

May 7, 2010

To: The Executive Committee

From: Clare R. Copeland
Chairman of the Board

Subject: Toronto Hydro Corporation ("the Corporation")
2009 Report to the Shareholder

Recommendation:

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

Background:

The Corporation 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 Councilors with responsibility to manage the business and affairs of the Corporation.

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

The Corporation operates two wholly-owned affiliates: Toronto Hydro-Electric System Limited which distributes electricity ("LDC") and Toronto Hydro Energy Services Inc. which provides street lighting services to the City ("TH Energy").

LDC, the electricity distribution business, is regulated by the Ontario Energy Board (the "OEB") and holds 97% of the fixed assets while accounting for 98% of the gross revenue of the Corporation. LDC serves approximately 611,000 residential customers and 79,000 commercial and industrial customers, for a total of approximately 690,000 customers in the City of Toronto. LDC 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 the Corporation and the City is set out in the Shareholder Direction approved by Council on July 1, 1999, and modified by Council from time to time. The Shareholder Direction sets out the City's objectives and principles for the Corporation. 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 the Corporation are as follows:

- (a) the value of the Corporation should be maintained or increased;
- (b) the Shareholder's income stream from the Corporation be comparable to the Shareholder's estimated financial benefit if Toronto Hydro had been sold as a going concern;
- (c) the Corporation's consumers should not be unduly impacted by the succession by the Corporation of Toronto Hydro Electric Commission; and
- (d) environmental impacts related to the Corporation should be improved.

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

- (a) the Business is integral to the well-being and the infrastructure of the City of Toronto;
- (b) the Corporation will provide a reliable, effective and efficient distribution system that meets changing demand utilizing emerging green technologies as appropriate;
- (c) the Corporation will provide its services with an emphasis on customer orientation and satisfaction;
- (d) the Corporation will operate in a safe and environmentally-responsible manner;
- (e) the Corporation will promote energy conservation and environmental responsibility and work with the City of Toronto to achieve its climate change initiative;
- (f) the Corporation will engage in recruitment practices designed to attract employees from the diverse community it serves;
- (g) the Corporation's administrative strategies will support the City of Toronto priority objectives where consistent with the Corporation's business objectives, including procurement practices that encourage participation of equity-seeking groups;
- (h) the Corporation will keep its property and facilities clean and well maintained and free from graffiti; and
- (i) the Corporation will operate in a manner that will protect and enhance the City's urban forest.

The Corporation recognizes that it is in the best interests of the Corporation and the community of stakeholders whom the business affects that the Corporation 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;
- (iii) in a socially responsible manner that supports priority objectives of the City that are consistent with Toronto Hydro's business objectives; and
- (iv) in accordance with the following financial performance objectives (and that the Board will use its best efforts to ensure compliance with these objectives):
 - the Corporation will maintain a credit rating of A- or higher;
 - the Corporation will pay dividends based on the higher of: 50% of the consolidated annual net income or \$25 million; and
 - the Corporation will employ the most effective cost structures and maximize return on the Shareholder's equity.

The Corporation 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, the Corporation and City staff meet to discuss business issues related to the Corporation's operations.

The Board has incorporated the principles and objectives in the Shareholder Direction into its corporate strategy. The Corporation's goals and objectives are based on the following:

Customer Service:

- Improve reliability of electricity supply.
- Implementation of Smart Meters and Time-of-Use Rates.
- Enhance offerings and levels of customer service.
- Deliver conservation programs to our customers.

Utility Operations:

- Invest at a sustainable level in our distribution assets to achieve desired reliability levels.
- Leverage technology and automation to deliver services and results more efficiently.
- Be environmentally responsible as we strive for sustainability through the modernization of our assets.

Employees

- Eliminate accidents and injuries by following good safety practices.

- Refresh our aging workforce by hiring employees with the required skills for the future.
- Engage our employees through regular communications and contacts.
- Increase productivity through job enrichment, consolidation and skills training.

Financial Performance:

- Invest for a regulated rate of return.
- Make investment decisions that are consistent with Shareholder Direction.
- Increase the value of the Corporation.
- Transition successfully to International Financial Reporting Standards (“IFRS”).
- Maintain a solid governance framework.

