Attachment 1

Toronto Hydro Corporation Report April 30, 2009

Addressed to the Executive Committee
from Lawrence D. Wilde, Vice President General Counsel and Corporate Secretary
Toronto Hydro Corporation

2008 Annual General Meeting – Toronto Hydro Corporation

Purpose

To comply with the requirements of subsection 94(1) of the *Business Corporations Act* (Ontario), R.S.O., c.B.16 (the "OBCA"), the directors of Toronto Hydro Corporation ("THC") are required to call an annual meeting of its shareholders (i.e. the City of Toronto) by no later than fifteen (15) months after holding the last preceding annual meeting. The last annual shareholder meeting for THC was held on June 23 and 24, 2008.

The directors of THC therefore hereby submit and recommend that this report and attached shareholder resolutions be reviewed by the Executive Committee and approved by the City Council at its next meeting.

Recommendations

It is recommended that:

(1) City Council, as the sole shareholder of THC, hold an annual shareholder meeting;

(2) approve and adopt the shareholder resolutions attached in Appendix A to this report;

(3) authorize and direct appropriate City officials to take the necessary action to give effect thereto; and

(4) receive any additional reports attached hereto, for informational purposes.

Background

City Council, by the amendment and adoption of Clause 1 of Report No. 10 of the Strategic Policies and Priorities Committee, at its meeting of June 9, 10 and 11, 1999, authorized the incorporation of THC. The City of Toronto is the sole shareholder of THC.

THC is the parent of the following subsidiaries:

(1) Toronto Hydro-Electric System Limited, which distributes electricity;

(2) Toronto Hydro Energy Services Inc., which provides street lighting and related ancillary services and is engaged in the development and sale of energy efficiency products and services;

(3) 1455948 Ontario Inc., which was incorporated for the purpose of holding an equity interest in the EBT Express partnership, which until recently held an interest in SPi Group Inc., an organization providing electronic data management and transaction services through an electronic business transaction hub.

2008 Annual General Meeting

City Council, as sole shareholder of THC, is to consider the following items at this annual general meeting:

(1) audited financial statements for the 2008 completed financial year and the auditor's report for that period, and the unaudited financial statements for the first quarter ended March 31, 2009;

(2) re-appointment of the incumbent auditors for the 2009 financial year and re-authorization of the THC board of directors to fix their remuneration for this period; and

(3) receipt the additional report attached hereto as Appendix B, for information purposes.

Comments

(1) Audited Financial Statements and Auditor's Report

Audited financial statements for 2008 completed financial year, and related auditor's reports, as well as the unaudited financial statements for the first quarter ended March 31, 2009 have been delivered by THC and reviewed by the Deputy City Manager and Chief Financial Officer and his comments are presented in a separate report before this Committee. The financial statements of THC are on file with the City Clerk's office.

(2) Re-Appointment of Auditor and Authorization of THC Directors to Fix Remuneration

At the last preceding annual general meeting, the shareholder resolved to appoint the incumbent auditors, Ernst & Young LLP, Chartered Accountants ("E&Y") until the close of the next annual meeting of the shareholder, or until a successor is appointed, and further resolved and authorized the directors of THC to fix the auditor's remuneration.

The Board of Directors of THC now recommends that the shareholder re-appoint E&Y as auditor for THC for the fiscal year 2009 or until the close of the next annual meeting of the shareholder, whichever is later. The directors of THC further recommend that City Council resolve and authorize the directors of THC to fix the auditor's remuneration for this period.

(3) Other Items

It is recommended that the shareholder receive the report attached as Appendix B hereto, for information purposes. The original is on file with the City Clerk.

Contact:

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List of Attachments:

Appendix A	-	Resolutions of the City of Toronto ("Sole Shareholder")
Appendix B	-	Report from Clare R. Copeland – Chairman of the THC Board of Directors dated April 30, 2009

Appendix A

Toronto Hydro Corporation
(the "Corporation")

Resolution of the City of Toronto ("Sole Shareholder")

Appointing Auditor

RESOLVED THAT:

Ernst and Young LLP, Chartered Accountants, is hereby appointed the auditor of the Corporation to hold office until the close of the next annual meeting of the shareholder of the Corporation, or until a successor is appointed, at such remuneration as may be fixed by the directors and the directors are hereby authorized to fix such remuneration. The Corporation's directors are authorized to pass the requisite resolutions giving effect to the foregoing, and any and all such resolutions passed by the directors of the Corporation regarding same are hereby confirmed and ratified.

* * * * * * * * * * * * *

The foregoing resolution is hereby consented to by sole shareholder of the Corporation pursuant to the *Business Corporation Act* (Ontario).

