



**ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2015**

March 29, 2016

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PART 1 - FORWARD-LOOKING INFORMATION

The Corporation includes forward-looking information in this AIF within the meaning of applicable securities laws in Canada. The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "aims", "believes", "can", "committed", "could", "estimates", "expected", "focus", "forecasts", "may", "might", "plans", "proposed", "should", "strives", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in this AIF includes, but is not limited to, the statements regarding the Corporation's achievement of its strategic pillars as described in the section entitled "Toronto Hydro Corporation", anticipated capacity to be provided by Copeland Station and the expected capital expenditures required to complete Copeland Station as described in the section entitled "LDC's Electricity Distribution System", the future financial and operational effects of LDC's environmental protection requirements as described in the section entitled "Environmental Matters", the plans to meet CDM targets as described in the section entitled "Conservation and Demand Management", the prescribed transfer tax rate for any future transfer of interest between the Corporation and its subsidiaries in the section entitled "Tax Regime", the effect of changes in energy consumption on future revenue as described in the sections entitled "Seasonal Effects" and "Electricity Usage", the Corporation's plans to borrow funds to repay maturing Debentures and to finance LDC's daily operations and the investment in LDC's infrastructure as described in the section entitled "Additional Debt Financing and Credit Rating", the effect of changes in interest rates and discount rates on future revenue requirements and future post-retirement benefit obligations, respectively, as described in the section entitled "Market and Credit Risk", and the ability to pay any damages in connection with legal actions and claims as described in the section entitled "Legal Proceedings". The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow, and the effect of the transition to IFRS by the Corporation.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, market liquidity and the quality of the underlying assets and financial instruments, the timing and extent of changes in prevailing interest rates, inflation levels, and legislative, judicial and regulatory developments that could affect revenues and the results of borrowing efforts.

Additional factors which could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information include, among other things, the risk factors listed under Part 8 "Risk Factors" in this AIF. Please review this Part 8 – "Risk Factors" in detail. The Corporation cautions that the above list of risk factors is not exhaustive.

All forward-looking information in this AIF is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

PART 2 - GLOSSARY OF DEFINED TERMS

"**Affiliate Relationships Code**" refers to the Affiliate Relationships Code for Electricity Distributors and Transmitters that was published by the OEB and became effective on April 1, 1999, as amended.

"**AIF**" refers to the Corporation's Annual Information Form for the year ended December 31, 2015.

"**Amended and Restated City Note**" refers to the Amended and Restated City Note dated May 1, 2006, in the principal amount of \$980,230,955, issued by the Corporation to the City. The Amended and Restated City Note has been cancelled. See section 6.2 under the heading "Indebtedness to the City".

"**Board**" refers to the board of directors of the Corporation.

"**CAIDI**" refers to the Customer Average Interruption Duration Index and is a measure (in hours) of the average duration of interruptions experienced by customers, not including MED. CAIDI represents the quotient obtained by dividing SAIDI by SAIFI.

"**Canadian Environmental Protection Act**" refers to the *Canadian Environmental Protection Act, 1999* (Canada), as amended.

"**Capital Assets**" refers to the sum of property, plant and equipment and intangible assets, net of accumulated depreciation and amortization. See note 4(f), note 4(g), note 7, and note 8 to the Consolidated Financial Statements.

"**Capital Expenditures**" refers to expenditures relating to property, plant and equipment and intangible assets.

"**CDM**" refers to conservation and demand management.

"**CEA**" refers to the Canadian Electricity Association.

"**CEO**" refers to the President and Chief Executive Officer of the Corporation.

"**CFO**" refers to the Executive Vice-President and Chief Financial Officer or Interim, Chief Financial Officer of the Corporation.

"**CGA**" refers to the designation of "Certified General Accountant" granted by the Certified General Accountants of Canada. See the definition of "CPA" for more information.

"**CIR**" refers to Custom Incentive Rate-setting.

"**City**" refers to the city incorporated under the *City of Toronto Act, 1997* (Ontario), as amended, and comprised of the former municipalities of Metropolitan Toronto, Toronto, East York, Etobicoke, North York, Scarborough and York.

"**City Council**" refers to Toronto City Council.

"**City Councillor**" refers to a councillor of City Council.

"**Class Proceedings Act**" refers to the *Class Proceedings Act, 1992* (Ontario), as amended.

"**Conservation and Demand Management Code**" refers to the Conservation and Demand Management Code for Electricity Distributors that was published and became effective on September 16, 2010.

"**Consolidated Financial Statements**" refers to the comparative audited consolidated financial statements of the Corporation together with the auditors' report thereon and the notes thereto as at and for the years ended December 31, 2015 and December 31, 2014, a copy of which is available on the SEDAR website at www.sedar.com.

"**Consumer Price Index**" refers to the index measuring price movements published by Statistics Canada.

"**Consumer Protection Act**" refers to the *Consumer Protection Act, 2002* (Ontario), as amended.

"Corporation" refers to Toronto Hydro Corporation.

"CP Program" refers to the commercial paper program established by the Corporation under which the Corporation issues commercial paper. See section 9.3 under the heading "Credit Facility".

"CPA" refers to the designation of "Chartered Professional Accountant" granted by the Chartered Professional Accountants of Canada (CPA Canada) which was established by the unification of the Canadian Institute of Chartered Accountants (CICA), the Society of Management Accountants of Canada (CMA Canada) and Certified General Accountants of Canada (CGA-Canada). For a period of 10 years after the unification, all members using the new CPA designation would be required to use it in conjunction with their existing designations.

"Dangerous Goods Transportation Act" refers to the *Dangerous Goods Transportation Act, 1990* (Ontario), as amended.

"DBRS" refers to DBRS Limited.

"Debentures" refers to the 6.11% Series 1 senior unsecured debentures issued by the Corporation on May 7, 2003, the 5.15% Series 2 senior unsecured debentures issued by the Corporation on November 14, 2007, the 4.49% Series 3 senior unsecured debentures issued by the Corporation on November 12, 2009, the 6.11% Series 4 senior unsecured debentures issued by the Corporation on April 1, 2010, the 6.11% Series 5 senior unsecured debentures issued by the Corporation on April 1, 2010, the 5.54% Series 6 senior unsecured debentures issued by the Corporation on May 20, 2010, the 3.54% Series 7 senior unsecured debentures issued by the Corporation on November 18, 2011, the 2.91% Series 8 senior unsecured debentures issued by the Corporation on April 9, 2013, the 3.96% Series 9 senior unsecured debentures issued by the Corporation on April 9, 2013 and re-opened on September 2, 2015, the 4.08% Series 10 senior unsecured debentures issued by the Corporation on September 16, 2014, and the 3.55% Series 11 senior unsecured debentures issued by the Corporation on March 16, 2015. See note 13 to the Consolidated Financial Statements.

"Distribution System Code" refers to the Distribution System Code that was published by the OEB on July 14, 2000, as amended.

"EHSMS" refers to the Environment, Health and Safety Management System.

"Electricity Act" refers to the *Electricity Act, 1998* (Ontario), as amended.

"Electricity Property" refers to a municipal corporation's or an MEU's interest in real or personal property used in connection with generating, transmitting, distributing or retailing electricity.

"Electricity Restructuring Act" refers to the *Electricity Restructuring Act, 2004* (Ontario), as amended.

"Energy Competition Act" refers to the *Energy Competition Act, 1998* (Ontario), as amended.

"Energy Consumer Protection Act" refers to the *Energy Consumer Protection Act, 2010* (Ontario), as amended.

"Environmental Protection Act" refers to the *Environmental Protection Act, 1990* (Ontario), as amended.

"ERM" refers to Enterprise Risk Management.

"Fire Protection and Prevention Act" refers to the *Fire Protection and Prevention Act, 1997* (Ontario), as amended.

"GAAP" refers to Generally Acceptable Accounting Principles.

"Green Energy Act" refers to the *Green Energy Act, 2009* (Ontario), as amended.

"GWh" refers to a gigawatt-hour, a standard unit for measuring electrical energy produced or consumed over time. One GWh is equal to one million kWh.

"Hydro One" refers to Hydro One Ltd., Hydro One Inc. or Hydro One Networks Inc., as appropriate.

"IASB" refers to the International Accounting Standards Board.

"**ICD**" refers to the Institute of Corporate Directors.

"**ICD.D**" refers to the designation granted by the ICD, through the Directors Education Program at University of Toronto.

"**ICM**" refers to Incremental Capital Module. See section 4.3(f)(i) under the heading "Rate Setting Mechanism" for more information.

"**IEEE**" refers to the Institute of Electrical and Electronic Engineers.

"**IESO**" refers to the Independent Electricity System Operator. Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

"**IFRS**" refers to the International Financial Reporting Standards.

"**Interest Act**" refers to the *Interest Act, 1985* (Canada), as amended.

"**IRM**" refers to Incentive Regulation Mechanism. See section 4.3(f)(i) under the heading "Rate Setting Mechanism" for more information.

"**ISO**" refers to the International Organization for Standardization.

"**ITA**" refers to the *Income Tax Act, 1985* (Canada), as amended.

"**kW**" refers to a kilowatt, a common measure of electrical power equal to 1,000 Watts.

"**kWh**" refers to a kilowatt-hour, a standard unit for measuring electrical energy produced or consumed over time. One kWh is the amount of electricity consumed by ten 100 Watt light bulbs burning for one hour.

"**LDC**" refers to the Corporation's wholly-owned subsidiary, Toronto Hydro-Electric System Limited.

"**Management's Discussion and Analysis**" or "**MD&A**" refers to Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation for the year ended December 31, 2015, a copy of which is available on the SEDAR website at www.sedar.com.

"**Market Participants**" refers to persons authorized to participate in the wholesale market for electricity administered by the IESO, including generators, transmitters, electricity distributors, retailers and consumers.

"**MED**" refers to major event days as defined by IEEE Std 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices.

"**Mercer**" refers to Mercer (Canada) Limited.

"**MEU**" refers to a municipal electricity utility in the Province of Ontario.

"**Ministry of Finance**" refers to the Ontario Ministry of Finance.

"**Moody's**" refers to Moody's Canada Inc.

"**MTN Program**" refers to the medium term note program established by the Corporation under which the Corporation issues Debentures. See section 9.2 under the heading "Debentures".

"**MW**" refers to megawatt, a common measure of electrical power equal to one million Watts.

"**Named Executive Officer**" or "**NEO**" means, collectively, the Corporation's CEO, the CFO, and the three most highly compensated executive officers of Toronto Hydro who were serving as executive officers as at December 31, 2015, and each individual who would be amongst the three most highly compensated executive officers for the Corporation, but for the fact that such individual was not an executive officer on December 31, 2015, if any.

"**OBCA**" refers to the *Business Corporations Act, 1990* (Ontario), as amended.

"**OEB**" refers to the Ontario Energy Board.

"**OEB Act**" refers to the *Ontario Energy Board Act, 1998* (Ontario), as amended.

"**OEFC**" refers to the Ontario Electricity Financial Corporation.

"**OHSAS**" refers to the Occupational Health and Safety Assessment Series.

"**OMERS**" refers to the Ontario Municipal Employees Retirement System, a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province for employees of municipalities, local boards and school boards in Ontario.

"**OPA**" refers to the Ontario Power Authority. Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

"**Open Access**" refers to the opening of the Province's wholesale and retail electricity markets to competition pursuant to the requirement under the Electricity Act that transmitters and distributors of electricity in the Province provide generators, retailers and consumers with non-discriminatory access to their transmission and electricity distribution systems. Open Access commenced on May 1, 2002.

"**OPG**" refers to Ontario Power Generation Inc.

"**OSC**" refers to the Ontario Securities Commission.

"**PCBs**" refers to polychlorinated biphenyls, a synthetic chemical compound consisting of chlorine, carbon and hydrogen. PCBs are used primarily as insulating and cooling elements in electrical equipment. Secondary uses include hydraulic and heat transfer fluids, flame proofing adhesives, paints, sealants and cable insulating paper.

"**PILs**" refers to the Payments In Lieu of Corporate Taxes regime contained in the Electricity Act pursuant to which MEUs that are exempt from tax under the ITA and the TA are required to make, for each taxation year, payments in lieu of corporate taxes to the OEFC. See note 4(o) and note 21 to the Consolidated Financial Statements.

"**PP&E**" refers to property, plant and equipment.

"**Province**" refers to the Province of Ontario.

"**Residential Tenancies Act**" refers to the *Residential Tenancies Act, 2006* (Ontario), as amended.

"**Retail Settlement Code**" refers to the Retail Settlement Code that was published by the OEB on December 13, 2000 and became effective on the commencement of Open Access (except with respect to "Service Agreements", as that term is defined in the Retail Settlement Code, which came into effect on March 1, 2001), as amended.

"**ROC**" refers to the Risk Oversight Committee.

"**S&P**" refers to Standard & Poor's Financial Services LLC, a subsidiary of the McGraw-Hill Companies Inc.

"**SAIDI**" means System Average Interruption Duration Index and is a measure (in hours) of the annual system average interruption duration for customers served, not including MED. SAIDI represents the quotient obtained by dividing the total customer hours of interruptions longer than one minute by the number of customers served.

"**SAIFI**" means System Average Interruption Frequency Index and is a measure of the frequency of service interruptions for customers served, not including MED. SAIFI represents the quotient obtained by dividing the total number of customer interruptions longer than one minute by the number of customers served.

"**SEDAR**" refers to the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval. SEDAR's website is www.sedar.com.

"Shareholder Direction" refers to the Shareholder Direction adopted by the Council of the City with respect to the Corporation, as amended and restated from time to time, pursuant to which the City has set out certain corporate governance principles with respect to the Corporation.

"Smart Meter" refers to a metering device capable of recording and transmitting hourly consumption information of a residential or general service customer.