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

Purpose:

This report highlights the Corporation’s key achievements in 2009. We take pride that our core business, distribution of electricity, provides a necessity of life. The Board of Directors of the Corporation reports that 2009 was successful despite the difficult economic conditions that prevailed throughout the year. 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 2009, the Corporation’s contribution to the City through interest, dividends and repayment of the second tranche of the outstanding City promissory note amounted to \$315.2 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 \$25.2 million. On December 31, 2009, the Corporation paid \$245.1 million to the City representing the second installment on the City promissory note. This payment reduced the outstanding promissory note from \$735.3 million to \$490.2 million at December 31, 2009.

On August 17, 2009, David O’Brien announced his retirement as President and Chief Executive Officer of the Corporation effective September 30, 2009. Following the recommendation of the succession plan approved previously by the Board of Directors, Anthony Haines was appointed President and Chief Executive Officer of the Corporation effective October 1, 2009.

As at December 31, 2009, the Corporation’s public debentures were rated “A” (high) by DBRS and “A” by S&P.

For the fifth year in a row the Corporation was selected as one of Canada's Top 100 Employers. The Corporation was also selected as one of the Top 90 Employers in the GTA, one of Canada's Top 25 Family-Friendly Employers and one of Canada's Greenest Employer.

During the month of February, LDC suspended all non-emergency maintenance and capital programs and mobilized its workforce to inspect the connection of its infrastructure to the street lighting and other unmetered assets. This initiative was triggered by safety issues experienced on the infrastructure. On February 11, 2009, the OEB approved the recovery by LDC of \$9.1 million of expenditures in relation with this initiative.

On February 24, 2009, the OEB finalized the 2009 rates for LDC to reflect the updated allowed return on equity of 8.01%. This provided for an increase of 3.8% of distribution expenses for customers. It should be noted that the related approved expenditures for the period were part of the May 15, 2008 electricity distribution rates decision received from the OEB for the 2008 and 2009 rate years.

On December 11, 2009, the OEB issued revised cost of capital guidelines which set the initial allowed return on equity of LDC for future years at 9.85%, subject to periodic mechanistic adjustments based on forecast Government of Canada bond yields and a corporate spread over the Government yields for A-rated utility bonds.

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

In 2009, the Corporation continued to be a leader in the province's energy conservation efforts. Once again, LDC 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 2009, LDC spent \$29.7 million on energy conservation programs delivering over 120,011 MWh of energy savings.

Properly investing in maintenance and capital work in the distribution system is a vital role that LDC carries out for its customers. In 2009, LDC maintained the increase in capital spending started in 2007 to meet the goals of its infrastructure modernization plan filed with the OEB. Accordingly, \$241.7 million was spent, including \$183.4 million on electricity distribution plant, \$38.2 million in information technology upgrades and \$20.1 million on support assets.

2009 Performance Review

In accordance with the Shareholder Direction and through its corporate strategy, the Corporation and its subsidiary companies performed well in 2009 in the key areas of customer services, utility operations, employees and financial performance. For more information on the Corporation's performance for 2009, you can consult the Corporation Annual Report and Corporate Responsibility Report on the web at www.torontohydro.com.

1. Customers

For 2009, the electricity distribution business met the following OEB mandated customer service level targets:

- Average number of outages per customer of 1.9 (OEB target is 2.1).
- Performed 97% of low voltage connections within 5 days (OEB target is 90%).
- Performed 99% of high voltage connections within 10 days (OEB target is 90%).
- Performed 98% of locates within 5 days (OEB target is 90%).
- Kept 100% of customer appointments on time (OEB target: 90%).
- Answered 84% of calls within 30 seconds (OEB target is 65%).
- Responded to 80% of emergency calls within 60 minutes (OEB target is 80%).
- Responded to written inquiries within 5 days 99% of the time (OEB target is 80%).

LDC missed the following two OEB targets:

- Average outage duration per customer of 174 minutes (OEB target is 82 minutes).
- Average time of outage of 94 minutes (OEB target is 48 minutes).

The failure to meet these two targets was the result of three major events outside of LDC's control, all of which created significant outages. The first event occurred on January 15, 2009 at our Dufferin station. This incident was related to a flood in the Hydro One portion of the station which damaged our equipment. The second and third events were related to unexpected severe wind storms in April and August.

In 2009, the Corporation produced its second Corporate Responsibility report for the year ended in 2008. This report focused on the Corporation'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.