Dated as of this ________ day of __________, 2009

City of Toronto

____
per: Cam Weldon
Deputy City Manager and
Chief Financial Officer

____
per: Ulli Watkiss
City Clerk
Approved as to Form per: ____
Anna Kinastowski, City Solicitor

Authorized by Executive Committee Item No. ____ adopted by Council at its meeting of _____, 2009.

____
per: Ulli Watkiss
City Clerk

APPENDIX "B"

toronto hydro
corporation

April 30, 2009

To: The Executive Committee

From: Clare R. Copeland
Chairman of the Board

Subject: Toronto Hydro Corporation ("THC")
2008 Report to the Shareholder

Recommendation:

It is recommended that this report be received for information purposes.

Background:

THC was incorporated on July 1, 1999, under the Ontario Business and Corporation Act ("Ontario") ("OBCA") and has a Board of Directors consisting of eight independent directors plus the Deputy Mayor and two City Councillors with responsibility to manage the business and affairs of THC.

Pursuant to its initial public offering of $225 million in debentures on May 7, 2003, THC became a reporting issuer with the Ontario Securities Commission, and accordingly is subject to relevant reporting issuer rules and regulations.

THC operates two wholly-owned affiliates in the electricity distribution ("THESL") and energy management services ("TH Energy"). In 2008, THC sold to Cogeco Cable Inc. all the shares of its wholly-owned affiliate providing telecommunications services ("THTI").

THESL, the electricity distribution business, is regulated by the Ontario Energy Board (the "OEB") and holds 97% of the fixed assets while accounting for 96% of the gross revenue of THC. THESL serves 605,500 residential customers and 78,600 commercial and industrial customers, for a total of 684,100 customers in the City of Toronto. THESL owns and operates the electricity distribution grid within the City of Toronto. Power is delivered to the grid from generating stations located throughout the province through Hydro One's transmission system to 35 terminal stations located throughout the City.

The corporate relationship between THC and the City is set out in the Shareholder Direction approved by Council on July 1, 1999, and amended October 3, 2002, May 25, 2006 and June 29, 2006 The Shareholder Direction was further amended by Council on October 22, 2007. The Shareholder Direction sets out the City's objectives and principles for THC. The Board of Directors is responsible for determining and implementing the appropriate balance among the objectives and principles, and for causing the Corporation to conduct its affairs accordingly.

The Shareholder's objectives in connection with its relationship with THC are as follows:

(a) the value of THC should be maintained or increased;

(b) the Shareholder's income stream from THC be comparable to the Shareholder's estimated financial benefit if Toronto Hydro had been sold as a going concern;

(c) THC's consumers should not be unduly impacted by the succession by THC of Toronto Hydro Electric Commission; and

(d) environmental impacts related to THC should be improved.

The following key principles are excerpted from the Shareholder Direction that currently governs the operations of THC:

(a) the Business is integral to the well-being and the infrastructure of the City of Toronto;

(b) THC will provide a reliable, effective and efficient distribution system that meets changing demand utilizing emerging green technologies as appropriate;

(c) THC will provide its services with an emphasis on customer orientation and satisfaction;

(d) THC will operate in a safe and environmentally-responsible manner;

(e) THC will promote energy conservation and environmental responsibility and work with the City of Toronto to achieve its climate change initiative;

(f) THC will engage in recruitment practices designed to attract employees from the diverse community it serves;

(g) THC's administrative strategies will support the City of Toronto priority objectives where consistent with THC's business objectives, including procurement practices that encourage participation of equity-seeking groups;

(h) THC will keep its property and facilities clean and well maintained and free from graffiti; and

(i) THC will operate in a manner that will protect and enhance the City's urban forest.

THC recognizes that it is in the best interests of THC and the community of stakeholders whom the business affects that THC conducts its affairs:

(i) on a commercially prudent basis;

(ii) in a manner consistent with the energy policies established by its shareholder, the City from time to time; and

(iii) in accordance with the following financial performance objectives (and that the Board will use its best efforts to ensure compliance with these objectives):

- THC will maintain a credit rating of A- or higher;
- THC will pay dividends based on the higher of: 50% of the consolidated annual net income or $25 million; and
- THC will employ the most effective cost structures and maximize return on the Shareholder's equity.

THC reports to the City Finance Department on a regular basis with its Board of Directors-approved quarterly reports on budget-to-actual results, five-year business plan and annual audited consolidated financial statements. Over the course of any given year, THC and City staff meet to discuss business issues related to THC's operations.