"Standard Supply Customers" refers to persons connected to an electricity distributor's distribution system who are not served by retailers or whose retailer is unable to sell them electricity or who request the distributor to sell electricity to them.

"Standard Supply Service" refers to an electricity distributor's obligation to sell electricity to Standard Supply Customers, or to give effect to such rates as determined by the OEB under section 79.16 of the OEB Act.

"Standard Supply Service Code" refers to the Standard Supply Service Code for Electricity Distributors that was published by the OEB on December 8, 1999 and became effective on the commencement of Open Access, as amended.

"TA" refers to the *Taxation Act, 2007* (Ontario), as amended.

"Technical Standards and Safety Act" refers to the *Technical Standards and Safety Act, 2000* (Ontario), as amended.

"TH Energy" refers to the Corporation's wholly-owned subsidiary, Toronto Hydro Energy Services Inc.

"Toronto Hydro" refers to the Corporation and its subsidiaries.

"Total Recordable Injury Frequency" refers to the number of recordable injuries multiplied by 200,000 divided by exposure hours, as per CEA standards.

"Transfer By-law" refers to By-law No. 374-1999 of the City made under section 145 of the Electricity Act pursuant to which the Toronto Hydro-Electric Commission and the City transferred their assets and liabilities and employees in respect of the electricity distribution system to LDC and in respect of electricity generation, co-generation and energy services to TH Energy. The Transfer By-law permits the Treasurer of the City to adjust the fair market value of the assets and the consideration paid in respect of the electricity distribution assets transferred to LDC as a consequence of OEB rate orders and permitted rates of return for 2000 or any subsequent year.

"Transportation of Dangerous Goods Act" refers to the *Transportation of Dangerous Goods Act, 1992* (Canada), as amended.

"Unit Smart Meter" refers to a unit Smart Meter installed by LDC in a unit of a multi-unit complex where the multi-unit complex is not connected solely to a bulk meter, and includes such other meters as may be prescribed by the Energy Consumer Protection Act.

"US GAAP" refers to United States Generally Accepted Accounting Principles.

"Watt" or **"W"** refers to a common measure of electrical power. One Watt equals the power used when one ampere of current flows through an electrical circuit with a potential of one volt.

Unless otherwise specified, all references to statutes are to statutes of the Province and all references to dollars are to Canadian dollars.

PART 3 - CORPORATE STRUCTURE

3.1 Name, Address, Incorporation

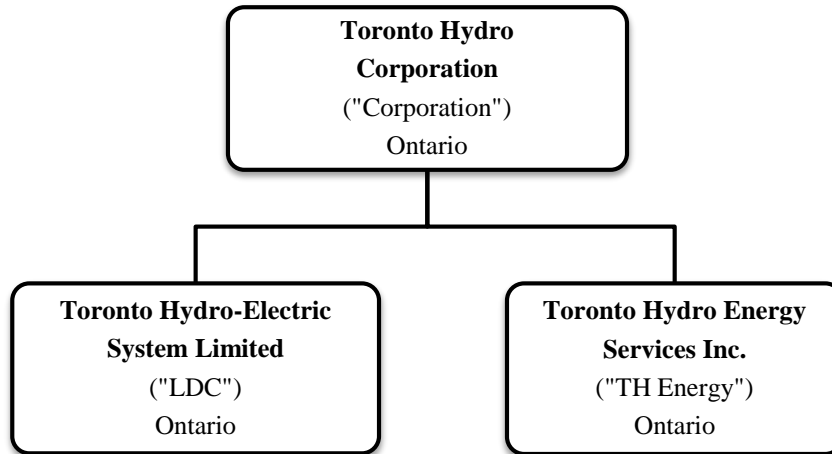
On January 1, 1998, the former municipalities of Metropolitan Toronto, Toronto, East York, Etobicoke, North York, Scarborough and York amalgamated to form the City. At the same time, the electric commissions of Toronto, East York, Etobicoke, North York, Scarborough and York were combined to form the Toronto Hydro-Electric Commission. Toronto Hydro is the successor to the Toronto Hydro-Electric Commission.

The Corporation, LDC and TH Energy were incorporated under the OBCA on June 23, 1999. Pursuant to the Transfer By-law, the Toronto Hydro-Electric Commission and the City transferred their assets and liabilities in respect of the electricity distribution system to LDC and electricity generation, co-generation and energy services to TH Energy. See note 1 to the Consolidated Financial Statements.

The registered and head office of the Corporation is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

3.2 Inter-corporate Relationships

The sole shareholder of the Corporation is the City. The Corporation, in turn, owns 100% of the shares of the principal subsidiaries listed below:



PART 4 - BUSINESS OF TORONTO HYDRO

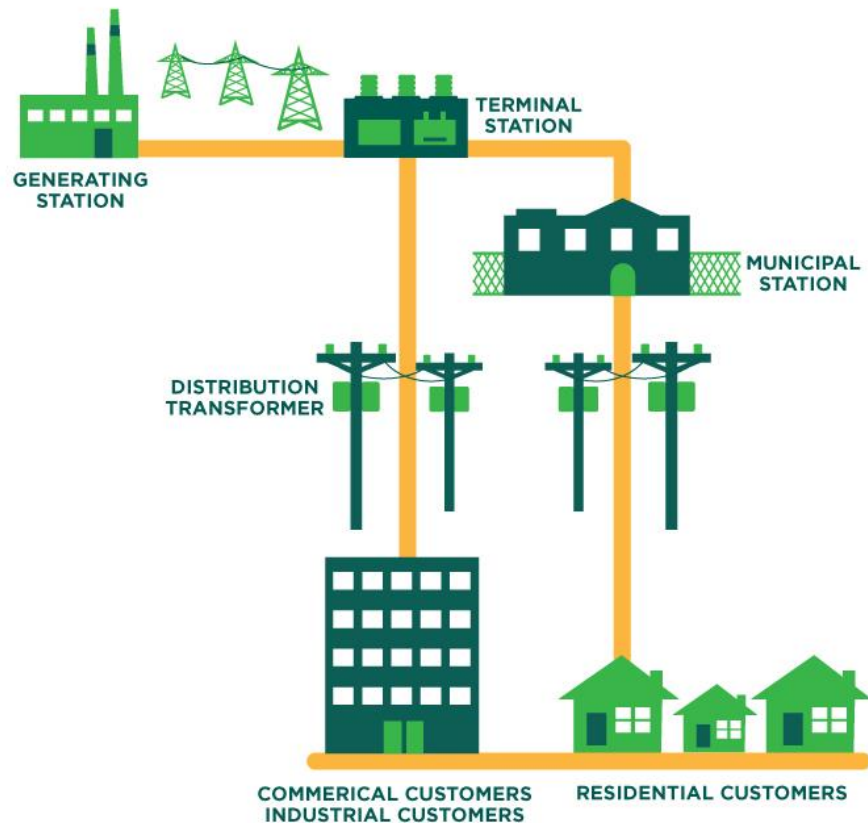
4.1 Industry Structure

The electricity industry in the Province is divided into four principal segments:

- Generation - the production of electricity at generating stations using nuclear, fossil, hydro, solar, wind or other sources of energy;
- Transmission - the transfer of electricity from generating stations to local areas using large, high-voltage power lines;
- Distribution - the delivery of electricity to homes and businesses within local areas using relatively low-voltage power lines; and
- Retailing - the purchase of electricity from generators and its sale to consumers together with a range of related services.

Electricity produced at generating stations is boosted to high voltages by nearby transformers so that the electricity can be transmitted long distances over transmission lines with limited power loss. The voltage is then reduced (stepped down) at terminal stations for supply to electricity distributors or large customers. Electricity distributors carry the electricity to distribution transformers that further reduce the voltage for supply to local customers. Electricity is distributed in the Province through a network of local electricity distributors that includes approximately sixty municipal electricity distributors, a few privately owned electricity distributors, and Hydro One.

The following diagram illustrates the basic structure of an electricity infrastructure system:



4.2 Toronto Hydro Corporation

The Corporation is a holding company which wholly-owns two subsidiaries:

- LDC – distributes electricity and engages in CDM activities; and
- TH Energy – provides street lighting services in the City.

The Corporation supervises the operations of, and provides corporate, management services and strategic direction to, its subsidiaries.

The Corporation’s vision is to “continuously maximize customer and stakeholders’ satisfaction by being safe, reliable and environmentally responsible at optimal costs”. The Corporation has an ERM framework that helps determine whether the Corporation is well positioned to achieve its strategic objectives. The ERM framework provides a consistent, disciplined methodology for controlling risk by identifying, assessing, managing, monitoring and reporting risks for the Corporation.

The Corporation is focused on the following four strategic pillars:

People – the Corporation aims to maintain an engaged, healthy, productive and safe workforce to meet changing business requirements, as it strives to:

- Provide a healthy and safe workplace
- Develop a skilled and knowledgeable workforce
- Keep its workforce engaged

The Corporation will continue to strengthen its already strong safety culture through various internal initiatives in order to achieve world-class results. The Corporation is committed to employee safety and will remain persistent in its efforts to mitigate the risk of injury to its workforce. This will be accomplished through ongoing safety inspections, audits, annual policy reviews and the continuation of safety programs and standards. The Corporation will continue to use the internal responsibility system to reinforce the importance of safety in the workplace.

Financial – the Corporation aims to meet the financial objectives of its shareholder, as it strives to:

- Provide a fair return to the shareholder
- Continue to increase shareholder value

The Corporation has provided its shareholder with an annual increase in economic value over the last decade. To meet the financial objectives of the shareholder, the Corporation seeks to increase shareholder value and is committed to provide a fair return to its shareholder in the future. Along with excellence in corporate financing and financial management, the Corporation will strive to maintain a strong credit rating.

Operations – the Corporation aims to improve reliability through sustainable system management, as it strives to:

- Keep the lights on
- Keep the system safe
- Build a grid that supports a modern Toronto

The Corporation is engaging in resource and capital-intensive programs to improve capacity, reliability and quality. The capital program will replace aging assets and accommodate next generation technology to suit the regulatory trends that incent the increased use of distributed generation.

Customer – the Corporation aims to provide value to customers, as it strives to:

- Make it easy to work with
- Help conserve energy
- Provide innovative tools and technology

The Corporation continues to look at ways to improve the level of satisfaction that customers experience, whether it is through education and awareness programs, or interaction with call centre representatives, their account managers or over the internet. The Corporation continues to undertake initiatives and invest in technology and processes to improve the customer experience. In turn, this focus on customer service will provide long-term value for money.

4.3 Toronto Hydro-Electric System Limited

The principal business of Toronto Hydro is the distribution of electricity by LDC. LDC owns and operates \$3.8 billion of Capital Assets comprised primarily of an electricity distribution system that delivers electricity to approximately 756,000 customers located in the City. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in the Province.

(a) LDC's Electricity Distribution System

Electricity produced at generating stations is transmitted along transmission lines owned by Hydro One to terminal stations at which point the voltage is then reduced (or stepped down) to distribution-level voltages. Distribution-level voltages are then distributed across LDC's electricity distribution system to distribution class transformers at which point the voltage is further reduced (or stepped down) for supply to end use customers. Electricity typically passes through a meter before reaching a distribution board or service panel that directs the electricity to end use circuits.

LDC's electricity distribution system is serviced from a control centre, 34 terminal stations and a transmission system terminal station, and is comprised of approximately 16,900 primary switches, approximately 60,440 distribution transformers, 161 in-service municipal substations, approximately 15,560 kilometres of overhead wires supported by approximately 176,500 poles and approximately 12,920 kilometres of underground wires.

(i) Control Centre

LDC has one control centre. The control centre co-ordinates and monitors the distribution of electricity throughout LDC's electricity distribution assets, and provides isolation and work protection for LDC's construction and maintenance crews and external customers. LDC's control centre utilizes supervisory control and data acquisition (SCADA) systems to monitor, operate, sectionalize and restore the electricity distribution system.

(ii) Terminal Stations

LDC receives electricity at 34 terminal stations at which high voltage is stepped down to distribution-level voltages. These terminal stations contain power transformers and high-voltage switching equipment that are owned by Hydro One. These terminal stations also contain low-voltage equipment such as circuit breakers, switches and station busses that are typically owned by LDC.

(iii) Transmission System Terminal Stations

LDC receives electricity at Cavanagh transmission system terminal station at which high voltage is stepped down to distribution-level voltages. The transmission system terminal station contains power transformers, high-voltage switching equipment, and low-voltage equipment such as circuit breakers, switches and station busses that are owned by LDC.

One of LDC's largest capital initiatives currently in progress is the construction of Copeland Station in response to the developing need for distribution solutions in the downtown core of the City. Copeland Station will be considered a transmission system terminal station for which all the equipment and real property are owned by LDC.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest region of Toronto. During 2015, the Corporation completed all construction work related to the tunnel, and partially completed the placement of roof concrete and the reconstruction of the machine shop on top of the underground transformer station. As at December 31, 2015, the cumulative capital expenditures on the Copeland Station project amounted to \$166.7 million, of which \$23.7 million was recorded in 2015. All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the

most complex projects ever undertaken by the Corporation and unforeseen delays have extended the expected completion date from 2016 to 2017. The delays are attributable to a variety of factors, including the effect of inclement weather, challenging site conditions and contractor performance. Despite the delays, the total capital expenditures required to complete the project are expected to remain at approximately \$195.0 million, plus capitalized borrowing costs as applicable.

(iv) *Distribution Transformers and Municipal Substations*

Distribution voltage electricity is distributed from the terminal stations to distribution transformers that are typically located in buildings or vaults or mounted on poles or surface pads and that are used to reduce or step down voltages to utilization levels for supply to customers. The electricity distribution system includes approximately 60,440 distribution transformers. The electricity distribution system also includes 161 in-service municipal substations that are located in various parts of the City and are used to reduce or step down electricity voltage prior to delivery to distribution transformers. LDC also delivers electricity at distribution voltages directly to certain commercial and industrial customers that own their own substations.