In 2009, the Corporation continued to play a lead role in helping to reduce the City's overall environmental footprint by aligning itself with the City of Toronto's *Climate Change and Sustainability Action Plan*. Among other things the plan focuses on the reduction of energy consumption and the introduction of renewable energy generation to replace energy which releases a higher level of pollutants into the air (in particular, fossil-fuel based electricity). To that end, LDC invested a approximately \$29.7 million in various CDM programs and

achieved energy savings of approximately 120,100 MWh, bringing total energy savings since the start of its CDM programs in 2005 to approximately 685,000 MWh.

The highlights of the programs for 2009 were as follows:

- Achieved approximately 22,100 MWh of energy savings through approximately 180 *Business Incentive* programs (large commercial customers).
- Completed approximately 16,000 lighting retrofits for the *Power Savings Blitz* program (small business customers) and achieved approximately 85,700 MWh in energy savings, more than double the annual target set by the OPA.
- Completed approximately 10,700 *Peaksaver*, installation (residential customers) for a potential incremental reduction of approximately 12 MW of peak demand capacity from the grid.
- Distributed approximately 40,200 specialty compact fluorescent lights ("CFL") through the *Spring Turn On* campaign for a reduction of approximately 1,300 MWh from the grid.
- Collected approximately 5,900 inefficient room air conditioners and approximately 1,300 old dehumidifiers through the *Keep Cool* program that resulted in a reduction of approximately 1,500 MWh.
- The *Low Income* program installed approximately 58,200 CFLs in approximately 10,700 social housing units across Toronto, achieving energy savings of approximately 2,800 MWh.
- Completed 28 *Festive Light Exchange* events, collecting approximately 22,400 strings of old Christmas lights and distributing approximately 10,400 LED strings which achieved energy savings of approximately 365 MWh from the grid.
- The *Great Refrigerator Roundup* program collected approximately 5,700 appliances for a reduction of approximately 5,300 MWh from the grid.

Once again this year, the Corporation was directly involved in the *Earth Hour* program sponsored by *World Wildlife Fund*, during which citizens from around the world were asked to reduce their electricity consumption for one hour on March 28, 2009. The Corporation supported this initiative by mounting a local awareness and publicity campaign which resulted in a drop of approximately 15 per cent (450 MW) in electricity use in the City of Toronto.

The Corporation also sponsored the *Green Living Show* together with the *Ontario Forestry Association*, *Forest Stewardship Council* and *Local Enhancement and Appreciation of Forests*.

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.

For its numerous achievements in changing customer's behaviors, the Corporation received numerous awards last year including an international *Gold Quill Award* from the International Association of Business Communicators ("IABC"), eight national awards from both the IABC and Canadian Public Relations Society ("CPRS"), and seven awards from the CPRS Toronto chapters.

2. Utility Operations

Over the past few years, LDC has performed periodic reviews of the condition of its electricity distribution infrastructure. Not unexpectedly, given the age of much of the infrastructure, the analyses have showed that approximately 32% 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 decade.

This issue has been raised with the OEB at each electricity distribution rates application since 2006. The OEB and the intervenor community has been receptive to LDC's requests to seek significant increases in capital expenditure. Accordingly, the allowable capital expenditures covered by electricity distribution rates for LDC has grown from \$132.3 million in 2005 to \$350.0 million for 2010. LDC expects this figure to continue to grow in the near future to address potential reliability risks and the implementation of new technology improving customer satisfaction and reducing overall consumption.

For the year ended December 31, 2009, the Corporation incurred \$249.3 million of capital expenditures of which \$241.7 million was related to the regulated business of LDC. The remaining \$7.6 million was spent in connection with improvement made to the street lighting system purchased from the City of Toronto in 2005 in accordance with the expectations set-out in the service level agreement.

During the month of February, LDC suspended all non-emergency maintenance and capital programs and mobilized its workforce to inspect the connections of its infrastructure to the street lighting system and other unmetered assets. This initiative was triggered by safety issues experienced on the electrical infrastructure. On February 11, 2010, the OEB approved the recovery by LDC of \$9.1 million of expenditures in relation with this initiative. On a going forward basis, LDC will increase its work programs related to the replacement of secondary connections and will scan the streets of Toronto periodically to reduce the potential risks of contact voltage.

