance with a board mandate, and its committees operate in accordance with committee charters, which are all reviewed and approved by the Board of Directors.

The members of the Corporation's Board of Directors as of December 31, 2017 are introduced here. The description indicates committee and subsidiary Boards of Directors' participation.

Effective January 1, 2017, the City, as the sole shareholder of the Corporation, re-appointed Councillor Paul Ainslie, Deputy Mayor Stephen Holyday (as the Mayor's designate), and Deputy Mayor Denzil Minnan-Wong to the Board of Directors for a term ending November 30, 2018, or until their successors are appointed.

Effective April 26, 2017, the City appointed Juliana Lam to the Board of Directors. The appointment is effective for a term ending April 26, 2019, or until her successor is appointed.

Effective December 10, 2017, the City re-appointed David McFadden, Brian Chu, Heather Zordel, the Honourable Howard Wetston, Senator, Mary Ellen Richardson, Michael Nobrega and Tamara Kronis to the Board of Directors for a term ending December 10, 2019, or until their successors are appointed.

Code of Business Conduct and Whistleblower Procedure

All employees, officers and directors of the Corporation and its subsidiaries are required to comply with the principles set out in the Code of Business Conduct and Whistleblower Procedure (the Code), which was implemented by the Corporation in 2003, and is reviewed, revised and approved by the Board from time to time. The Code provides guidance to all employees in situations of perceived conflict of interest. All employees, officers and directors of the Corporation and its subsidiaries are required to complete training in respect of the Code and attest to compliance with the Code upon commencement of employment and every three years thereafter. The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. The Ethics Officer reports quarterly to the Human Resources and Environment Committee of the Board of Directors on the nature of complaints received and the Vice-President, Audit and Corporate Compliance, reports quarterly to the Audit Committee of the Board of Directors on matters related to audit and accounting. Where the complaint involves the conduct of a director or officer of the Corporation, the Ethics Officer is required to report it to the Chair of the Human Resources and Environment Committee, or, where such conduct relates to questionable auditing or accounting matters, to the Chair of the Audit Committee, who oversees the investigation of that complaint. A copy of the Corporation's Code of Business Conduct and Whistleblower Procedure is available on our website.

Disclosure Policy

The Board of Directors recognizes the importance of ensuring that communications to the public about the Corporation and its subsidiaries are timely, factual, accurate and are broadly disseminated in accordance with all applicable legal and regulatory requirements. To ensure consistent and appropriate disclosure practices, the Corporation has adopted a Disclosure Policy to govern the disclosure by its employees, officers and directors, and those specifically authorized to speak on Toronto Hydro's behalf. The Corporation has also established a Disclosure Policy Committee composed of senior executives to assist the Chair, the President and Chief Executive Officer, and other authorized spokespersons in making accurate, complete and timely disclosure. The composition and operation of the Disclosure Policy Committee, and its functional subcommittee, are established in the Disclosure Policy.

Committees of the Board of Directors

The Board of Directors believes that its ability to discharge its responsibilities is enhanced by the active participation of committees in the corporate governance process. Currently, there are three standing committees of the Board of Directors: Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee. Each committee meets regularly throughout the year and provides a report at meetings of the Board of Directors on material matters considered by the committee.

Audit Committee

The Audit Committee is responsible for overseeing the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures and financial risk management systems. The Audit Committee reviews the Corporation's and each of its subsidiaries' quarterly and annual financial statements, as well as financial statements prepared in connection with the requirements of applicable regulatory authorities, reviews the audit plans of the external auditors, oversees the internal audit of the Corporation, reviews and makes recommendations to the Board with respect to the payment of dividends or distribution of capital by the Corporation, and recommends the external auditor to the Board for appointment by the Corporation's sole shareholder.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is responsible for considering and making recommendations to the Board of Directors with respect to matters relating to the corporate governance of the Corporation and its subsidiaries, including board and committee composition and mandates, guidelines for assessing the effectiveness of the Board and its committees, and procedures to ensure that the Board of Directors functions independently from management.

As part of its governance function, the Corporate Governance and Nominating Committee reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's sole shareholder by the Board of Directors. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of Toronto Hydro-Electric System Limited for approval by the Corporation's Board of Directors as required by the Affiliate Relationships Code. The Corporate Governance and Nominating Committee reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The Corporate Governance and Nominating Committee is also responsible for periodically reviewing reports on the activities of Toronto Hydro's corporate compliance and policy functions.

Human Resources and Environment Committee

The Human Resources and Environment Committee is responsible for reviewing and assisting the Board of Directors in overseeing the recruitment and assessment of the CEO and the compensation of the CEO, reviewing and approving the compensation of executive officers, reviewing and approving executive compensation disclosure under applicable securities laws, and reviewing and making recommendations to the Board of Directors regarding the compensation structure and benefit plans and programs of the Corporation and its subsidiaries. The Human Resources and Environment Committee is also responsible for reviewing and approving the parameters of collective bargaining negotiations, the oversight of health and safety related matters and processes, and the oversight of environmental related matters and processes of the Corporation and its subsidiaries.

BOARD OF DIRECTORS

David McFadden, Chair

- Counsel, Gowling WLG
- Former Member, Board of Trustees and Executive Committee, Gowling WLG
- Chair, 407 International Inc.
- Chair, PCI Geomatics Inc.
- Director and Former Chair, Ontario Energy Association
- Director, Cricket Energy Holdings Inc.
- Member, Energy Transformation Network of Ontario, Independent Electricity System Operator
- Member, Advisory Board of the MaRS Advanced Energy Centre
- Member, Board of Governors, York University
- Member, Council for Clean and Reliable Electricity
- Member, Law Society of Ontario
- Former Member, Ontario Government's Electricity Distribution Sector Review Panel
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force
- Former Co-Chair, Electricity Transition Committee of the Ontario Government
- Former Chair, Ontario Centres of Excellence

Committee Memberships

- *Ex-Officio* Member, Audit Commitee
- *Ex-Officio* Member, Human Resources and Environment Committee
- *Ex-Officio* Member, Corporate Governance and Nominating Committee

Brian Chu, Vice-Chair

- Partner, Bogart Robertson & Chu LLP
- Director, and Member of Safety Regulatory Affairs Committee, Technical Standards & Safety Authority
- Member, Canadian Tax Foundation
- Member, Law Society of Ontario
- Former Trustee and Chair, Centennial Centre of Science and Technology (Ontario Science Centre)
- Former Vice-Chair, Centennial College
- Former Chair, Board of Governors, Ontario College of Art and Design
- Former President, Laidlaw Foundation

Committee Memberships

- Human Resources and Environment Committee (Chair)
- Corporate Governance and Nominating Committee

Councillor Paul Ainslie

- City of Toronto Councillor, Ward 43 - Scarborough East
- Chair, City of Toronto - Government Management Committee
- Chair, City of Toronto - Toronto Zoo Board of Management
- Member, City of Toronto - Executive Committee
- Member, City of Toronto - Scarborough Community Council
- Member, City of Toronto - Toronto Public Library
- Member, Board of Directors of the Federation of Ontario Public Libraries
- Member, Canadian National Exhibition Association, Municipal Section
- Member, Board of Directors of Guild Renaissance Group
- Member, Board of Directors of the Ontario Good Roads Association
- Member, Toronto and Region Conservation Authority
- Former Co-Chair, Rouge Valley Health System Centenary Buy a Bed Fundraising Campaign
- Past Chair, Board of Directors of Haliburton Club

Committee Membership

- Corporate Governance and Nominating Committee

Deputy Mayor Stephen Holyday, Mayor's Designate

- Deputy Mayor, City of Toronto
- City of Toronto Councillor, Ward 3 - Etobicoke Centre
- Chair, City of Toronto - Audit Committee
- Vice-Chair, City of Toronto - Employee and Labour Relations Committee
- Vice-Chair, City of Toronto - Public Works and Infrastructure Committee
- Member, City of Toronto - Etobicoke York Community Council
- Member, City of Toronto, George Bell Arena Nominating Panel
- Mayor's Designate, Board of Directors, Toronto Atmospheric Fund
- Member, Canadian National Exhibition Association, Municipal Section
- Member, Board of Directors, Hockey Hall of Fame
- Former Acting Manager and Manager, Service Management, Ontario Ministry of Energy

Committee Membership

- Human Resources and Environment Committee

Tamara Kronis

- Member of the Board of Directors, Toronto Hydro Energy Services Inc.
- Owner, Chief Goldsmith, Gemmologist and Jewellery Designer, Studio1098
- Member, Law Society of Ontario
- Former Legal Counsel, Vertex Customer Management/Vertex Outsourcing
- Former Associate Lawyer, Torys LLP
- Former Director of Advocacy, EGALE Canada
- Former Trial Assistant, United Nations (International Criminal Tribunal for the former Yugoslavia)
- Fellow, Canadian Gemmological Association
- Fellow, Gemmological Association of Great Britain

Committee Membership

- Corporate Governance and Nominating Committee (Chair)

Juliana Lam

- Executive Vice-President and Chief Operating Officer, Chartered Professional Accountants of Ontario
- Former Executive Vice-President & CFO, Uranium One Inc.
- Former Senior Vice-President, Finance, Kinross Gold Corporation
- Former Chief Financial Officer, Nexans Canada Inc.
- MBA, CPA, CA and ICD.D designations

Committee Memberships

- Audit Committee
- Human Resources and Environment Committee

Deputy Mayor Denzil Minnan-Wong

- City of Toronto Deputy Mayor
- City of Toronto Councillor, Ward 34 - Don Valley East
- Chair, City of Toronto - Civic Appointments Committee
- Chair, City of Toronto - Striking Committee
- Chair, City of Toronto - Employee and Labour Relations Committee
- Vice-Chair, City of Toronto - Executive Committee
- Mayor's Designate, Waterfront Toronto Board
- Member, Toronto Transit Commission Board
- Member, City of Toronto - Committee of Revision
- Member, North York Community Council
- Member, City of Toronto - Debenture Committee
- Member, City of Toronto – Corporations Nominating Panel
- Member, Law Society of Ontario
- Former Chair, City of Toronto – Public Works and Infrastructure Committee
- Former Chair, City of Toronto, Economic Development Committee
- Former Chair, North York Community Council
- Former Member, City of Toronto – Planning and Transportation Committee
- Former Member, City of Toronto – Works and Emergency Services Committee
- Former Member, City of Toronto Audit Committee
- Former Member, Toronto Financial Service Advisory Committee
- Former Mayor's Designate, BUILD Toronto Board
- Former Mayor's Designate, Invest Toronto Board

Michael Nobrega

- Chair, Ontario Centres of Excellence
- Member, Board of Directors, IBI Group Inc.
- Former President and CEO, Ontario Municipal Employees Retirement System (OMERS)
- Former Chief Investment Officer, OMERS
- Former President and CEO, Borealis (OMERS) Infrastructure
- Former Partner, Arthur Andersen, Chartered Accountants
- Former Member, Board of Directors, Global Risk Institute
- Recipient, University of Toronto Arbor Award
- Fellow, Institute of Chartered Accountants of Ontario

Committee Memberships

- Audit Committee (Chair)
- Human Resources and Environment Committee

Mary Ellen Richardson

- Member of the Board of Directors, Toronto Hydro Energy Services Inc.
- Member, Board of Directors, Human Resources and Governance and Finance and Audit Committees, and Chair, Government Relations Committee, Markham District Energy Inc.
- Former President, Canadian District Energy Association
- Former Vice-President, Corporate Affairs, and Vice-President, Conservation Programs and External Relations, Ontario Power Authority
- Former President, Association of Major Power Consumers in Ontario
- Former Member, Board of Directors, and Human Resources Committee, Guelph Municipal Holdings Inc.
- Former Member, Management Board, Ontario Centres of Excellence in Energy
- Former Member, Board of Directors, Environmental Careers Organization of Canada
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force
- Former Member, Executive of the Stakeholders' Alliance for Competition and Customer Choice
- Former Member, Customer Advisory Board, Hydro One

Committee Membership

- Corporate Governance and Nominating Committee

The Honourable Howard Wetston, Senator

- Chair of the Board of Directors, Toronto Hydro-Electric System Limited
- Senator, Senate of Canada
- Counsel, Goodmans LLP
- Member, Advisory Board, Spark Power Corp.
- Former Member, Advisory Board, Program on Ethics in Law and Business, University of Toronto
- Former Member, Advisory Board, Shannon School of Business, Cape Breton University
- Former Chair and Chief Executive Officer, Ontario Securities Commission
- Former Vice-Chair, Ontario Securities Commission
- Former Chair and Chief Executive Officer, Ontario Energy Board
- Former Judge, Federal Court of Canada, Trial Division
- Former Ex-officio Judge of the Federal Court of Canada's Appeal Division
- Former Senior Member, Canadian Securities Administrators
- Former Vice-Chair, International Organization of Securities Commissions
- Former Director, Investigations and Research, Bureau of Competition Policy (Commissioner of Competition)
- Trustee, International Valuations Standards Council
- Competition Policy Council, C.D. Howe Institute
- Senior Fellow, C.D. Howe Institute
- Awarded Member, Order of Canada
- Board Diversity Champion, Catalyst Canada Honours
- Recipient, Queen Elizabeth II Diamond Jubilee Medal

Heather Zordel

- Chair of the Board of Directors, Toronto Hydro Energy Services Inc.
- Partner, Securities Group, Gardiner Roberts LLP
- Co-Director and Course Director, Osgoode Hall Law School's Master of Laws program in Securities Law
- Member and Bencher, Law Society of Ontario
- Former Chair, Securities Advisory Committee, Ontario Securities Commission
- Former Member, Federal Expert Panel on Securities Regulation
- Former Member, Board of Directors, Metro Toronto Convention Centre

Committee Membership

- Audit Committee

David D. Hay*

- Managing Director, Delgatie Incorporated
- Director, EPCOR Utilities Inc.
- Chair, SHAD Valley International
- Member, Council for Clean and Reliable Energy
- Chair, Beaverbrook Art Gallery Acquisition Committee
- Former Vice-Chair and Managing Director, CIBC World Markets
- Former President and CEO, New Brunswick Power
- Former Director, Associated Electric & Gas Insurance Services AEGIS (USA)
- Former Co-Chair, New Brunswick Special Task Force "Electricity in New Brunswick and options for its future"
- Former Chair, Beaverbrook Art Gallery
- Former Senior Vice-President, Merrill Lynch Canada Inc.
- Former Managing Director, M&A, Merrill Lynch &Co., Inc. (London, England)
- Former Associate, Osler Hoskin & Harcourt
- Former Law Clerk to the Chief Justice of the High Court of the Supreme Court of Ontario
- Former Lecturer on Law and Finance, University of Toronto and University of New Brunswick
- Former Director, Star Choice Communications Inc.
- Former Director, EMR Microwave Technology Corporation

Case Ootes*

- Former Member of the Board of Governors, Seneca College
- Former Chair of Mayor Ford's Transition Team
- Former Chair of Mayor Tory's Transition Team
- Former Managing Director, Toronto Community Housing
- Former Deputy Mayor of the City of Toronto
- Former Chair of Labour Relations for the City of Toronto
- Former Chair, Toronto Financial Service Alliance
- Former Member, Toronto Police Services Board
- Former Member, Toronto Transit Commission
- Former Director, Municipal Property Assessment Corporation
- Former Director, GO Transit Board
- Former Director, Greater Toronto Marketing Alliance Board
- Former Director, Business Development Corp. Board
- Former Director, Toronto East General Hospital Board
- Former Director, Toronto Hydro Board
- Former Director, Toronto Region Conservation Board
- Former Seneca College Executive in Residence
- Former President of East York Kiwanis
- Former Corporate Credit Manager, Imperial Oil
- Former Manager of Accounting Service, Imperial Oil

Mario Silva*

- Published Author and International Legal Scholar
- Distinguished Visiting Professor at Ryerson University
- Non-Resident Fellow, Montreal Institute for Genocide and Human Rights Studies at Concordia University
- Professional Fellow of the Privacy and Cyber Crime Institute at Ted Rogers School of Management at Ryerson University
- Professional Fellow at Institute for the Study of Corporate Social Responsibility at Ted Rogers School of Management at Ryerson University
- Chair, Corporate Social Responsibility Advisory Council – Superior Medical
- Former Visiting Scholar, Faculty of Law at McGill University
- Former Member of Parliament
- Former Toronto City Councillor
- Former Chair, International Holocaust Remembrance Alliance (IHRA)
- Former Director, Toronto Hydro
- Former Director, Toronto Transit Commission
- Former Director, Exhibition Place
- Former Director, Mount Sinai Hospital
- Former Director, Canadian Opera Company
- Commander of the Order of Merit, Portugal
- Commander of the Order of Rio Branco, Brazil
- Knight, Ordre national de la Légion d'honneur, France
- Recipient, Insignia of the Autonomous Region of the Azores
- Recipient, Bridge Builder Award by the Parliament of Canada All Party Interfaith Friendship Group

*Member of the Board of Directors for Toronto Hydro-Electric System Limited only

SENIOR MANAGEMENT TEAM

The Toronto Hydro senior management team is comprised of:

Anthony Haines
President and Chief Executive Officer [1, 2]

Sean Bovingdon
Executive Vice-President and Chief Financial Officer [1, 2]

Amanda Klein
Executive Vice-President, Regulatory Affairs and General Counsel [1, 2]

Ben LaPianta
Executive Vice-President and Chief Customer Care, Electric Operations and Procurement Officer [2]

Ave Lethbridge
Executive Vice-President and Chief Human Resources and Safety Officer [2]

Dino Priore
Executive Vice-President and Chief Engineering and Construction Officer [2]

Chris Tyrrell
Executive Vice-President of Utility Innovation and Chief Conservation Officer [2]

Robert Wong
Executive Vice-President and Chief Information Officer [2]

[1] *Toronto Hydro Corporation*
[2] *Toronto Hydro-Electric System Limited*

TORONTO HYDRO CORPORATION OVERVIEW

Toronto Hydro Corporation (the Corporation) is a holding company which wholly-owns two subsidiaries:

Toronto Hydro-Electric System Limited – distributes electricity and engages in conservation and demand management (CDM) activities

Toronto Hydro Energy Services Inc. – provides street lighting and expressway lighting services in the city of Toronto

Services

- Supervises the operations of its subsidiaries
- Provides corporate, management services and strategic direction to its subsidiaries

2017 Achievements

- Invested $552.9 million primarily in the renewal of aging infrastructure to address service reliability, safety and customer service requirements
- Raised $800,000 at the company's fourth annual golf tournament in support of Sunnybrook's renowned Ross Tilley Burn Centre
- Raised more than $153,000 for United Way Toronto and York Region and was recognized with a United Way Spirit Award
- Received an equity investment of $250 million from the City of Toronto and issued the City an additional 200 common shares
- On November 14, 2017, the Corporation issued $200.0 million of 3.485% senior unsecured debentures at a price of $999.29 per $1,000 principal amount due February 28, 2048
- As at December 31, 2017, the debentures issued under the Corporation's medium-term note program were rated "A" by DBRS Limited and "A" by Standard & Poor's. The commercial paper issued under the Corporation's commercial paper program was rated "R-1 (low)" by DBRS Limited

2018 Objectives

The Corporation aims to:

- Provide customers value for money
- Maintain an engaged, safe and healthy workforce that meets changing business requirements
- Improve reliability through optimal and sustainable system management
- Meet the financial objectives of its Shareholder

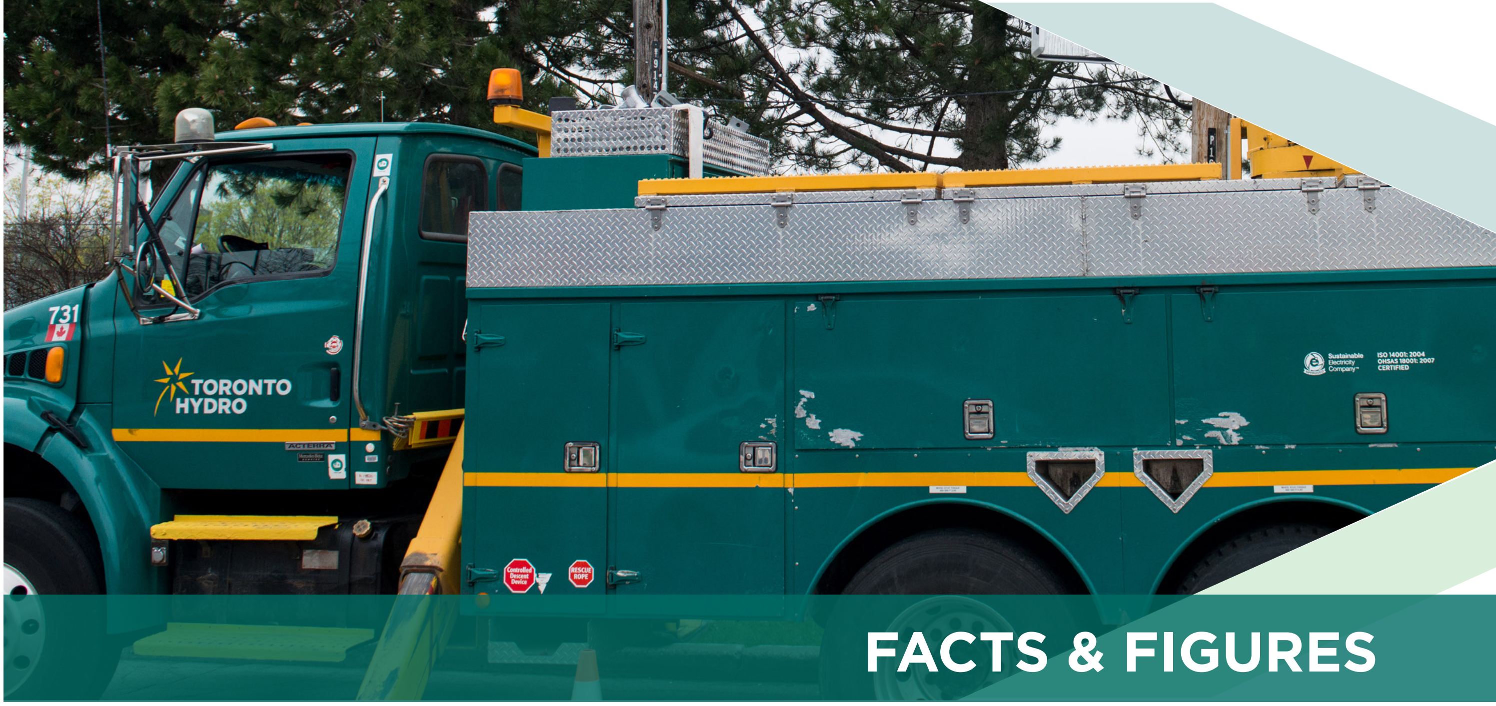
BALANCED SCORECARD

The Corporation measures performance in relation to the achievement of strategic objectives by using a balanced scorecard approach. Key Performance Indicators (KPIs) are monitored throughout the year and appropriate actions are taken as required.