(v) *Wires*

LDC distributes electricity through a network comprised of an overhead circuit of approximately 15,560 kilometres supported by approximately 176,500 poles and an underground circuit of approximately 12,920 kilometres.

(vi) *Metering*

LDC provides its customers with meters through which electricity passes before reaching a distribution board or service panel that directs the electricity to end use circuits on the customer's premises. The meters are used to measure electricity consumption. LDC owns the meters and is responsible for their maintenance and accuracy.

In accordance with the decision by the Province's Ministry of Energy to install Smart Meters throughout the Province, LDC launched its Smart Meter project in 2006. The Smart Meter project's objective was to install Smart Meters and supporting infrastructure for all residential and small (less than 50 kW) commercial customers. LDC substantially completed its Smart Meter project in 2010.

As part of its metering services, LDC also installs Unit Smart Meters in multi-unit complexes that fall within the Competitive Sector Multi-Unit Residential rate class. As at December 31, 2015, LDC had installed approximately 63,400 Unit Smart Meters in these types of multi-unit complexes.

(vii) *Reliability of Distribution System*

The table below sets forth certain industry recognized measurements of system reliability with respect to LDC's electricity distribution system and the composite measures reported by LDC and the CEA for the twelve month periods ending December 31 in the years indicated below.

	<u>LDC</u> <u>2015</u>	<u>LDC</u> <u>2014</u>	<u>CEA</u> <u>2014⁽¹⁾</u>
SAIDI	1.06	1.00	5.06
SAIFI	1.45	1.39	2.33
CAIDI.....	0.73	0.72	2.17

Note:

(1) Data was extracted from the CEA's 2014 Service Continuity Report on Distribution System Performance in Canadian Electrical Utilities, excluding significant events. At the date of this AIF, such report for the year 2015 has not been published by the CEA.

(b) LDC's Service Area and Customers

LDC is the sole provider of electricity distribution services in the City, and serves approximately 756,000 customers. The City is the largest city in Canada with a population of approximately 2.8 million. The City is a financial centre with large and diversified service and industrial sectors.

The table below sets out LDC's customer classes and certain operating data with respect to each class for each of the years in the two-year period ended December 31, 2015:

	Year ended December 31	
	2015	2014 ⁽⁴⁾
Residential Service ⁽¹⁾		
Number of customers (as at December 31).....	674,201	658,371
kWh.....	5,218,352,602	5,182,284,617
Revenue	\$808,461,172	\$788,469,353
% of total service revenue	23.2%	24.6%
General Service ⁽²⁾		
Number of customers (as at December 31)	81,492	81,481
kWh	17,742,699,122	17,875,124,098
Revenue	\$2,402,330,628	\$2,167,439,911
% of total service revenue	69.0%	67.5%
Large Users ⁽³⁾		
Number of customers (as at December 31)	44	43
kWh	2,156,733,674	2,198,509,538
Revenue.....	\$270,261,793	\$254,108,194
% of total service revenue	7.8%	7.9%
Total		
Number of customers (as at December 31)	755,737	739,895
kWh.....	25,117,785,398	25,255,918,253
Revenue	\$3,481,053,593	\$3,210,017,458

Notes:

- (1) "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.
- (2) "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.
- (3) "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or more averaged over a twelve-month period.
- (4) Effective January 1, 2015, the Corporation adopted IFRS and the Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS. Revenue for 2014 that was previously reported in accordance with US GAAP has been restated in accordance with IFRS.

(c) LDC's Customer Care and Billing System

On July 6, 2011, LDC implemented a new customer care and billing system for its regulated electricity distribution business. This system provides a modern and integrated billing platform that leverages the technology of Smart Meters and enables LDC to respond to evolving business and regulatory requirements.

(d) LDC's Real Property

The following table sets forth summary information with respect to the principal real property owned, leased or otherwise used by LDC:

<u>Property</u>	<u>Total</u>	<u>Owned</u>	<u>Leased</u>	<u>Other⁽¹⁾</u>
Terminal stations	34 sites	5	-	29
Transmission system terminal stations	1 site	1	-	-
Municipal substations	161 sites	148	4	9
Decommissioned municipal substations	28 sites	28	-	-
Control centre ⁽²⁾	1 site	1	-	-
Operation centres ⁽³⁾	5 sites	2	3	-
Other ⁽⁴⁾	8 sites	7	1	-

Notes:

- (1) Certain terminal stations and municipal substations are located on lands owned by the Province, the City and others. Where electricity distribution lines cross over and run parallel with lands owned by railway companies, appropriate access rights, generally referred to as crossing agreements, have been obtained from the railway companies.
- (2) LDC's control centre is located within one of its operations centres.
- (3) LDC's operation centres accommodate office, staff, crews, vehicles, equipment and material necessary to operate and monitor the electricity distribution system.
- (4) Other properties include locations under construction (including Copeland Station), small work centres and surplus properties.

Under the OEB Act, electricity distributors are entitled to apply to the OEB for authority to expropriate land required in connection with new or expanded electricity distribution lines or interconnections. If, after a hearing, the OEB is of the opinion that the expropriation of land is in the public interest, the OEB may make an order authorizing expropriation upon payment of specified compensation. The Electricity Act grandfathered thousands of existing unregistered easements, principally for distribution over third-party lands. The Electricity Act also authorizes electricity distributors to locate assets on, over or under public streets and highways.

(e) Regulation of LDC

(i) *Legislative Framework*

The Electricity Act and the OEB Act provide the broad legislative framework for the Province's electricity market.

The Electricity Act restructured the Province's electricity industry. Under the Electricity Act, the former Ontario Hydro was reorganized into five separate corporations (listed below under their current names):

- OPG, the entity responsible for the former Ontario Hydro's generation business;
- Hydro One, the entity responsible for the former Ontario Hydro's electricity transmission, distribution and energy services businesses;
- OEFC, the entity responsible for managing and retiring the former Ontario Hydro's outstanding indebtedness and remaining liabilities;
- IESO, a non-profit corporation responsible for central market operations, long-term planning, procurement and conservation efforts; and
- Electrical Safety Authority, a non-profit corporation responsible for the electric installation inspection function.

Additionally, the Electricity Act requires electricity distributors in the Province to keep their distribution businesses separate from their other businesses.

The business of LDC and other electricity distributors is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, the regulation of electricity distribution rates charged by LDC and other electricity distributors and transmission rates charged by Hydro One and other transmitters. The OEB Act states that, subject to certain exceptions, LDC and other electricity distributors shall not carry on any business activity other than the distribution of electricity, except through affiliated companies. As an exception to the general restriction on its business activities, the OEB Act permits LDC to provide additional services related to the promotion of CDM activities and alternative, cleaner and renewable sources of energy. As well, the OEB may authorize LDC to carry on a non-distribution business activity.

In 2004, the Electricity Restructuring Act established the OPA as a non-profit, self-financed organization with the mandate to ensure long-term electricity supply adequacy in the Province. The OPA is authorized and has the responsibility to implement an integrated power system supply plan and deliver CDM programs in the Province.

Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

The Energy Consumer Protection Act came into force on January 1, 2011. The Energy Consumer Protection Act amends several statutes, including the OEB Act, the Electricity Act, the Consumer Protection Act and the Residential Tenancies Act. The Energy Consumer Protection Act also enables and sets out the requirements relating to LDC's installation of Unit Smart Meters in multi-unit complexes and provides new rules regarding the manner in which energy consumers are to be billed for their electricity consumption.

On December 3, 2015, Bill 112 – Strengthening Consumer Protection and Electricity System Oversight Act, 2015 received Royal Assent and certain provisions thereunder were proclaimed into force effective as of March 4, 2016. The bill's measures as proclaimed into force amend the Energy Consumer Protection Act and the OEB Act by further enhancing consumer protection and increasing the OEB's powers with regard to utility regulation, including increases to potential administrative penalties for non-compliance. The bill also eliminates limitations on LDC affiliate lines of business and gives the OEB the discretion to authorize LDC and other electricity distributors to carry on a non-distribution business activity.

(ii) *Licences*

Distribution Licence

The OEB has granted LDC a distribution licence. The term of the current licence is until October 16, 2023. The licence allows LDC to own and operate an electricity distribution system in the City. Among other things, the licence provides that LDC must keep financial records associated with distributing electricity separate from its financial records associated with other activities, may not impose charges for the distribution of electricity except in accordance with distribution rate orders approved by the OEB and must comply with industry codes established by the OEB.

Electricity Retailer Licence

On March 7, 2000, the OEB issued an electricity retailer licence to TH Energy. The licence allowed TH Energy to retail electricity subject to the terms and conditions contained in the licence. This licence was most recently renewed on May 5, 2010 for a period of five years. As TH Energy does not currently engage in electricity retailing, it chose not to renew the licence, which terminated on May 4, 2015.

Electricity Generation Licence

On December 18, 2002, the OEB issued an electricity generation licence to TH Energy and TREC Windpower Co-operative (No.1) Incorporated (the co-venturers), in connection with a wind turbine located at Exhibition Place in the City. The licence allows the co-venturers to generate electricity or provide ancillary services for sale through the IESO-administered markets, or directly to another person, subject to certain terms and conditions. This licence terminates on December 17, 2022, although the term may be extended by the OEB.

(iii) *Industry Codes*

The OEB has established the Affiliate Relationships Code, the Distribution System Code, the Retail Settlement Code, the Standard Supply Service Code, and the Conservation and Demand Management Code. These codes prescribe minimum standards of conduct, as well as standards of service, for electricity distributors in the non-competitive electricity market, and have been assigned the following ranking in the event there is a conflict between them:

- (1) Affiliate Relationships Code
- (2) Distribution System Code
- (3) Retail Settlement Code
- (4) Standard Supply Service Code
- (5) Conservation and Demand Management Code

These codes are summarized below.

Affiliate Relationships Code

The Affiliate Relationships Code establishes standards and conditions for the interaction between electricity distributors and their affiliated companies. It is intended to minimize the potential for an electricity distributor to cross-subsidize competitive or non-monopoly activities, protect the confidentiality of consumer information collected by an electricity distributor and ensure that there is no preferential access to regulated services. The Affiliate Relationships Code prescribes standards of conduct for an electricity distributor with respect to the following: the degree of separation from affiliates; sharing of services and resources; transfer pricing; financial transactions with affiliates; equal access to services; and confidentiality of customer information.

Distribution System Code

The Distribution System Code establishes the minimum conditions that an electricity distributor must meet in carrying out its obligations to distribute electricity under its licence and under the Energy Competition Act, and has been amended as the regulatory environment has evolved. Generally, the Distribution System Code prescribes the rights and responsibilities of electricity distributors and electricity distribution customers with respect to the following: connections; connection agreements and conditions of service; expansion projects; alternative bids (available to customers for work otherwise done by an electricity distributor); metering; operations; disconnection and security deposits; and other matters.

Retail Settlement Code

The Retail Settlement Code outlines the obligations of an electricity distributor with respect to its relationship with retail market participants and its role as a retail market settlements administrator. Under the terms of the Retail Settlement Code, an electricity distributor is required to do the following: unbundle the costs of competitive electricity services and non-competitive electricity services; record, in variance accounts, the difference between amounts billed by the IESO to the electricity distributor for competitive and non-competitive electricity services, and the aggregate amounts billed by the electricity distributor to consumers, retailers and others for the same services; and provide electricity billing and settlement services to retailers and customers.

Standard Supply Service Code

The Standard Supply Service Code requires an electricity distributor to act as a default supplier and provide Standard Supply Service to persons connected to the electricity distributor's distribution system. The Standard Supply Service Code also specifies the conditions and manner by which OEB approved Standard Supply Service rates are to be charged to customers. Under the Standard Supply Service Code, an electricity distributor's rates for Standard Supply Service must be approved by the OEB and must consist of the price of electricity and an administrative charge that will allow the electricity distributor to cover its costs of providing the service.

Conservation and Demand Management Code

The Conservation and Demand Management Code sets out the obligations and requirements that licensed electricity distributors must comply with in relation to CDM targets as set out in their licences, as well as the operational framework for electricity distributor-operated CDM activities. The Conservation and Demand Management Code also sets out the conditions and rules that licensed electricity distributors are required to follow if they choose to use OEB approved CDM programs to meet their CDM targets. The Conservation and Demand Management Code applied specifically to CDM activities during the January 1, 2011 to December 31, 2014 timeframe. Subsequent CDM activities over the January 1, 2015 to December 31, 2020 timeframe are governed by the OEB's Conservation and Demand Management Requirement Guidelines for Electricity Distributors issued on December 19, 2014. See section 5.4 under the heading "Conservation and Demand Management" for more information on the Corporation's CDM activities.

(f) Distribution Rates

(i) Rate Setting Mechanism

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

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

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

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

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

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

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

On July 31, 2014, LDC filed a rate application with the OEB under the CIR method which sought approval of LDC's 2015 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective May 1, 2015, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2016 and ending on December 31, 2019. On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order.

See section 5.2 under the heading "Rate Applications" for more information on LDC's rate applications.

(ii) *Other Regulated Charges*

The OEB's 2006 Electricity Distribution Rate Handbook provides standard rates and guidelines to electricity distributors with respect to other regulated charges that are non-competitive in nature, required under OEB codes and guidelines, governed by the market rules or are under the direction of the Province, including transmission charges and retail service charges relating to services provided by electricity distributors to electricity retailers in accordance with the Retail Settlement Code. As part of its rate application filed on July 31, 2014, LDC sought the OEB's approval to update its other regulated charges commencing on May 1, 2015. In the CIR decision and rate order, the OEB approved updates to these other regulated charges.