LDC installed 43,600 smart meters to residential and commercial customers in 2009. At the end of 2009, LDC had installed a total of 631,000 smart meters since the issuance of the Minister of Energy's directive in 2005. Of these meters, 608,000 are ready for remote reading and time-of-use billing. In 2009, LDC began to roll-out time of use billing for its

customers following the approved pricing published by the OEB. As at December 31, 2009, LDC had 305,000 customers on time of use billing leading all utilities in Ontario.

In 2009, the Corporation continued its long-standing support of the City's of Toronto Urban Forest campaign, the Ontario Forestry Association and the Local Enhancement and Appreciation of Forest (LEAF) through its tree planting initiatives and forest education programs. It should be noted that since it began sponsoring tree planting initiatives over ten years ago, the Corporation has helped plant over 39,000 trees. Furthermore, through its internal team of certified arborists, LDC has worked closely with the City to develop sustainable urban forestry practices to manage the urban forest that is in proximity to its distribution lines.

In 2009, the Corporation diverted approximately 85 per cent of its operational waste from landfill (roughly 4,900 tonnes) through its recycling program. With these results, the Corporation exceeded the target of 70 per cent of waste diversion for operations set by the City of Toronto.

In 2009 TH Energy provided City residents with excellent management of the street lighting and expressway lighting assets acquired from the City at the end of 2005.

3. Employees

For the fifth year in a row the Corporation was selected as one of Canada's Top 100 Employers. The Corporation was also selected as one of the Top 90 Employers in the GTA, one of Canada's Top 25 Family-Friendly Employers and one of Canada's Greenest Employer. As part of the selection process the Corporation went through a rigorous review by outside agencies during which several areas such as physical workplace, work atmosphere, compensation and benefits, employee communications, performance management, employee training and corporate social responsibility were evaluated.

Once again in 2009, the Corporation continued to support community involvement through its Brighter Days program. The annual United Way campaign is one of the most visible way in which the Corporation engages its employees to offer assistance in the various communities. For 2009, the various fundraising activities resulted in a record contribution of \$257,000.

The Corporation also participated in sponsored community events, including: First Robotics, YMCA Corporate Challenge, Clean Air Commute, CIBC Run/Walk for the Cure, Remembrance Day Tribute and Earth Day tree planting celebration.

The Corporation's strong commitment to safety continued in 2009 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. In the past year, the Corporation implemented at all levels of the organization an Internal Safety System Responsibility ("IRS") program.

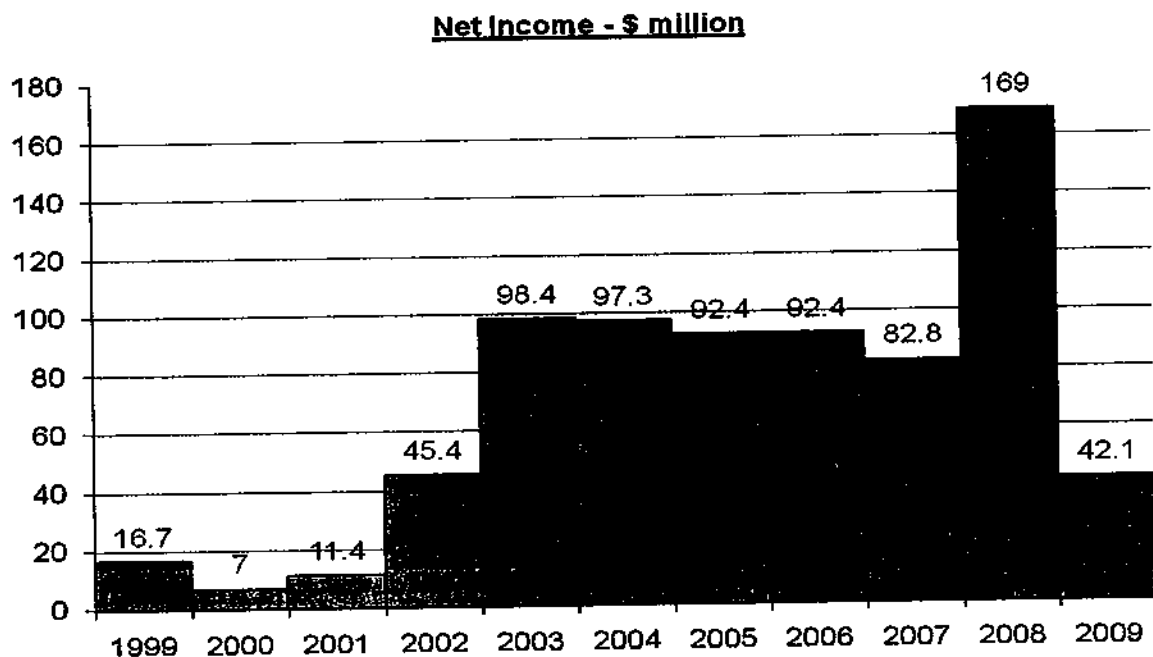
At the end of 2009, LDC had 89 apprentices in trades training. These apprentices were hired in connection with our strategy to renew our workforce as several employees will be eligible for retirement in the near future. In order to meet its future needs, LDC is running its own certified electrical trade program out of its 500 Commissioners facility. Since the launch of the workforce renewal program in 2003, 24 apprentices graduated from our trade school.