The Board has incorporated the principles and objectives in the Shareholder Direction into its corporate strategy. Accordingly, THC's goals and objectives incorporate the key elements of the Shareholder Direction.

<u>Health and Safety of Employees</u>

- Ensure that employees are safe and healthy – *implementation of ZeroQuest program*
- Engage, develop and empower employees
- Renew our workforce

<u>Modernize our Utility:</u>

- Invest in the renewal of THESL's aging electricity infrastructure
- Operate the businesses with the highest levels of integrity and fairness
- Continue to be environmentally responsible

<u>Focus on Customer Service:</u>

- Listen to the concerns of our customers
- Ensure distribution system reliability
- Lead in energy conservation and demand management initiatives

Consistent Financial Performance:

- Provide a consistent and fair return to our Shareholder
- Establish solid governance practices
- Minimize business risks

As reflected further in this report, THC has and continues to meet the objectives and principles set out by the Shareholder Direction.

Purpose:

This report highlights THC's key achievements in 2008. We take pride that our core business, distribution of electricity, is a necessity of life. The Board of Directors of THC reports that 2008 was highly successful. Consistent with the priorities established in the Shareholder Direction, our strategy remained focused on customer service, reliability, workplace safety, energy conservation, corporate social responsibility and sound financial management.

Highlights

In 2008, THC's contribution to the City through interest and dividends amounted to $161.3 million. Interest payments on the outstanding City promissory note amounted to $44.9 million. Dividend payments were made in accordance with the dividend policy as set out in the Shareholder Direction and amounted to $41.4 million. Furthermore, in 2008, a special dividend amounting to $75.0 million was paid following the successful sale by THC of all the shares of THTI.

On May 15, 2008, the OEB issued its decision regarding THESL's electricity distribution rate applications for 2008 and 2009. In its decision, the OEB approved the increases in capital investment to modernize the electricity distribution assets. Furthermore, the OEB approved an increase in operating expenditures to allow THESL to move forward with its workforce renewal program. This program provides for the hiring of new apprentices in the electrical trades to replace our aging workforce. Overall, the customers received a decrease in distribution rates as rate adders related to market opening costs were no longer required.

Throughout the year, we showed our commitment to excellence and customer service as we continued to meet or exceed all OEB service standards.

On July 31, 2008, THC sold all the shares of THTI to Cogeco Cable Inc. for cash consideration of $200.0 million. In connection with this transaction, THC recognized a net gain of $118.7 million and paid a special dividend of $75.0 million to City in December 2008.

Throughout 2008, THC continued to be a leader in the provincial energy conservation efforts. Once again, THESL led all utilities and provincial agencies in the delivery of Conservation and Demand Management ("CDM") initiatives to help customers conserve energy, save money, and help the environment. In 2008, THESL spent $10.6 million on energy conservation programs delivering over 31 MW of energy savings.

Properly investing in maintenance and capital work in the distribution system is a vital role that THESL carries out for its customers. In 2008, THESL maintained the increase in capital spending started in 2007 to meet the goals of its infrastructure modernization plan filed with the OEB. Accordingly, $234.4 million was spent, including $181.6 million on electricity distribution plant, $28.7 million on smart meters and $24.1 million in information technology upgrades.

On December 22, 2008, CUPE Local One ratified collective agreements governing inside and outside employees for a five-year period expiring January 31, 2014. The collective agreements implemented an immediate wage increase of 3% and provide for general wage increase of 3% for each of the following four years.

For the fourth year in a row THC was selected as one of Canada's Top 100 Employers as featured by MacLean's magazine. THC was also selected as one of the Top 50 Employers in the GTA, one of Canada's Top 10 Family-Friendly Employers and one of Canada's Most Earth Friendly Employer.

Electricity Business Environment

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The *Ontario Energy Board Act, 1998* sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB's authority and responsibilities include the power to approve and fix rates for the distribution of electricity and the responsibility to ensure that electricity distribution companies fulfill their obligations to connect and service customers.

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

- *Distribution Rates.* The distribution rates are designed to recover the costs incurred by THESL for delivering electricity to customers and the OEB-allowed rate of return. In general, distribution rates comprise a fixed charge and a usage-based (consumption) charge.

  The volume of electricity consumed by customers during any period is governed by events largely outside of THESL's control (principally sustained periods of hot or cold weather which increase the consumption of electricity and sustained periods of moderate weather which decrease the consumption of electricity).

- *Electricity Price and Related Rebates.* The electricity price and related rebates represent a pass through of the commodity cost of electricity.

- *Retail Transmission Rates*. The retail transmission rates represent a pass through of wholesale costs incurred by distributors in respect of the transmission of electricity from generating stations to local areas. Retail transmission rates are regulated by the OEB.