4.4 Toronto Hydro Energy Services Inc.

TH Energy is a professional energy services company with \$26.8 million of Capital Assets as of December 31, 2015. Until January 1, 2012, TH Energy owned and operated all of the street lighting assets located in the City and had the sole right to provide maintenance and capital improvements to the street lighting systems throughout the City until 2035, and such services were sub-contracted to LDC. Effective January 1, 2012, TH Energy transferred a portion of its street lighting assets to LDC. TH Energy continues to provide street lighting system maintenance and capital improvement services to the City, and continues to sub-contract street lighting services to LDC. See section 5.3 under the heading "Street Lighting Activities" for more information on the transfer of street lighting assets from TH Energy to LDC.

Until June 30, 2013, TH Energy provided consolidated billing services to the City, and such services were sub-contracted to LDC. TH Energy also operates a wind turbine located at the Better Living Centre (Exhibition Place) in a joint venture with TREC Windpower Cooperative (No.1) Incorporated.

4.5 Environmental Matters

(a) **Environmental Protection Requirements**

Toronto Hydro is subject to extensive federal, provincial and local regulation relating to the protection of the environment. The principal federal legislation is the Canadian Environmental Protection Act which regulates the use, import, export and storage of toxic substances, including PCBs and ozone-depleting substances. Toronto Hydro is also subject to the federal Transportation of Dangerous Goods Act which prescribes safety standards and requirements for the handling and transportation of hazardous goods including PCBs and sets reporting, training and inspection requirements relating thereto.

The principal provincial legislation is the Environmental Protection Act which regulates releases and spills of contaminants, including PCBs, ozone-depleting substances and other halocarbons, contaminated sites, waste management, and the monitoring and reporting of airborne contaminant discharge. The provincial Technical Standards and Safety Act also applies to Toronto Hydro's operations with respect to the handling of and training related to compressed gas, propane and liquid fuels. The provincial Fire Protection and Prevention Act requires Toronto Hydro to incorporate procedures and training for dealing with any spills of flammable or combustible liquids. The provincial Dangerous Goods Transportation Act prescribes safety standards and requirements for the transportation of dangerous goods on provincial highways and sets out inspection requirements related thereto.

Municipal by-laws regulate discharges of industrial sewage and storm water run-off to the municipal sewer system and the reporting of the release of certain toxic substances into the environment.

(b) Financial and Operational Effects of Environmental Protection Requirements

In 2015, LDC spent approximately \$0.8 million to meet environmental protection requirements. Toronto Hydro increased hazardous waste management efficiency by contracting a single waste management company to handle the disposal of the majority of Toronto Hydro's hazardous waste. This resulted in decreased environmental protection costs compared to 2014. These costs are not anticipated to significantly increase for future years, and do not currently have a material impact on the Corporation's financial and operational results.

The Corporation recognizes a liability for the future environmental remediation of certain properties and for future removal and handling costs for contamination in electricity distribution equipment in service and in storage. The liability is recognized when the asset retirement obligation is incurred and when the fair value is determined.

(c) Environmental Policy and Oversight

Toronto Hydro has a strong commitment to the environment through the enforcement of a well-defined Environmental Policy. Conformance with the Environmental Policy is managed by Toronto Hydro's Environmental, Health and Safety department led by the Executive Vice-President and Chief Human Resources & Safety Officer. The content of the Environmental Policy is reviewed and approved annually by the Board.

Toronto Hydro's Environmental Policy identifies several core environmental principles, which include:

- Compliance with all applicable laws, codes and standards;
- Continual improvement of environmental performance through the establishment of annual objectives, targets and programs;
- Employee engagement through education, training and providing general awareness of the Environmental Policy requirements and the environmental management system;
- Community engagement including consultation and engagement of environmental issues within the community and various stakeholders such as suppliers, customers, regulators, industry and the public;
- Pollution prevention through the implementation of policies, programs and procedures; and
- Integration of environmental considerations into our business processes.

LDC manages its environmental aspects in conformance with ISO 14001:2004 and was re-certified on February 5, 2016 as meeting the requirements of the ISO 14001:2004 standard by a third party auditor.

Legislative environmental reporting for federal, provincial and municipal governments is compiled and submitted annually. Third party environmental compliance audits are also conducted biennially in conformance with LDC's environment, health and safety audit plan.

Toronto Hydro's environmental policies, programs and procedures are reviewed and approved by management. Quarterly updates are presented to the Board covering current environmental risks, environmental compliance audit findings, mitigation strategies and other material environmental matters.

4.6 Additional Information Regarding Toronto Hydro

(a) Employees

At December 31, 2015, Toronto Hydro had approximately 1,480 employees. Included in Toronto Hydro's employees are 873 members of bargaining units represented by the Canadian Union of Public Employees, Local One ("CUPE One"), and 52 engineers represented by the Society of Energy Professionals.

On February 13, 2014, CUPE One ratified collective agreements governing inside and outside employees for a four-year period expiring January 31, 2018. The collective agreements implemented a wage increase of 1.5% on February 1, 2014 and provide for general wage increases of 1.75%, effective on each of February 1, 2015 and February 1, 2016, respectively, and 2% effective February 1, 2017. The collective agreements also contain cost of living escalator

clauses that provide for wage adjustments corresponding to the percentage change in the Consumer Price Index. The escalator clauses only become effective if certain prescribed thresholds are exceeded.

On April 12, 2012, the Society of Energy Professionals ratified a new collective agreement for a four-year period expiring December 31, 2015. The collective agreement implemented wage increases of 1.5% retroactive to January 1, 2012, 1.75% effective January 1, 2013 and 2.0% effective on each of January 1, 2014 and January 1, 2015, respectively. Bargaining for a new Collective Agreement between the Society of Energy Professionals and Toronto Hydro began in December of 2015. Negotiations are ongoing and have, to date, proceeded without involvement from the Ministry of Labour.

Full time employees of Toronto Hydro participate in the OMERS pension plan. Plan benefits are determined on a formula based on the highest 5-year average contributory earnings and years of service with an offset for Canada Pension Plan benefits and are indexed to increases in the Consumer Price Index, subject to an annual maximum of 6%. Any increase in the Consumer Price Index above 6% per year is carried forward for later years. Both participating employers and participating employees are required to make equal plan contributions based on participating employees' eligible contributory earnings. All obligations to make payments to retirees under the OMERS pension plan are the responsibility of OMERS.

In addition to OMERS, Toronto Hydro provides other retirement and post-retirement benefits to employees, including medical, dental and life insurance benefits. See note 4(m) and note 14 to the Consolidated Financial Statements.

(b) Specialized Skills and Knowledge

Trades and technical jobs play a critical role in the safe and reliable design, construction and maintenance of LDC's electricity distribution system. These jobs include overhead, underground, and stations trades as well as controllers, designers and engineers. LDC hires experienced workers when available, along with apprentices to trades and technical positions. Trade apprentices require between 4 and 6 years to become fully competent and capable of performing all aspects of their job. LDC provides trades, legislative and compliance training through its apprenticeship program.

(c) Health and Safety

Toronto Hydro is committed to a safe and injury free work environment for all employees, contractors, visitors and the public. Through LDC's EHSMS, based on British Standards Institution OHSAS 18001:2007 Standard "*Occupational Health and Safety Management System - Requirements*", LDC maintains and reviews procedures, programs and the Occupational Health and Safety Policy which outlines several core principles including:

- Compliance
- Continual Improvement
- Engagement and Consultation
- Communication
- Accountability
- Risk Management
- Contractor Management
- Incident Investigation
- Performance Monitoring

The content of the Occupational Health and Safety Policy is reviewed and approved annually by the Board.

Toronto Hydro's health and safety performance is reviewed periodically by the Human Resources Committee of the Board. In 2015, the Total Recordable Injury Frequency was 1.16 recordable injuries per 200,000 hours worked compared to 1.18 in 2014.

LDC's legislated occupational health and safety requirements come under provincial jurisdiction exclusively and all legislated occupational health and safety reporting requirements are complied with. Management assurance that these

requirements are met is accomplished by commissioning third party health and safety compliance audits conducted in conformance with LDC's environmental, health and safety audit plan.

Toronto Hydro's occupational health and safety policies, programs and procedures are reviewed and approved by management. Quarterly updates are presented to the Board covering current occupational health and safety risks, performance, compliance audit findings, mitigation strategies and other occupational health and safety matters.

(d) Code of Business Conduct and Whistleblower Procedure

All employees, officers and directors of Toronto Hydro are required to comply with the principles set out in the Code of Business Conduct and Whistleblower Procedure (the "Code"), which was originally implemented by Toronto Hydro in 2003, and is reviewed, revised and approved by the Board from time to time. The Code provides guidance to all employees in situations of perceived conflict of interest. All employees, officers and directors of Toronto Hydro are required to complete training in respect of the Code and sign an attestation in accordance with the Code upon commencement of employment and every three years thereafter.

The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. Where the complaint involves the conduct of a director or officer of the Corporation, the Ethics Officer is required to report it to the Chair of the Audit Committee, who oversees the investigation of that complaint. In addition to the provisions of the Code, the Ethics Officer reports quarterly to the Audit Committee of the Board on the nature of complaints received including those related to audit and accounting matters. A copy of Toronto Hydro's Code of Business Conduct and Whistleblower Procedure is available on the SEDAR website at www.sedar.com.

(e) Insurance

Toronto Hydro's current insurance policies provide coverage for a variety of losses and expenses which might arise from time to time, including comprehensive general liability insurance, insurance covering all risk property, boiler and machinery, insurance covering loss or damage on certain physical assets, insurance covering liabilities of directors and officers, and automobile liability insurance. Toronto Hydro believes that the coverage, amounts and terms of its insurance arrangements are consistent with prudent Canadian industry practice.

(f) Investments

Toronto Hydro's investment activities are governed by the terms of the Shareholder Direction and by the terms of the Corporation's Treasury Policies. The Corporation's Treasury Policies, which were adopted by the Board, are administered by LDC's Treasury Department and overseen by the Corporation's CFO. The primary objective of the Treasury Policies is the implementation of appropriate and effective short-term cash management, investment and borrowing strategies as required to manage all corporate funds and related financial risks. The Treasury Policies include specific operational rules, procedures and benchmarks relating to cash management, liquidity, investments, foreign exchange hedging, borrowing of funds, interest rate risk management, investor relations and corporate debt financing.

(g) Intangible Property

The Corporation owns various intangible assets, such as computer software systems used in the course of business, and intellectual property, including the "Toronto Hydro" brand name and the trademark Toronto Hydro star logo. The Corporation also owns the trademarks peakSAVER[®], POWERSHIFT[®] and PEAKSAVER PLUS[®]. The trademarks peakSAVER[®] and PEAKSAVER PLUS[®] have been licensed by the Corporation to the IESO and sub-licensed to various electricity distributors in the Province for the promotion of a province-wide demand response CDM program.

(h) Seasonal Effects

The Corporation's revenues, all other things being equal, are impacted by changes in temperature. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling.

The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions.

PART 5 - GENERAL DEVELOPMENT OF THE BUSINESS

5.1 Business Operations

(a) Three Year History

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2015, 2014 and 2013. This information has been derived from the Consolidated Financial Statements and is presented in millions of dollars.

	Year ended December 31		
	2015 ⁽¹⁾	2014 ⁽¹⁾	2013 ⁽²⁾
Net income after net movements in regulatory balances ⁽¹⁾⁽²⁾	\$126.7	\$111.7	N/A
Net income ⁽²⁾	N/A	N/A	\$121.2
Capital expenditures	\$537.2	\$626.0	\$450.4
Total assets and regulatory balances ⁽¹⁾⁽²⁾	\$4,686.9	\$4,328.3	N/A
Total assets ⁽²⁾	N/A	N/A	\$3,797.5
Total equity	\$1,340.9	\$1,270.5	\$1,218.5

Notes:

- (1) Effective January 1, 2015, the Corporation's consolidated financial statements have been prepared in accordance with IFRS. Annual financial information for 2014 that was previously reported in accordance with US GAAP is now reported in accordance with IFRS.
- (2) Annual financial information for 2013 was prepared in accordance with US GAAP.

(b) Business Operations

Over the past three years, the Corporation continued to streamline its business operations to focus on LDC's core businesses of distributing electricity and engaging in CDM activities. See section 5.4 under the heading "Conservation and Demand Management" for more information on the Corporation's CDM activities.

On January 1, 2012, the Corporation completed the transfer of a portion of the street lighting assets from TH Energy to the new wholly-owned legal entity (1798594 Ontario Inc.), and the amalgamation of LDC with the new wholly-owned entity. See section 5.3 under the heading "Street Lighting Activities" for more information.

5.2 Rate Applications

Prior to 2015, LDC's electricity distribution rates were typically effective from May 1 to April 30 of the following year. Accordingly, LDC's distribution revenue for the first four months of 2014 was based on the electricity distribution rates approved for the May 1, 2013 to April 30, 2014 rate year (the "2013 Rate Year") and LDC's distribution revenue for the first four months of 2015 was based on the electricity distribution rates approved for the May 1, 2014 to April 30, 2015 rate year (the "2014 Rate Year").

In its rate application filed on July 31, 2014, LDC applied to transition to a rate year that matches LDC's fiscal year. On December 29, 2015, the OEB approved the transition, as proposed. Therefore, LDC's distribution revenue for the period of May 1, 2015 to December 31, 2015 was based on the electricity distribution rates approved for the May 1, 2015 to December 31, 2015 rate year (the "2015 Rate Year") and LDC's distribution revenue for 2016 will be based on the electricity distribution rates approved for the January 1, 2016 to December 31, 2016 rate year (the "2016 Rate Year").

The following is an overview of LDC's rate applications from 2012 to date.