The performance objectives of the Corporation in 2017 were as follows:

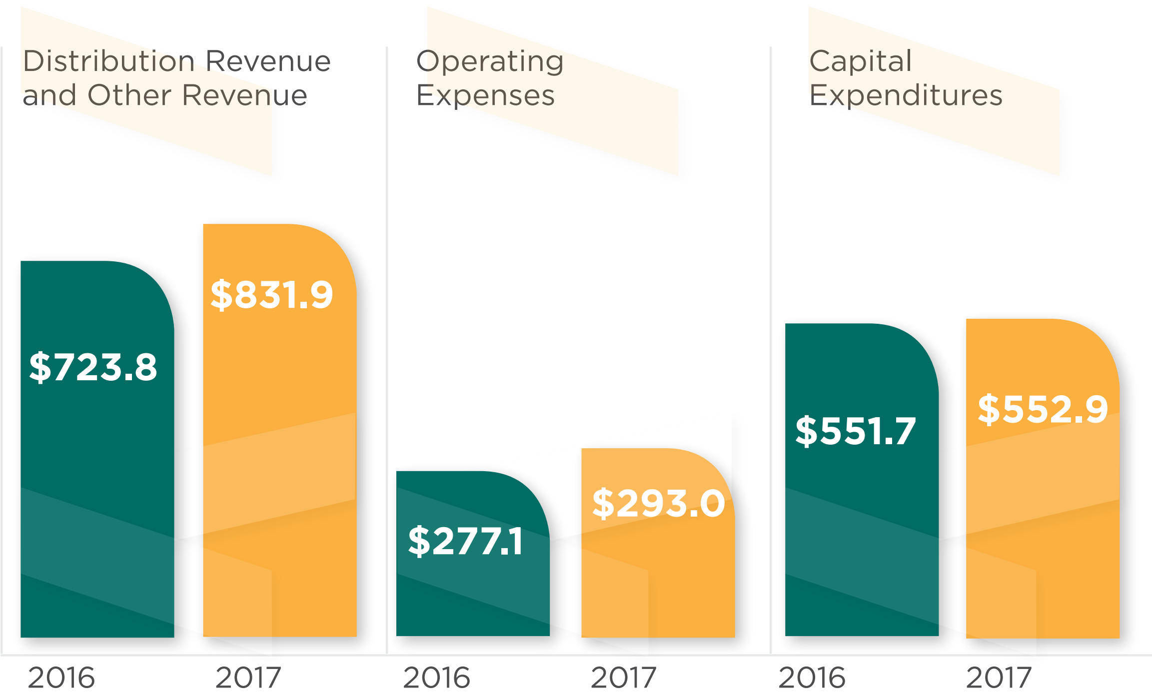
CORPORATE KEY PERFORMANCE INDICATORS	MEASURE	2017 TARGET
Net income after net movements in regulatory balances ($ millions)	Net Income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements	$145.0
Local Distribution Company (LDC) Regulated Capital ($ millions)[1]	Achievement of LDC's capital work program	$370.5
System Average Interruption Duration Index (SAIDI) (in minutes) (Defective equipment only)	Measure of the annual system average interruption duration per customer served, not including Major Event Days	29.71
System Average Interruption Frequency Index (SAIFI) (Number of interruptions) (Defective equipment only)	Measure of the frequency of service interruptions per customer served, not including Major Event Days	0.56
First Call Resolution	Percentage of telephone enquiries resolved within one call, within a 21-day time period	83.0%
Bill Accuracy	The percentage of issued bills that are considered accurate or inaccurate as defined by the Ontario Energy Board	98.6%
New Services Connected On Time	Percentage of connections for new low-voltage (<750 volts) service requests completed within five business days from the day on which all applicable service conditions are satisfied, or at such later date as agreed to by the customer	96.0%
Safety	Number of recordable injuries x 200,000/exposure hours	1.50

[1] This is a non-GAAP measure as it includes all eligible capital expenditures, net of capital contributions related to regulated operations excluding Copeland Station and the facilities consolidation program.



FACTS & FIGURES

Toronto Hydro Corporation (in millions of Canadian dollars)



1,440
(APPROXIMATE)

Number of Employees
as at December 31, 2017

Toronto Hydro-Electric System Limited

0.99 HOURS

System Average Interruption Duration Index

1.43 INTERRUPTIONS

System Average Interruption Frequency Index

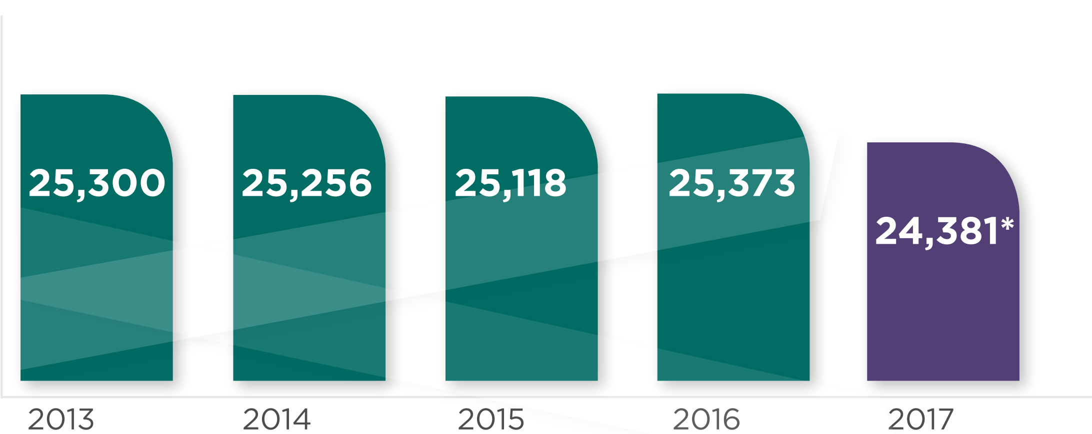
0.69 HOURS

Customer Average Interruption Duration Index

4,316 MEGAWATTS

Peak Load on September 26, 2017

Electricity Delivered (GWh)



* Note: Lower electricity consumption due to cooler than expected summer.

ENERGIZING GROWTH AND INNOVATION

Number of Customers

768,000
(APPROXIMATE)

685,292
RESIDENTIAL SERVICE

82,233 GENERAL SERVICE
with monthly peak demand of 5,000 kW or less averaged over a twelve-month period

44 LARGE USERS
with monthly peak demand of more than 5,000 kW averaged over a twelve-month period

Electricity Distribution by Class (GWh)

4,933
RESIDENTIAL SERVICE

17,277
GENERAL SERVICE

2,171
LARGE USERS

Electricity Distribution by Class (%)

20% RESIDENTIAL SERVICE

71% GENERAL SERVICE

9% LARGE USERS

Toronto Hydro Corporation 2017 Capital Expenditures (in millions of Canadian dollars)

Regulated Local Distribution Company [1]	
Distribution System	
Planned [2]	$373.0
Reactive	48.1
Copeland Station	23.2
Facilities Consolidation	35.2
Technology assets	54.9
Other [3]	10.5
Regulated capital expenditures	$544.9
Unregulated capital expenditures [4]	8.0
TOTAL	$552.9

[1] *Refers to Toronto Hydro-Electric System Limited*
[2] *Includes, among other initiatives, the replacement of underground and overhead infrastructure, station programs, and the delivery of customer connections*
[3] *Includes fleet capital and buildings*
[4] *Primarily relates to streetlighting and generation equipment*

Electricity Distribution System is serviced from:

(approximate)

34	terminal stations
1	transmission system terminal station
17,350	primary switches
60,540	distribution transformers
153	in-service municipal substations
15,540	kilometres of overhead wires supported by
178,800	poles and approximately
13,220	kilometres of underground wires
1	Control Centre
5	Operations Centres

2017 ANNUAL REPORT GLOSSARY

Customer Average Interruption Duration Index (CAIDI)	A measure (in hours) of the average duration of interruptions experienced by customers, not including Major Event Days (MED). CAIDI represents the quotient obtained by dividing the System Average Interruption Duration Index (SAIDI) by the System Average Interruption Frequency Index (SAIFI). See below for more explanation.
Gigawatt-Hour (GWh)	A standard unit for measuring electrical energy produced or consumed over time. One GWh is equal to one million kilowatt-hours.
Kilowatt (kW)	A common measure of electrical power equal to 1,000 watts.
Kilowatt-Hour (kWh)	A standard unit for measuring electrical energy produced or consumed over time. One kWh is the amount of electricity consumed by ten 100-watt light bulbs burning for one hour.
Major Event Days (MED)	Refers to major event days as defined by IEEE Standard 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices.
Megawatt (MW)	A common measure of electrical power equal to one million watts.
Megawatt-Hour (MWh)	A standard unit for measuring electrical energy produced or consumed over time. One MWh is the amount of electricity consumed by 10,000 100-watt light bulbs burning for one hour.
Peak Load	The maximum demand for power, measured in megawatts, that occurs within a stated period of time. Toronto Hydro's peak system load (or peak demand) normally occurs in the summer because of power demands from air conditioning.
System Average Interruption Duration Index (SAIDI)	A measure (in hours) of the annual system average interruption duration for customers served, not including MED. SAIDI represents the quotient obtained by dividing the total customer hours of interruptions longer than one minute by the number of customers served.
System Average Interruption Frequency Index (SAIFI)	A measure of the frequency of service interruptions for customers served, not including MED. SAIFI represents the quotient obtained by dividing the total number of customer interruptions longer than one minute by the number of customers served.

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Toronto Hydro-Electric System Limited owns and operates $4.4 billion of capital assets comprised primarily of an electricity distribution system that delivers electricity to approximately 768,000 customers located in the city of Toronto. It serves the largest city in Canada and distributes approximately 19% of the electricity consumed in the province of Ontario.

Services

- Committed to delivering safe and reliable electrical power to approximately 768,000 residential, commercial and industrial customers in the City of Toronto, which has a population base of approximately 2.8 million
- Plans, maintains and aims to operate its electricity distribution infrastructure efficiently and in an environmentally responsible manner
- Strives to provide consistent, high-quality customer service
- Designs and delivers CDM programs

2017 Achievements

- Among the leading local distribution companies in the delivery of CDM programs to help customers conserve energy, save money and help the environment
- Recognized as a Sustainable Electricity Company™, a designation by the Canadian Electricity Association
- Continued work on Copeland transformer station, the first transformer station built in downtown Toronto since the 1960s, and the second underground transformer station in Canada
- Supported major capital investment projects across the city, including: Metrolinx's Light Rail Transit (LRT) expansion and GO Regional Electrification of Rail Program, Toronto Transit Commission's Scarborough Subway Extension project and Easier Access Program, the City of Toronto's revitalization and relocation projects and the Ministry of Transportation's Bridge Rehabilitation projects

ENERGIZING GROWTH AND INNOVATION

- Collaborated with Metrolinx on plans to build a battery energy storage system that will provide backup and emergency power for the Eglinton Crosstown LRT
- Invested approximately $60 million to upgrade electricity infrastructure in the city's west end
- Continued to monitor the world's first grid-scale pole-mounted energy storage system, which is showing promising results in the early stages of a pilot program
- Recognized again as one of Canada's safest employers, receiving Canada's Safest Employers Gold Safety Award in the Utilities and Electrical Category, and the 2017 Canadian Electricity Association President's Award of Excellence for Employee Safety
- Continued to improve digital communication channels with more enhancements to online tools, including the launch of the ***Power**Lens*® portal, a new platform that shows customers how their homes use electricity so they can take steps towards saving
- Deployed Mutual Aid resources to four American utilities following severe weather events
- Continued annual safety campaign to remind the public of electrical safety hazards on the street and at home
- Supported Georgian College's engineering facility to help train future electrical utility workers and fund curriculum development
- Participated in the Centre for Urban Energy at Ryerson University, an academic-industry collaboration that explores and develops sustainable solutions to urban energy challenges
- Sponsored Plug'n Drive, a non-profit organization committed to accelerating the adoption of electric vehicles, and powered two public charging stations at its Electric Vehicle Discovery Centre in northern Toronto

PROGRESS

Supporting the unprecedented growth in our city requires coming up with innovative solutions to new challenges. We continue to apply that spirit of innovation across our business to further our progress in customer service, grid investment, sustainability and emergency preparedness.

In 2017, we engaged our customers through multiple channels to help them save energy and improve their electrical safety knowledge. To meet growing electricity demand, we invested in innovative energy solutions to support a reliable and resilient grid. We also continued to promote a sustainable future for our city and promoted emergency preparedness to help Torontonians be prepared for any situation.

The progress we made in 2017 will help to energize the growth and innovation driving our grid, our people and our city, now and for years to come. The sections that follow highlight some of the notable accomplishments and advancements.

Customer Service

For us, customer service and delivering customer value are what's important. How do we benefit our customers and how can we make things easier for them? To answer these questions, we place an emphasis on understanding evolving customer needs and expectations, and to hear them directly from our customers, we introduced Customer Advisory Panels. The Panels are designed to regularly engage a diverse group of customers to obtain valuable feedback on ideas, initiatives and programs, and to help align our approach with their needs and preferences.

With this in mind, in 2017, we made further improvements to make doing business with us simple, easy and convenient. At the same time, we promoted and introduced programs to help customers better manage their bills. Also, to help keep the public safe, we continued with our efforts to increase the electrical safety knowledge of our customers.

- Being open, transparent, and accountable to our customers is also important to us. In order to do this publicly, we launched our Customer Value Scorecard, which includes many of the customer value performance measures from our annual business plan
- We improved digital communication tools, including the launch of the ***Power**Lens*® portal, a platform that shows customers how their homes use electricity so they can take steps towards saving. ***Power**Lens*® provides a breakdown of electricity use by hour, day or month, electricity consumption by device and appliance type, and custom action plans tailored to a customer's home and habits. Customers can set usage and cost alerts, find contractor and rebate information, as well as create annual electricity reduction goals, track progress, take action, win prizes and earn points towards e-gift cards

- We launched three new programs for our commercial and business customers:
    - **Business Refrigeration Incentive** offers a rebate of up to $2,500 to upgrade eligible refrigeration systems. The program also includes a free on-site refrigeration energy audit, a personalized action plan and free professional installation
    - **RTUsaver** includes the installation of a free Wi-Fi enabled programmable thermostat, following a free rooftop air conditioner unit (RTU) checkup to ensure it's in good working order
    - **OPsaver** is designed for larger commercial, institutional and industrial customers, and encourages continuous energy improvement through operational and behavioural change
- In 2016, we worked with nearby distribution companies to pilot an instant rebate retail program for energy-efficient products. The success of this pilot led to the 2017 launch of Deal Days, a province-wide program based on the same instant rebate concept. Deal Days eliminate the need for paper vouchers and supports sustainability efforts, while also improving the customer retail experience
- We worked with the Ontario government to implement its Fair Hydro Plan, which was developed to help reduce electricity costs through a number of initiatives

- We continue to serve our vulnerable customers though community outreach by building awareness and promoting a variety of programs including the Ontario Electricity Support Program (OESP), Low-Income Energy Assistance Program (LEAP) and Home Assistance Program (HAP), which can help customers reduce and manage electricity costs. In 2017, we promoted these programs at more than 140 events, which included over 7,400 customer interactions
- Once again, we exceeded the Ontario Energy Board's bill accuracy threshold of 98%
- We continued to encourage our customers to move to paperless billing as a more convenient, sustainable and cost-effective way to receive bills. As a result, 30% of our customers are now receiving eBills – that's an increase of 400% since 2011
- Our call centre resolved customer concerns in the first call 88% of the time, which is 2% higher than in 2016. The number of issues escalated beyond the first call decreased by 33%
- Our key account team managed the relationships with our largest business customers by providing customized energy-saving opportunities and offering specific solutions to meet their business needs

ENERGIZING GROWTH AND INNOVATION

- We introduced a new video series featuring the Bombillas – an animated family intended to reflect Toronto's diversity. Each month, the videos used stories to convey important information about electrical safety, customer care, conservation and capital infrastructure investments

- To help prevent contact with underground electrical cables, we encouraged customers to call Ontario One Call – a free service that lets homeowners and contractors know what's located underground – before starting any work that involves digging. This was in response to approximately 60 claims of homeowners or contractors hitting underground electrical equipment in Toronto in 2016
- We promoted electrical safety throughout the year via newsletters and bill inserts, social media and at events to increase the electrical safety knowledge of our customers
- We warned customers about text, email and phone-based scams, and provided tips to help them recognize and protect themselves from fraudulent behaviour
- We were awarded the 2017 Customer Service award by the Ontario Energy Association for demonstrating excellence in customer service, specifically for sustaining high levels of customer satisfaction and the design and delivery of new, innovative programs to help customers manage their electricity costs

Learn more about our customer care initiatives.

Grid Investment

Electricity infrastructure is the trusted backbone of Toronto's economic and social life. With the city continuing to experience unprecedented growth, keeping up with growing demand remains a pressing challenge. To meet this challenge, we're focused on improving, innovating and investing in our grid to serve our customers now and into the future.

In addition to replacing aging electrical infrastructure as part of a long-term infrastructure renewal investment program, we're also developing smart grid technology to help reduce outage restoration times and increase the responsiveness of our distribution system. This is expected to help improve reliability and enhance the overall customer service experience. That work includes investing in the kinds of innovative, integrated energy solutions we need to create the grid of the future.