- *Wholesale Market Service Charges*. The wholesale market service charges represent a pass through of various wholesale market support costs. Rates for the recovery of wholesale market service charges are regulated by the OEB.

In late 2002, Bill 210 dramatically changed the operation of the electricity market effectively shutting down the active retail electricity market. Bill 210 also required municipal councils to confirm the original decision to commercialize the distribution company. City Council confirmed the original commercialization decision by adopting the required Council resolutions in February 2003.

In December 2003 the government passed the *Ontario Energy Board Amendment Act (Electricity Pricing)*, which was intended to remove subsidies in electricity commodity pricing and to restore much of the OEB's role in approving distribution rates.

In December 2004, the Province initiated a further restructuring of Ontario's electricity industry with the passage of the *Electricity Restructuring Act, 2004*. The restructuring was intended, among other things, to ensure efficient and effective management of electricity, promote the expansion of new electricity supply and capacity, encourage electricity conservation and renewable energy and regulate prices in parts of the electricity sector.

In 2006, the OEB ordered that the Board of Directors of each of the electricity distribution utilities in the Province be constituted with one-third of independent Directors. For THESL this meant that one-third of the Directors should be unrelated to the City, the THC Board of Directors or the management of THC and its affiliates. Accordingly, the City agreed to modify the Shareholder Direction to allow the THC Board of Directors to appoint independent Directors to the THESL Board of Directors in order to meet the requirement of the OEB.

In December 2008, the Minister of Energy announced his intention to table the Green Energy Act (Bill-150) in early 2009. The act is intended to make Ontario a global leader in the development of renewable energy, clean distributed energy and conservation. This act will be aimed at facilitating the development of a sustainable energy economy that protects the environment while streamlining the approvals process, mitigates climate change, engages communities and builds a world-class green industrial sector. Final approval of the act and related regulations should be completed in 2009. THC intends to monitor the approval process and to prepare an action plan for the implementation of the new measures.

Regulatory Update

Electricity Distribution Rates

On May 15, 2008, the OEB issued its decision regarding THESL's electricity distribution rate applications for 2008, 2009 and 2010. In its decision, the OEB provided final approval for the 2008 base distribution revenue requirement and rate base of $473.0 million and $1,968.9 million, respectively. The allowable market-based rate of return percentage for LDC was set at 8.57% by the OEB for 2008. The OEB's decision also provides for an option for a mechanistic adjustment based on the then-prevailing incentive regulation mechanism, for 2010. It should be noted that the deemed debt to equity structure of LDC was modified to 62.5% debt and 37.5% equity for 2008 and to 60.0% debt and 40.0% equity for 2009 and thereafter.

Following this decision, new rates were implemented in July 2008. Due to the expiration of various rate riders associated with market opening costs, there was an overall decrease in electricity distribution rate for customers of 5.1%. For an average residential consumer, this decrease represented a distribution bill reduction of $29.64 per year.

In its decision on THESL's rate application for 2008, 2009 and 2010, the OEB found that 100% of the net after-tax gains on the sale of certain THESL's excess properties should be deducted from the revenue requirement recovered through distribution rates. The OEB deemed this amount to be $10.3 million. THESL filed an appeal with the Divisional Court of Ontario seeking to overturn the gain on sale aspects of the OEB decision and also sought and obtained a stay order with respect to the deduction of the deemed amount from the review requirement recovered through rates. The appeal was heard in April 2009 and we are currently awaiting the Court's decision.

Smart Meters

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, THESL launched its smart meter project in 2006. The project objective is to install 711,000 smart meters and the supporting infrastructure by the end of 2010. THESL had installed approximately 587,000 smart meters as at December 31, 2008.

The OEB's decision issued on May 15, 2008 regarding THESL's electricity distribution rate application provided directions regarding the accounting treatment of smart meters expenditures incurred in 2007 and 2008. In its decision, the OEB directed THESL to record to Property Plant and Equipment all expenditures incurred prior to December 31, 2007 and to record to a deferral account for future recovery, all expenditures incurred after January 1, 2008. The recovery of expenditures incurred after January 1, 2008 will be subjected to a prudence review by the OEB in the future.

Compensation for Conservation Programs

In 2007, THESL received approval from the OEB to recover $2.9 million for the lost of revenue from conservation programs and $4.3 million for its share of net societal benefits related to these programs delivered in 2005 and 2006. THESL recovered the approved amounts over the period commencing on November 1, 2007, and ending July 31, 2008.

On December 15, 2008, THESL applied to the OEB to recover similar balances resulting from lost revenue due to conservation programs conducted in 2007. The total of the recovery sought is $3.7 million.