(a) 2012-2014 Rate Applications

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

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

(b) 2015-2019 Rate Application

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

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

The OEB approved new deferral and variance accounts including accounts to capture variances related to revenue requirement for ICM capital work undertaken from 2012 to 2014 and revenue requirement associated with capital work during the CIR term. The OEB approved recovery of the \$15.8 million forecasted net book value relating to the stranded meters. The OEB also approved foregone revenue rate riders for the May 1, 2015 to February 29, 2016 period as well as other requested rate riders. A detailed discussion of LDC's deferral and variance accounts is outlined in note 9 to the Consolidated Financial Statements. The financial impact of the OEB's CIR decision and rate order on the deferral and variance accounts has been reflected in the Consolidated Financial Statements.

The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively.

(c) 2012-2014 ICM True-Up Application

The OEB's decision and rate order on LDC's 2012-2014 rate application directed that a reconciliation process take place to reflect the difference between the revenue collected pursuant to the ICM and the actual revenue requirement associated with actual in-service assets eligible for ICM funding. On March 8, 2016, LDC filed a rate application to true-up those amounts, in accordance with the OEB directive. The rate application requests approval to recover an additional \$11.1 million from ratepayers.

5.3 Street Lighting Activities

On June 15, 2009, the Corporation filed an application with the OEB seeking an electricity distribution licence for a new wholly-owned legal entity to which the Corporation intended 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 was 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 regard 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 street lighting assets could become regulated assets.

The Corporation performed a detailed asset operational review and financial valuation of the street lighting assets, which was submitted to the OEB on January 31, 2011.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets to a new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. The OEB decided that the rate base, revenue requirement and rate consequences of the transfer would be decided at LDC's next cost of service or rebasing rate application. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets as of January 1, 2012, including a post-closing adjustment, was \$42.5 million, subject to transaction costs. LDC sought a final determination of the rate base, revenue requirement and rate consequences of the street lighting transfer in the rate application filed on July 31, 2014. On December 29, 2015, the OEB approved the transfer of the street lighting assets into rate base effective January 1, 2015 at a transfer price of \$39.8 million, representing the opening net book value of the assets in 2015.

5.4 Conservation and Demand Management

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

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

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

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in

relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

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

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

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

5.5 OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain MEUs. On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts.

LDC reviewed the balance of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. LDC applied for disposition of the balance as part of its IRM/ICM Application filed on May 10, 2012. The OEB issued its decision and order on April 2, 2013 approving the disposition of the balance. The impact was recorded previously in the Corporation's consolidated financial statements.

5.6 Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. These Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency.

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for its fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption.

Effective January 1, 2015, the Corporation adopted IFRS and the Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS. The accounting policies are disclosed in note 4 of the Corporation's Consolidated Financial Statements. Significant accounting and disclosure differences between US GAAP and IFRS

and the areas that materially impact the consolidated financial statements on the date of transition and post-implementation included regulatory balances, debt issuance costs, prepaid lease, capital contributions, employee benefits, borrowing costs and PP&E derecognition. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant adjustments and how the transition from US GAAP to IFRS, including IFRS 1 *First-time Adoption of IFRS* elections, has affected the Corporation's Consolidated Financial Statements is provided in note 26 to the Consolidated Financial Statements.

In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 remains in force until either repealed or replaced by permanent guidance on rate regulated accounting from the IASB. The Corporation has elected to early adopt IFRS 14 in its Consolidated Financial Statements.

See section "IFRS Conversion Project" in the Corporation's MD&A for the year ended December 31, 2014 for more information on the Corporation's conversion to IFRS.

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make estimates and assumptions which affect the application of accounting policies, reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. A detailed discussion of significant accounting estimates is outlined in note 4(p) to the Consolidated Financial Statements.

PART 6 - RELATIONSHIP WITH THE CITY

6.1 Shareholder Direction

As sole shareholder of the Corporation, the City has adopted the Shareholder Direction that sets out the following corporate governance principles with respect to Toronto Hydro:

- the objectives and principles that govern the operations of Toronto Hydro;
- the matters in addition to those set out in the OBCA that require the approval of the City as the sole shareholder of the Corporation; and
- certain financial and administrative arrangements between the Corporation and the City.

(a) Shareholder Objectives and Principles

The Shareholder Direction requires Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as directed by City Council from time to time.

The Shareholder Direction provides that the following objectives and principles shall govern the operations of Toronto Hydro:

- to operate Toronto Hydro on an efficient and commercially prudent basis;
- to optimize the City's return on equity as the sole shareholder of the Corporation and operate Toronto Hydro with a view to meeting the financial performance objectives of the City as set out in the Shareholder Direction;

- to provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the City;
- to operate Toronto Hydro in an environmentally responsible manner consistent with the City's energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;
- to ensure that the business is managed in material compliance with all law; and
- to engage in recruitment and procurement practices designed to attract employees and suppliers from the City's diverse community.

The Shareholder Direction provides that the Board is responsible for determining and implementing the appropriate balance among these objectives and principles and for causing Toronto Hydro to conduct its affairs in accordance with the same.

(b) Shareholder Approval

In addition to those matters set out in the OBCA, the following matters, among others, require the approval of the City as the sole shareholder of the Corporation:

- subject to certain exceptions in the case of LDC, creating any security over the assets of the Corporation or LDC;
- in the case of LDC, providing any financial assistance to any person other than in accordance with the Shareholder Direction;
- in the case of the Corporation and LDC, making any investment in or providing any financial assistance to any subsidiary of the Corporation (other than LDC), other than trade payables incurred in the ordinary course of business on customary terms and an investment in or financial assistance to a subsidiary that originally was an investment in or financial assistance to LDC, in excess of 12% of the shareholder's equity of LDC as shown in its most recent financial statements; and
- acquiring any interest in the electricity distribution system, undertaking or securities of a distributor operating outside the City unless, among other things, the acquisition does not adversely affect the dividend payable to the City and there is no dilution of the City's shareholding in the Corporation.

The City has authorized the Corporation to provide financial assistance to its subsidiaries for the purpose of enabling them to carry on their respective businesses, including, in the case of LDC, for the purpose of satisfying the prudential requirements of the IESO. The Shareholder Direction limits the financial assistance that may be provided by the Corporation to its subsidiaries to an aggregate amount of \$500.0 million, except in the case of LDC, which financial assistance is unlimited.

(c) Financial Performance

The Shareholder Direction provides that the Board will use its best efforts to ensure that Toronto Hydro meets certain financial performance standards, including those relating to the credit rating and dividends.

(d) Credit Rating

The Shareholder Direction provides that the Corporation will obtain and maintain a rating of A minus or higher (or its equivalent rating, depending on the credit rating agency) on its senior debt securities, as rated by two accredited credit rating agencies in Ontario (which include S&P, DBRS and Moody's).

(e) Dividends

Subject to applicable law, the Shareholder Direction provides that the Corporation will pay dividends to the City each year amounting to the greater of \$25.0 million or 50% of the Corporation's consolidated net income after net

movements in regulatory balances for the prior fiscal year. The dividends are not cumulative and are payable as follows:

- \$6.25 million on the last day of each fiscal quarter of the year; and
- the amount, if any, by which 50% of the Corporation's annual consolidated net income after net movements in regulatory balances for the year exceeds \$25.0 million, within ten days after the approval of the Corporation's audited consolidated financial statements for the year by the Board.

The Corporation declared and paid dividends to the City totalling \$43.0 million in 2013, \$60.6 million in 2014, and \$56.25 million in 2015.

On March 2, 2016, the Board declared dividends in the amount of \$44.6 million. The dividends consisted of \$38.35 million with respect to net income after net movements in regulatory balances for the year ended December 31, 2015, payable to the City on March 11, 2016, and \$6.25 million with respect to the first quarter of 2016, payable to the City on March 31, 2016.

LDC declared and paid \$40.0 million dividends to the Corporation in 2013, and \$nil in 2014 and 2015.

TH Energy declared and paid \$nil dividends to the Corporation in 2013, 2014 and 2015.

6.2 Indebtedness to the City

On April 1, 2010, the City monetized its interest in the Amended and Restated City Note under which the Corporation had \$490.1 million of indebtedness outstanding to the City. The Amended and Restated City Note represented the Corporation's remaining indebtedness to the City in consideration for the transfer of \$980.2 million of electricity distribution system assets by the Toronto Hydro-Electric Commission and the City to LDC upon initial formation of Toronto Hydro on July 1, 1999.

The Amended and Restated City Note was converted, in accordance with its terms, into two series of debentures of the Corporation ("Series 4" and "Series 5") on April 1, 2010 and sold to the public by a syndicate of investment dealers. The Corporation did not receive any proceeds from the offering of the Series 4 and Series 5 debentures. Following the completion of the offering of the Series 4 and Series 5 debentures, the Amended and Restated City Note was cancelled. The Corporation repaid the Series 4 and Series 5 debentures which matured on December 30, 2011 and May 6, 2013, respectively.

As at the date of this AIF, the Corporation has no further indebtedness outstanding to the City.

6.3 Services Provided to the City

Toronto Hydro provides certain services to the City at commercial and regulated rates, including street lighting services, and, prior to June 30, 2013 only, consolidated electricity billing services. Ongoing services are provided by TH Energy and sub-contracted to LDC. See section 4.4 under the heading "Toronto Hydro Energy Services Inc." for more information. See note 23 to the Consolidated Financial Statements.

PART 7 - TAXATION

7.1 Tax Regime

The Corporation is exempt from tax under the ITA, if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the TA.

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the OEFC in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

If the Corporation or a subsidiary ceases to be exempt from tax under the ITA and the TA, it will become subject to tax under those statutes, will no longer be required to make PILs payments to the OEFC, and will be deemed to have disposed of its assets for proceeds of disposition equal to their fair market value at that time and to have reacquired its assets at the same amount with the result that:

- such corporation would become liable to make a PILs payment in respect of any income or gains arising as a result of these deemed dispositions; and
- the amount of annual taxes payable by the corporation under the ITA, and the TA may be different from the PILs payment that would be payable without a loss of tax-exempt status to reflect, among other things, the consequences of these deemed dispositions and acquisitions.

The Electricity Act also provides that a municipal corporation or an MEU is required to pay a transfer tax when it transfers Electricity Property. An interest in Electricity Property includes any interest in a corporation, partnership or other entity that derives its value in whole or in part from Electricity Property. The transfer tax is the prescribed percentage (33% for transfers occurring prior to January 1, 2016, 22% proposed for transfers occurring between January 1, 2016 and December 31, 2018, and 33% for transfers occurring thereafter) of the fair market value of the interest transferred. The amount of transfer tax payable where the interest that is transferred is an interest in a corporation, partnership or other entity, is calculated in accordance with a special rule. The amount of transfer tax payable by an MEU on a transfer of Electricity Property may be reduced by:

- any PILs payment made by the MEU in respect of the part of the taxation year up to and including the date that the transfer takes place or a previous taxation year;
- any amount that the MEU has paid as tax under Part III of the TA in respect of the part of the taxation year up to and including the date of the transfer or a previous taxation year; and
- any amount that the MEU would be liable to pay under Part I of the ITA in respect of the taxation year if that tax were calculated on the basis that the MEU had no income during the taxation year other than the capital gain, or income under paragraph 14(1)(b) of the ITA in respect of the disposition of eligible capital property, arising on the transfer of the property subject to the transfer tax.

Transfers of Electricity Property made to a municipal corporation, a MEU, Hydro One or OPG will be an excluded transfer and thereby exempt from the transfer tax.

In addition, a refund of transfer tax may be made where such tax had been paid on the sale or transfer of Electricity Property and where the proceeds of that transfer were reinvested in certain other capital or depreciable assets used in connection with generating, transmitting, distributing or retailing electricity in Ontario and, subject to certain deeming rules, before the end of the second taxation year following the taxation year in which the liability to pay the transfer tax arose.

PILs payments are deductible in computing the transfer tax only to the extent that they have not been previously applied to reduce transfer tax payable by a municipal corporation or a MEU.

7.2 PILs Recoveries through Rates

The OEB's Filing Requirements for Electricity Distribution Rate Applications provides for electricity distribution rate adjustments to permit recoveries relating to PILs payments. These recoveries are recalculated and submitted for recovery by LDC in each cost of service or rebasing distribution rate application. LDC is also generally at risk for variances between forecasted and actual PILs paid, excluding variances arising from changes in tax legislation not

assumed in the setting of rates for the period in question, which variances are disposed of through deferral accounts under cost of service, IRM or CIR. See note 9(k) to the Consolidated Financial Statements.

PART 8 - RISK FACTORS

8.1 Risk Oversight

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. Toronto Hydro executes its ERM activities via an ERM framework that is aligned to industry best practices and international guidelines. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations. It helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing all aspects of the business.

The ERM framework is operationalized by a consistent, disciplined methodology that clearly defines the risk management process which incorporates subjective elements, risk quantification and risk interdependencies.

While Toronto Hydro's philosophy is that ERM is the responsibility of all business units, at all levels, in strategic and operational matters, the ERM governance structure is comprised of three key levels.

At the top level is the Board, which works to maintain a general understanding of the risk categories, the types of risks to which Toronto Hydro may be exposed and the practices used to identify, assess, measure and manage those risks. The Board reviews Toronto Hydro's risk profile and treatment activities on a quarterly basis. The risk profile is a list of key risks that represent the greatest threats to achieving Toronto Hydro's strategic objectives.

The second level is the ROC, a lead body to ensure systems are in place to identify, manage, and monitor risks. Through its review of reports from the business and other areas, the ROC assesses the appropriateness and consistent application of systems to manage risks within Toronto Hydro. The ROC also ensures that key risks are brought forward to the attention of the Board and for action by executive management.

Finally, the third level is the Risk Forum. The Risk Forum supports the ROC and is a collection of subject matter experts from across Toronto Hydro who actively engage in the day-to-day management of risks. Working with the ROC, the Risk Forum oversees Toronto Hydro's risk profile, its performance against the defined risk appetite and determines appropriate risk responses. They also work to ensure effective, efficient, complete and transparent risk reporting to the ROC.