- In 2017, we invested $552.9 million primarily in the renewal of aging infrastructure to address safety, reliability and customer service requirements
- Since 2010, the average number of service interruptions has improved by approximately 19%, and the average duration of interruptions has improved by approximately 24%
- We invested approximately $60 million in an upgrade to Hydro One's transmission grid serving the west end of the city. It's expected that thousands of residents and businesses in Toronto will benefit from the upgrades through greater capacity for growth, better reliability and resiliency against outages on the distribution system. As the power grid in Toronto is interconnected, the work being done in the west end will help electricity flow to the entire city
- To help support Toronto's renewable energy goals, we continued to support renewable generation through enabling infrastructure and direct project investments. In 2017, we interconnected 198 solar projects representing approximately 10 MW, the equivalent of removing 1,100 homes off the grid

ENERGIZING GROWTH AND INNOVATION

- We continued work on the Clare R. Copeland Transformer Station, only the second underground transformer station of its kind in Canada. In 2017, we installed, tested and commissioned major electrical equipment including power transformers and high and medium voltage switchgear. We also installed and energized the electric station service equipment, and completed the installation and landscaping of the machine shop. When completed, Copeland Station will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto
- We continued to monitor the world's first grid-scale pole-mounted energy storage system, which showed positive results in the early stages of a pilot program. Developed by Ryerson University and piloted by Toronto Hydro using eCAMION battery technology, this unique energy storage system is mounted to the top of an existing hydro pole. The system stores energy during off-peak hours and releases power as needed. From initial results, the energy storage system has demonstrated an ability to reduce strain on the local transformer. (If successful, the system could become a standard that's introduced with new installations on over 175,000 poles across the city)

- We collaborated with Metrolinx on plans to build a battery energy storage system for the Eglinton Crosstown light rail transit (LRT) line, which will increase reliability of the line, lower operating costs and reduce emissions. The power system will be capable of providing backup and emergency power to the LRT line in the event of a widespread power outage, and will also benefit local residents by providing additional reliability to customers in the area. The system will have the power capacity of 10 MW – enough to power the equivalent of approximately 11,000 homes – making it the largest battery energy storage project we've been involved with to date
- We continued to work with the Independent Electricity System Operator (IESO) Central Toronto Working Group for its Integrated Regional Resource Plan (IRRP), which looks at where the demand for electricity is growing and how this can be managed over the next 25 years. As a member, we regularly participate in IRRP meetings and provide advice on the development of plan options, including innovative solutions to address Toronto's future electricity needs

Learn more about our grid.

Sustainability Initiatives

Sustainability is a key part of our corporate culture—it's embedded in our business strategy and daily operations. Since 2014, we've been recognized as a Sustainable Electricity Company™ by the Canadian Electricity Association (CEA), making us one of four electrical utilities in Canada to be awarded this prestigious designation. While we're humbled to be recognized for our sustainability efforts, we know that it's simply the right thing to do for our customers, our city and our planet.

In our 2016 Annual Report, we began sharing an annual comparison of our sustainability results to demonstrate our progress. We're continuing to share this information with you and plan to do so each year. We regularly monitor and assess our energy consumption, waste streams and procurement practices to reduce our environmental footprint and improve organizational efficiency. We also encourage our customers to be part of the shift to a sustainable economy by encouraging the use of electrified transportation, offering online billing to reduce paper consumption, and promoting a variety of conservation and home energy-efficiency programs.

- We've continued to work with residential, small business, industrial and commercial customers to implement energy-efficiency projects through our Conservation and Demand Management (CDM) programs. In 2017, our CDM programs led to an estimated energy savings of 353,000 MWh*, reduced summer peak demand by 43 MW and helped to reduce GHG emissions in the city by 14,120 tCO_2e
- Our total GHG emissions were 34,792 tCO_2e – a decrease of 7% relative to 2016
- In November 2017, we underwent and passed an external audit to upgrade our existing Environmental Management System certification from the International Organization for Standardization's 2004 Environmental Management Systems Standard (ISO 14001:2004) to the 2015 version of the standard (ISO 14001:2015). Additionally, the audit confirmed that Toronto Hydro has continued to maintain its Occupational Health and Safety Assessment Series

ENERGIZING GROWTH AND INNOVATION

Standard for Occupational Health and Safety Management Systems (OHSAS 18001:2007) certificate. The auditor, Intertek, declared the management element of Toronto Hydro's Environmental, Health and Safety Management System to be of benchmark status

- We earned the top spot on *Corporate Knights'* fourth annual Future 40 Responsible Corporate Leaders in Canada list, in recognition of our sustainability achievements. This marked the third time we've been named to the list. The Future 40 ranking is a prestigious annual ranking that's recognized internationally and designed to showcase Canada's emerging sustainability leaders
- Our President and CEO, Anthony Haines, was recognized as a Responsible CEO of the Year Award by *Corporate Responsibility (CR) Magazine,* which marked the first time a Canadian CEO has been given this prestigious award. The award is presented to CEOs who visibly exceed standards in the areas of employee relations, environmental impact, sustainability, human rights, philanthropy and corporate responsibility practices
- Anthony Haines also received the 2017 Individual Leadership on Sustainability Award from the CEA for outstanding leadership on sustainability issues within the electricity sector
- We completed construction of a Toronto Hydro-owned building at 715 Milner Avenue as part of our Facilities Consolidation program, aimed at making better use of space at existing work centres. As a result, we moved out of a leased building at 601 Milner. As part of the construction, we reused 35 tonnes of existing furniture, recycled 38 tonnes of furniture and resold or donated 24 tonnes of furniture. The donated furniture was given to organizations such as Toronto Furniture Bank and Habitat for Humanity. In total, 88% of the furniture from the building at 601 Milner was diverted from landfill
- In addition to recycling solid non-hazardous waste from our facilities, we've been recycling wood poles removed from service, fluorescent lights, batteries and electronic waste. In 2017, we diverted 535 metric tonnes of wood poles from landfill compared to 490 tonnes diverted in 2016
- We developed a Corporate Waste Recycling Rate – that accounts for a broader pool of waste streams – to provide a more comprehensive picture of our waste diversion efforts. In 2017, our Corporate Waste Diversion Rate was 93%
- We continued to use and install the Governor to Reduce Idle and Pollution (GRIP) technology on our vehicles, and downsized our fleet by 12 vehicles. We also implemented a pilot project in collaboration with Centennial College and eCamion to test the effectiveness of lithium ion batteries in vehicles, and trialed the use of electric power take-off for our bucket trucks. The cumulative 2017 savings, relative to 2013, associated with our fleet-related initiatives are: 36% reduction in total fuel consumed; 35% reduction in GHG emissions; 0.4% reduction in kilometres travelled; and 43% reduction in total non-PTO idling hours**

- In order to encourage our employees to transition to electric vehicles (EVs), we installed four charging stations at our 500 Commissions Street location in 2017, and there are plans to install charging stations at 71 Rexdale Boulevard and 715 Milner Avenue in 2018. We also initiated a project to replace small cars in our fleet with fully-electric vehicles
- We sponsored Plug'n Drive, a non-profit organization committed to accelerating the adoption of EVs. We also powered two charging stations in the test drive zone at the Plug'n Drive Electric Vehicle Discovery Centre in Toronto, the world's first experiential learning facility dedicated to EV education and awareness
- We contributed to advancing the transition to EVs through participation in various working groups and associations, including the City of Toronto's EV Working Group and the Canadian Urban Transit Research & Innovation Consortium
- We implemented the use of secure pull printing, which requires employees to use their access cards at our printers. This ensures that all printed documents are collected from the printer, thereby reducing wasted paper. We also implemented the use of tablets for issuing and completing facilities-related work orders. Previously, work orders were issued on paper and submitted for filing once completed. When combined with similar initiatives carried out in earlier years, we have reduced our annual paper consumption by approximately 3,073,000 sheets of paper, which equates to a savings of approximately 39 tCO_2e of associated GHG emissions in 2017, when compared to 2013
- For the fourth consecutive year, we hosted our annual charity golf tournament, raising $800,000 through our partners and sponsors for Sunnybrook's Ross Tilley Burn Centre – the largest, most advanced adult burn centre in Canada – for a total of $2.6 million raised in four years

ENERGIZING GROWTH AND INNOVATION

- Our employees, along with their friends and families, planted 300 trees and shrubs at Earl Bales Park for our annual Tree Planting Event, which we hosted in collaboration with Local Enhancement & Appreciation of Forests (LEAF) and the Parks, Forestry & Recreation division of the City of Toronto. Since 2004, we've planted more than 4,300 trees across the city
- Our employees raised more than $153,000 for United Way Toronto and York Region, surpassing last year's total by almost $10,000, and we received a 2017 United Way Spirit award in recognition of our employee campaign
- To raise awareness and increase participation in our conservation programs and online services, we participated in almost 200 event days, including 46 community events, 72 retail Deal Days events, 36 business events and 34 councillor-hosted Environment Days, generating approximately 52,000 interactions in total. These events give us the opportunity to build close ties with the communities we serve on a regular basis and educate our customers about energy conservation
- To help support local organizations committed to a sustainable future, we continued to sponsor several community groups and events, including: LEAF, Cycle TO, the Toronto Light Festival, CityFest, Cavalcade of Lights, the Kids' World of Energy Festival and Amici's Canoe Heads for Kids
- We hosted two Brighter Nights™ community events, where we replaced old, burnt-out or inefficient porch lights with more energy-efficient bulbs to help make the community safer. The Brighter Nights™ program is a joint effort with the City of Toronto's Community Crisis Response Program, Toronto Community Housing, Toronto Police Service, and local community groups and volunteers

We're proud of our progress. Below we share our performance for some of our sustainability initiatives by highlighting results from the past two years:

CATEGORY	METRIC	RESULTS 2017	RESULTS 2016	OUR PERFORMANCE
Conservation and Demand Management (CDM)	Energy saved through CDM programs	353.0 GWh	273.2 GWh	29% increase
Paper Purchased	Annual amount of paper purchased, including all paper sizes, but excluding speciality paper (e.g. plotter paper, business cards, etc.)	4,276,850 sheets of paper	4,724,450 sheets of paper	9% decrease
Kilometres (km) Travelled	Based on GPS data obtained from Fleet Assets & Maintenance Department	3,137,617 km	3,407,236 km	8% decrease
Fuel Usage (consumption)	Annual fuel consumption obtained from 4Refuel truck-to-truck fueling, use of 500 Commissioners pumps and TChek gas cards. This includes all types of fuel used by Toronto Hydro vehicles	1,013,115 litres	1,119,575 litres	10% decrease
Non-PTO Idling Time	Calculations are based on data gathered through vehicles' GPS system	59,768 hours	74,342 hours	20% decrease

Learn more about our sustainability efforts.

**2017 CDM energy and peak demand savings have not yet been verified by the Independent Electricity System Operator (IESO). Final results expected to be available in July 2018 following an IESO evaluation.*
*** Some of our vehicles (e.g. bucket trucks) require engines to be kept on (idling) in order to charge and operate the vehicle hydraulics. This is referred to as PTO idling time .*

Emergency Preparedness

Emergencies – such as those caused by extreme weather – have the potential to significantly impact our ability to deliver power to our customers. To help guard against this, we continue to implement a new emergency management program to help improve our emergency response. We also remind our customers throughout the year about the importance of emergency preparedness. When an emergency situation does occur, we want to be prepared so that we're able to help ourselves and our neighbours – whether they happen to be across the street or across the border.

- We continued to implement our Grid Emergency Management program, established in 2014, to help improve our response to extreme weather events. In 2017, we developed and incorporated: playbooks containing emergency management plans for high-risk capital projects; an awareness program for our staff to help familiarize them with our emergency management program; and seminars, training and tabletop exercises with senior management. We also hosted a functional exercise for the first time, which included almost 90 employees and tested 38 emergency roles over an 11-hour simulation period
- We encouraged Torontonians to create or check their 72-hour emergency kit throughout the year through tips we shared at community events, in our newsletters, on social media and through weather-triggered content on The Weather Network
- We supplied close to 1,600 emergency kits to vulnerable residents at over 140 community events
- We received a Silver Award of Excellence from the Canadian Public Relations Society for our Emergency Preparedness Hacks video series

EMERGENCY PREPAREDNESS CONTINUED

- To help us build a strong local network of support for responding to emergencies, we continued to work with critical infrastructure and public safety groups from the public sector, utilities, transportation and public health, including: the City of Toronto, the Office of the Fire Marshal, Ontario Power Generation, Toronto Transit Commission, Greater Toronto Airports Authority, Metrolinx, and Scarborough and Rouge Hospital
- We continued to maintain a strong, proactive role as a member of the North Atlantic Mutual Assistance Group (NAMAG), which brings together utilities from provinces and states along the northeast that have formally agreed to provide assistance to each other during emergencies. In October, members of our emergency management team attended the NAMAG Fall Conference, where NAMAG members worked on strengthening mutual aid processes through panel discussions, presentations and reviews
- We're also members of the Canadian Mutual Assistance Group (CanMAG), coordinated through the Canadian Electricity Association
- As part of our ongoing commitment to mutual assistance, in 2017, we deployed mutual aid resources to four American utilities following severe weather events

[Learn more about emergency preparedness.]

TORONTO HYDRO Corporation

FINANCIAL REPORT
DECEMBER 31, 2017

TORONTO HYDRO CORPORATION

TABLE OF CONTENTS

GLOSSARY

CDM – Conservation and demand management

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – City of Toronto

Copeland Station – The Clare R. Copeland transformer station, formerly called "Bremner Station".

Corporation – Toronto Hydro Corporation

Electricity Act – *Electricity Act, 1998* (Ontario), as amended

ERM – Enterprise risk management

ERP – Enterprise resource planning

GAAP – Generally Accepted Accounting Principles

GWh – Gigawatt hour

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

IESO – Independent Electricity System Operator. The IESO and the Ontario Power Authority were merged under the name Independent Electricity System Operator on January 1, 2015

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act* (Canada), as amended

kW – Kilowatt

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

MEU – Municipal electricity utility

OCI – Other comprehensive income

OEB – Ontario Energy Board

OEB Act – *Ontario Energy Board Act, 1998* (Ontario), as amended

OFHP – Ontario's Fair Hydro Plan

OFHA – *Fair Hydro Act, 2017* (Ontario)

OMERS – Ontario Municipal Employees Retirement System

OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015

OPEB – Other post-employment benefits

OREC – *Ontario Rebate for Electricity Consumers Act*, 2016 (Ontario).

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

TA – *Taxation Act, 2007* (Ontario), as amended

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2017 was $35.1 million and $156.5 million, respectively, compared to $23.4 million and $151.4 million for the comparable periods in 2016;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $148.9 million and $552.9 million for the three months and year ended December 31, 2017, respectively, compared to $149.2 million and $551.7 million for the comparable periods in 2016;
- On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses;
- On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates and the disposition of certain deferral and variance accounts;
- On November 14, 2017, the Corporation issued $200.0 million of 3.485% senior unsecured debentures due February 28, 2048;
- The Corporation's Series 2 debentures in the amount of $250.0 million, matured and were repaid on November 14, 2017; and
- Under the terms of the energy conservation agreement with the IESO for the delivery of CDM programs over the 2015 – 2020 period, the Corporation is entitled to a performance incentive if the verified mid-term electricity savings target is achieved by December 31, 2017. The Corporation exceeded the mid-term energy savings target and recognized a performance incentive of $12.2 million.

Introduction

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2017 and 2016, which were prepared in accordance with IFRS (the "Consolidated Financial Statements").

Copies of these documents are available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Business of Toronto Hydro Corporation

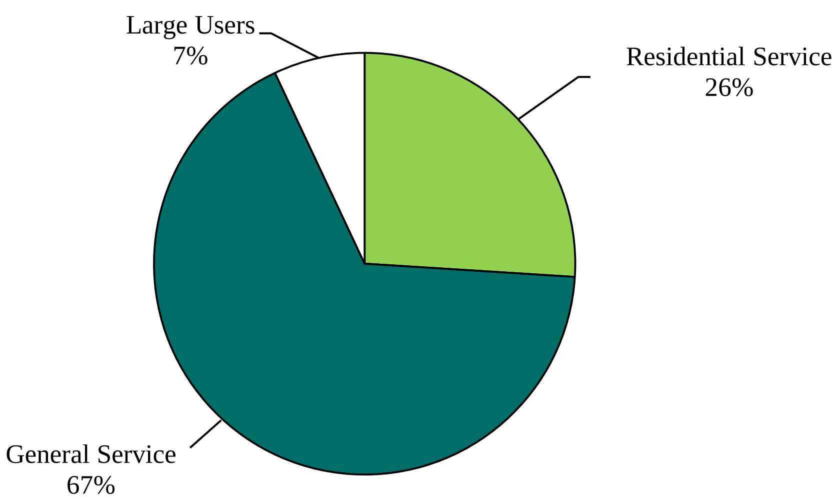
The Corporation is a holding company which wholly owns two subsidiaries:

- LDC - distributes electricity and engages in CDM activities; and
- TH Energy - provides street lighting and expressway lighting services in the City.

The Corporation supervises the operations of, and provides corporate, management services and strategic direction to its subsidiaries.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 768,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC and other electricity distributors is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the year ended December 31, 2017, LDC earned energy sales and distribution revenues of $3,742.0 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenues by Class
Year ended December 31, 2017



[1] "general service" means a service supplied to premises other than those receiving "residential service" and "large users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

[2] "residential service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

[3] "large users" means a service provided to a customer with a monthly peak demand of more than 5,000 kW averaged over a twelve-month period.

Electricity Distribution – Industry Overview

In April 1999, the Government of Ontario began restructuring the province's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs from customers in accordance with rate-setting procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate-setting and other legal filings.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through back to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through back to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation is exempt from tax under the ITA if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the TA.

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

Results of Operations

Net Income after Net Movements in Regulatory Balances

Interim Consolidated Statements of Income
Three months ended December 31
(in millions of Canadian dollars)

	2017 $	2016 $	Change $
Revenues			
Energy sales	728.9	813.3	(84.4)
Distribution revenue	181.7	159.0	22.7
Other	27.7	22.0	5.7
	938.3	994.3	(56.0)
Expenses			
Energy purchases	750.7	782.6	31.9
Operating expenses	77.8	78.6	0.8
Depreciation and amortization	62.0	59.6	(2.4)
	890.5	920.8	30.3
Finance costs	(18.9)	(19.5)	0.6
Gain on disposals of PP&E	0.2	2.1	(1.9)
Income before income taxes	29.1	56.1	(27.0)
Income tax expense	(11.1)	(28.0)	16.9
Net income	18.0	28.1	(10.1)
Net movements in regulatory balances	10.9	(30.6)	41.5
Net movements in regulatory balances arising from deferred tax assets	6.2	25.9	(19.7)
Net income after net movements in regulatory balances	35.1	23.4	11.7

The increase in net income after net movements in regulatory balances for the three months ended December 31, 2017 was primarily due to higher 2017 electricity distribution rates, higher electricity consumption, and higher other revenue related to the recognition of the CDM mid-term incentive and pole and duct rentals. These variances were partially offset by amounts being deferred into capital related regulatory accounts for future refunds to customers, higher income taxes (including regulatory balances arising from deferred tax assets), and higher depreciation and amortization related to new in-service asset additions.

