Attachment 2

2011 Audited Consolidated Financial Statements of Toronto Hydro Corporation and Unaudited Financial Statements for the Quarter ended March 31, 2012

Date:	May 29, 2012
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

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Disclosure of Financial Results:

Section 6.6 of the Toronto Hydro Shareholder Direction requires the Corporation to deliver its audited consolidated annual financial statements to the Shareholder within 120 days of its fiscal year end. These documents are included as Appendix A to this report and are filed with the City Clerk's office, posted on the internet on the Toronto Hydro Corporation website (www.torontohydro.com) and the SEDAR website for Canadian public securities documents.

The consolidated statements are public documents upon their release. The corporation's unconsolidated statements (relating to its subsidiary companies and the holding company) remain confidential.

The *Business Corporations Act*, Ontario ("OBCA") (s.94) requires that an annual meeting of shareholders be called no later than 15 months after the last preceding annual meeting. The last annual general meeting of the Corporation was held at the Council meeting of April 12 and 13, 2011 (Executive Committee Report No. EX4.8).

2011 Audited Consolidated Financial Results

Toronto Hydro Corporation's financial statements have been prepared to consolidate the operations of the following two wholly-owned subsidiaries: Toronto Hydro-Electric System Limited ("THESL"), and Toronto Hydro Energy Services Inc. ("THESI"). For the fiscal year ended December 31, 2011 the Corporation generated a consolidated net income of $95.9 million as compared with $66.1 million in 2010, an increase of $29.8 million (or 45%).

The increase in net income was primarily due to higher net revenues from higher regulated distribution rates in 2011 ($21.4 million), lower depreciation expense ($18.4 million) and lower provision for PILs ($16.8 million), partially offset by higher operating expenses ($20.2 million) and higher net financing charges ($4.2 million).

The $20.2 million increase in operating expenses is due to changes in accounting for capitalization of labour costs ($22.0 million), growth in wages and benefits ($7.6 million) and accounting system conversion costs ($3.0 million), less a non-recurring 2010 provision for various legal and Ontario Energy Board (OEB) proceedings ($9.8 million), and lower Ontario capital tax expense in 2011 following the elimination of such tax in the second quarter of 2010 ($2.2 million).

Depreciation and amortization decreased due to a change in accounting treatment for useful lives of certain Property, Plant and Equipment, partially offset by an increase in depreciation related to the increase in capital assets.

The increase in total assets of $117.2 million is largely due to an increase in capital expenditures for the infrastructure renewal program of THESL approved by the OEB.

On November 18, 2011 Toronto Hydro issued $300.0 million in 10-year senior unsecured debentures at 3.54% per annum, primarily to repay the existing $245.1 million senior unsecured debentures which matured on December 30, 2011.

The cash position was reduced to $154.3 million from $330 million at the previous year-end, as investing activities such as purchase of Property, Plant and Equipment ($497.9 million) exceeded operating cash-flow ($310.3 million).

During fiscal 2011, the City received Shareholder dividend payments totalling $33.1 million compared with 2010 dividends of $25.0 million. This is consistent with the City's Shareholder Direction which requires the corporation to pay dividends to the City equal to the greater of $25 million or 50% of prior year net income.

$million

Toronto Hydro Corporation: Key Financials	**2011**	**2010**	**Increase/ (decrease)**	**% Change**
As at Dec 31:				
Cash	154.3	330.2	(175.9)	-53.3%
Assets	3,455.8	3,338.6	117.2	3.5%
Debentures	1,463.5	1,409.8	53.7	3.8%
Shareholder's Equity	1,102.2	1,039.4	62.9	6.0%
Year ended Dec 31:				
Gross revenues	2,809.3	2,611.7	197.6	7.6%
Purchased power and other	2,238.5	2,062.3	176.2	8.5%
Gross margin	570.8	549.4	21.4	3.9%
Operating expenses	243.6	223.3	20.2	9.1%
Depreciation and amortisation	151.0	169.4	(18.4)	-10.9%
Net financing charges	75.3	71.2	4.2	5.9%
Gain on disposal of PP&E & other	(3.9)	(6.2)	2.3	-37.0%
PIL provision	8.8	25.6	(16.8)	-65.5%
Net income	**95.9**	**66.1**	**29.8**	**45.1%**
Capital expenditures	437.1	390.8	46.3	11.8%
Dividends paid	33.1	25.0	8.1	32.3%

Attachment 2 — Toronto Hydro 2011 Audited Financial Statements
Attachment 3 — Toronto Hydro 2011 Annual Information Form

Subsequent Event

On March 6, 2012 the Board of Directors declared a dividend of $23.0 million attributable to the 2011 net income results. Including normally scheduled 2012 quarterly dividends, the City now expects to receive a total of $48 million in dividends in 2012 vs. a budget of $45 million.