Toronto Hydro's business is subject to a variety of risks including those described in the following sections.

8.2 Condition of Distribution Assets

LDC estimates that approximately one-third of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. However, if LDC is unable to carry out these plans in a timely and optimal manner, equipment performance will degrade which may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

8.3 Information Technology Systems and Cyber Security

Toronto Hydro's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and Toronto Hydro's financial, billing and business systems to capture data and to produce timely and accurate information. Failures of any one of the financial, business and operating systems could have a material adverse effect on the Corporation's business, operating results, financial condition and prospects. Toronto Hydro mitigates this risk through various methods including the implementation of high availability and redundancy in its core infrastructure and application components. Electricity distribution systems are isolated from business systems and operate independently.

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information, additional regulatory scrutiny, litigation and reputational damage. Toronto Hydro has implemented security controls aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework. Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets from a cyber-attack or the effects thereof.

Information management risk is the risk of loss or harm resulting from the failure to manage information appropriately. Exposure to this risk exists when information is acquired or created, processed, used, shared, accessed, retained or disposed. With respect to personal information, the failure to manage information appropriately can result in the misuse of personal information or privacy breaches. With respect to customer information, the inability to process information accurately and on a timely basis can result in service disruptions. With respect to corporate and proprietary information, the mismanagement of information can result in the disclosure of confidential information, the unavailability of information when it is required and the reliance on inaccurate information for decision-making purposes. Such events could lead to legal and regulatory consequences, reputational damage and financial loss.

8.4 Regulatory Developments

Ontario's electricity industry regulatory developments and policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to provide reliable service to its customers. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates, at levels that will permit LDC to carry out its planned capital work programs required to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates;
- the OEB will not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;

- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by Toronto Hydro could also have a significant impact on Toronto Hydro. There can be no assurance that Toronto Hydro will be able to comply with applicable future laws, rules, regulations and policies. Failure by Toronto Hydro to comply with applicable laws, rules, regulations and policies may subject Toronto Hydro to civil or regulatory proceedings that may have a material adverse effect on the Corporation. The OEB may not allow recovery for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Any future regulatory decision to disallow or limit the recovery of costs could lead to potential asset impairment and charges to results from operations, which could have a material adverse effect on Toronto Hydro.

8.5 Natural and Other Unexpected Occurrences

Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences such as severe or unexpected weather conditions caused by climate change and other factors, terrorism and pandemics. Although Toronto Hydro's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has insurance, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC would apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

8.6 Additional Debt Financing and Credit Rating

Cash generated from operations, after the payment of dividends, is not expected to be sufficient to repay existing indebtedness, fund Capital Expenditures and meet other liquidity requirements over the next 12 months. The Corporation relies on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund Capital Expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market. See notes 12 and 13 to the Consolidated Financial Statements.

In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its commercial paper obligations as they become due. See section 9.3 under the heading "Credit Facilities" for more information on the Corporation's Revolving Credit Facility.

8.7 Conflicts of Interest

The City owns all of the outstanding shares of the Corporation and has the power through the Shareholder Direction to determine the composition of the Board and influence the Corporation's major business and corporate decisions, including its financing programs and dividend payments. A conflict may arise between the City's role as the sole shareholder of the Corporation and its role as the administrator of the City's budget and other matters for the residents of the City.

The OEB Affiliate Relationships Code for Distributors and Transmitters may not address these risks or, consistent with the code, the OEB may not permit recovery of the costs associated with the realization of these risks.

8.8 Change of Ownership

The City may decide to sell all or part of the Corporation. In the case of such event, depending on the nature of the transaction, the Corporation's credit ratings could be negatively affected.

8.9 Market and Credit Risk

LDC is subject to credit risk with respect to customer non-payment of electricity bills. LDC is permitted to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis.

Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-retirement benefit obligations. Toronto Hydro estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of the Corporation, as at December 31, 2015, by \$45.5 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2015, by \$54.1 million.

As at December 31, 2015, aside from the valuation of its post-retirement benefit obligations, Toronto Hydro was exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, and customers' advance deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$3.9 million to annual finance costs.

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

8.10 Insurance

Although Toronto Hydro maintains insurance as described under section 4.6(e) under the heading "Insurance" above, there can be no assurance that Toronto Hydro will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available. In addition, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Toronto Hydro's business. Toronto Hydro self-insures against some of its risks (e.g., business interruption, physical damage to certain automobiles, and deductibles). The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by Toronto Hydro could have a material adverse effect on the Corporation's results of operations and financial position.

8.11 Real Property Rights

Certain terminal stations and municipal sub-stations of LDC are located on lands owned by the Province, the City and others. In some cases, LDC does not have and may not be able to obtain formal access agreements with respect to such facilities. Failure to obtain or maintain access agreements could adversely affect LDC's operations.

8.12 Work Force Renewal

Over the next decade, a significant portion of Toronto Hydro's employees will become eligible for retirement, including potential retirements occurring in supervisory, trades and technical positions. Accordingly, Toronto Hydro will be required to attract, train and retain skilled employees. There can be no assurance that Toronto Hydro will be able to attract and retain the required workforce.

8.13 Labour Relations

Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions to adapt to changing circumstances. Toronto Hydro's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions and its ability to develop plans and approaches that are acceptable to its labour unions. There can be no assurance that Toronto Hydro will be able to secure the support of its labour unions.

8.14 Electricity Usage

LDC's electricity distribution rates are comprised of a fixed charge and a usage-based (consumption or demand) charge. The volume of electricity used by LDC's customers during any period is governed by events largely outside LDC's control (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity and general economic conditions could affect overall electricity consumption). Additionally, usage may be decreased in the future due to the impact of CDM programs, distributed generation, renewable energy, and advances in technology. The current pace of technological advancement in distributed generation, renewable energy, and energy efficiency in both appliances and equipment could reduce consumption as costs for new technology decrease and usage becomes widespread. Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

Economic conditions could also lead to lower overall electricity usage, particularly in the commercial customer segment, which is estimated to be the most sensitive to economic changes. Lower electricity use by customers could negatively impact LDC's revenue. On an annual basis, the Corporation estimates that a decrease of 1% in electricity consumption would reduce distribution revenue by approximately \$3.5 million.

8.15 LDC Competition

The OEB distribution licence issued to LDC stipulates a service area that reflects the territory within the City. By law, only the OEB can grant such a licence for a service area and only an entity with such a licence can provide licenced services to the public-at-large within a service area. The OEB has not granted any other distribution licence that permits distribution within LDC's service area. In addition to this regulatory barrier to entry, there are other barriers to entry, including the cost of constructing an electricity distribution system, physical space limitations within the right-of-way, the specialized skills associated with the distribution business, the level of expertise required to achieve operational and regulatory compliance, and LDC's relationships with its customers. There can be no assurance that these barriers will continue to be sufficient to prevent this type of competition.

Other regulated and unregulated entities have always competed with LDC and its predecessors to provide customers with other sources of energy, including electricity. The pervasiveness of this competition and its effects on LDC's distribution business have varied over time and continue to vary based on many factors, including the relative price of energy source (e.g., natural gas, grid-supplied electricity, behind-the-meter generation) and technology advancements (e.g., multi-unit building sub-metering, micro-grids, electricity storage). There can be no assurance that the future nature, prevalence, or effects of these forms of competition will be comparable to current or historic experience.

PART 9 - CAPITAL STRUCTURE

9.1 Share Capital

The authorized capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,000 common shares are issued and outstanding as at the date of this AIF. The City is the sole shareholder of the Corporation. See note 17 to the Consolidated Financial Statements.

9.2 Debentures

On May 7, 2003, the Corporation issued \$225.0 million 6.11% senior unsecured debentures due May 7, 2013 ("Series 1"). On November 14, 2007, the Corporation issued \$250.0 million 5.15% senior unsecured debentures due

November 14, 2017 ("Series 2"). On November 12, 2009, the Corporation issued \$250.0 million 4.49% senior unsecured debentures, due November 12, 2019 ("Series 3"). The net proceeds from the sale of the Series 1, Series 2 and Series 3 debentures were used by the Corporation for general corporate purposes including the repayment of then-existing indebtedness to the City under the terms of the Amended and Restated City Note.

On April 1, 2010, the Amended and Restated City Note was converted, in accordance with its terms, into \$245.0 million 6.11% senior unsecured debentures due December 30, 2011 ("Series 4") and \$245.0 million 6.11% senior unsecured debentures due May 6, 2013 ("Series 5") and sold to the public by a syndicate of investment dealers. The Corporation did not receive any proceeds from the offering of the Series 4 and Series 5 debentures. See section 6.2 under the heading "Indebtedness to the City" for further information.

On May 20, 2010, the Corporation issued \$200.0 million 5.54% senior unsecured debentures due May 21, 2040 ("Series 6"). The net proceeds from the sale of the Series 6 debentures were used principally to finance regulated Capital Expenditures of LDC.

On November 18, 2011, the Corporation issued \$300.0 million 3.54% senior unsecured debentures, due November 18, 2021 ("Series 7"). The net proceeds from the sale of the Series 7 debentures were used to repay the Corporation's Series 4 debentures which matured on December 30, 2011 for general corporate purposes.

On April 9, 2013, the Corporation issued \$250.0 million of 2.91% senior unsecured debentures due April 10, 2023 ("Series 8") and \$200.0 million of 3.96% senior unsecured debentures due April 9, 2063 ("Series 9"). The net proceeds of the debentures, together with borrowings under the Corporation's revolving credit facility, were used to repay the Corporation's Series 1 and Series 5 debentures which matured on May 7, 2013 and May 6, 2013 respectively.

On September 16, 2014, the Corporation issued \$200.0 million of 4.08% senior unsecured debentures at a price of \$999.48 per \$1,000 principal amount due September 16, 2044 ("Series 10"). The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes.

The Corporation filed a base shelf prospectus dated January 9, 2015 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus. See note 13 to the Consolidated Financial Statements.

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 ("Series 11"). The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes.

On September 2, 2015, the Corporation re-opened its Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures at a price of \$1,004.68 per \$1,000 principal amount due April 9, 2063, carrying the same terms and conditions as the original issuance. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes.

The Corporation may issue up to \$755.0 million of additional debentures under its existing base shelf prospectus.

9.3 Credit Facility

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2020 ("Revolving Credit Facility"), pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by \$100.0 million from \$700.0 million to \$800.0 million and the expiry date extended by one year from October 10, 2019 to October 10, 2020. Borrowings under the Revolving Credit Facility bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Corporation's credit rating.

The Revolving Credit Facility contains certain covenants, the most significant of which is a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2015, the Corporation was in compliance with all covenants included in its Revolving Credit Facility.

The Corporation has a CP Program allowing up to \$600.0 million of unsecured short-term promissory notes to be issued in various maturities of no more than one year. On July 30, 2015, the amount the Corporation may issue under this program was increased by \$100.0 million from \$500.0 million to \$600.0 million. The CP Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the CP Program are used for general corporate purposes. Borrowings under the CP Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to:

- a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"); and
- a \$20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management ("Working Capital Facility").

The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and CP Program are as follows:

	<u>Revolving Credit Facility Limit</u>	<u>Revolving Credit Facility Borrowings</u>	<u>Commercial Paper Outstanding</u>	<u>Revolving Credit Facility Availability</u>
December 31, 2015.....	\$800.0 million	-	\$324.0 million	\$476.0 million
December 31, 2014.....	\$700.0 million	-	\$308.0 million	\$392.0 million

For the year ended December 31, 2015, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and CP Program were \$289.1 million with a weighted average interest rate of 0.91%.

As at December 31, 2015, \$14.2 million had been drawn under the Working Capital Facility and \$32.4 million of letters of credit had been issued against the Prudential Facility.

9.4 Credit Rating

As at December 31, 2015, the debentures issued under the Corporation's MTN Program and the commercial paper issued under the Corporation's CP Program were rated as follows:

	<u>Debentures</u>	<u>Commercial paper</u>
DBRS	A	R-1 (low)
S&P	A	-

DBRS rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". All rating categories other than AAA and D also contain the subcategories "(high)" and "(low)" to indicate relative standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "A" category, however, may be vulnerable to future events, but qualifying negative factors are considered manageable.

DBRS rates short-term debt instruments by rating categories ranging from a high of "R-1 (high)" to a low of "D". An R-1 (low) rating is the third highest of the ten rating categories. Short-term debt instruments which are rated in the "R-1 (low)" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "R-1 (low)" category, however, may be vulnerable to future events, but qualifying negative factors are considered manageable.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within

the major rating categories. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

The Debentures are not listed, posted for trading or quoted on any stock exchange or quotation system.

The Debentures have been issued under the CDSX book entry system administered by CDS Clearing and Depository Services Inc. ("CDS") with BNY Trust Company of Canada as trustee. Accordingly, a nominee of CDS is the registered holder of the Debentures and beneficial ownership of the Debentures is evidenced through book entry credits to securities accounts of CDS participants (e.g., banks, trust companies and securities dealers), who act as agents on behalf of beneficial owners who are their customers, rather than by physical certificates representing the Debentures.

For the years ended December 31, 2015 and 2014, payments were made to both DBRS and S&P for credit rating services only.