2008 Performance Review

In accordance with the Shareholder Direction and through its corporate strategy, THC and its subsidiary companies performed well in 2008 in the key areas of people, operations, customers and financials.

1. People

Our strong commitment to safety continued in 2008 through the ZeroQuest program sponsored by the Electrical & Utilities Safety Association ("EUSA"). The ZeroQuest program is widely recognized as encompassing best practices for safety policies and initiatives. Full installation of the ZeroQuest management system will result in THC being firmly embedded in a network of utilities utilizing the same system and practices. In the past year, we developed and communicated to all levels of the organization an Internal Safety System Responsibility ("IRS") program. The formal implementation of the new IRS program will be carried out in 2009.

For the fourth year in row THC was selected as one of Canada's Top 100 Employers as featured by MacLean's magazine. THC was also selected as one of the Top 50 Employers in the GTA, one of Canada's Top 10 Family-Friendly Employers and one of Canada's Most Earth Friendly Employer. To obtain these recognitions, THC went through a rigorous selection process whereby several areas such as physical workplace, work atmosphere, compensation and benefits, employee communications, performance management, employee training and corporate social responsibility were evaluated.

In 2008, THC, through its employees, was once again very active in the United Way of Greater Toronto campaign with a record-breaking contribution of approximately $212,000.

On December 22, 2008, CUPE Local One ratified collective agreements governing inside and outside employees for a five-year period expiring January 31, 2014. The collective agreements implemented an immediate wage increase of 3% and provide for general wage increase of 3% for each of the following four years.

At the end of 2008, THESL had 77 apprentices in trade training. These apprentices were hired in connection with our strategy to renew our workforce as several employees will be eligible for retirement in the near future. In order to meet its future needs, THESL is running its own certified electrical trade program out of its 500 Commissioners facility. Since the launch of the workforce renewal program in 2003, 23 apprentices graduated from our trade school.

2. Operations

Over the past few years, THESL has performed detailed studies of the condition of its electricity distribution infrastructure. Not unexpectedly, given the age of much of the infrastructure, the analyses have showed that approximately 35% of the distribution system infrastructure is past its useful life and that, in order to maintain the current level of service to customers, large portions of the system will need to be replaced over the next 10 to 12 years. Accordingly, an investment plan designed to improve the condition of THESL's assets was developed and approved by the Board of Directors.

In 2008, THESL received its decision from the OEB regarding its request to increase its capital investments for electricity infrastructure. In its decision, the OEB approved the increased investment made in 2007 and allowed THESL to continue to increase its capital spending for 2008 and 2009 (excluding smart meters, the OEB approved capital expenditures of $230.6 million for 2008 and $240.1 million for 2009). For 2008, $234.4 million was spent, including $181.6 million on electricity distribution plant, $28.7 million on smart meters and $24.1 million in information technology upgrades. Under the current infrastructure renewal plan, it is expected that THESL's annual capital expenditures will range between $250.0 million and $300.0 million over the next 10 to 12 years in order to maintain the expected level of services to its customers.

THESL installed 170,800 smart meters to residential and commercial customers in 2008. At the end of 2008, THESL had installed a total of 587,400 smart meters since the issuance of the Minister of Energy's directive in 2005. Of these meters, 354,500 are ready for remote reading and time-of-use billing. THESL expects to progressively roll-out time of use billing in 2009 pending final provincial government approval. THESL leads all utilities in the deployment and implementation of smart meters in Ontario.

In 2008, THC continued its long-standing support of the City's of Toronto Urban Forest campaign, Ontario Forestry Association and Local Enhancement and Appreciation of Forest (LEAF) through tree planting initiatives and forest education programs. Furthermore, through its internal team of certified arborists THESL worked closely with the City to develop sustainable urban forestry practices to manage the urban forest that is in proximity to its distribution lines.

Through its management of the street lighting and expressway lighting assets acquired from the City at the end of 2005 TH Energy provided City residents with excellent service. Throughout the year, TH Energy's street lighting crews performed maintenance and capital work in accordance with the service agreement and met or exceeded all service level targets.

3. Customers

For 2008, the electricity distribution business met all of the customer services targets from the OEB:

- Average outage duration per customer of 74 minutes (OEB target is 82 minutes).
- Average number of outages per customer of 1.8 (OEB target is 2.1).
- Average time of outage of 42 minutes (OEB target is 48 minutes).
- Performed 97% of low voltage connections within 5 days (OEB target is 90%).
- Performed 97% of high voltage connections within 10 days (OEB target is 90%).
- Performed 93% of locates within 5 days (OEB target is 90%).
- Kept 99% of customer appointments on time (OEB target: 90%).
- Answered 87% of calls within 30 seconds (OEB target is 65%).
- Responded to 86% of emergency calls within 60 minutes (OEB target is 80%).
- Responded to written inquiries within 5 days 98% of the time (OEB target is 80%).