In 2009, the Corporation implemented new measures to monitor absenteeism and improve overall attendance. These measures included comprehensive education sessions and preventive health initiatives and resulted in a 13% improvement in overall attendance for the year. Management intends to continue to monitor this area closely in the future.

4. Financial

In 2009, the Corporation continued to contribute to the cash flow of the City with a total payment of \$70.1 million. The amount includes dividend payments of \$25.2 million (paid in accordance with Shareholder Direction) and interest payments of \$44.9 million on the outstanding City promissory note.

Net income of \$42.1 million for 2009 was lower than the budget of \$52.1 million. The unfavourable variance was mainly due to lower than expected consumption from higher than anticipated impact of the general slowdown of the economy for 2009 and mild weather conditions; and lower than expected OEB adjustment on LDC's rate of return for the rate year commencing May 1, 2009. The unfavourable variances described above were partially offset by lower unregulated operating expenditures and lower taxes.

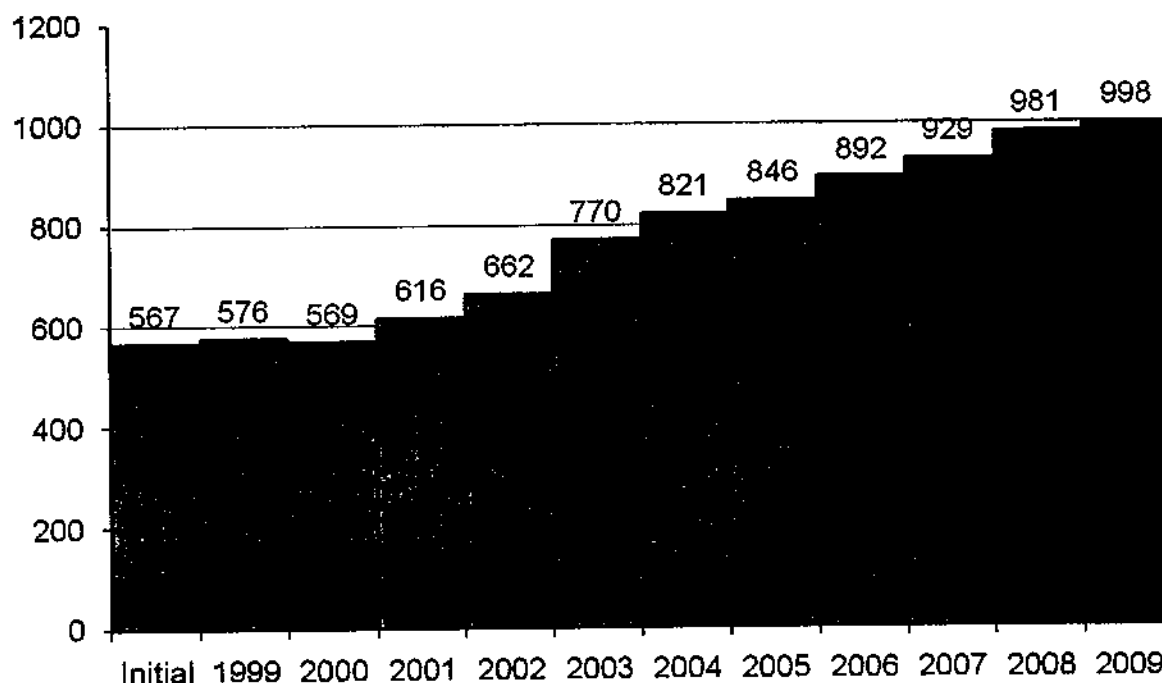


The Corporation held \$88.0 million of third-party Asset Backed Commercial Paper ("ABCP") notes impacted by the liquidity crisis that arose in the Canadian market in August