PART 10 - DIRECTORS AND OFFICERS

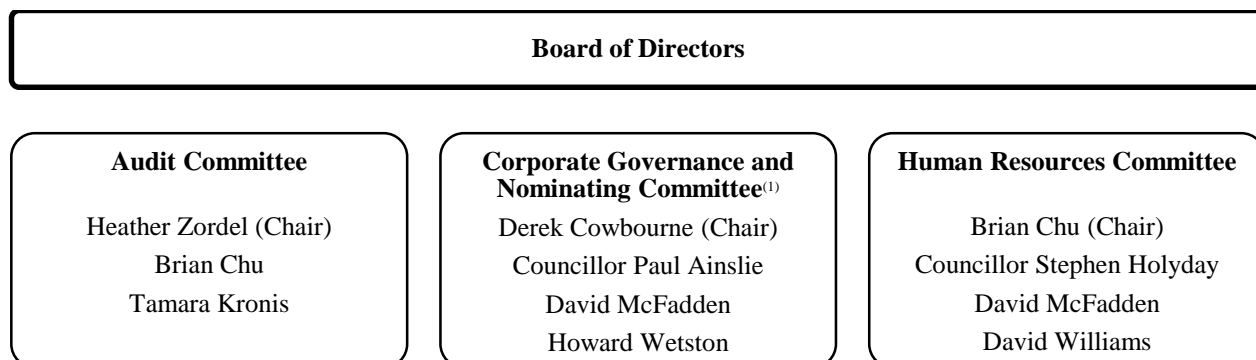
10.1 Nomination of Directors

As at the date of this AIF, the Board consists of ten directors, with one additional directorship being vacant, all of whom are appointed by the sole shareholder of the Corporation, the City.

Pursuant to the Shareholder Direction, in electing directors to the Board, the City gives due regard to the qualifications of a candidate, including: experience or knowledge; commercial sensitivity and acumen; independence of judgment; and personal integrity. The City seeks candidates with experience and knowledge in: public utility commissions or boards of major corporations or other commercial enterprises; corporate finance; corporate governance; market development; large system operation and management; urban energy industries; and public policy issues and laws relating to Toronto Hydro, the electricity industry, environmental matters, labour relations and occupational health and safety issues. Each citizen director is elected to serve for a term of up to two years or until his or her successor is elected. Each City Councillor director is elected to serve for two years or until his or her successor is elected. As at the date of this AIF, female directors constituted 20% (2 of 10) of the members of the Corporation's Board.

10.2 Committees of the Board of Directors

The Board had established three standing committees (Audit Committee, Corporate Governance and Nominating Committee, and Human Resources Committee) as shown in the following chart.



(1) As of February 19, 2016, the name of the Corporate Governance Committee was changed to the Corporate Governance and Nominating Committee.

(a) Audit Committee

The Audit Committee is responsible for overseeing the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures and financial risk management systems. The Audit Committee reviews the Corporation's quarterly and annual financial statements as well as financial statements prepared in connection with the requirements of applicable regulatory authorities, reviews the audit plans of the external auditors, oversees the internal audit of the Corporation, reviews reports related to reimbursement of business related expenses of officers and directors, and recommends the external auditor to the Board for appointment by the Corporation's sole shareholder. See Part 11 under the heading "Audit Committee" below for further information on the Audit Committee.

(b) Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is responsible for considering and making recommendations to the Board with respect to matters relating to the corporate governance of Toronto Hydro, including board and committee composition and mandates, and guidelines for assessing the effectiveness of the Board and its committees and procedures to ensure that the Board functions independently from management.

As part of its governance function, the Corporate Governance and Nominating Committee reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's sole shareholder by the Board. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of LDC for approval by the Corporation's Board of Directors as required by the Affiliate Relationships Code. The Corporate Governance and Nominating Committee reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The Corporate Governance and Nominating Committee is also responsible for periodically reviewing with management the Corporation's energy policy strategies and related stakeholder management.

The Corporate Governance and Nominating Committee is comprised of Derek Cowbourne (Chair), Councillor Paul Ainslie, David McFadden and Howard Wetston. Mr. Cowbourne, Mr. McFadden and Mr. Wetston are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Councillor Ainslie is not independent within the meaning of applicable Canadian securities laws.

(c) Human Resources Committee

The former Compensation and Health and Safety Committees were combined to form the new Human Resources Committee on May 16, 2013. The Human Resources Committee is responsible for reviewing and assisting the Board in overseeing the recruitment and assessment of the CEO and the compensation of the CEO, reviewing and approving

the compensation of the executive officers, reviewing and approving executive compensation disclosure under applicable securities laws, and reviewing and making recommendations to the Board regarding the compensation structure and benefit plans and programs of Toronto Hydro. The Human Resources Committee is also responsible for reviewing and approving the parameters of collective bargaining negotiations, and reviewing and making recommendations to the Board with respect to environmental and health and safety matters. See section 12.1(a) under the heading “Human Resources Committee” for further information on the Human Resources Committee.

10.3 Directors

The following summaries set forth, for each of the directors of the Corporation, his or her name, province and country of residence, the date on which he or she became a director and the expiry date of his or her current term, his or her relevant education and experience, principal occupations within the five preceding years and board memberships with other reporting issuers. The following tables also summarize the attendance of individual directors at of Board and standing committee meetings held during 2015 and 2016 as of the date of this AIF.

David Williams
Ontario, Canada

Director since: March 31, 2010 (re-appointed on December 10, 2015)
Expiry of current term: December 10, 2016

Mr. Williams has extensive business experience in both the private and public sectors. He currently serves as Chair of the Board of Morrison Lamothe Inc., Director of Mitel Networks Corporation, Lead Director of Mattamy Homes Corporation and Director of PC Financial Bank. His past business experience includes positions as Interim President, Chief Executive Officer and Chair at Shoppers Drug Mart Corporation, President and Chief Executive Officer at Workplace Safety and Insurance Board, and President at National Grocers Limited. Mr. Williams also held senior executive and finance roles with George Weston Limited and Loblaw Companies Limited, including a term as Chief Financial Officer of Loblaw Companies Limited. Mr. Williams is a CPA, CGA of Ontario and an ICD.D. Mr. Williams is well versed and up-to-date with compensation systems and benefit programs at all levels. Through his vast experience as a chief executive, Mr. Williams has the business experience of being the ultimate decision maker, together with the organizations' boards of directors and compensation committees, as applicable, regarding compensation issues.

Mr. Williams also served as a director of the Corporation from June 23, 1999 to August 1, 2005.

Principal Occupation:

Director and Chair of the Board of Directors, Toronto Hydro Corporation
Former interim President and Chief Executive Officer, Shoppers Drug Mart Corporation (February 2011 to October 2011)

Board/Committee Membership

	2015 Attendance	
Board	5 of 5	100.0%
Human Resources Committee	4 of 4	100.0%

	2016 Attendance⁽¹⁾	
Board	2 of 2	100%
Human Resources Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:

Director of Mitel Networks Corporation

Note:

(1) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

Brian Chu⁽¹⁾
Ontario, Canada

Director since: December 10, 2015
Expiry of current term: December 10, 2017, or effective date of appointment of a successor director

Mr. Chu is a founding partner of the law firm of Bogart Robertson & Chu LLP, whose practice focuses on corporate and commercial real estate law. Mr. Chu currently serves on the Board of Directors of the Technical Standards & Safety Authority and is a member of its Governance, Safety and Human Resources Committee. He also serves as Trustee and Chair of the Centennial Centre of Science and Technology (Ontario Science Centre). In the past, Mr. Chu served as Chair of the Audit Committee of Centennial College and as a member of the Finance Committee of the Ontario College of Art and Design. Mr. Chu also served as Chair of the Finance and Audit Committee of the Laidlaw Foundation. Mr. Chu has been a member of the Canadian Tax Foundation since 1986. Mr. Chu holds a Juris Doctor from the University of Toronto and is a member of the Law Society of Upper Canada. Mr. Chu has extensive experience in compensation practices and policies, including determining executive compensation and setting, as well as communicating and reviewing, CEO performance objectives. In his role at Ontario Science Centre, he is accountable to the Minister of Tourism, Culture and Sport on all matters related to the hiring and termination of the CEO. Mr. Chu is also responsible for human resources matters, salary and compensation relating to all staff at Bogart Robertson & Chu LLP.

Mr. Chu also served as a director of the Corporation from August 1, 2005 to April 14, 2013, during which time he served as a member of the Audit Committee and the Corporate Governance Committee, the Chair of the Corporate Governance Committee (from August 25, 2005 November 30, 2008) and the Chair of the Audit Committee (from December 1, 2008 to April 14, 2013).

Principal Occupation:

Partner at Bogart Robertson & Chu LLP

Board/Committee Membership

	2015 Attendance	
Board	NA ⁽²⁾	
Audit Committee ⁽¹⁾	4 of 4	100.0%
Special Committee	6 of 6	100.0%
	2016 Attendance⁽³⁾	
Board	2 of 2	100%
Audit Committee	1 of 1	100%
Human Resources Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:

None

Note:

- (1) Effective December 10, 2015, Mr. Chu was appointed as a director of the Corporation. Mr. Chu was a member of the Board of Directors of LDC and a member of the Corporation's Audit Committee prior to December 10, 2015.
 - (2) No meeting was held between the date of appointment and December 31, 2015.
 - (3) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.
-

David McFadden

Ontario, Canada

Director since: December 10, 2015

Expiry of current term: December 10, 2017, or effective date of appointment of a successor director

Mr. McFadden is a lawyer whose practice focuses on the energy, infrastructure, financial services and aerospace industries. He is currently Counsel at Gowling Lafleur Henderson LLP, and a former member of the firm's Board of Trustees. Mr. McFadden currently serves as Chair of the Canadian and International Infrastructure Advisory Boards of Fengate Capital Management, Chair of the Ontario Energy Association, Chair of Collus PowerStream Corporation, Chair of PCI Geomatics Inc., and Chair of 407 International Inc. He is also a member of the Board of Directors of the Energy Council of Canada, a member of the IESO's Smart Grid Forum, a member of the Board of Governors of York University, and a member of the Council for Clean and Reliable Electricity. In the past, Mr. McFadden has served on the Ontario Distribution Sector Review Panel and the Ontario Government's Electricity Conservation and Supply Task Force. Mr. McFadden holds a Bachelor of Laws at Osgoode Hall Law School and a Bachelor of Arts at the University of Toronto.

Principal Occupation:

Counsel, Gowling Lafleur Henderson LLP

Board/Committee Membership

Board

2015 AttendanceNA⁽¹⁾

2016 Attendance⁽²⁾

Board	2 of 2	100%
Corporate Governance and Nominating Committee	1 of 1	100%
Human Resources Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:

407 International Inc.

Note:

(1) No meeting was held between the date of appointment and December 31, 2015.

(2) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

Derek Cowbourne

Ontario, Canada

Director since: December 1, 2008 (re-appointed on December 10, 2015)

Expiry of current term: December 10, 2016

Mr. Cowbourne has extensive corporate governance experience. Mr. Cowbourne served as Chief Operating Officer and Vice President, Market and System Operations of IESO. At the IESO, Mr. Cowbourne was responsible for managing the operation of Ontario's competitive wholesale electricity market and for directing the operation of the IESO controlled grid and forecasting and assessing resource and transmission adequacy. Until his retirement in 2008, Mr. Cowbourne had been with the IESO since its formation as the Independent Market Operator in 1999, holding progressive positions including Chief Operating Officer, Vice-President, Market Services and Vice-President, Reliability Assurance. Mr. Cowbourne served as Chairman of Ontario's Market Advisory Council and the IESO's Technical Panel. He served as Chairman of the North American Electric Reliability Council's Operating Committee, which oversaw the reliable operation of the power systems of Canada and the United States and Chair, Northeast Power Coordinating Council's Reliability Coordinating Committee. Mr. Cowbourne is a member of the Professional Engineers of Ontario and an ICD.D. Mr. Cowbourne is a graduate of Manchester University (UK), a Chartered Engineer, and a Fellow of the Institution of Engineering and Technology.

Principal Occupation:

Director, Toronto Hydro Corporation

Board/Committee Membership

	2015 Attendance	
Board	5 of 5	100.0%
Corporate Governance Committee	4 of 4	100.0%
Special Committee	5 of 6	83.3%

	2016 Attendance⁽¹⁾	
Board	2 of 2	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:

None

Note:

(1) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

Heather Zordel
Ontario, Canada

Director since: December 10, 2015
Expiry of current term: December 10, 2017, or effective date of appointment of a successor director

Ms. Zordel is a lawyer whose practice focuses on corporate finance, securities regulatory compliance and governance for listed companies and investment funds. Ms. Zordel is currently a partner in the Securities Group at Gardiner Roberts LLP. She is also a Co-Director of Osgoode Hall Law School's Master of Laws program in Securities Law and Director and Executive Vice-President of the Albany Club of Toronto. Ms. Zordel was formerly a partner in the Securities Group at Cassels Brock and Blackwell LLP. In the past, Ms. Zordel has served as Chair of the OSC's Securities Advisory Committee, a member of the Federal Expert Panel on Securities Regulation, and a member of corporate, non-profit and condominium boards. She is also a writer and regular media commentator. Ms. Zordel holds a Bachelor of Commerce from University of Saskatchewan, and a Juris Doctor and a Master of Laws (Securities Laws) from Osgoode Hall Law School.

Principal Occupation:

Partner and Securities Lawyer, Gardiner Roberts LLP
Former Partner and Securities Lawyer, Cassels Brock and Blackwell LLP (From April 2006 to January 2016)

Board/Committee Membership

	2015 Attendance	
Board	NA ⁽¹⁾	
	2016 Attendance⁽²⁾	
Board	2 of 2	100%
Audit Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:

None

Note:

- (1) No meeting was held between the date of appointment and December 31, 2015.
(2) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.
-

Howard Wetston

Ontario, Canada

Director since: December 10, 2015

Expiry of current term: December 10, 2017, or effective date of appointment of a successor director

Mr. Wetston has served as Chair and Chief Executive Officer and Vice-Chair of the OSC, and as Chair and Chief Executive Officer of the OEB. During his time as Chair and Chief Executive Officer of the OSC, Mr. Wetston played a significant role in Canadian and international securities regulatory bodies by serving as a senior member of the Canadian Securities Administrators and as a Vice Chair of the International Organization of Securities Commissions. Mr. Wetston has served as a Judge of the Federal Court of Canada, Trial Division, an ex-officio member of the Federal Court's Appeal Division, and Director of Investigations and Research at the Bureau of Competition Policy. He is an Advisory Board member of The Program on Ethics in Law and Business at the University of Toronto and is a member of the Shannon School of Business Advisory Board. Mr. Wetston holds a Bachelor of Laws from Dalhousie University and a Bachelor of Science from Mount Allison University, and is an ICD.D.