In 2008, THC produced its first Corporate Responsibility report for the year ended in 2007. The content of this report was focused on THC's involvement in the communities of Toronto and its commitment towards energy conservation and environmental issues. Certain of the indicators in the report were assured by PriceWaterhouseCoopers.

On June 24, 2008, THC mounted a successful Toronto Hydro Day at Yonge-Dundas square. This event involved a multitude of departments and displayed our numerous initiatives related to energy conservation and customer service.

Once again in 2008, THESL led all utilities and provincial agencies in the delivery of CDM programs to help customers conserve energy, save money, and help the environment. In 2008, THESL spent $10.6 million on energy conservation programs delivering over 31 MW in energy savings. In 2008, our conservation initiatives were delivered through programs funded by the Ontario Power Authority.

The highlights of the programs were as follows:

- THESL participated in several mass market programs which resulted in the distribution of efficient CFL bulbs, energy-efficient LED festive light strings, cloth lines; and the collection of old, inefficient refrigerators and window air conditioning units.

- THESL enrolled 11,000 customers in the PeakSaver program, aimed at reducing air conditioning load during summer heat wave high consumption periods (48,000 customers on a cumulative basis).

- In collaboration with United Way and Enbridge Gas, THESL provided energy bill relief to low income family through its Winter Warmth Fund.

- THESL put forward an initiative with the Social Housing Corporation for the delivery of lighting retrofits and education programs focusing on energy conservation. Such initiative provided 2 MW of energy saving in 2008.

- THESL delivered 6 MW of energy savings through an incentive program for small commercial and multiple residential units.

Since the launch of its CDM programs in 2005, THESL spent over $70 million and supported the saving of 386 MW.

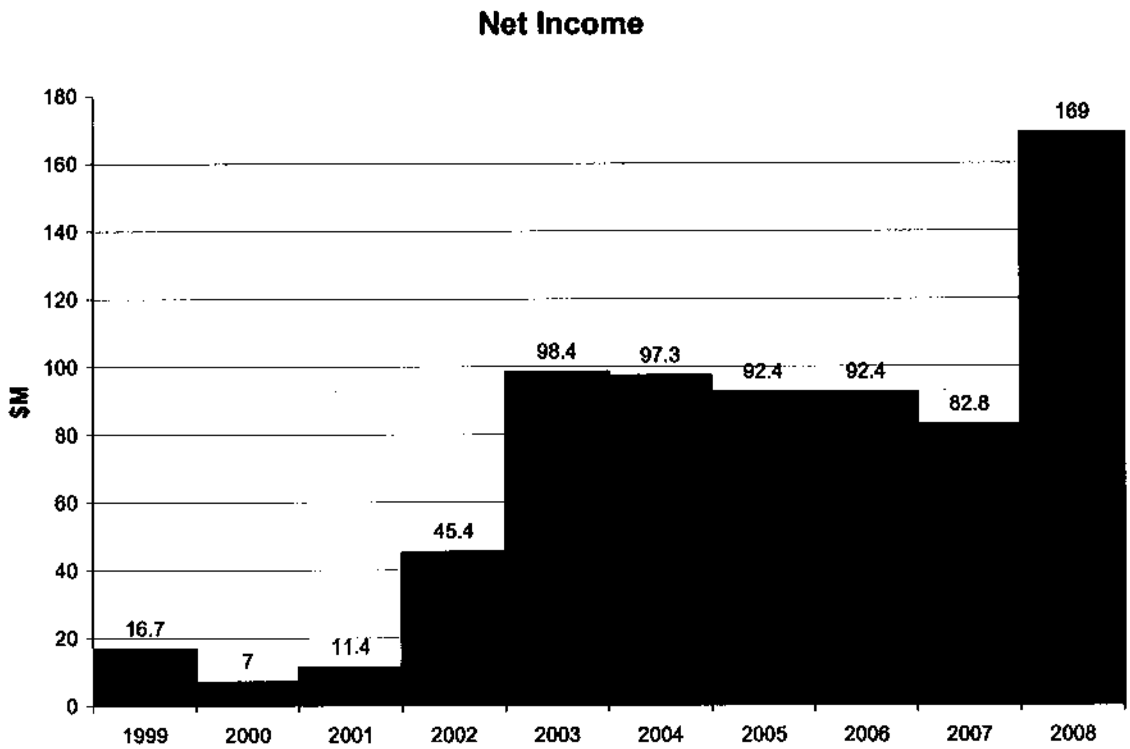
Over the last few years, TH Energy has delivered numerous energy efficiency projects that contributed to our energy conservation goals and objectives. These projects include the energy retrofit of several civic centers and community recreation facilities in Toronto.