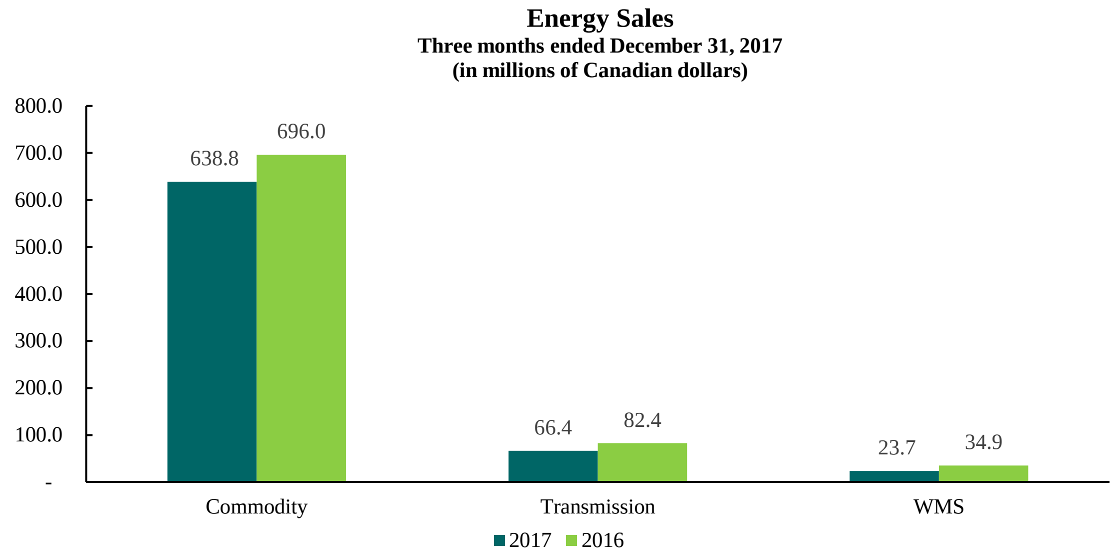
Consolidated Statements of Income
Year ended December 31
(in millions of Canadian dollars)

	2017 $	2016 $	Change $
Revenues			
Energy sales	3,017.8	3,306.2	(288.4)
Distribution revenue	724.2	647.9	76.3
Other	107.7	75.9	31.8
	3,849.7	4,030.0	(180.3)
Expenses			
Energy purchases	3,063.5	3,216.9	153.4
Operating expenses	293.0	277.1	(15.9)
Depreciation and amortization	224.2	212.2	(12.0)
	3,580.7	3,706.2	125.5
Finance costs	(77.7)	(74.2)	(3.5)
Gain on disposals of PP&E	9.8	2.1	7.7
Income before income taxes	201.1	251.7	(50.6)
Income tax expense	(44.7)	(67.1)	22.4
Net income	156.4	184.6	(28.2)
Net movements in regulatory balances	(13.1)	(77.2)	64.1
Net movements in regulatory balances arising from deferred tax assets	13.2	44.0	(30.8)
Net income after net movements in regulatory balances	156.5	151.4	5.1

The increase in net income after net movements in regulatory balances for the year ended December 31, 2017 was primarily due to higher 2017 electricity distribution rates and higher other revenue related to the recognition of the CDM mid-term incentive and pole and duct rentals. These variances were partially offset by lower electricity consumption, higher operating expenses in connection with system maintenance, higher depreciation and amortization related to new in-service asset additions, higher income taxes (including regulatory balances arising from deferred tax assets), amounts being deferred into capital related regulatory accounts for future refunds to customers, and a one-time residual ICM balance recorded as an increase in equity through net movements in regulatory balances in 2016. The 2016 first quarter implementation of the new electricity distribution rates also resulted in $19.2 million of foregone revenue being recorded in net movements in regulatory balances for the comparable period, instead of distribution revenue given IFRS 14 - *Regulatory Deferral Accounts* (“IFRS 14”) treatment.

Energy Sales

LDC’s energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets (“Consolidated Balance Sheets”) and within net movements in regulatory balances on the consolidated statements of income and comprehensive income ("Consolidated Statements of Income").



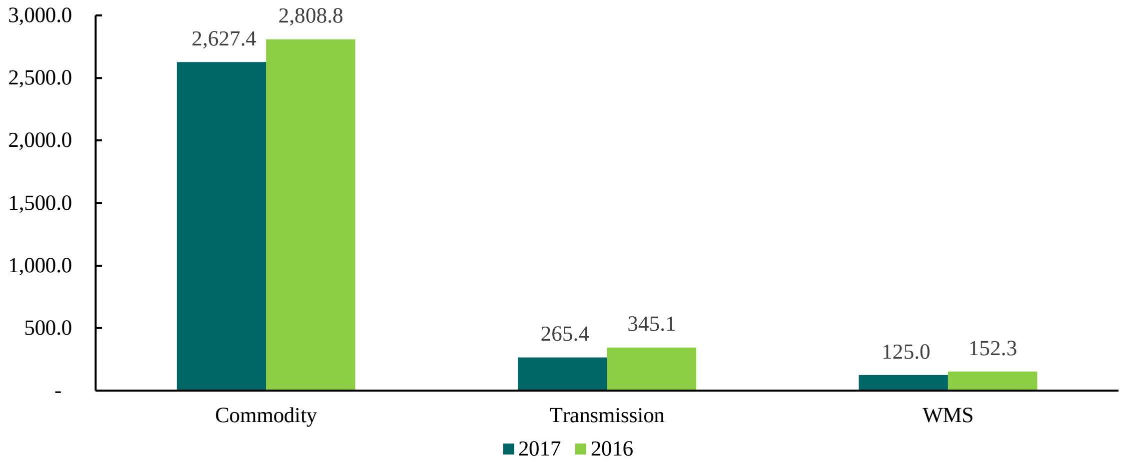
Energy sales for the three months ended December 31, 2017 were $728.9 million compared to $813.3 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($57.2 million) and lower retail transmission charges ($16.0 million). The decrease in commodity and retail transmission charges was primarily due to lower pass-through electricity costs.

Energy Purchases , Energy Sales, and Settlement Variances
Three months ended December 31, 2017
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity Charges	673.1	638.8	34.3
Retail Transmission Charges	65.2	66.4	(1.2)
WMS Charges	12.4	23.7	(11.3)
Total	750.7	728.9	21.8

For the three months ended December 31, 2017, LDC recognized $728.9 million in energy sales to customers and was billed $750.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $21.8 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance ($21.8 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Energy Sales
Year ended December 31, 2017
(in millions of Canadian dollars)



Energy sales for the year ended December 31, 2017 were $3,017.8 million compared to $3,306.2 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($181.4 million) and lower retail transmission charges ($79.7 million). The decrease in commodity and retail transmission charges was primarily due to lower electricity consumption and lower pass-through electricity costs.

Energy Purchases, Energy Sales, and Settlement Variances
Year ended December 31, 2017
(in millions of Canadian dollars)

	Energy Purchases $	**Energy Sales $**	**Settlement Variances $**
Commodity Charges	2,681.4	2,627.4	54.0
Retail Transmission Charges	281.8	265.4	16.4
WMS Charges	100.3	125.0	(24.7)
Total	3,063.5	3,017.8	45.7

For the year ended December 31, 2017, LDC recognized $3,017.8 million in energy sales to customers and was billed $3,063.5 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $45.7 million settlement variance for the year. The settlement variance was recorded as a decrease to the regulatory credit balance ($45.2 million including carrying charges on the accumulated settlement variance balance, see the regulatory credit balance table in note 9 to the Consolidated Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, and includes revenue collected through OEB-approved rate riders.

Distribution revenue for the three months and year ended December 31, 2017 was $181.7 million and $724.2 million, respectively, compared to $159.0 million and $647.9 million for the comparable periods in 2016.

The increase in distribution revenue for the three months ended December 31, 2017 was primarily due to higher electricity distribution rates ($11.7 million), higher electricity consumption ($5.6 million), and additional revenue collected through OEB-approved rate riders ($5.5 million).

The increase in distribution revenue for the year ended December 31, 2017 was primarily due to higher electricity distribution rates ($48.8 million) and additional revenue collected through OEB-approved rate riders ($22.6 million), partially offset by lower electricity consumption in 2017 ($14.9 million). The remaining increase was related to the recognition of 2016 foregone revenue ($19.2 million) from the implementation of the new electricity distribution rates effective March 1, 2016, which was recorded in net movements in regulatory balances for the year ended December 31, 2016 given the IFRS 14 treatment, instead of distribution revenue.

Other Revenue

Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, amortization of deferred revenue related to capital contributions from customers, and CDM cost efficiency incentives.

Other revenue for the three months and year ended December 31, 2017 was $27.7 million and $107.7 million, respectively, compared to $22.0 million and $75.9 million for the comparable periods in 2016.

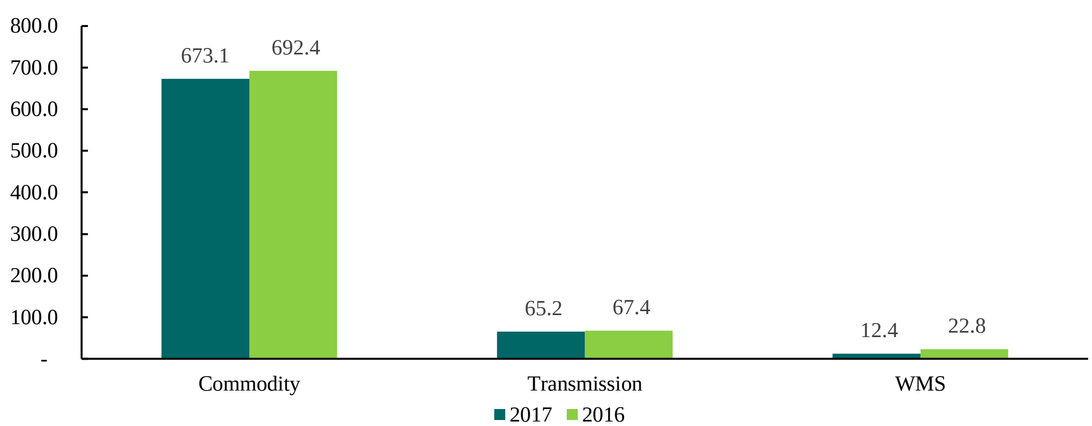
The increase was primarily due to higher revenue in connection with ancillary services, street lighting services, pole and duct rentals, recognition of the CDM mid-term incentive, and deferral of development charges. The development charges are excess expansion deposits retained by LDC where the requested number of connections or demand were not met by the connecting customer (see development charges in note 9(o) to the Consolidated Financial Statements).

The development charges were recorded as a regulatory balance on the Consolidated Balance Sheets, with a corresponding offset in net movements in regulatory balances on the Consolidated Statements of Income. This regulatory balance is expected to offset future electricity distribution rates for customers, although application has yet to be made to dispose of the balance.

Energy Purchases

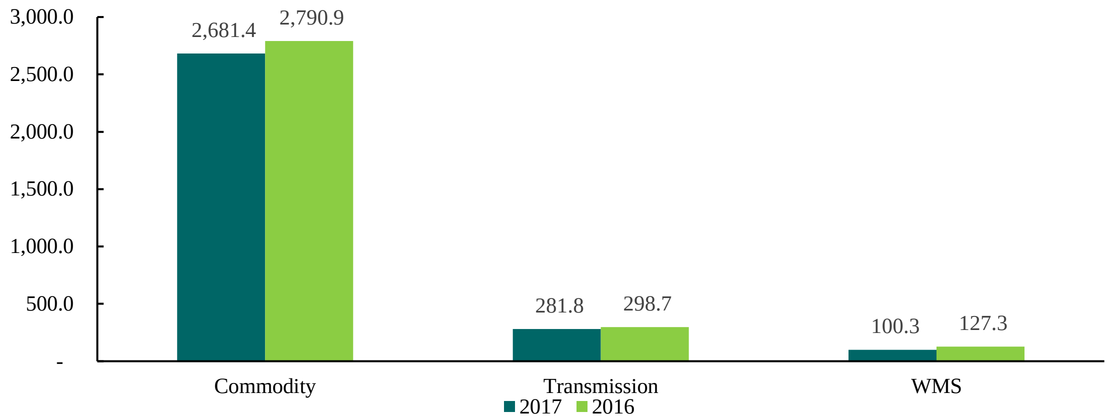
LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
Three months ended December 31, 2017
(in millions of Canadian dollars)



Energy purchases for the three months ended December 31, 2017 were $750.7 million compared to $782.6 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($19.3 million) and lower WMS charges ($10.4 million). The decrease in commodity and WMS charges was primarily due to lower rates.

LDC Energy Purchases
Year ended December 31, 2017
(in millions of Canadian dollars)



Energy purchases for the year ended December 31, 2017 were $3,063.5 million compared to $3,216.9 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($109.5 million) and lower WMS charges ($27.0 million). The decrease in commodity and WMS charges was primarily due to lower electricity consumption and lower rates.

Operating Expenses

Operating expenses for the three months and year ended December 31, 2017 were $77.8 million and $293.0 million, respectively, compared to $78.6 million and $277.1 million for the comparable periods in 2016.

The decrease in operating expenses for the three months ended December 31, 2017 was primarily due to lower street lighting maintenance costs, lower rental expenses due to expiration of rental agreements, and lower service fees for third party warehouse costs, partially offset by higher ancillary service costs.

The increase in operating expenses for the year ended December 31, 2017 was primarily due to higher costs in connection with ancillary services and system maintenance programs, partially offset by lower rental expenses due to expiration of rental agreements and lower street lighting maintenance costs.

Depreciation and Amortization

Depreciation and amortization expense for the three months and year ended December 31, 2017 was $62.0 million and $224.2 million, respectively, compared to $59.6 million and $212.2 million for the comparable periods in 2016.

The increase in depreciation and amortization expense for the three months and year ended December 31, 2017 was primarily due to new in-service asset additions in 2017, partially offset by certain assets being fully depreciated, and lower derecognition of assets removed from service.

Finance Costs

Finance costs for the three months and year ended December 31, 2017 were $18.9 million and $77.7 million, respectively, compared to $19.5 million and $74.2 million for the comparable periods in 2016.

The decrease in finance costs for the three months ended December 31, 2017 was primarily due to a lower average amount of outstanding long-term debt ($2,058.6 million) in the fourth quarter of 2017 compared with the same period in 2016 ($2,084.6 million) (see "Liquidity and Capital Resources" below).

The increase in finance costs for the year ended December 31, 2017 was primarily due to a higher average amount of outstanding long-term debt ($2,078.4 million) during 2017 compared with the same period in 2016 ($2,001.4 million) and lower capitalized borrowing costs (see "Liquidity and Capital Resources" below).

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2017 were $0.2 million and $9.8 million, respectively, compared to $2.1 million for the comparable periods in 2016. The increase in gain on disposals of PP&E for the year ended December 31, 2017 was primarily due to the gain realized on disposal of a surplus property in the second quarter of 2017 ($9.3 million), offset by lower gain realized on other disposals. The gain on disposal of a surplus property, net of tax of $8.0 million was recorded as a regulatory balance on the Consolidated Balance Sheets to reduce future electricity distribution rates for customers, with a corresponding offset in net movements in regulatory balances on the Consolidated Statements of Income.

Income Tax Expense and Income Tax Recorded in Net Movements in Regulatory Balances

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2017 were $4.9 million and $31.5 million, respectively, compared to $2.1 million and $23.1 million for the comparable periods in 2016.

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2017 was primarily due to higher income before taxes (including net movements in regulatory balances), offset by higher net deductions for permanent and temporary differences between accounting and tax treatments.

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2017 was primarily due to higher income before taxes (including net movements in regulatory balances) and lower net deductions for permanent and temporary differences between accounting and tax treatments.

Net Movements in Regulatory Balances

In accordance with IFRS 14, the Corporation separately presents regulatory balances and related net movements on the Consolidated Balance Sheets and Consolidated Statements of Income.

The increase in the regulatory debit ($9.1 million) and the decrease in the regulatory credit ($9.4 million) balances for the year ended December 31, 2017 equals the sum ($18.5 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets, and net movements in regulatory balances related to OCI, net of tax for the relevant period (see “Financial Position” below).

Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within balance sheet regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (see discussion on “settlement variance” under “Results of Operations” above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a period.

Net movements in regulatory balances for the three months ended December 31, 2017 were a recovery of $10.9 million compared to a charge of $30.6 million for the comparable period in 2016. The recovery of $10.9 million for the three months ended December 31, 2017 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by amounts disposed through OEB approved rate riders and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The charge of $30.6 million for the three months ended December 31, 2016 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers.

Net movements in regulatory balances for the year ended December 31, 2017 were a charge of $13.1 million compared to a charge of $77.2 million for the comparable period in 2016. The charge of $13.1 million for the year ended December 31, 2017 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by amounts disposed through OEB approved rate riders and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The charge of $77.2 million for the year ended December 31, 2016 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by the recognition of the 2016 approved foregone revenue per the OEB’s CIR decision and rate order.

Net movements in regulatory balances related to OCI, net of tax for the three months and year ended December 31, 2017 were a recovery of $18.4 million, compared to a charge of $15.5 million for the comparable periods in 2016. The recovery of $18.4 million for the three months and year ended December 31, 2017 was due to the actuarial loss recognized for post-employment benefits. The charge of $15.5 million for the three months and year ended December 31, 2016 was due to the actuarial gain recognized for post-employment benefits.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding December 31, 2017.

Summary of Quarterly Results of Operations
(in millions of Canadian dollars)

	December 31 2017 $	September 30 2017 $	June 30 2017 $	March 31 2017 $
Energy sales	728.9	817.9	721.8	749.2
Distribution revenue	181.7	186.1	178.2	178.2
Other	27.7	36.6	23.0	20.4
Revenues	938.3	1,040.6	923.0	947.8
Net income after net movements in regulatory balances	35.1	46.8	35.0	39.6
	December 31 2016 $	**September 30 2016 $**	**June 30 2016 $**	**March 31 2016 $**
Energy sales	813.3	899.9	801.1	791.9
Distribution revenue	159.0	183.3	158.8	146.8
Other	22.0	21.2	16.8	15.9
Revenues	994.3	1,104.4	976.7	954.6
Net income after net movements in regulatory balances	23.4	52.5	31.2	44.3

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions and rate orders.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2017 as compared to the consolidated balance sheets as at December 31, 2016.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	(54.3)	The decrease was primarily due to lower pass-through electricity costs, partially offset by the recognition of the CDM mid-term incentive receivable.
Assets held for sale	8.7	In 2017, LDC commenced the process to sell a property to a third party and subsequently entered into a sales agreement. Accordingly, the carrying amount of the property of $8.7 million was reclassified from PP&E to Assets held for sale.
PP&E and intangible assets	314.6	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition, and reclassification of assets held for sale during the year.
Deferred tax assets	(6.8)	The decrease was primarily due to lower net deductible temporary differences between tax and accounting values of PP&E and intangible assets.
Liabilities and Equity		
Commercial paper	(102.0)	The decrease was primarily due to repayment using the proceeds from the equity investment received from the City in June 2017 ($250.0 million), offset by issuances required for general corporate purposes (see “Liquidity and Capital Resources” below).
Debentures	(50.6)	The decrease was primarily due to the repayment of the Series 2 debentures ($250.0 million), partially offset by the issuance of Series 13 debentures ($200.0 million) in the fourth quarter of 2017 (see “Liquidity and Capital Resources” below).
Accounts payable and accrued liabilities	11.9	The increase was primarily due to timing differences in payments, partially offset by lower electricity costs payable to the IESO.
Deferred revenue	44.5	The increase was primarily due to capital contributions received in 2017.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Post-employment benefits	32.5	The increase was primarily due to the recognized actuarial loss driven by the annually updated actuarial assumptions.
Retained earnings	81.5	The increase was due to net income after net movements in regulatory balances ($156.5 million) offset by dividends paid ($75.0 million).
Regulatory Balances		
Regulatory debit balances	9.1	The increase was primarily due to the OPEB actuarial loss recorded as regulatory debit balance, partially offset by amounts disposed through OEB-approved rate riders primarily related to foregone revenue.
Regulatory credit balances	(9.4)	The decrease was primarily due to balances arising in the period related to settlement variances, partially offset by amounts being deferred into capital related regulatory accounts for future refunds to customers and amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $526.7 million and $770.5 million, respectively, as at December 31, 2017, resulting in a working capital deficit of $243.8 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations. See "Liquidity Risk" under note 16 to the Consolidated Financial Statements.

The amount available under the Revolving Credit Facility and the outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

(in millions of Canadian dollars)	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
December 31, 2017	800.0	-	159.0	641.0
December 31, 2016	800.0	-	261.0	539.0

The Corporation is a party to a $20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ("Working Capital Facility"). As at December 31, 2017, $11.7 million had been drawn under the Working Capital Facility compared to $7.1 million as at December 31, 2016.

Consolidated Statements of Cash Flow Data
(in millions of Canadian dollars)

	Three months ended December 31		Year ended December 31	
	2017 $	2016 $	2017 $	2016 $
Working capital facility beginning of period	(10.1)	(9.1)	(7.1)	(14.2)
Net cash provided by operating activities	211.4	191.7	584.7	571.3
Net cash used in investing activities	(132.3)	(138.2)	(520.9)	(549.4)
Net cash used in financing activities	(80.7)	(51.5)	(68.4)	(14.8)
Working capital facility, end of period	(11.7)	(7.1)	(11.7)	(7.1)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2017 was $211.4 million and $584.7 million, respectively, compared to $191.7 million and $571.3 million for the comparable periods in 2016.

The increase in net cash provided by operating activities for the three months and year ended December 31, 2017 was primarily due to improved working capital mainly related to timing differences in the settlement of receivable and payables (see note 22 to the Consolidated Financial Statements), and lower net movements in regulatory balances arising from deferred tax assets, partially offset by lower collection from energy sales in excess of energy purchases, which were deferred as a settlement variance and timing of income tax instalments paid.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2017 was $132.3 million and $520.9 million, respectively, compared to $138.2 million and $549.4 million for the comparable periods in 2016.

The decrease in net cash used in investing activities for the three months ended December 31, 2017 was due to lower cash spending on capital projects, partially offset by lower proceeds on disposals of PP&E in the fourth quarter of 2017.