2007. At the time the Corporation purchased each of these notes, they were rated R1(High) by DBRS, the highest credit rating issued for commercial paper. The purchase of these notes was made in compliance with the Corporation's investment policy and the Shareholder Direction. Following the liquidity crisis, a group representing banks, asset providers and major investors (the "Montreal Committee") was formed to oversee the restructuring of the impacted ABCP notes. On January 12, 2009, the Ontario Superior Court approved the restructuring plan proposed by the Montreal Committee and supported by the noteholders of the Canadian third-party ABCP market. On January 21, 2009, the amended restructuring plan was completed and the Corporation received its replacement notes. The replacement notes received have an aggregate principal amount of \$87.7 million. However, due the current liquidity issues on the global financial markets, the Corporation reduced the value of these investments in its financial statements over the past three years. Considering current market conditions and the terms of the new notes, the Corporation has assessed a value of \$47.9 million for these investments at December 31, 2009. The Corporation is monitoring these investments closely and will adjust its valuation as financial market conditions evolve in the future. Despite these issues, the Corporation 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. The Corporation has modified its investment policy to eliminate investing in this type of financial vehicle in the future.

Shareholder equity continued to increase in 2009 with a growth of \$16.9 million or 1.8% from 2008 and by \$430.2 million or 75.9% since incorporation in 1999 (this represents a compound annual average increase of 5.8% after considering the \$356.2 million of dividends paid over that period; or an overall compound annual average increase of 9.1% excluding the reduction in equity related to these dividend payments).

Shareholder's Equity - \$ million



As at December 31, 2009, the Corporation and the Corporation's Debentures were rated "A" (high) by DBRS and "A" by S&P.

For 2009, Ernst & Young provided the Board of Directors with unqualified audit opinion for the Corporation, LDC and TH Energy.

For 2009, the Corporation met all internal control requirements from the Ontario Securities Commission (Bill-198) in connection with disclosure controls and internal controls over financial reporting.

The Corporation maintained a strong cash position at the end of 2009 with a balance of \$211.4 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, 2009 does not reflect the \$186 million required to provide payment to the Independent Electricity System Operator for electricity consumed in December and the \$40.2 million of regulatory liabilities payable to customers over the ensuing months. Cash on hand that is not used for working capital will mainly be used to fund investments in the electricity distribution infrastructure over the next year. As discussed previously, our long-term asset plan calls for increased capital spending in the future to maintain the current level of reliability.

On November 12, 2009, the Corporation issued \$250.0 million in 10-year senior unsecured debentures ("Series 3 debentures") which bear interest at the rate of 4.49% per annum and are payable semi-annually in arrears in equal installments on May 12 and November 12 of each year. The Series 3 debentures mature on November 12, 2019, and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness not ranking *pari passu* or dispose of all or substantially all of their assets. The net proceeds of this issuance were used principally to repay \$245.1 million of indebtedness outstanding to the City under the terms of the Corporation's promissory note with the City on December 31, 2009. As at December 31, 2009, all of the Corporation's outstanding public debentures amounted to \$725 million.

The regulatory calendar for 2009 was very busy. The following outlines the major regulatory initiatives impacting the Corporation's activities:

- *Electricity Distribution Rates*

On May 15, 2008, the OEB issued its decision regarding LDC's electricity distribution rate applications for 2008 and 2009. 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.

On February 24, 2009, the OEB finalized the 2009 rates for LDC to reflect the updated allowed return on equity of 8.01%. This provided for an increase of 3.8% of distribution expenses for customers. LDC's rates for 2009 allowed for \$240.1 million in capital expenditures and \$195.5 million in operating expenditures.

- *Smart Meters*

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010, LDC launched its smart meter project in 2006. The project objective is to install smart meters and the supporting infrastructure by the end of 2010 for all residential and commercial customers. LDC had installed approximately 631,000 smart meters as at December 31, 2009. The balance spent in relation to the smart meter initiatives since inception amounted to 130.7 million, as at December 31, 2009.