Unaudited Consolidated Financial Statements for the First Quarter of 2012

The Corporation adjusted its operations in accordance with the OEB direction in the first quarter of 2012 to follow the Incentive Regulation Mechanism (IRM) distribution rate regulatory framework. Under the IRM framework, revenue increases are limited to inflationary increases less deemed productivity improvements, unless exceptional circumstances are demonstrated. The Corporation responded by reducing operating costs through a workforce restructuring program and deferring capital expenditures. On May 10, 2012 the Corporation filed its revised 2012 electricity distribution rate application to the Ontario Energy Board.

The following table summarizes some key financials for this quarter and compares them with those for the same period in 2011:

Toronto Hydro Corporation: Key Financials	**Three Months Ended March 31** $million			
	2012	**2011**	**Increase/ (decrease)**	**% Change**
As at Mar 31 vs. Dec. 31, 2011				
Cash	133.1	154.3	(21.1)	-13.7%
Assets	3,520.9	3,527.5	(6.6)	-0.2%
Debentures	1,469.5	1,469.5	0.0	0.0%
Shareholder's Equity	1,060.5	1,102.2	(41.8)	-3.8%
Three Months ended March 31, vs Q1 2011:				
Gross revenues	699.6	704.2	(4.6)	-0.7%
Purchased power and other	562.4	560.8	1.6	0.3%
Gross margin	137.2	143.4	(6.2)	-4.3%
Operating expenses	68.2	66.2	2.0	3.0%
Depreciation and amortisation	35.4	33.5	2.0	5.8%
Net financing charges	18.7	18.9	(0.2)	-1.3%
Gain on disposal of PP&E & other	-	(3.0)	3.0	-100.0%
Restructuring Costs	27.8	-	27.8	na
Income tax expense	-	2.3	(2.3)	-100.0%
Net income /(loss)	**(12.8)**	**25.5**	**(38.3)**	**-150.4%**
Capital Expenditures	65.4	100.3	(35.0)	-34.8%
Dividends paid	29.0	14.1	14.9	106.0%

The Corporation ended the first three months (January to March) of 2012 with a net loss of $12.8 million compared to net income of $25.5 million for the same period in 2011. The loss was primarily due to $27.8 million in restructuring costs in connection with cost reduction initiatives, and a decline in distribution revenues ("gross margin"). Assuming no further restructuring charges, and a lower cost base for the balance of the year, City staff anticipate a return to profitability in the second quarter.

Capital expenditures ($65.4 million) were $34.9 million lower than the corresponding quarter of 2011, due to uncertainty pending a final rate decision from the Ontario Energy Board regarding the 2012 IRM rate application.

ATTACHMENTS:

Appendix A - 2011 Audited Consolidated Annual Financial Statements of Toronto Hydro Corporation
Appendix B - Unaudited Consolidated Financial Statements for the First Quarter of 2012 of Toronto Hydro Corporation

Attachment 3

2011 Annual Information Form of Toronto Hydro Corporation

DECISION HISTORY

At the Annual General Meeting of the Shareholder of Toronto Hydro Corporation ("the Corporation") EX4.8 on April 12 and 13, 2011, Council requested the Corporation to circulate its Annual Information Form (AIF), detailing senior executive compensation, to Council each year with its annual financial statements.

In addition, Council directed that the Corporation's Shareholder Direction be amended to require that one member of the Compensation Committee be a City Councillor. A report to amend the Shareholder Direction is expected in September 2012.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX4.8.

City Council has previously (March 8 and 9, 2011) adopted Motion MM5.14, expressing its displeasure to Toronto Hydro Corporation's Board of Directors on the magnitude of the current compensation packages for its executives, in particular, the provision of large bonuses in addition to its well paid executive salaries.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.MM5.14

ISSUE BACKGROUND

The Annual Information Form (AIF) is a public document published annually by the Corporation as a public debt issuer in accordance with Ontario Securities Commission requirements. The 2011 AIF is filed with the City Clerk's office, and posted on Toronto Hydro Corporation's website (www.torontohydro.com), and the SEDAR website for Canadian public securities documents (www.sedar.com) as required by the securities regulatory agencies in Canada.

http://www.torontohydro.com/sites/corporate/InvestorRelations/FinancialReports/Documents/AIF2011(v15,%20March%2029,2012)%20FINAL%20CLEAN.pdf

COMMENTS

The Corporation's 2011 AIF includes mainly the following sections: corporate structure, general development of business, relationship with the city, taxation, risk factors, capital structure, directors and officers, Audit Committee, executive compensation, and legal proceedings.

The ensuing paragraphs summarize the key current issues that are of interest to the City as the sole shareholder, namely the 2012-2014 Rate Application and executive compensation.

General Development of the Business – 2012-2014 Rate Application

On August 26, 2011, Toronto Hydro-Electrical System Ltd. (THESL, the wholly-owned subsidiary of the Corporation) filed a 2012-2014 Rate Application, using the Cost of Service (COS) Framework, with the Ontario Energy Board (OEB) for three years commencing on May 1, 2012. On January 5, 2012 the OEB rendered its decision and dismissed THESL's rate application using COS. THESL has since filed a notice of appeal with the Ontario Divisional Court regarding OEB's decision, but is preparing a revised rate application under the Incentive Regulation Mechanism (IRM) (*filed May 16, 2012).