The decrease in net cash used in investing activities for the year ended December 31, 2017 was due to lower cash spending on capital projects and higher proceeds on disposals.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

The following table summarizes the Corporation's capital expenditures, both PP&E and intangible assets, which are inclusive of capital accruals, for the periods indicated.

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended December 31		Year ended December 31	
	2017 $	**2016 $**	**2017 $**	**2016 $**
Regulated LDC				
Distribution system				
Planned [1]	103.1	85.1	373.0	365.3
Reactive	12.8	16.9	48.1	47.6
Copeland Station	4.9	7.8	23.2	22.6
Facilities consolidation	-	16.1	35.2	50.6
Technology assets	20.3	17.0	54.9	49.1
Other [2]	5.3	3.8	10.5	10.8
Regulated capital expenditures	146.4	146.7	544.9	546.0
Unregulated capital expenditures [3]	2.5	2.5	8.0	5.7
Total capital expenditures	148.9	149.2	552.9	551.7

1 Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, and the delivery of customer connections.

2 Includes fleet capital and buildings.

3 Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2017 were $146.4 million and $544.9 million, respectively, compared to $146.7 million and $546.0 million for the comparable periods in 2016.

For the three months ended December 31, 2017, spending on regulated capital expenditure year over year was relatively consistent. Changes were primarily related to lower spending on the facilities consolidation program ($16.1 million), partially offset by higher spending on the implementation of an SAP ERP project ($8.1 million), station programs related to the renewal of aging station infrastructure ($4.7 million), network infrastructure ($1.8 million), and metering ($1.7 million).

For the year ended December 31, 2017, the decrease in regulated capital expenditures was primarily related to lower spending on overhead infrastructure ($19.1 million), the radio project ($16.0 million), and the facilities consolidation program ($15.4 million). These variances were partially offset by higher spending on station programs related to the renewal of aging station infrastructure ($26.2 million), the implementation of an SAP ERP project ($19.9 million), and metering ($7.3 million).

The largest capital initiatives in 2017 include the replacement of underground and overhead infrastructures, station programs, delivery of customer connections, the facilities consolidation program, and the construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City.

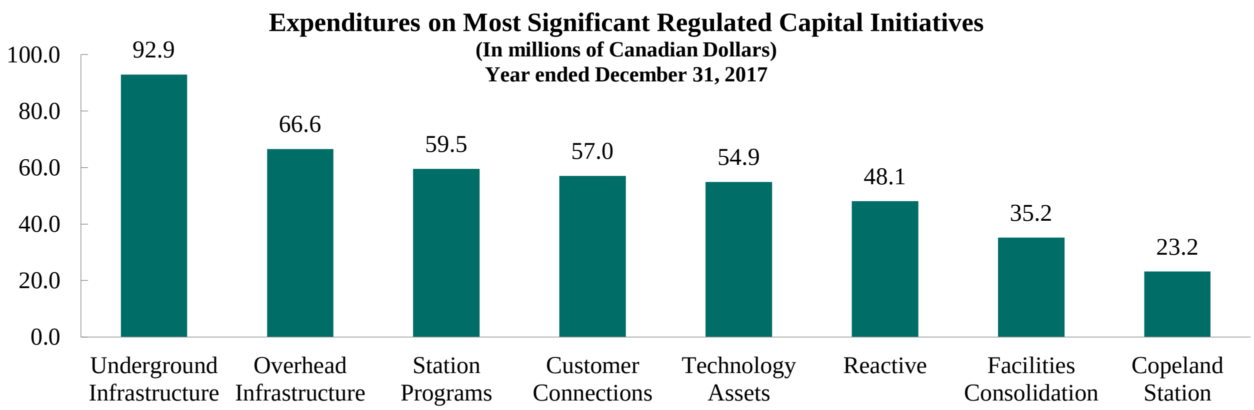
The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2017, capital expenditures for the underground and overhead infrastructures were $92.9 million and $66.6 million, respectively.

The station programs relate to the lifecycle management of electrical equipment installed at each of the Corporation's active Municipal and transformer stations, while ensuring that adequate capacity is available to serve customers. For the year ended December 31, 2017, capital expenditures for the station programs were $59.5 million.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the year ended December 31, 2017, capital expenditures for the delivery of customer connections were $57.0 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In the year ended December 31, 2017, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of $35.2 million.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During 2017, major electrical equipment including power transformers and high and medium voltage switchgear, medium voltage cable, control wiring and DC systems was installed, tested and commissioned, and the high voltage cable was completed. The electric station service equipment was installed and energized. Protection and control equipment was installed and testing and commissioning commenced. In addition, the machine shop installation and landscaping were completed and sidewalks and roadway were paved. HONI, the electricity transmission provider, commenced the installation of their transmission equipment, including high voltage switchgear and protection and control equipment. As at December 31, 2017, the cumulative capital expenditures on the Copeland Station project amounted to $195.1 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the most complex projects ever undertaken by the Corporation and the expected completion date is 2018. The total capital expenditure required to complete the project is approximately $200.0 million, plus capitalized borrowing costs. There may be additional unforeseen delays and expenditures prior to completion of the project. See "Risk Management and Risk Factors" below for further information on the Copeland Station project.



Financing Activities

Net cash used in financing activities for the three months and year ended December 31, 2017 was $80.7 million and $68.4 million, respectively, compared to $51.5 million and $14.8 million for the comparable periods in 2016. The change for the year was primarily due to the repayment of the Corporation's Series 2 debentures and commercial paper and an increase in dividends paid, partially offset by the equity investment received from the City in June 2017.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2022 ("Revolving Credit Facility"), pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022. As at December 31, 2017, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing up to $600.0 million of unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes.

For the three months and year ended December 31, 2017, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $140.2 million and $210.3 million respectively, with a weighted average interest rate of 1.21% and 0.93% (compared to $253.2 million and $348.7 million with a weighted average interest rate of 0.83% and 0.89% for the three months and year ended December 31, 2016).

Additionally, the Corporation is a party to a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at December 31, 2017, $38.4 million of letters of credit were issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated May 8, 2017 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1.0 billion during the 25-month period following the date of the prospectus.

On November 14, 2017, the Corporation issued $200.0 million senior unsecured debentures at a rate of 3.485% ("Series 13"). The Series 13 debentures due on February 28, 2048 were priced at $999.29 per $1,000 principal amount and bear interest payable semi-annually in arrears. The net proceeds were used to repay certain existing indebtedness and for general corporate purposes. Debt issuance costs of $1.4 million relating to the Series 13 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2017 and are amortized to finance costs using the effective interest method.

The Corporation's Series 2 debentures matured and were repaid on November 14, 2017.

As at December 31, 2017, the Corporation had debentures outstanding in the principal amount of $2.0 billion. These debentures will mature between 2019 and 2063. As at December 31, 2017, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

The following table sets out the current credit ratings of the Corporation:

Credit Ratings
As at December 31, 2017

	DBRS		**Standard & Poor's**	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Stable
Senior unsecured debentures	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next twelve months.

On March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the first quarter of 2017 (March 31, 2016 – $44.6 million), which was paid to the City on March 31, 2017.

On May 11, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the second quarter of 2017 (June 30, 2016 – $6.25 million), which was paid to the City on June 30, 2017.

In connection with receipt of the equity investment from the City, the Board of Directors of the Corporation declared dividends payable to the City and approved amendments to the Corporation's Dividend Policy, as follows:

- In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of the two previously declared and paid instalments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

- In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

On March 7, 2018, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $23.5 million, payable to the City by March 31, 2018.

Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

Summary of Contractual Obligations and Other Commitments
As at December 31, 2017
(in millions of Canadian dollars)

	Total $	2018 $	2019/2020 $	2021/2022 $	After 2022 $
Working Capital Facility	11.7	11.7	-	-	-
Commercial paper [1]	159.0	159.0	-	-	-
Debentures – principal repayment	2,045.0	-	250.0	300.0	1,495.0
Debentures – interest payments	1,471.3	75.7	143.1	121.3	1,131.2
Operating leases	1.4	0.3	0.6	0.5	-
Capital projects [2] and other	46.0	17.5	27.5	1.0	-
Finances leases	1.5	1.5	-	-	-
Total contractual obligations and other commitments	3,735.9	265.7	421.2	422.8	2,626.2

[1] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[2] Primarily commitments for construction services and estimated capital contributions.

Corporate Developments

Changes to the Corporation's Board of Directors and Audit Committee

Effective January 1, 2017, the City, as the sole shareholder of the Corporation, re-appointed Councillor Paul Ainslie, Deputy Mayor Stephen Holyday (as the Mayor's designate), and Deputy Mayor Denzil Minnan-Wong to the Board of Directors for a term ending November 30, 2018, or until their successors are appointed.

On March 2, 2017, the Board of Directors of the Corporation confirmed the Chair of the Corporation, David McFadden, as an ex officio member of each of its Audit, Corporate Governance and Nominating, and Human Resources and Environment Committees, with all the responsibilities and privileges of the regular members of each committee.

Effective April 26, 2017, the City appointed Juliana Lam to the Board of Directors. The appointment is effective for a term ending April 26, 2019, or until her successor is appointed. Juliana Lam was appointed by the Board of Directors to the Audit Committee to replace Brian Chu who retired from the Audit Committee, effective May 11, 2017.

Effective December 10, 2017, the City re-appointed David McFadden, Brian Chu, Heather Zordel, the Honourable Howard Weston, Senator, Mary Ellen Richardson, Michael Nobrega and Tamara Kronis to the Board of Directors for a term ending December 10, 2019, or until their successors are appointed.

Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On March 1, 2016 pursuant to LDC's 2015 – 2019 CIR application, the OEB set 2018 distribution rates on an interim basis. On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts.

Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced the OFHP, which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the OREC, which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the OFHA, which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the Consolidated Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. The OFHP reduces electricity bills by 25% on average for eligible customers, which includes the 8% OREC rebate. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable, unbilled revenue, accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

CDM Activities

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to its customers and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015.

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. ("Oakville Hydro") for the delivery of CDM programs over the 2015-2020 period. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro are only being offered under the full cost recovery funding method.

The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. Oakville Hydro's programs under the joint CDM plan started on January 1, 2016. LDC received $44.9 million as at December 31, 2016 and $57.4 million in the year ended December 31, 2017 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. As at December 31, 2017, LDC estimated that approximately $12.9 million qualified as a joint mid-term incentive, of which $12.2 million represents LDC's portion and is included within accounts receivable.

Effective October 16, 2017, LDC entered into an agreement to transfer $4.0 million of funding and a corresponding 20 GWh of its energy savings target to another local distribution company. This agreement will decrease the joint CDM plan funding with Oakville Hydro to $421.0 million, with a revised energy savings target of 1,648 GWh. The revised CDM plan was approved by the IESO on December 14, 2017.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers. There have been no material changes in legal proceedings as disclosed in note 25 to the Consolidated Financial Statements.

Share Capital

Share capital consists of the following:

	Number of Shares	$
Authorized The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. All shares issued were fully paid.		
Issued and outstanding		
Common shares, beginning of the year	1,000	567.8
Common shares issued [1]	200	250.0
Common shares issued and outstanding, end of the year	1,200	817.8

[1] On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

Transactions with Related Parties

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties. The Corporation provides electricity, street lighting and ancillary services to the City. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Summary of Transactions with Related Parties
(in millions of Canadian dollars)

	Year ended December 31	
	2017 **$**	**2016** **$**
Revenues	**283.3**	275.3
Operating expenses and capital expenditures	**22.2**	26.9
Dividends	**75.0**	63.4

Summary of Amounts Due to/from Related Parties
(in millions of Canadian dollars)

	As at December 31	
	2017 **$**	**2016** **$**
Accounts receivable	**13.8**	12.7
Unbilled revenue	**26.3**	23.2
Accounts payable and accrued liabilities	**40.1**	41.0
Customer deposits	**15.7**	14.1
Deferred revenue	**1.9**	3.5

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City.

Accounts receivable represents receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the year ended December 31, 2017 and 2016. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

The Corporation faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. The Corporation executes its ERM activities via an ERM framework that is aligned to industry best practices and international guidelines. The Corporation views ERM as a management activity undertaken to add value and improve overall operations. It helps the Corporation by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of the Corporation and is routinely considered in forecasting, planning and executing all aspects of the business.

The ERM framework is operationalized by a consistent, disciplined methodology that clearly defines the risk management process which incorporates subjective elements, risk quantification and risk interdependencies.

While the Corporation's philosophy is that ERM is the responsibility of all business units, at all levels, in strategic and operational matters, the ERM governance structure is comprised of three key levels.

At the top level is the Board, which works to maintain a general understanding of the Corporation's risk profile, the risk categories, the types of risks to which the Corporation may be exposed and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key risks that represent the greatest threats to achieving the Corporation's strategic objectives.

The second level is the executive team, the lead body to ensure systems are in place to identify, manage, and monitor risks. Through its review of reports from the business and other areas, the executive team assesses the appropriateness and consistent application of systems to manage risks within the Corporation. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across the Corporation who actively engage in the day-to-day management of risks. Working with the executive team, this group oversees the Corporation's risk profile, its performance against the defined risk appetite and determines appropriate risk responses. They also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

The Corporation's business is subject to a variety of risks including those described in the following sections. There can be no assurance that any steps the Corporation may take to manage risks will avoid future loss resulting from the occurrence of such risks.

Risks from External Influences

Ownership by the City and Inconsistent Policy Risk

The Corporation is subject to the risk that its shareholder can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles. Under the Shareholder Direction, the City also has the power to direct the Corporation and its subsidiaries to conduct their affairs and govern their operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time. These council approved directions can be inconsistent and/or divergent with the Shareholder Direction principles and could materially adversely affect the Corporation's business, operations, financial condition or prospects if the Corporation is required to comply with such directions.

Regulatory Risk

The Corporation is subject to the risk that its business activities may be impeded by the OEB (includes both traditional regulated Cost of Service work and non-traditional new ancillary service model work). There is a risk that future changes to Ontario's regulatory model, manner of regulation and/or broader government policy framework does not align with the Corporation's business direction and could materially adversely affect the Corporation's strategic goals and financial results.

Ontario's electricity industry regulatory developments may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to deliver effective and efficient operations and reliable service to its customers, and as well as create barriers to LDC achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates, at levels that will permit LDC to carry out its planned capital expenditures required to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- all capital expenditures incurred by LDC will be approved by the OEB. In particular, capital cost overruns due to project delays or increased costs may not be recoverable in distribution rates;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates;
- the OEB will not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Any future regulatory decision to disallow or limit the recovery of costs could lead to potential asset impairment and charges to results from operations, which could have a material adverse effect on the Corporation.

Political and Legislative Risk

The Corporation is subject to the risk that government bodies and policy priorities of government may impact the Corporation’s ability to deliver effective and efficient operations and meet business objectives. Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation could materially adversely affect the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that could have a material adverse effect on the Corporation. The OEB may not allow recovery for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Risks to Maintaining Operations

Human Capital Risk

The Corporation is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support the Corporation’s future talent requirements. All retirements pose risks for knowledge management and business continuity, both at the Corporation and the industry. Development and retention of talent to meet the evolving needs of the business requires LDC to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions including reaching a new collective bargaining agreement with Power Workers' Union. There can be no assurance that the Corporation will be able to secure the support of its labour unions.

Strategy and Business Model Risk

The Corporation is subject to the risk that it may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage, which could materially adversely affect the Corporation. The OEB distribution licence issued to LDC stipulates a service area that reflects the territory within the City. By law, only the OEB can grant such a licence for a service area and only an entity with such a licence can provide licenced services to the public-at-large within a service area. The OEB has not granted any other distribution licence that permits distribution within LDC's service area. In addition to this regulatory barrier to entry, there are other barriers to entry, including the cost of constructing an electricity distribution system, physical space limitations within and legal access to the right-of-way, the specialized skills associated with the distribution business, the level of expertise required to achieve operational and regulatory compliance, and LDC's relationships with its customers. There can be no assurance that these barriers will continue to be sufficient to prevent this type of competition. Other regulated and unregulated entities have always competed with LDC and its predecessors to provide customers with other sources of energy, including electricity. The pervasiveness of this competition and its effects on LDC's distribution business have varied over time and continue to vary based on many factors, including the relative price of energy source (e.g., natural gas, grid-supplied electricity, behind-the-meter generation) and technology advancements (e.g., multi-unit building sub-metering, micro-grids, electricity storage).

There can be no assurance that the future nature, prevalence, or effects of these forms of competition will be comparable to current or historic experience. Failure to effectively scan our external and internal environment could lead to missed business opportunities and loss of competitive advantage (see "Customer Risk" section for additional details).

Asset Integrity Risk

The Corporation is subject to the risk that it may be unable to maintain continuous supply due to failure of the existing distribution infrastructure and assets which could materially adversely affect the Corporation. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure (such as the Copeland Station project) to address safety, reliability and customer service requirements.

LDC estimates that approximately one-third of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period. At the same time, Toronto is a growing city, and LDC must make system upgrades to expand its capacity to keep pace with urban intensification and electrification. In addition, as the City, Ontario and the Government of Canada implement policies and programs to respond to climate change, the pressures on the Corporation's system will only increase. Widespread adoption of electric vehicles, fuel switching and changing emissions standards make electricity the comparatively clean energy choice. This drives the need for significant capital expenditures for system upgrades so that the grid can handle such increased load. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of the Corporation to fund additional infrastructure, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

One of LDC's largest capital initiatives currently in progress is the construction of Copeland Station, which is also one of the most complex projects ever undertaken by the Corporation. Due to unforeseen delays, the expected completion date for the Copeland Station project has been extended to 2018 and it is currently anticipated that the total expenditure required to complete the project will increase from $195.0 million to approximately $200.0 million, plus capitalized borrowing costs as applicable. There may be additional unforeseen delays and expenditures prior to the completion of the project. On January 25, 2017, the Corporation was informed that Carillion Construction Inc., the general contractor for the Copeland Station Project, filed for creditor protection under the Companies' Creditors Arrangement Act after its affiliate, Carillion plc, went into compulsory liquidation in the United Kingdom.

All capital projects for new and replacement infrastructure have risks related to delays or increased costs due to many factors, including: necessary modifications to project plans; the availability, scheduling and cost of materials, equipment and qualified personnel; LDC's ability to obtain necessary environmental and other regulatory and governmental approvals; and the impact of weather conditions, site conditions and contractor performance.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. However, if LDC is unable to carry out these plans in a timely and optimal manner or becomes subject to significant unforeseen equipment failures, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

Occupational Health and Safety Risk

The Corporation is subject to the risk that employees may be exposed to serious or fatal injuries or illness as a result of the work environment in which they operate. Due to the nature of the Corporation's business and business activities, occupational safety is an integral part of our corporate culture. Employees could be exposed to hazards when performing their work duties. This includes hazards such as electrical contact, working in confined spaces, fires and explosions, slips, trips and falls and motor vehicle accidents. The Corporation is subject to compliance with provincial Health and Safety legislation. The Corporation's management approach to occupational safety is to meet or excel on legal compliance and eliminate or safeguard known occupational hazards and risks. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of our corporate values, including safety. LDC received OHSAS 18001 certification in 2013 and conducts annual third party audits to maintain certification, in addition occupational health and safety legal compliance audits are conducted every two years.

Customer Risk

The Corporation is subject to the risk that it may fail to identify and meet its customers' needs and expectations, within approved OEB funding levels, and consequently customers leave the Corporation's distribution area or opt for alternative sources of electricity. This includes all customer classes, but is primarily related to general service and large users. This may lead to erosion of the Corporation's revenue base and monopoly position. It is important that the Corporation maintains its relationship with its customers to better understand the specific needs and expectations of each class. The political environment and government policy regarding the energy sector may impact customer satisfaction and perception of value, especially with concerns around hydro costs. The Corporation is taking steps to help its customers through cost saving CDM programs. Service interruptions due to increasing weather events, or unexpected events could further impact customer satisfaction and service quality (see "Business Interruption Risk" section for additional details).

Advances in technology may compete with the Corporation by affecting energy consumption levels and, as a result, customer demand for the Corporation's services could be negatively impacted in a material way. As customers increasingly prioritize energy efficiency and awareness of energy costs, and governments increasingly provide subsidies to encourage energy efficiency, primarily in response to climate change concerns, there will be a corresponding increase in the demand for technologies that enable customers to better monitor and minimize their energy consumption and otherwise exercise greater control over their electricity supply and demand. For example, distributed generation technologies draw on renewable sources of energy, such as solar power and wind, allowing customers to generate their own supply of electricity. The effect of such technologies may be reduced reliance on larger-scale utilities such as the Corporation. Likewise, energy-efficient homes and improvements to energy storage technologies like batteries may further affect consumption levels and the demand for the Corporation's services. Although OEB's current policy is moving residential customers to fixed delivery charges as opposed to consumption-based delivery charges, as technologies continue to advance and become more widely adopted, the Corporation may be required to make changes to its business and operations, which may present additional risks and challenges for the Corporation.