- *Compensation for Conservation Programs*

On September 22, 2009, the OEB approved the recovery by LDC of \$3.5 million of expenditures in relation to the Lost Revenue Adjustment Mechanism ("LRAM") and the Shared Savings Mechanism ("SSM") related to CDM programs delivered in 2007. The recovery will be done through rate riders commencing on May 1, 2010 and ending April 30, 2011. The recovery of expenditures related to LRAM and SSM for 2008 and 2009 will be dealt with by the OEB in the near future.

- *Street Lighting Activities*

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution license for a new wholly-owned legal entity to which the Corporation intends to transfer the street lighting assets of TH Energy. Concurrently, the Corporation filed another application with the OEB seeking approval for the merger of LDC and the new legal entity. The main objective of these applications is to transfer the street lighting assets to the regulated electricity distribution activities of LDC to increase the overall safety of the related infrastructure.

On February 11, 2010, the OEB issued its decision in regards to these applications. In its decision, the OEB agreed, that under certain conditions, the treatment of certain types of street lighting assets as regulated assets is justified. The OEB ordered the Corporation to provide a detailed valuation of the street lighting assets and to perform an operational review to determine which assets could become regulated assets. The Corporation is currently evaluating the impact of this decision on its regulated and unregulated businesses and whether to transfer the street lighting assets to LDC.

- *Green Energy Act*

On May 14, 2009, the *Green Energy and Green Economy Act, 2009* (Ontario) (the "Green Energy Act") received Royal Assent from the Province of Ontario. The Green Energy Act, among other things, permits electricity distribution companies to own renewable energy generation facilities under 10 MW; obligates electricity distribution companies to provide priority connection access for renewable energy generation facilities; empowers the OEB to set CDM targets for electricity distribution companies as a condition of license; and requires electricity distribution companies to accommodate the development and implementation of a smart grid in relation to their systems. The legislation was largely enabling and provided that much of the

implementation detail would be defined in subsequent regulations. The Corporation expects that the full implementation of the Green Energy Act will affect the manner and framework under which many of its business operations are currently conducted. More information on such impact is expected in 2010 upon release of all of the regulations related to the Green Energy Act.

In 2009, the Corporation created the Strategy and Enterprise Risk Management Department in order to provide a consistent, disciplined methodology for the sustainable identification, assessment, monitoring and reporting of risks to the Corporation. A risk assessment methodology was also created for the executive team to formally evaluate and score risks, and to produce an overall risk profile. To ensure strong oversight for the risk management process, a risk governance structure was developed, consisting of regular reporting to the Corporation Board of Directors, the creation of an Executive Risk Oversight Committee, and a number of Risk Forums at the business unit level (made up of related cross-functional teams). Raising employee awareness of the importance of managing risk will be a key communications objective in 2010.

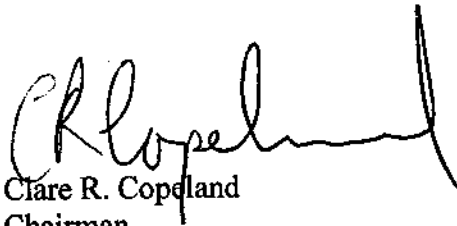
On February 13, 2008, the Accounting Standard Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles ("GAAP") for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP prior to 2011, with the remaining standards to be adopted at the change-over date. The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. Although the impact of the adoption of IFRS on the Corporation's financial position and results of operations is not yet reasonably determinable or estimable, the Corporation does expect a significant increase in financial statement disclosure requirements resulting from the adoption of IFRS, and is designing the systems and related processes changes, which will be required in order to provide the additional information required to make these disclosures.

Conclusion

The Board of Directors of the Corporation is pleased to report that, in 2009, the Corporation operated within the Shareholder Direction in a balanced manner by making financial contributions to the City of \$315.2 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 the Corporation to the City of Toronto will diminish due to absence of interest payments following the full monetization of the outstanding City note by the City in April 2010, the future cash flow requirements related to the renewal of our electrical infrastructure and the delivery of our conservation programs. However, it should be noted that the Corporation 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 full implementation of time of use billing and the impact of the new Green Energy Act will be the cornerstones of our activities for 2010.



Clare R. Copeland
Chairman
Toronto Hydro Corporation

Forward Looking Information

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

Additional information with respect to the Corporation (including its annual information form, audited financial statements and management's discussions and analysis) is available at www.sedar.com.