The IRM application format provides for inflationary revenue increases, reduced for deemed productivity improvements in each year of a four-year cycle (THESL is in year 2). THESL has requested special increases for increased capital expenditures through Incremental Capital Module (ICM) applications. Under the IRM framework, THESL has to significantly reduce its costs structure, and obtain special approval for or otherwise defer capital spending, in order to meet its deemed financial return on equity.

Accordingly in the first quarter of 2012, THESL began implementing a restructuring program to reduce its operating costs including a workforce reduction plan. The number of employees has been reduced by 200 to approximately 1,600 as of March 29, 2012. Restructuring costs could have a material impact on the Corporation's financial results.

Executive Compensation

At December 31, 2011, Toronto Hydro Corporation had approximately 1,800 employees, including 1,253 union employees (1,194 CUPE members and 59 engineers represented by the Society of Energy Professionals). The balance of approximately 450 employees is non-union including senior executives.

The Corporation's executive compensation program is supervised by the four-member Compensation Committee of the Board of Directors and applies to Named Executive Officers (NEOs). They include the Corporation's President and CEO and CFO, THESL's Vice President (VP) of Distribution Services, VP of Distribution Grid Management, and VP of Asset Management. The CEO's compensation is recommended by the Board's Compensation Committee. The Committee also reviews the CEO's proposals for NEO (Named Executive Officers) compensation.

Industry comparables (50^{th} percentile) are considered for the purpose of benchmarking the CEO's compensation. In 2011 the selected comparables included AltaGas Ltd, ATCO Ltd, BC Hydro, Capital Power Corp., Emera Inc., Enbridge Inc., ENMAX Corp., Epcor Utilities, Hydro One, IESO, OEB, Ontario Power Authority, Ontario Power Generation, SaskPower, TransAlta Corp. and Union Gas.

Executive compensation includes base salary, performance-based incentive compensation, personal benefits and perquisites, pension plan, retirement benefits, retirement allowances and termination payments. Included in the perquisites are leased vehicles provided to the NEOs. Effective February 28, 2012 these vehicles included in the NEO compensation have been eliminated.

The AIF lists the performance-based incentives and respective scores and weighting for each officer. In 2011, all corporate and divisional performance objectives were achieved or exceeded except for those related to service interruption frequency (SAIFI) and attendance.

The following tables summarize reported results for the NEOs for the years 2009, 2010 and 2011 as contained in the 2011 AIF.

Summary Compensation Table		**Salary $**	**Non-Equity Incentive Plan Compensation $ (1)**	**All Other Compensation $ (2)**	**Total Compensation $**
President and Chief Executive Officer, Toronto Hydro Corp.	2011	421,702	371,378	58,903	851,983
	2010	372,807	340,018	44,905	757,730
	2009	325,744	224,166	129,161	679,071
Chief Financial Officer, Toronto Hydro Corp.	2011	257,934	141,152	30,337	429,423
	2010	238,462	129,860	24,220	392,542
	2009	231,542	111,796	57,913	401,251
Vice-President, Distribution Services, THESL	2011	244,104	134,121	20,140	398,365
	2010	219,583	126,763	19,272	365,618
	2009	184,275	82,776	25,362	292,413
Vice-President, Distribution Grid Management, THESL	2011	231,712	118,421	31,440	381,573
	2010	216,813	116,472	19,066	352,351
	2009	181,374	81,732	24,916	288,022
Vice-President, Asset Management, THESL	2011	222,813	118,482	31,356	372,651
	2010	212,780	112,574	31,975	357,329
	2009	179,337	74,391	48,413	302,141

Notes:

(1) Performance-based incentive compensation is limited to 65% target of the base salary for the CEO, and 40% of the base salaries for the other NEOs, but may be increased by up to 50% if the objectives are exceeded, for an effective incentive of up to 97.5% and 60% of base salary respectively.

(2) Includes perquisites and personal benefits such as vehicle lease costs. The vehicles provided to NEO's as part of their compensation has been eliminated effective Feb 28, 2012.

Retirement Allowance: The CEO is the only NEO entitled to retiring allowance, which is based on his completed years of active service. The maximum amount payable to the CEO is $1 million if he remains in active service until December 31, 2020.

Termination Payments: Both the CEO and CFO are entitled to termination payments if their respective employments are terminated without cause. In such a case, the CEO is entitled to a payment of 24 months of base salary and performance pay (approximately $1.47 million as at December 31, 2011), plus continued group health and dental benefits for 24 months. Similarly, the CFO is entitled to a similar package based on 18 months of pay (approximately $0.6 million as at December 31, 2011).

CONTACT

Rob Hatton, Manager, Corporate Finance Division
Tel: (416) 392-9149; Fax: (416) 397-4555; E-mail: rhatton@toronto.ca

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Cam Weldon
Deputy City Manager and Chief Financial Officer

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