The Corporation is affected by energy demand which may change as a result of technology change, available customer choice and CDM programs, as well as general economic conditions, energy prices, disposable income and population growth, among other things. Reduced or increased energy demand could have a material adverse effect on the Corporation's business, operations, financial condition or prospects, as well as on the Corporation's need for, and ability to, fund future capital expenditures.

Information Technology and Cybersecurity Risk

The Corporation is subject to the risk that it may be unable to preserve the confidentiality, integrity, authenticity, availability, accountability and non-repudiation of information assets. The Corporation's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and the Corporation's financial, billing and business systems to capture data and to produce timely and accurate information. Failures of any one of the financial, business and operating systems could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The Corporation mitigates this risk through various methods including the implementation of high availability and redundancy in its core infrastructure and application components. Operational technology systems are isolated from business systems and operate independently.

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. The Corporation has implemented security controls aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, corruption or unavailability of critical data or confidential employee or customer information. A significant breach could materially adversely affect the financial performance of the Corporation or its reputation and standing with customers, regulators and in the financial markets. It could also expose the Corporation to third-party claims.

LDC must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, contractors, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity incident or other unauthorized access, which could materially adversely affect the Corporation and also result in third-party claims against the Corporation.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that the Corporation can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, the Corporation may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

Brand and Reputation Risk

The Corporation is subject to the risk that an action or inaction by it or its representatives will impair the Corporation's image in the community, public confidence or brand. The Corporation is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Failure to deliver on our commitment could impact the public's perception of the Corporation. In addition, events and/or external factors that draw negative media attention to the Corporation could cause reputational damages and impact the Corporation's business and relationship with its stakeholders.

Business Interruption Risk

The Corporation is subject to the risk that it may be unable to maintain continuing and sustainable business operations, or recover from business interruption, in an effective manner. The Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions and natural disasters, as well as terrorism and pandemics. Although the Corporation's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to the Corporation's facilities or interruption of the Corporation's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Risks to Maintaining Financial Condition

Capital Structure Risk

The Corporation is subject to the risk that it may not be able to optimize its debt to equity ratio or access capital markets at effective rates. There can be no assurance that debt or equity financing will be available or sufficient to meet the Corporation’s requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to the Corporation.

The Corporation relies on debt financing through its MTN Program, CP Program or existing credit facilities to finance the Corporation's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, the regulatory environment in Ontario, the Corporation's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market.

In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its commercial paper obligations as they become due.

Market and Credit Risk

The Corporation is directly and indirectly subject to various market and credit fluctuations which could materially adversely affect the Corporation. For example, LDC is exposed to credit risk with respect to customer non-payment of electricity bills. LDC is permitted, at certain times of the year, to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis. LDC’s security interest or other measures, if any, may also not provide sufficient protection. Additionally, security interests and other measures taken by, or in favour of, LDC, if any, may not provide sufficient protection.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of the Corporation, as at December 31, 2017, by $46.8 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2017, by $60.2 million.

The Corporation is exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.3 million to annual finance costs.

The Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2017 was not material.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 26(b) – Recognition and measurement of regulatory balances;
- Note 26(j) – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 26(f) and 26(g) – Determination of useful lives of depreciable assets;
- Notes 26(m) and 14 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 26(o) and 21 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 25 – Recognition and measurement of provisions and contingencies.

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. The significant accounting policies of the Corporation are summarized in notes 2 and 26 to the Consolidated Financial Statements.

Changes in Accounting Policies

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The additional disclosures relating to changes in liabilities arising from financing activities are included in note 22 to the Consolidated Financial Statements and have no impact to the Corporation's financial position or results of operations.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017, and have not yet been applied in preparing the Consolidated Financial Statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two methods for recognizing revenue: at a point in time or over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach. The Corporation has completed its assessment of the key revenue streams. The majority of the Corporation's revenue (energy sales and distribution revenue) is generated from electricity distribution at regulated prices. The Corporation concluded that IFRS 15 will not have a material impact on the accounting for these revenue streams. Upon adoption of IFRS 15, there will be a $167.6 million income statement reclassification between Energy Sales and Energy Purchases for the comparative year ended December 31, 2017 and no impact to opening retained earnings as at January 1, 2018. The

Corporation is currently finalizing its assessment on capital contributions. The Corporation has determined that IFRS 15 will also increase its required disclosure on revenue streams.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation has assessed the impact of adopting IFRS 9, and concluded that the new classification under IFRS 9 will not have a material impact on the consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* ("IAS 17") and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the current distinction between finance and operating leases. It requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. In addition, the nature and timing of expenses related to leases will change, as IFRS 16 replaces the straight-line operating leases expense with the depreciation expense for the assets and interest expense on the lease liabilities. Lessor accounting remains substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, and may be applied either retrospectively or using a modified retrospective approach. Early adoption is permitted if IFRS 15 is also adopted.

The Corporation intends to early adopt IFRS 16 on January 1, 2018. The Corporation has completed its assessment of existing operating leases. IFRS 16 will not have a significant impact on the Corporation's consolidated financial statements and the Corporation has assessed the quantitative impact of adopting IFRS 16 to be $nil in opening retained earnings, and an increase of $1.6 million in total assets and total liabilities for the right-of-use assets and the lease liabilities, respectively, as at January 1, 2018.

Forward-Looking Information

Certain information included in this MD&A constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "budgets", "committed", "can", "could", "estimates", "expects", "focus", "forecasts", "future", "intends", "may", "might", "plans", "propose", "projects", "schedule", "seek", "should", "trend", "will", "would", "objective", "outlook" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the effect of changes in energy consumption on future revenue as described in the sections entitled "Summary of Quarterly Results of Operations" and "Risk Management and Risk Factors"; the Corporation's plans to finance the investment in LDC's infrastructure and, the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled "Liquidity and Capital Resources"; the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled "Liquidity and Capital Resources"; the expected capital expenditures required to complete Copeland Station and the anticipated completion date for Copeland Station as described in the section entitled "Liquidity and Capital Resources" and "Risk Management and Risk Factors"; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled "Liquidity and Capital Resources"; the payment of dividends as described in the section entitled

"Liquidity and Capital Resources"; plans to meet CDM targets as described in the section entitled “Corporate Developments”; the Corporation’s expectation that cash generated from operations, after the payment of dividends, is not expected to be sufficient to repay existing indebtedness, fund capital expenditures and meet other liquidity requirements over the next 12 months as described in the section entitled “Risk Management and Risk Factors”; the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled “Legal Proceedings”; the Corporation's reliance on debt financing through its medium-term note program, Commercial Paper Program or existing credit facilities to finance the Corporation's daily operations, repay existing indebtedness, and fund capital expenditures as described in the section entitled “Risk Management and Risk Factors”; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the section entitled “Risk Management and Risk Factors”; the Corporation's plans to attract, train and retain skilled employees and mitigate risks from retiring employees as described in the section entitled “Risk Management and Risk Factors”; the possibility that advances in technology may compete with the Corporation by affecting energy consumption levels and, as a result, customer demand for the Corporation’s services as described in the section entitled “Risk Management and Risk Factors”; the expectation that one-third of the Corporation’s electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period as described in the section entitled “Risk Management and Risk Factors”;; and the adoption and impact of new standards, amendments and interpretations on the Corporation’s consolidated financial statements in the section entitled “Future Accounting Pronouncements”.

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation’s capital projects (including Copeland Station), no unforeseen changes in the legislative and operating framework for Ontario's electricity market, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the receipt of applicable IESO approvals for mid-term CDM incentives, the ability of the Corporation to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner, the receipt of favourable judgments, no unforeseen changes in rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the level of interest rates and the Corporation's ability to borrow, and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of the Corporation’s capital and maintenance programs necessary to maintain the performance of our aging distribution assets and make required infrastructure improvements; risks associated with capital projects, including Copeland Station; risks associated with electricity industry regulatory developments and other governmental policy changes; risks associated with the timing and results of regulatory decisions regarding the Corporation’s revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risk to the Corporation’s facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and the Corporation’s limited insurance coverage for losses resulting from these events; risks associated with being controlled by the City, including the risk that the City could introduce rules, policies or directives that can potentially limit the Corporation’s ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to the Corporation’s work force demographic and its potential inability to attract, train and retain skilled employees; risks associated with possible labour disputes and the Corporation’s ability to negotiate appropriate collective agreements; risk that the Corporation may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that the Corporation is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk of downgrades to the Corporation’s credit rating; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of the Corporation’s recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled “Risk Management and Risk Factors” in this MD&A. Please review this section – “Risk Management and Risk Factors” in detail. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this “Forward-Looking Information” section and the “Risk Management and Risk Factors” section of this MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2017, 2016 and 2015. This information has been derived from the Corporation's consolidated financial statements.

Selected Annual Consolidated Financial Information
(in millions of Canadian dollars)

	2017 $	2016 $	2015 $
Year Ended December 31			
Total Revenues [1]	3,849.7	4,030.0	3,539.9
Net income after net movements in regulatory balances [1]	156.5	151.4	126.7
As at December 31			
Total assets and regulatory balances [2]	5,226.2	4,954.4	4,686.9
Total debentures [2,3]	2,034.0	2,084.6	1,885.1
Other non-current financial liabilities [4]	9.1	17.3	16.6
Total equity [2]	1,760.4	1,428.9	1,340.9
Dividends [5]	75.0	63.4	56.3

1 See "Results of Operations" for further details on distribution revenue, other revenue, and net income after net movements in regulatory balances.

2 See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.

3 Total debentures include current and long-term debentures.

4 Other non-current financial liabilities include primarily non-current obligations under capital lease and non-current customer deposits. Under IFRS, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

5 See "Liquidity and Capital Resources" for further details on dividends.

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Toronto, Canada

March 7, 2018

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

See Financial Report for abbreviations and defined terms used in the audited consolidated financial statements.

MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements have been prepared by management of Toronto Hydro Corporation (the "Corporation"), who are responsible for the integrity, consistency and reliability of the information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and applicable securities legislation.

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 26 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 7, 2018.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and internal audit, which is designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Corporation's assets are safeguarded and transactions are properly authorized and executed. The system includes formal policies and procedures and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these internal controls and reports its findings to management and the Audit Committee of the Corporation, as required.

The Board of Directors, through its Audit Committee, is responsible for overseeing management in the performance of its financial reporting and internal controls. The Audit Committee is composed of independent directors and meets periodically with management, the internal auditors and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholder, the appointment of the external auditors. The external auditors have direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Consolidated Financial Statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Corporation's shareholder. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The attached Independent Auditors' Report outlines the scope of their examination and their opinion.

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"	*"Sean Bovingdon"*
Anthony Haines	Sean Bovingdon
President and Chief Executive Officer	Executive Vice-President and Chief Financial Officer

KPMG LLP
Chartered Professional Accountants
Bay and Adelaide Centre
Suite 4600
333 Bay Street
Toronto, ON M5H 2S5

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro Corporation

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Toronto Hydro Corporation as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 7, 2018
Toronto, Canada

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	**2017 $**	**2016 $**
ASSETS		
Current		
Accounts receivable *[notes 4 and 16[b]]*	**217.7**	229.8
Unbilled revenue *[note 16[b]]*	**278.3**	320.5
Materials and supplies	**9.3**	9.7
Other assets *[note 5]*	**12.7**	13.5
Assets held for sale *[note 8]*	**8.7**	-
Total current assets	**526.7**	573.5
Property, plant and equipment *[note 6]*	**4,143.4**	3,907.2
Intangible assets *[note 7]*	**296.2**	217.8
Deferred tax assets *[note 21]*	**57.0**	63.8
Other assets *[note 5]*	**3.0**	1.3
Total assets	**5,026.3**	4,763.6
Regulatory balances *[note 9]*	**199.9**	190.8
Total assets and regulatory balances	**5,226.2**	4,954.4
LIABILITIES AND EQUITY		
Current		
Working capital facility *[note 10]*	**11.7**	7.1
Commercial paper *[note 10]*	**159.0**	261.0
Accounts payable and accrued liabilities *[note 11]*	**516.3**	504.4
Income tax payable	**12.8**	8.1
Customer deposits	**49.2**	39.1
Deferred revenue *[note 12]*	**10.7**	5.1
Deferred conservation credit *[note 3[c]]*	**9.3**	5.5
Debentures *[note 13]*	**-**	249.8
Other liabilities *[note 24]*	**1.5**	3.1
Total current liabilities	**770.5**	1,083.2
Debentures *[note 13]*	**2,034.0**	1,834.8
Customer deposits	**8.9**	15.0
Deferred revenue *[note 12]*	**179.2**	140.3
Post-employment benefits *[note 14]*	**313.0**	280.5
Other liabilities *[note 24]*	**0.2**	2.3
Total liabilities	**3,305.8**	3,356.1
Commitments, contingencies and subsequent events *[notes 2, 24 and 25]*		
Equity		
Share capital *[note 17]*	**817.8**	567.8
Retained earnings	**942.6**	861.1
Total equity	**1,760.4**	1,428.9
Total liabilities and equity	**5,066.2**	4,785.0
Regulatory balances *[note 9]*	**160.0**	169.4
Total liabilities, equity and regulatory balances	**5,226.2**	4,954.4

ON BEHALF OF THE BOARD:

"David McFadden"
David McFadden, Director

"Michael Nobrega"
Michael Nobrega, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	2017 $	2016 $
Revenues		
Energy sales	**3,017.8**	3,306.2
Distribution revenue	**724.2**	647.9
Other *[note 18]*	**107.7**	75.9
	3,849.7	4,030.0
Expenses		
Energy purchases	**3,063.5**	3,216.9
Operating expenses *[note 19]*	**293.0**	277.1
Depreciation and amortization *[notes 6 and 7]*	**224.2**	212.2
	3,580.7	3,706.2
Finance costs *[note 20]*	**(77.7)**	(74.2)
Gain on disposals of property, plant and equipment	**9.8**	2.1
Income before income taxes	**201.1**	251.7
Income tax expense *[note 21]*	**(44.7)**	(67.1)
Net income	**156.4**	184.6
Net movements in regulatory balances *[note 9]*	**(13.1)**	(77.2)
Net movements in regulatory balances arising from deferred tax assets *[note 9]*	**13.2**	44.0
Net income after net movements in regulatory balances	**156.5**	151.4

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	2017 $	2016 $
Net income after net movements in regulatory balances	**156.5**	151.4
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax (2017 - $6.7, 2016 - $5.5) *[note 14]*	(18.4)	15.5
Net movements in regulatory balances related to OCI, net of tax (2017 - $6.7, 2016 - $5.5) *[note 14]*	18.4	(15.5)
Other comprehensive income, net of tax	-	-
Total comprehensive income	**156.5**	151.4

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	**2017 $**	**2016 $**
Share capital ***[note 17]***	**817.8**	567.8
Retained earnings, beginning of year	**861.1**	773.1
Net income after net movements in regulatory balances	**156.5**	151.4
Dividends *[notes 17 and 23]*	**(75.0)**	(63.4)
Retained earnings, end of year	**942.6**	861.1
Total equity	**1,760.4**	1,428.9

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	**2017** **$**	**2016** **$**
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	**156.5**	151.4
Net movements in regulatory balances *[note 9]*	**13.1**	77.2
Net movements in regulatory balances arising from deferred tax assets *[note 9]*	**(13.2)**	(44.0)
Adjustments		
Depreciation and amortization *[notes 6 and 7]*	**224.2**	212.2
Amortization of deferred revenue *[note 12]*	**(4.7)**	(3.8)
Finance costs	**77.7**	74.2
Income tax expense	**44.7**	67.1
Post-employment benefits	**7.4**	5.0
Gain on disposals of property, plant and equipment	**(9.8)**	(2.1)
Other	**1.0**	0.7
Capital contributions received *[note 12]*	**50.8**	44.7
Net change in other non-current assets and liabilities	**(6.9)**	(1.8)
Increase in customers deposits	**4.0**	6.7
Changes in non-cash working capital balances *[note 22]*	**62.0**	(15.3)
Income tax paid	**(22.1)**	(0.9)
Net cash provided by operating activities	**584.7**	571.3
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *[note 22]*	**(440.0)**	(511.7)
Purchase of intangible assets *[note 22]*	**(93.4)**	(39.9)
Proceeds on disposals of property, plant and equipment	**12.5**	2.2
Net cash used in investing activities	**(520.9)**	(549.4)
FINANCING ACTIVITIES		
Decrease in commercial paper, net of issuances *[note 10]*	**(102.0)**	(63.0)
Common shares issued *[note 17]*	**250.0**	-
Dividends paid *[note 17]*	**(75.0)**	(63.4)
Proceeds from issuance of debentures *[note 13]*	**199.9**	200.0
Debt issuance costs paid *[note 13]*	**(1.4)**	(1.3)
Repayment of debentures *[note 13]*	**(250.0)**	-
Repayment of finance lease liability	**(3.0)**	(3.1)
Interest paid	**(86.9)**	(84.0)
Net cash used in financing activities	**(68.4)**	(14.8)
Net decrease (increase) in working capital facility during the year	**(4.6)**	7.1
Working capital facility, beginning of year	**(7.1)**	(14.2)
Working capital facility, end of year	**(11.7)**	(7.1)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
[All tabular amounts in millions of Canadian dollars]

1. NATURE OF BUSINESS

The Corporation was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario) in accordance with the Electricity Act. The Corporation is wholly owned by the City and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5. The Corporation and its subsidiaries distribute electricity to customers and provide street lighting and expressway lighting services in the City.

2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2017 and 2016 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS with respect to the preparation of annual financial information.

These Consolidated Financial Statements are presented in Canadian dollars, the Corporation's functional currency, and have been prepared on the historical cost basis, except for post-employment benefits which are recorded at actuarial value.

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 7, 2018 when the Corporation's Consolidated Financial Statements were authorized for issue by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in these notes to the Consolidated Financial Statements *[notes 8 and 17]*.

The summary of significant accounting policies has been disclosed in note 26.

3. REGULATION

The OEB has regulatory oversight of electricity matters in Ontario. The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through back to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through back to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

a) Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On March 1, 2016 pursuant to LDC's 2015 – 2019 CIR application, the OEB set 2018 distribution rates on an interim basis. On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts.

b) Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced the OFHP, which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the OREC, which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the OFHA, which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the Consolidated Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable, unbilled revenue, accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

c) CDM Activities

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to its customers and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015.

[All tabular amounts in millions of Canadian dollars]

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. ["Oakville Hydro"] for the delivery of CDM programs over the 2015-2020 period. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented incurred costs, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The programs under the joint CDM plan with Oakville Hydro are only being offered under the full cost recovery funding method.

The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. Oakville Hydro's programs under the joint CDM plan started on January 1, 2016. LDC received $44.9 million as at December 31, 2016 and $57.4 million in the year ended December 31, 2017 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. As at December 31, 2017, LDC estimated that approximately $12.9 million qualified as a joint mid-term incentive, of which $12.2 million represents LDC's portion and is included within accounts receivable.

Effective October 16, 2017, LDC entered into an agreement to transfer $4.0 million of funding and a corresponding 20 GWh of its energy savings target to another local distribution company. This agreement will decrease the joint CDM plan funding with Oakville Hydro to $421.0 million, with a revised energy savings target of 1,648 GWh. The revised CDM plan was approved by the IESO on December 14, 2017.