4. <u>Financial</u>

In 2008, THC continued to contribute to the cash flow of the City with a total contribution of $161.3 million. The balance paid in 2008 includes regular dividend payments of $41.4 million (paid in accordance with Shareholder Direction), extraordinary dividend payment of $75 million (paid in connection with the sale of our Telecom business – see below) and interest payments of $44.9 million on the City promissory note.

On July 31, 2008, THC sold all the shares of THTI to Cogeco Cable Inc. for cash consideration of $200.0 million. In connection with this transaction, THC recognized a net gain in its statement of income of $118.7 million and paid a special dividend of $75.0 million to the City in December 2008. The decision to sell the shares of THTI reflected our strategy to focus our operation towards our core competencies of electricity distribution and energy management businesses. The timing of the sale (prior to the credit crisis that overtook financial markets in the second half of 2008) was optimal and allowed us to maximize the value of THTI. At the end of the process, CIBC, our financial advisors, provided THC with a positive fairness opinion regarding the sale process.

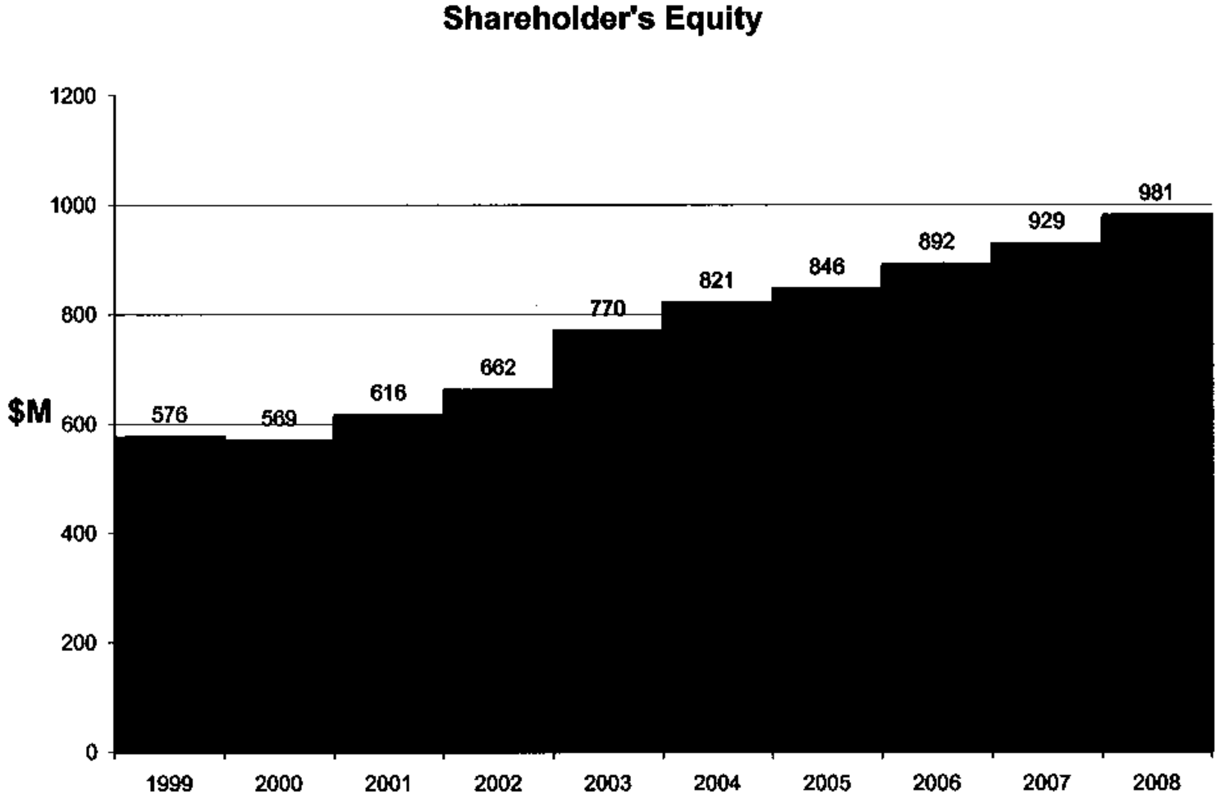
Net income of $169.0 million for 2007 exceeded the budget of $53.3 million. The favourable variance of $115.7 million was mainly due to the unbudgeted gain of $118.6 million recognized on the sale of the shares of THTI. It should be noted that the budget of $53.3 million included an expected contribution of $7.0 million from the business of THTI. Excluding all Telecom activities, THC is still showing a positive variance to budget for 2008.