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	2017 $	2016 $
Trade receivables	**189.9**	215.4
Due from related parties *[note 23]*	**13.8**	12.7
CDM mid-term incentive *[note 3[c]]*	**12.2**	—
Other	**1.8**	1.7
	217.7	229.8

[All tabular amounts in millions of Canadian dollars]

5. OTHER ASSETS

Other assets consist of the following:

	2017 $	2016 $
Prepaid expenses	**11.3**	12.3
Deferred financing costs	**1.6**	1.6
Other	**2.8**	0.9
Total other assets	**15.7**	14.8
Less: Current portion of other assets relating to:		
Prepaid expenses	**11.3**	12.3
Deferred financing costs	**0.4**	0.4
Other	**1.0**	0.8
Current portion of other assets	**12.7**	13.5
Non-current portion of other assets	**3.0**	1.3

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2016	3,027.2	203.1	175.7	498.7	3,904.7
Additions/(Transfers)	381.2	111.3	67.0	(47.7)	511.8
Disposals and retirements	(32.1)	(0.1)	(0.3)	—	(32.5)
Balance as at December 31, 2016	3,376.3	314.3	242.4	451.0	4,384.0
Additions/(Transfers)	**404.4**	**84.8**	**38.4**	**(76.1)**	**451.5**
Assets held for sale *[note 8]*	**—**	**(21.2)**	**—**	—	**(21.2)**
Disposals and retirements	**(31.5)**	**(3.2)**	**(0.4)**	**—**	**(35.1)**
Balance as at December 31, 2017	**3,749.2**	**374.7**	**280.4**	**374.9**	**4,779.2**
Accumulated depreciation					
Balance as at January 1, 2016	222.6	15.7	77.7	—	316.0
Depreciation	129.3	10.3	25.9	—	165.5
Disposals and retirements	(4.6)	—	(0.1)	—	(4.7)
Balance as at December 31, 2016	347.3	26.0	103.5	—	476.8
Depreciation	**138.1**	**13.5**	**26.7**	—	**178.3**
Assets held for sale *[note 8]*	—	**(12.5)**	—	—	**(12.5)**
Disposals and retirements	**(5.9)**	**(0.5)**	**(0.4)**	—	**(6.8)**
Balance as at December 31, 2017	**479.5**	**26.5**	**129.8**	—	**635.8**
Carrying amount					
Balance as at December 31, 2016	3,029.0	288.3	138.9	451.0	3,907.2
Balance as at December 31, 2017	**3,269.7**	**348.2**	**150.6**	**374.9**	**4,143.4**

As at December 31, 2017, “Equipment and other” included assets under finance lease with cost of $18.2 million [December 31, 2016 - $18.2 million] and accumulated depreciation of $10.4 million [December 31, 2016 - $8.3 million]. For the year ended December 31, 2017, the Corporation recorded depreciation expense of $2.1 million [2016 - $2.3 million] related to assets under finance lease.

For the year ended December 31, 2017, borrowing costs in the amount of $6.2 million [2016 - $9.5 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.73% [2016 - 3.61%].

“Construction in progress” additions are net of transfers to the other PP&E categories.

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2016	101.6	21.7	11.8	104.3	239.4
Additions/(Transfers)	11.9	53.8	8.4	(34.2)	39.9
Balance as at December 31, 2016	113.5	75.5	20.2	70.1	279.3
Additions/(Transfers)	**23.4**	—	**34.0**	**44.0**	**101.4**
Balance as at December 31, 2017	**136.9**	**75.5**	**54.2**	**114.1**	**380.7**
Accumulated amortization					
Balance as at January 1, 2016	38.1	2.0	—	—	40.1
Amortization	19.3	2.1	—	—	21.4
Balance as at December 31, 2016	57.4	4.1	—	—	61.5
Amortization	**20.0**	**3.0**	—	—	**23.0**
Balance as at December 31, 2017	**77.4**	**7.1**	—	—	**84.5**
Carrying amount					
Balance as at December 31, 2016	56.1	71.4	20.2	70.1	217.8
Balance as at December 31, 2017	**59.5**	**68.4**	**54.2**	**114.1**	**296.2**

For the year ended December 31, 2017, borrowing costs in the amount of $3.6 million [2016 - $3.0 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.73% [2016 - 3.61%].

“Software in development” and “Contributions for work in progress” additions are net of transfers to the other intangible asset categories.

“Computer software” is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 5 years, and from 11 to 25 years, respectively.

8. ASSETS HELD FOR SALE

In 2017, LDC commenced the process to sell a property including land and buildings to a third party. Accordingly, the carrying amount of the identified assets of $8.7 million was transferred from PP&E to assets held for sale as at December 31, 2017. Upon reclassification as assets held for sale, no further depreciation was recorded by LDC on the related assets. On January 16, 2018, LDC entered into an agreement to sell the property, which is expected to close on April 16, 2018. Upon completion of the sale, the net gain including the future tax savings will be deferred as a regulatory credit balance *[note 9[c]]*.

[All tabular amounts in millions of Canadian dollars]

9. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2017 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2017 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB actuarial net loss	**60.2**	**25.1**	**—**	**—**	**85.3**	note 9[a]	—
Foregone revenue	**64.3**	**—**	**(20.3)**	**—**	**44.0**	24	—
Gain on disposal	**8.6**	**(8.1)**	**18.6**	**—**	**19.1**	note 9[c]	*
LRAM	**10.5**	**11.0**	**(4.8)**	**—**	**16.7**	note 9[d]	*
IFRS transitional adjustments	**22.8**	**—**	**(7.8)**	**—**	**15.0**	24	—
Stranded meters	**11.4**	**—**	**(3.9)**	**—**	**7.5**	24	*
OPEB cash versus accrual	**2.9**	**1.3**	**—**	**—**	**4.2**	note 9[g]	—
Named properties	**4.6**	**—**	**(1.5)**	**—**	**3.1**	24	—
Capital contributions	**1.5**	**—**	**(0.5)**	**—**	**1.0**	24	—
Smart meters	**2.1**	**—**	**(3.1)**	**1.0**	**—**	—	—
Other	**1.9**	**2.1**	**—**	**—**	**4.0**	—	*
	190.8	**31.4**	**(23.3)**	**1.0**	**199.9**		

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2016 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB actuarial net loss	81.2	(21.0)	—	—	60.2	note 9[a]	—
Foregone revenue	61.1	19.2	(16.0)	—	64.3	36	—
Gain on disposal	—	—	14.5	(5.9)	8.6	note 9[c]	*
LRAM	9.1	4.7	(3.3)	—	10.5	note 9[d]	*
IFRS transitional adjustments	28.9	—	(6.1)	—	22.8	36	—
Stranded meters	14.4	—	(3.0)	—	11.4	36	*
OPEB cash versus accrual	1.8	1.1	—	—	2.9	note 9[g]	—
Named properties	5.8	—	(1.2)	—	4.6	36	—
Capital contributions	1.9	—	(0.4)	—	1.5	36	—
Smart meters	10.0	—	(7.9)	—	2.1	4	—
Settlement variances	25.3	—	—	(25.3)	—	—	*
Other	2.2	1.6	—	(1.9)	1.9	—	*
	241.7	5.6	(23.4)	(33.1)	190.8		

* In accordance with the OEB's direction, carrying charges were accrued to certain regulatory balances at a rate of 1.10% for January 1, 2017 to September 30, 2017 and 1.50% for October 1, 2017 to December 31, 2017 [2016 - 1.10%].

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2017 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2017 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	**65.3**	**(6.5)**	**—**	**—**	**58.8**	note 9[j]	—
Settlement variances	**62.8**	**(45.2)**	**23.4**	**—**	**41.0**	note 9[k]	*
Capital-related revenue requirement	**8.8**	**16.2**	**—**	**—**	**25.0**	note 9[l]	*
Derecognition	**12.8**	**3.1**	**—**	**—**	**15.9**	note 9[m]	*
Tax-related variances	**17.5**	**—**	**(8.2)**	**—**	**9.3**	12	*
Development charges	**—**	**5.3**	**—**	**—**	**5.3**	note 9[o]	*
Smart meters	**—**	**—**	**(0.7)**	**1.0**	**0.3**	—	—
Other	**2.2**	**2.7**	**(0.5)**	**—**	**4.4**	—	*
	169.4	**(24.4)**	**14.0**	**1.0**	**160.0**		

	January 1, 2016 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2016 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	114.8	(49.5)	—	—	65.3	note 9[j]	—
Settlement variances	—	89.3	1.2	(27.7)	62.8	note 9[k]	*
Capital-related revenue requirement	2.8	6.0	—	—	8.8	note 9[l]	*
Derecognition	9.9	2.9	—	—	12.8	note 9[m]	*
Tax-related variances	26.5	—	(8.5)	(0.5)	17.5	24	*
ICM	9.7	0.1	(9.8)	—	—	—	*
Gain on disposal	5.9	—	—	(5.9)	—	—	*
Other	2.0	1.2	(2.0)	1.0	2.2	—	*
	171.6	50.0	(19.1)	(33.1)	169.4		

* In accordance with the OEB's direction, carrying charges were accrued to certain regulatory balances at a rate of 1.10% for January 1, 2017 to September 30, 2017 and 1.50% for October 1, 2017 to December 31, 2017 [2016 - 1.10%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. During 2016, residual regulatory balances approved by the OEB for disposition over a 10-month period commencing on March 1, 2016 were reclassified from "Other" regulatory debit balance, settlement variances and tax-related variances into "Other" regulatory credit balance. There was no impairment recorded for the year ended December 31, 2017.

[All tabular amounts in millions of Canadian dollars]

Reconciliation between the net movements in regulatory balances shown above and the net movements presented on the consolidated statements of income and the consolidated statements of comprehensive income is as follows:

	2017 $	2016 $
Total movements per regulatory debit balances table	**9.1**	(50.9)
Total movements per regulatory credit balances table	**9.4**	2.2
Total net movements	**18.5**	(48.7)
Net movements per financial statements:		
Net movements in regulatory balances	**(13.1)**	(77.2)
Net movements in regulatory balances arising from deferred tax assets	**13.2**	44.0
Net movements in regulatory balances related to OCI, net of tax	**18.4**	(15.5)
Total net movements per financial statements	**18.5**	(48.7)

Regulatory developments in Ontario's electricity industry and other governmental policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. There is a risk that the OEB may disallow the recovery of a portion of certain costs incurred in the current period through future rates or disagree with the proposed recovery period. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, any impairment will be recorded in the period when the assessment is made.

The regulatory balances of the Corporation consist of the following:

a) OPEB Actuarial Net Loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2017 of $25.1 million is related to the actuarial loss recorded for the year [2016 - $21.0 million actuarial gain] *[note 14[a]]*. The net position is an actuarial loss that is recoverable in future rates. LDC has not sought recovery to date from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction, in a future rate application.

b) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the CIR decision and rate order, the OEB approved foregone revenue rate riders over 46 months commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates.

c) Gain on Disposal

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (debits), and the after-tax gain realized on two significant LDC properties (credits). As part of the CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on both properties back to ratepayers, effective from March 1, 2016 to December 31, 2018. During 2015, the gain on one of the properties was realized by LDC resulting in a net credit balance at December 31, 2015. As at December 31, 2016, the amount disposed through the rate riders exceeded the gain realized on the first property as the second property was still not sold, resulting in a net debit balance. Upon the sale of the second property, the account would revert to a credit balance if actual net gains and tax savings exceed the total amount of the approved rate riders *[note 8]*. In the second quarter of 2017, LDC realized a gain in connection with the disposal of a third property. LDC expects to seek disposition for any residual balance in a future rate application.

d) Lost Revenue Adjustment Mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. New variances are accrued based on current CDM activities. Approved variances up to 2014 were disposed through OEB-approved rate riders over 12 months commencing on January 1, 2017 and approved variances for 2015 and 2016 will be disposed through OEB-approved rate riders over 12 months commencing on January 1, 2018. Variances pertaining to years subsequent to 2016 have yet to be applied for disposition.

e) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the balance over 46 months commencing on March 1, 2016.

f) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. In the CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 over 46 months commencing on March 1, 2016.

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances to be recovered through rates over 36 months commencing on May 1, 2014. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

g) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. The OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. On September 14, 2017, the OEB issued its final report on the consultation and established the use of the accrual accounting method as the default method on which to set rates for OPEB costs. LDC will continue to track the cash versus accrual difference until its next rate application when the disposition of this regulatory balance will be considered. The timing of disposition of the balance is currently unknown.

h) Named Properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

i) Capital Contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

j) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 *[note 26[b]]* and the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. LDC did not apply for disposition of the balance since it is reversed through timing differences in the recognition of deferred tax assets.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of $34.9 million as at December 31, 2017 [December 31, 2016 - $36.4 million], offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $8.5 million as at December 31, 2017 [December 31, 2016 - $10.4 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was $32.4 million as at December 31, 2017 [December 31, 2016 - $39.3 million].

k) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. New variances are accrued based on current charges while approved variances up to 2016, including carrying charges forecasted to the end of 2017, will be disposed through OEB-approved rate riders over 12 months commencing on January 1, 2018. Settlement variances pertaining to years subsequent to 2016 have yet to be applied for disposition.

l) Capital-related Revenue Requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. If the cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeds the actual capital-related revenue requirement over the same rate period, LDC must apply for disposition of this account in order to clear the balance to ratepayers through a rate rider. This account was approved by the OEB in the CIR decision and rate order. The timing of disposition of the balance is currently unknown.

m) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the CIR decision and rate order. The timing of disposition of the balance is currently unknown.

n) Tax-related Variance Accounts

This regulatory credit balance arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates. In the CIR decision and rate order, the OEB approved disposition of the balance over 10-34 months commencing on March 1, 2016.

o) Development charges

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits on offers to connect from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the specified customer connection horizon, LDC retained the excess expansion deposit not otherwise returned to the connecting customer.

The excess expansion deposits were recorded as a regulatory balance on the Consolidated Balance Sheets, with a corresponding offset in net movements in regulatory balances. This regulatory balance is expected to offset future electricity distribution rates for customers, although application has yet to be made to dispose of the balance.

p) Incremental Capital Module

This regulatory balance related to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013. The balance of $9.8 million represented the net of amounts collected through the ICM rate riders from 2013 to 2014 and amounts recognized in profit or loss in relation to the eligible in-service capital expenditures. Further to the OEB's decision on July 28, 2016, the entire balance of $9.8 million was recorded as an increase in equity through net movements in regulatory balances in 2016.

10. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ["Revolving Credit Facility"], pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022. Borrowings under the Revolving Credit Facility bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Corporation's credit rating.

The Corporation has a commercial paper program allowing up to $600.0 million of unsecured short-term promissory notes ["Commercial Paper Program"] to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

[All tabular amounts in millions of Canadian dollars]

Additionally, the Corporation is a party to:

- a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ["Prudential Facility"]; and

- a $20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management ["Working Capital Facility"].

The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
December 31, 2017	800.0	—	159.0	641.0
December 31, 2016	800.0	—	261.0	539.0

For the year ended December 31, 2017, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $210.3 million [2016 - $348.7 million] with a weighted average interest rate of 0.93% [2016 - 0.89%].

As at December 31, 2017, $11.7 million had been drawn under the Working Capital Facility [December 31, 2016 - $7.1 million] and $38.4 million of letters of credit had been issued against the Prudential Facility [December 31, 2016 - $33.4 million].

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2017 $	2016 $
Trade payables	**325.1**	328.6
Accrued liabilities	**133.2**	116.3
Due to related parties *[note 23]*	**40.1**	41.0
Accrued interest	**15.9**	16.6
Other	**2.0**	1.9
	516.3	504.4

[All tabular amounts in millions of Canadian dollars]

12. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which have not yet been recognized into other revenue, and revenue not yet recognized from ancillary services *[note 26[j]]*.

	2017 $	2016 $
Capital contributions, beginning of year	**143.6**	103.0
Capital contributions received	**50.8**	44.7
Amortization	**(4.7)**	(3.8)
Other	**(1.5)**	(0.3)
Capital contributions, end of year	**188.2**	143.6
Other	**1.7**	1.8
Total deferred revenue	**189.9**	145.4
Less: Current portion of deferred revenue relating to:		
Capital contributions	**9.0**	3.3
Other	**1.7**	1.8
Current portion of deferred revenue	**10.7**	5.1
Non-current portion of deferred revenue	**179.2**	140.3

[All tabular amounts in millions of Canadian dollars]

13. DEBENTURES

Debentures consist of the following:

	2017 $	2016 $
Senior unsecured debentures		
Series 2 – 5.15% due November 14, 2017	**—**	250.0
Series 3 – 4.49% due November 12, 2019	**250.0**	250.0
Series 6 – 5.54% due May 21, 2040	**200.0**	200.0
Series 7 – 3.54% due November 18, 2021	**300.0**	300.0
Series 8 – 2.91% due April 10, 2023	**250.0**	250.0
Series 9 – 3.96% due April 9, 2063	**245.0**	245.0
Series 10 – 4.08% due September 16, 2044	**200.0**	200.0
Series 11 – 3.55% due July 28, 2045	**200.0**	200.0
Series 12 – 2.52% due August 25, 2026	**200.0**	200.0
Series 13 – 3.485% due February 28, 2048	**200.0**	—
Total debentures	**2,045.0**	2,095.0
Less: Unamortized debt issuance costs	**10.2**	9.7
Unamortized discount/premium	**0.8**	0.7
Current portion of debentures	**—**	249.8
Long-term portion of debentures	**2,034.0**	1,834.8

All debentures of the Corporation rank equally.

The Corporation filed a base shelf prospectus dated May 8, 2017 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1.0 billion during the 25-month period following the date of the prospectus.

On June 14, 2016, the Corporation issued $200.0 million senior unsecured debentures at a rate of 2.52% ["Series 12"]. The Series 12 debentures due on August 25, 2026 were priced at $999.84 per $1,000 principal amount and bear interest payable semi-annually in arrears. The net proceeds were used to repay certain existing indebtedness and for general corporate purposes. Debt issuance costs of $1.3 million relating to the Series 12 debentures were recorded against the carrying amount of the debentures in the second quarter of 2016 and are amortized to finance costs using the effective interest method.

On November 14, 2017, the Corporation issued $200.0 million senior unsecured debentures at a rate of 3.485% ["Series 13"]. The Series 13 debentures due on February 28, 2048 were priced at $999.29 per $1,000 principal amount and bear interest payable semi-annually in arrears. The net proceeds were used to repay certain existing indebtedness and for general corporate purposes. Debt issuance costs of $1.4 million relating to the Series 13 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2017 and are amortized to finance costs using the effective interest method.

The Corporation's Series 2 debentures matured and were repaid on November 14, 2017.

The Corporation may redeem all or part of its outstanding debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price agreed upon with the holder of the debentures being purchased. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

[All tabular amounts in millions of Canadian dollars]

14. EMPLOYEE FUTURE BENEFITS

Pension

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2017, the OMERS plan was 94.0% funded [December 31, 2016 - 93.4%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2017, the Corporation's contributions were $17.6 million [2016 - $17.6 million], representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately $19.0 million to the OMERS plan in 2018.

Post-employment benefits other than pension

a) Benefit obligation

	2017 $	2016 $
Balance, beginning of year	**280.5**	296.5
Current service cost	**4.1**	6.2
Interest cost	**11.2**	12.0
Benefits paid	**(11.0)**	(10.9)
Experience loss (gain) [(1)]	**1.9**	(4.2)
Actuarial gain arising from changes in demographic assumptions [(1)]	**—**	(17.5)
Actuarial loss (gain) arising from changes in financial assumptions [(1)]	**26.3**	(1.6)
Balance, end of year	**313.0**	280.5

(1) Actuarial loss (gain) on accumulated sick leave credits of $3.1 million [2016 - ($2.3) million] is recognized in benefit cost *[note 14[c]]* and actuarial loss (gain) on medical, dental and life insurance benefits of $25.1 million [2016 - ($21.0) million] is recognized in OCI *[note 14[d]]*.

The weighted average duration of the benefit obligation as at December 31, 2017 is 16.7 years [2016 - 16.7 years].

b) Amounts recognized in regulatory balances

As at December 31, 2017, the amount recognized in regulatory balances related to net actuarial loss was $85.3 million [December 31, 2016 - $60.2 million] *[note 9[a]]*.

[All tabular amounts in millions of Canadian dollars]

c) Benefit cost recognized

	2017 $	2016 $
Current service cost	**4.1**	6.2
Interest cost	**11.2**	12.0
Actuarial loss (gain) on other employee benefits *[note 14[a]]*	**3.1**	(2.3)
Benefit cost	**18.4**	15.9
Capitalized to PP&E and intangible assets	**8.1**	6.4
Charged to operating expenses	**10.3**	9.5

d) Amounts recognized in OCI

	2017 $	2016 $
Actuarial loss (gain) *[note 14[a]]*	**25.1**	(21.0)
Income tax expense (recovery) in OCI *[note 21]*	**(6.7)**	5.5
Remeasurements of post-employment benefits, net of tax	**18.4**	(15.5)
Net movements in regulatory balances related to OCI, net of tax	**(18.4)**	15.5
OCI, net of tax	**—**	—

e) Significant assumptions

	2017	2016
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	**3.50**	4.00
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.50**	5.50
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	**5.00**	5.00
For other retirements	**5.00**	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	**2015**	2015
For other retirements	**2018**	2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
[All tabular amounts in millions of Canadian dollars]

f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Changes in key assumptions would have had the following effect on the benefit obligation:

	Change in assumption	2017 $	2016 $
Benefit obligation		**313.0**	280.5
Discount rate	1% -	**(46.8)**	(42.0)
	1% ‾	**60.2**	54.0
Medical and dental cost trend rate	1% -	**40.2**	36.1
	1% ‾	**(36.0)**	(32.3)

15. CAPITAL MANAGEMENT

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system of LDC;
- ensure sufficient liquidity is available (either through cash and cash equivalents, investments or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses capital debt markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2017, the Corporation's definition of capital included equity, borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, and had remained unchanged from the definition as at December 31, 2016. As at December 31, 2017, equity amounted to $1,760.4 million [December 31, 2016 - $1,428.9 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, amounted to $2,206.2 million [December 31, 2016 - $2,357.8 million].

The Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization as defined in the agreements. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

[All tabular amounts in millions of Canadian dollars]

The Corporation's debt agreements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2017 and December 31, 2016, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

16. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2017 and December 31, 2016, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments *[note 26[k]]*. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

The carrying amounts and fair values of the Corporation's debentures consist of the following:

	2017 $		2016 $	
	Carrying amount	Fair value [(1)]	Carrying amount	Fair value [(1)]
Senior unsecured debentures				
Series 2 – 5.15% due November 14, 2017	—	—	249.8	258.7
Series 3 – 4.49% due November 12, 2019	**249.6**	**260.6**	249.5	270.8
Series 6 – 5.54% due May 21, 2040	**198.7**	**264.2**	198.7	253.5
Series 7 – 3.54% due November 18, 2021	**299.1**	**313.9**	298.9	322.8
Series 8 – 2.91% due April 10, 2023	**249.2**	**255.5**	249.0	259.3
Series 9 – 3.96% due April 9, 2063	**243.3**	**266.4**	243.3	246.4
Series 10 – 4.08% due September 16, 2044	**198.4**	**221.0**	198.3	209.4
Series 11 – 3.55% due July 28, 2045	**198.3**	**202.9**	198.3	191.3
Series 12 – 2.52% due August 25, 2026	**198.9**	**196.2**	198.8	195.5
Series 13 – 3.485% due February 28, 2048	**198.5**	**200.7**	—	—
	2,034.0	**2,181.4**	2,084.6	2,207.7

(1) The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy *[note 26[k]]*.

b) Financial risks

The following is a discussion of financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

[All tabular amounts in millions of Canadian dollars]

The Corporation is subject to credit risk with respect to customer non-payment of electricity bills. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2017, LDC held security deposits in the amount of $58.2 million [December 31, 2016 - $54.1 million], of which $29.8 million [December 31, 2016 - $30.0 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. The Corporation's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2017, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2017 and December 31, 2016.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2017 $	2016 $
Accounts receivable (net of allowance for doubtful accounts)		
Outstanding for not more than 30 days	**178.6**	197.9
Outstanding for more than 30 days and not more than 120 days	**33.8**	27.3
Outstanding for more than 120 days	**5.3**	4.6
Total accounts receivable	**217.7**	229.8
Unbilled revenue	**278.3**	320.5
Total accounts receivable and unbilled revenue	**496.0**	550.3

The Corporation has a broad base of customers. As at December 31, 2017 and December 31, 2016, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2017 $	2016 $
Balance, beginning of year	**(9.8)**	(11.5)
Provision for doubtful accounts	**(6.2)**	(4.0)
Write-offs	**6.0**	6.0
Recoveries	**(0.2)**	(0.3)
Balance, end of year	**(10.2)**	(9.8)

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2017 and December 31, 2016.

Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 14[f]]*. The Corporation is also exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program *[note 10]* and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2017, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.3 million to annual finance costs.

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

2017						
	Due within 1 year $	**Due within 2 years $**	**Due within 3 years $**	**Due within 4 years $**	**Due within 5 years $**	**Due after 5 years $**
Working Capital Facility	**11.7**	—	—	—	—	—
Commercial paper (1)	**159.0**	—	—	—	—	—
Accounts payable and accrued liabilities (2)	**500.4**	—	—	—	—	—
Obligations under finance leases	**1.5**	—	—	—	—	—
Senior unsecured debentures						
Series 3 – 4.49% due November 12, 2019	—	**250.0**	—	—	—	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	**200.0**
Series 7 – 3.54% due November 18, 2021	—	—	—	**300.0**	—	—
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	**250.0**
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	**245.0**
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	**200.0**
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	**200.0**
Series 12 – 2.52% due August 25, 2026	—	—	—	—	—	**200.0**
Series 13 – 3.485% due February 28, 2048	—	—	—	—	—	**200.0**
Interest payments on debentures	**75.7**	**77.1**	**66.0**	**66.0**	**55.3**	**1,131.2**
	748.3	**327.1**	**66.0**	**366.0**	**55.3**	**2,626.2**

(1) The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
(2) Accounts payable and accrued liabilities exclude $15.9 million of accrued interest on debentures included within "Interest payments on debentures".

Foreign exchange risk

As at December 31, 2017, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the Consolidated Financial Statements.

[All tabular amounts in millions of Canadian dollars]

17. SHARE CAPITAL

Share capital consists of the following:

	Number of Shares	$
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. All shares issued were fully paid.		
Issued and outstanding		
Common shares, beginning of the year	1,000	567.8
Common shares issued [(1)]	200	250.0
Common shares issued and outstanding, end of the year	**1,200**	**817.8**

[(1)] On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

Dividends

The Shareholder Direction adopted by the City with respect to the Corporation provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to credit rating and dividends.

On March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the first quarter of 2017 [March 31, 2016 – $44.6 million], which was paid to the City on March 31, 2017.

On May 11, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the second quarter of 2017 [June 30, 2016 – $6.25 million], which was paid to the City on June 30, 2017. In connection with receipt of the equity investment from the City, the Board of Directors of the Corporation declared dividends payable to the City and approved amendments to the Corporation's Dividend Policy, as follows:

[i] In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of the two previously declared and paid instalments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

[ii] In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

On March 7, 2018, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $23.5 million, payable to the City by March 31, 2018.

[All tabular amounts in millions of Canadian dollars]

18. OTHER REVENUE

Other revenue consists of the following:

	2017 $	2016 $
Ancillary services	**22.3**	16.4
Street lighting service fee	**18.9**	16.6
Pole and duct rentals	**15.8**	12.0
Other regulatory service charges	**13.3**	16.7
CDM mid-term incentive *[note 3[c]]*	**12.2**	—
Development charges *[note 9[o]]*	**5.1**	—
Amortization of deferred revenue *[note 12]*	**4.7**	3.8
Miscellaneous	**15.4**	10.4
	107.7	75.9

19. OPERATING EXPENSES

Operating expenses consist of the following:

	2017 $	2016 $
Salaries and benefits	**226.5**	223.6
External services	**138.6**	112.9
Other support costs (1)	**22.3**	32.7
Materials and supplies	**21.6**	16.7
Less: Capitalized costs	**(116.0)**	(108.8)
	293.0	277.1

(1) Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2017, the Corporation recognized operating expenses of $13.0 million related to materials and supplies used to service electricity distribution assets [2016 - $7.6 million].

[All tabular amounts in millions of Canadian dollars]

20. FINANCE COSTS

Finance costs consist of the following:

	2017 $	2016 $
Interest income	**(0.2)**	(0.2)
Interest expense		
Interest on long-term debt [(1)]	**83.2**	81.6
Interest on short-term debt	**3.7**	4.9
Other interest	**0.8**	0.5
Capitalized borrowing costs	**(9.8)**	(12.6)
	77.7	74.2

(1) Includes amortization of debt issuance costs, discounts and premiums.

21. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

	2017 $	2016 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**201.1**	251.7
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**53.3**	66.7
Non-taxable amounts	**(8.7)**	0.4
Other	**0.1**	—
Income tax expense	**44.7**	67.1
Effective tax rate	**22.2%**	26.7%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [(1)]	**188.0**	174.5
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**49.8**	46.2
Temporary differences recoverable in future rates	**(15.5)**	(22.7)
Other	**(2.8)**	(0.4)
Income tax expense and income tax recorded in net movements in regulatory balances	**31.5**	23.1
Effective tax rate	**16.8%**	13.2%

(1) Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

[All tabular amounts in millions of Canadian dollars]

Income tax expense as presented in the consolidated statements of income and OCI are as follows:

	2017 $	2016 $
Income tax expense	**44.7**	67.1
Income tax recorded in net movements in regulatory balances	**(13.2)**	(44.0)
Income tax expense and income tax recorded in net movements in regulatory balances	**31.5**	23.1
Income tax expense (recovery) in OCI *[note 14[d]]*	**(6.7)**	5.5
Income tax expense (recovery) in OCI recorded in net movements in regulatory balances	**6.7**	(5.5)
Income tax expense in OCI	**—**	—

Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

	2017 $	2016 $
Current tax expense		
Current year	**32.5**	24.3
Adjustment for tax positions taken in prior periods	**(1.1)**	(2.2)
	31.4	22.1
Deferred tax expense		
Origination and reversal of temporary differences	**0.1**	1.0
Income tax expense and income tax recorded in net movements in regulatory balances	**31.5**	23.1

Deferred tax assets consist of the following:

	Net balance, January 1 2017 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2017 $
PP&E and intangible assets	**11.7**	**(26.6)**	**—**	**(14.9)**
Post-employment benefits	**74.3**	**1.9**	**6.7**	**82.9**
Other taxable temporary differences	**(22.2)**	**11.2**	**—**	**(11.0)**
	63.8	**(13.5)**	**6.7**	**57.0**

	Net balance, January 1 2016 $	Recognized in net income $	Recognized in OCI $	Net balance, December 31 2016 $
PP&E and intangible assets	34.5	(22.8)	—	11.7
Post-employment benefits	78.6	1.2	(5.5)	74.3
Other taxable temporary differences	1.2	(23.4)	—	(22.2)
	114.3	(45.0)	(5.5)	63.8

[All tabular amounts in millions of Canadian dollars]

As at December 31, 2017, the Corporation had accumulated net capital losses of $18.7 million [December 31, 2016 - $18.7 million], which are available to offset capital gains in future years. As at December 31, 2017, the Corporation had $1.7 million accumulated non-capital losses for income tax purposes [December 31, 2016 - $2.6 million], which are available to offset net income in future years before expiring [$1.4 million expires in 2035 and $0.3 million expires in 2036].

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom.

	2017 $	2016 $
Deductible temporary differences	**7.4**	7.7
Net capital losses	**5.0**	5.0
Non-capital losses	**0.4**	0.7
	12.8	13.4

22. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital provided/(used) cash as follows:

	2017 $	2016 $
Accounts receivable	**12.1**	(38.1)
Unbilled revenue	**42.2**	(0.1)
Income tax receivable	**—**	9.9
Materials and supplies	**0.4**	0.1
Other current assets	**0.8**	(3.6)
Accounts payable and accrued liabilities	**(6.0)**	20.6
Income tax payable	**4.7**	8.1
Deferred revenue	**5.6**	0.3
Deferred conservation credit	**3.8**	(12.4)
Other current liabilities	**(1.6)**	(0.1)
	62.0	(15.3)

[All tabular amounts in millions of Canadian dollars]

Reconciliation between the amount presented on the consolidated statements of cash flows and total additions to PP&E and intangible assets is as follows:

	2017 $	2016 $
Purchase of PP&E, cash basis	**440.0**	511.7
Net change in accruals related to PP&E	**9.9**	(1.7)
Other	**1.6**	1.8
Total additions to PP&E	**451.5**	511.8
Purchase of intangible assets, cash basis	**93.4**	39.9
Net change in accruals related to intangible assets	**8.0**	—
Total additions to intangible assets	**101.4**	39.9

Summary of changes in liabilities arising from financing activities:

	2016 $	Cash flows [1] $	Non-cash changes $ Foreign exchange	 Other	2017 $
Year ended December 31					
Commercial paper	**261.0**	**(102.0)**	—	—	**159.0**
Dividends payable	—	**(75.0)**	—	**75.0**	—
Debentures *[note 13]*	**2,084.6**	**(51.5)**	—	**0.9**	**2,034.0**
Accrued interest [2]	**16.6**	**(86.9)**	—	**86.2**	**15.9**
Lease liability [3]	**4.6**	**(3.0)**	**(0.1)**	—	**1.5**
	2,366.8	**(318.4)**	**(0.1)**	**162.1**	**2,210.4**

	2015 $	Cash flows [1] $	Non-cash changes $ Foreign exchange	 Other	2016 $
Year ended December 31					
Commercial paper	324.0	(63.0)	—	—	261.0
Dividends payable	—	(63.4)	—	63.4	—
Debentures *[note 13]*	1,885.0	198.7	—	0.9	2,084.6
Accrued interest [2]	14.9	(84.0)	—	85.7	16.6
Lease liability [3]	8.0	(3.1)	(0.3)	—	4.6
	2,231.9	(14.8)	(0.3)	150.0	2,366.8

(1) Cash inflows and cash outflows arising from commercial paper borrowings and debentures are presented on a net basis
(2) Included within accounts payable and accrued liabilities *[note 16[b]]*
(3) Included within other liabilities

[All tabular amounts in millions of Canadian dollars]

23. RELATED PARTY TRANSACTIONS

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties.

Summary of Transactions with Related Parties	2017 $	2016 $
Revenues	**283.3**	275.3
Operating expenses and capital expenditures	**22.2**	26.9
Dividends	**75.0**	63.4

Summary of Amounts Due to/from Related Parties	2017 $	2016 $
Accounts receivable	**13.8**	12.7
Unbilled revenue	**26.3**	23.2
Accounts payable and accrued liabilities	**40.1**	41.0
Customer deposits	**15.7**	14.1
Deferred revenue	**1.9**	3.5

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City *[note 17]*.

Accounts receivable represents receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Key management personnel include the Corporation's senior executive officers and members of the Board of Directors. The compensation costs associated with the key management personnel are as follows:

	2017 $	2016 $
Short-term employee benefits	**4.6**	4.1
Post-employment benefits	**1.1**	1.0
	5.7	5.1

[All tabular amounts in millions of Canadian dollars]

24. COMMITMENTS

Operating leases and capital projects

As at December 31, 2017, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases $	Capital projects [1] and other $
Less than one year	**0.3**	**17.5**
Between one and five years	**1.1**	**28.5**
Total amount of future minimum payments [2]	**1.4**	**46.0**

(1) Mainly commitments for construction services and estimated capital contributions.
(2) Refer to note 16 for financial commitments excluded from the table above.

Operating lease expense for the year ended December 31, 2017 was $0.8 million [2016 - $2.8 million].

Finance leases

As at December 31, 2017 and December 31, 2016, reconciliation between the future minimum lease payments and their present value was as follows:

	2017 $			2016 $		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**1.5**	—	**1.5**	3.2	0.2	3.0
Between one and five years	—	—	—	1.6	—	1.6
More than five years	—	—	—	—	—	—
	1.5	—	**1.5**	4.8	0.2	4.6
Current portion included within Other liabilities			**1.5**			3.0
Non-current portion included within Other liabilities			—			1.6

25. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers.

26. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"]:

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on the Corporation's consolidated balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the consolidated balance sheets and are presented on the consolidated statements of income and the consolidated statements of comprehensive income as net movements in regulatory balances and net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

c) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the consolidated statements of cash flows, cash and cash equivalents (working capital facility) include bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

d) Accounts receivable and unbilled revenue

Accounts receivable is recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings with adjustments mainly for assumptions related to seasonality and weighted average price. The carrying amount of accounts receivable and unbilled revenue is reduced through an allowance for doubtful accounts, if applicable, and the amount of the related impairment loss is recognized in the consolidated statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When the Corporation considers that there are no realistic prospects of recovery of the financial assets, the relevant amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

e) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The Corporation classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

f) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Corporation and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use. Any gain or loss arising on derecognition is recorded in the consolidated statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

[All tabular amounts in millions of Canadian dollars]

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Assets under finance lease	1.0% to 14.3%
Other capital assets	4.0% to 25.0%

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Assets under finance lease included a 99-year land lease. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

g) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable.

Amortization begins when an asset becomes available for use. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed at each financial year-end and adjusted if appropriate.

h) Impairment of non-financial assets

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

i) Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is the Corporation's weighted average cost of borrowing, and is applied to the carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Capitalization commences immediately as the expenditure on a qualifying asset is incurred. Borrowing costs are included in PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

j) Revenue recognition

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. The Corporation applies judgment to determine whether revenues are recorded on a gross or net basis. The Corporation has primary responsibility for the delivery of electricity to the customer. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets and within net movements in regulatory balances on the consolidated statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

Other revenue, which includes revenue from services ancillary to the electricity distribution, delivery of street lighting services, and pole and duct rentals, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue from ancillary services not yet recognized is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

k) Financial instruments

All financial assets are classified as "Loans and Receivables" and all financial liabilities are classified as "Other Financial Liabilities". These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The Corporation uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the consolidated balance sheets:

- Cash, cash equivalents and short-term investments are classified as "Loans and Receivables" and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Working capital facility, revolving credit facility and commercial paper are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation's revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Customer deposits are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Obligations under finance leases are classified as "Other Financial Liabilities" and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Debentures are classified as "Other Financial Liabilities" and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments *[note 16[a]]*. Debt issuance costs incurred in connection with the Corporation's debenture offerings are capitalized as part of the carrying amount of the debentures and amortized over the term of the related debentures, using the effective interest method, and the amortization is included in finance costs.

l) Fair value measurements

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Multi-employer pension plan

The Corporation's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

The Corporation has a number of unfunded benefit plans providing post-employment benefits (other than pension) to its employees. The Corporation pays certain medical, dental and life insurance benefits under unfunded defined benefit plans on behalf of its retired employees. The Corporation also pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on medical, dental and life insurance benefits are recognized in OCI as they arise. Actuarial gains and losses related to rate-regulated activities are subsequently reclassified from OCI to a regulatory balance on the consolidated balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2016.

n) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

o) Income taxes

Under the Electricity Act, the Corporation is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in the Corporation paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

The Corporation uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Corporation recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits associated with reduced revenues resulting from the realization of deferred tax assets is recorded within regulatory credit balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the consolidated statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the consolidated statements of income.

p) Use of judgments and estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 26[b] – Recognition and measurement of regulatory balances;
- Note 26[j] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 26[f] and 26[g] – Determination of useful lives of depreciable assets;
- Notes 26[m] and 14 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 26[o] and 21 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 25 – Recognition and measurement of provisions and contingencies.

q) Changes in accounting policies

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The additional disclosures relating to changes in liabilities arising from financing activities are included in note 22 and have no impact to the Corporation's financial position or results of operations.

r) Future accounting pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017, and have not yet been applied in preparing these Consolidated Financial Statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two methods for recognizing revenue: at a point in time or over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach. The Corporation has completed its assessment of the key revenue streams. The majority of the Corporation's revenue (energy sales and distribution revenue) is generated from electricity distribution at regulated prices. The Corporation concluded that IFRS 15 will not have a material impact on the accounting for these revenue streams. Upon adoption of IFRS 15, there will be a $167.6 million income statement reclassification between Energy Sales and Energy Purchases for the comparative year ended December 31, 2017 and no impact to opening retained earnings as at January 1, 2018. The Corporation is currently finalizing its assessment on capital contributions. The Corporation has determined that IFRS 15 will also increase its required disclosure on revenue streams.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"], which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation has assessed the impact of adopting IFRS 9, and concluded that the new classification under IFRS 9 will not have a material impact on the consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"] and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the current distinction between finance and operating leases. It requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. In addition, the nature and timing of expenses related to leases will change, as IFRS 16 replaces the straight-line operating leases expense with the depreciation expense for the assets and interest expense on the lease liabilities. Lessor accounting remains substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, and may be applied either retrospectively or using a modified retrospective approach. Early adoption is permitted if IFRS 15 is also adopted.

The Corporation intends to early adopt IFRS 16 on January 1, 2018. The Corporation has completed its assessment of existing operating leases. IFRS 16 will not have a significant impact on the Corporation's consolidated financial statements and the Corporation has assessed the quantitative impact of adopting IFRS 16 to be $nil in opening retained earnings, and an increase of $1.6 million in total assets and total liabilities for the right-of-use assets and the lease liabilities, respectively, as at January 1, 2018.