At December 31, 2008, THC held Asset Backed Commercial Paper ("ABCP") notes issued by a number of trusts with an aggregate principal amount of $88.0 million. On the dates THC purchased these notes they were rated R1-High by DBRS Limited, the highest credit rating issued for commercial paper. The purchase of these notes was made in compliance with THC's investment policy and the Shareholder Direction. These notes matured in the third quarter of 2007 but remained unpaid due to liquidity issues in the ABCP market. These market issues have impacted over $33.0 billion in the Canadian ABCP investment market. A restructuring process for these notes was completed in January 2009 and new long term notes have been received on January 21, 2009. However, due the current liquidity issues on the global financial markets, THC reduced the value of these investments in its financial statements. Considering current market conditions and the terms of the new notes, THC has assessed a value of $52.9 million for these investments at December 31, 2008. THC is monitoring these investments closely and will adjust its valuation as financial market conditions evolve in the future. Despite these issues, THC has sufficient cash to fund all its ongoing liquidity and capital expenditure requirements and is in compliance with the financial covenants under the terms of its outstanding indebtedness. THC has modified its investment policy to eliminate investing in ABCP in the future.

In 2008, THESL settled disputes with the Ministry of Finance regarding Payment in Lieu of Income Taxes for 2001, 2002 and 2003. In connection with this settlement, a gain of $24.2 million was recognized in the financial statements for 2008.

Shareholder equity continued to increase in 2008 with a growth of $52.0 million or 5.6% from 2007 and by $413.5 million or 72.8 % since incorporation in 1999 (this represents a compound annual average increase of 6.1% since 1999 not including the dividends paid over this period).



Throughout the year, THC maintained an A credit rating from both DBRS Limited and Standard & Poor's which is better than the minimum rating of A- with Standard & Poor's required by the Shareholder Direction.

THC maintained a strong cash position at the end of 2008 with a balance of $340.5 million. This balance is not consistent but fluctuates throughout each month as cash is received and paid out over the course of the month. For example, the cash position at December 31, 2008 does not reflect the $172.0 million required to provide payment to the Independent Electricity System Operator for electricity consumed in December and the $57.3 million of regulatory liabilities payable to customers over the ensuing months. Cash on hand not used for working capital will mainly be used to fund investments in the electricity distribution infrastructure over the next few years. As discussed previously, our long-term asset plan calls for increased capital spending in the future to maintain the current level of reliability.

For 2008, Ernst & Young provided the Board of Directors with unqualified audit opinion for THC, THESL and TH Energy.

For 2008, THC met all internal control requirements from the Ontario Securities Commission (Bill-198) in connection with disclosure controls and internal controls over financial reporting.

In 2008, the Accounting Standard Board confirmed that publicly accountable enterprises, like THC and its subsidiaries will be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian accounting principles for fiscal year beginning on or after January 1, 2011. In connection with this announcement, THC launched its conversion project in 2008. This conversion to IFRS is likely to impact the results of operation of THC significantly in the future due to the regulated nature of its main business. However, at this time, THC is not in a position to reasonably determine or estimate to overall impact. The Board of Directors of THC is monitoring the conversion project closely through regular report and through the direct involvement of its Audit Committee.

Conclusion:

The Board of Directors of THC is pleased to report that, in 2008, THC operated within the Shareholder Direction in a balanced manner by making financial contributions to the City of $161.3 million, and continuing to focus on safety, operational effectiveness, customer service, energy conservation and environmental issues.

Over the next few years, it is expected that the contribution of THC to the City of Toronto will diminish due to lower expected interest payments following the planed repayments on the City promissory note and due to lower contribution from unregulated businesses following the sale of our Telecom activities in 2008 and the wind-down of our energy retail offering in 2006. However, THC expects net income to steadily increase in the longer term from higher regulated income created by the expected increase in the electricity distribution infrastructure.

The upcoming year will provide for significant challenges for the Board of Directors. The modernization of our electricity distribution infrastructure, the continued focus on electricity conservation and demand management, the implementation of time of use billing, the impact of the new Green Energy Act and the review of our strategies for our unregulated businesses will be the cornerstones of our activities for 2009.

CR Copeland

Clare R. Copeland
Chairman,
Toronto Hydro Corporation