Principal Occupation:

Director, Toronto Hydro Corporation

Former Chair and Chief Executive Officer of the OSC (from November 2010 to November 2015)

Board/Committee Membership

Board

2015 AttendanceNA⁽¹⁾**2016 Attendance⁽²⁾**

Board

2 of 2

100%

Corporate Governance and Nominating Committee

1 of 1

100%

Board Memberships for other Reporting Issuers:

None

Note:

(1) No meeting was held between the date of appointment and December 31, 2015.

(2) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

Tamara Kronis
Ontario, Canada

Director since: December 10, 2015
Expiry of current term: December 10, 2017, or effective date of appointment of a successor director

Ms. Kronis is a Toronto-based entrepreneur, goldsmith and lawyer. She is currently owner of Studio1098, a custom fine jewellery design studio, where she works as a goldsmith, gemmologist and jewellery designer. Prior to opening Studio1098, Ms. Kronis worked as a commercial lawyer whose practice included several transactions related to the Ontario energy market. Her past experience includes positions as Legal Counsel, Vertex Customer Management/Vertex Outsourcing, Associate Lawyer at Torys LLP, Director of Advocacy at EGALE Canada and Trial Assistant, United Nations (International Criminal Tribunal for the Former Yugoslavia). Ms. Kronis holds a Master of Arts in Political Science and a Bachelor of Laws from the University of Toronto, and a Bachelor of Arts in Politics and Economics from Brandeis University. She is a Fellow of the Canadian Gemmological Association and the Gemmological Association of Great Britain.

Principal Occupation:

Owner, Chief Goldsmith, Gemmologist and Jewellery Designer, Studio1098

Board/Committee Membership

Board

2015 Attendance

NA⁽¹⁾

2016 Attendance⁽²⁾

Board

2 of 2

100%

Audit Committee

1 of 1

100%

Board Memberships for other Reporting Issuers:

None

Note:

(1) No meeting was held between the date of appointment and December 31, 2015.

(2) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

Denzil Minnan-Wong
Ontario, Canada

Director since: December 3, 2014
Expiry of current term: December 31, 2016, or effective date of appointment of a successor director

Deputy Mayor Minnan-Wong has been the City Councillor for Ward 34 – Don Valley East since 1997. Deputy Mayor Minnan-Wong is currently serving as Chair of City Council’s Civic Appointments Committee, Chair of City Council’s Employee and Labour Relations Committee, Chair of City Council’s Striking Committee, and Vice-Chair of City Council’s Executive Committee. He also sits on City Council’s Committee of Revision, City Council’s Debenture Committee, the Toronto Transit Commission Board, and City Council’s Nominating Panel for Facilities and Finance. Deputy Mayor Minnan-Wong is the Mayor’s designate on the Boards of Waterfront Toronto, BUILD Toronto, and Invest Toronto. Deputy Mayor Minnan-Wong’s past experience includes serving as Chair of City Council’s Public Works and Infrastructure Committee, Chair of City Council’s Economic Development Committee, Chair of North York Community Council, and a member of City Council’s Planning and Transportation Committee, City Council’s Works and Emergency Services Committee, City Council’s Audit Committee, and the Toronto Financial Service Advisory Committee. Deputy Mayor Minnan-Wong holds a Juris Doctor from Osgoode Hall Law School.

Principal Occupation:
Deputy Mayor and Councillor, City of Toronto

Board/Committee Membership	2015 Attendance	
Board	5 of 5	100.0%
	2016 Attendance⁽¹⁾	
Board	2 of 2	100%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

Paul Ainslie
Ontario, Canada

Director since: February 10, 2015
Expiry of current term: December 31, 2016, or effective date of appointment of a successor director

Councillor Ainslie has been the City Councillor for Ward 43 – Scarborough East since December 2006. Councillor Ainslie is currently serving as Chair of City Council’s Government Management Committee and also sits on City Council’s Executive Committee, Scarborough Community Council, Toronto Zoo Board of Management and the Toronto Public Library. Mr. Ainslie is Vice-Chair of the Board of Directors of the Federation of Ontario Libraries, and a member of the Canadian National Exhibition Association, Municipal Section, the Board of Directors of Guild Renaissance Group, and the Toronto and Region Conservation Authority. Councillor Ainslie’s past experience includes serving as Co-Chair of the Rouge Valley Health System Centenary Buy A Bed fundraising campaign and Chair of the Board of Directors of Haliburton Club.

Principal Occupation:
Councillor, City of Toronto

Board/Committee Membership	2015 Attendance	
Board	4 of 5	80.0%
Corporate Governance Committee ⁽¹⁾	2 of 3	66.7%
	2016 Attendance⁽²⁾	
Board	2 of 2	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:

- (1) Effective May 12, 2015, Councillor Ainslie was appointed as a member of the Corporate Governance Committee.
 - (2) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.
-

Stephen Holyday
Ontario, Canada

Director since: December 3, 2014
Expiry of current term: December 31, 2016, or effective date of appointment of a successor director

Councillor Holyday is the Mayor's designate to the Board effective as of December 3, 2014. Councillor Holyday has been the City Councillor for Ward 3 - Etobicoke Centre since December 2014. Councillor Holyday is currently serving as Vice Chair of City Council's Audit Committee and Vice Chair of the Employee and Labour Relations Committee. He sits on the Etobicoke York Community Council and City Council's Public Works and Infrastructure Committee. Councillor Holyday is a member of the Board of Directors of the Toronto Atmospheric Fund and the Hockey Hall of Fame, and a member of the Canadian National Exhibition Association - Municipal Section. Before being elected to public office, Stephen Holyday was Manager, Service Management at the Ontario Ministry of Energy. He holds a Bachelor of Technology in Architectural Science from Ryerson University.

Principal Occupation:

Councillor, City of Toronto
Acting Manager and Manager, Service Management, Ontario Ministry of Energy (From May 2009 to November 2014)

Board/Committee Membership

	2015 Attendance	
Board	5 of 5	100.0%
Human Resources Committee ⁽¹⁾	3 of 3	100.0%

	2016 Attendance⁽²⁾	
Board	2 of 2	100%
Human Resources Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:

None

Note:

(1) Effective May 11, 2015, Councillor Holyday was appointed as a member of the Human Resources Committee.

(2) 2016 attendance is for the period of January 1, 2016 to the date of this AIF.

10.4 Executive Officers

The following table sets forth the name, province and country of residence, office, and principal occupation for each of executive officers of the Corporation. 67% (2 out of 3) of the executive officers of the Corporation are female. 37.5% (3 out of 8) of the executive officers of LDC are female.

<u>Name</u>	<u>Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
Anthony Haines ⁽¹⁾	Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Toronto Hydro Corporation
Laura Foster ⁽²⁾	Ontario, Canada	Interim, Chief Financial Officer	Interim, Chief Financial Officer, Toronto Hydro Corporation
Amanda Klein ⁽³⁾	Ontario, Canada	Vice-President, Regulatory Affairs and General Counsel	Vice-President, Regulatory Affairs and General Counsel, Toronto Hydro Corporation

Notes:

- (1) Mr. Haines was the President of LDC from September 2006 until his appointment as CEO of the Corporation effective October 1, 2009.
- (2) Effective December 15, 2015, Jean-Sebastien Couillard ceased to be Executive Vice-President, Chief Financial Officer of the Corporation. Effective December 16, 2015, Laura Foster began acting in the capacity of Interim, Chief Financial Officer of the Corporation and was officially appointed as an executive officer of the Corporation effective March 2, 2016. Ms. Foster was the Director of Internal Audit of LDC (from October 18, 2012 to September 30, 2015), and Controller of LDC (from October 1, 2015 to December 15, 2015).
- (3) Ms. Klein was Senior Regulatory Counsel (from June 20, 2011 to August 22, 2012) and Director, Rates and Regulatory Affairs (from August 23, 2012 to December 31, 2014) until her appointment as Vice-President, Regulatory Affairs and General Counsel of the Corporation effective January 1, 2015. Prior to joining Toronto Hydro, Ms. Klein was an Associate at McMillan LLP.

10.5 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. McFadden was a director of Atlantis Systems Corp. when its directors and officers were subject to a management cease trade order from April 1, 2008 and May 12, 2008 for their failure to file the corporation's annual audited financial statements, management's discussion and analysis and annual information form by the regulatory filing deadline. The cease trade order is no longer in effect.

Except as noted above, no director or executive officer of the Corporation is, as at the date of this AIF, or has within ten years prior to the date of this AIF:

- (a) been a director, chief executive officer or chief financial officer of any company (including the Corporation) that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer;
- (b) been a director, chief executive officer or chief financial officer of any company (including the Corporation) that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;
- (c) been a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- (d) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of such director or executive officer.

No director, executive officer, or to the Corporation's knowledge, the City, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

10.6 Independence

As at the date of this AIF, the Board consists of ten directors, all of whom are appointed by the City in its capacity as sole shareholder of the Corporation, with one directorship remaining vacant. Three of the directors are Councillors of the City and are not considered independent because of their positions. None of the other directors have a direct or indirect material relationship with the Corporation and are independent within the meaning of applicable Canadian securities law.

No members of management sit on the Board. The Board meets regularly to discuss the management of the Corporation. A portion of each Board and Board committee meeting is reserved for Directors to meet without management present. Under its mandate, the Board is authorized to retain independent legal counsel and other advisors if it considers this appropriate. The mandate also provides that the Board shall have unrestricted access to the officers of the Corporation and is authorized to invite officers and employees of the Corporation and others to attend or participate in its meetings and proceedings if it considers this appropriate. The full text of the Board's written mandate is attached as Annex B.

The Corporation has developed a written position description for the Chair of the Board. The Chair is responsible for reporting to the Board, leading the directors and managing the day-to-day activities of the Board. The Chair is also responsible for engaging in discussions with the shareholder and its representatives as are necessary and desirable, maintaining an active and cooperative relationship with the CEO and other senior management of the Corporation, acting as the principal interface between the Board and the CEO of the Corporation, and providing advice and counsel to the CEO and other senior management of the Corporation.

The Board has also developed written position descriptions for the chair of each Board committee and the CEO.

10.7 Board Orientation and Continuing Education

Each new director, upon joining the Board, is given an orientation session with comprehensive set of materials designed to provide him/her with a summary of the key organizational, financial, regulatory, and operational aspects of Toronto Hydro. These materials also contain information on the various Toronto Hydro boards and their committees.

On an on-going basis, as part of regular and special board meetings, directors receive presentations, reports and training on topics related to Toronto Hydro's businesses and the obligations and responsibilities of directors. Topics covered are either suggested by management or requested by the directors. As well, directors receive information from management in response to any actions arising at a board meeting or otherwise.

10.8 Board, Committee and Director Assessments

The Corporate Governance Committee oversees a process used to evaluate the effectiveness of the Board as a whole, its committees and the individual directors. The process is facilitated by an independent external consultant with expertise in board assessments as selected by the Board and may consist of an in-person interview and/or a written questionnaire evaluating the Board, its committees and the individual directors that are completed periodically by each director. The directors' responses to the questionnaire and/or interviews related to the operation of the Board and its committees are compiled into a summary report by the consultant that is reviewed by the Corporate Governance

Committee. This report and recommended remedial actions are presented by the independent external consultant to the Board for review, consideration and implementation.

10.9 Board Oversight and Management of Risks

In 2009, the Corporation adopted an ERM program to add value and improve the Corporation's operations through enabling the attainment of its strategic goals and objectives. The ERM program helps the Corporation achieve this by bringing a systematic and disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks applicable to Toronto Hydro. Accordingly, ERM is an integral part of the strategic management of the Corporation's business and is routinely considered in forecasting, planning and executing all aspects of the Corporation's operations. The ERM program follows industry best practice and adopts a rigorous top-down / bottom-up approach towards the management of risks.

See Part 8 under the heading "Risk Factors" above for further information on ERM.

10.10 Indebtedness of Directors and Executive Officers

No director, executive officer, employee, former director, former executive officer or former employee or associate of any director or executive officer of the Corporation or any of its subsidiaries had any outstanding indebtedness to the Corporation or any of its subsidiaries except routine indebtedness or had any indebtedness that was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

PART 11 - AUDIT COMMITTEE

11.1 Composition, Independence and Financial Literacy

The Audit Committee is comprised of Heather Zordel (Chair), Brian Chu, and Tamara Kronis, each of whom is independent and financially literate within the meaning of applicable Canadian securities laws. Prior to December 10, 2015, the Audit Committee was comprised of Paulette Kennedy (Chair), Brian Chu and Isabel Meharry. See section 10.3 under the heading "Directors" for more information about the relevant education and experience of each member.

11.2 Audit Committee Charter

Under the terms of its charter, the Audit Committee is responsible for: managing the relationship between the Corporation and its external auditors; overseeing the external audit; overseeing the internal audit; reviewing and recommending to the Board for approval the financial statements, management's discussion and analysis and interim reports of the Corporation and its subsidiaries, the annual information form and other public disclosure of financial information extracted from the financial statements of the Corporation; overseeing internal financial control structure and financial risk management systems; establishing and reviewing certain procedures and policies; and reviewing policy reporting.

The full text of Corporation's Audit Committee Charter is attached as Annex A.

11.3 Policy on the Provision of Services by the External Auditors

The Audit Committee has developed a Policy on the Provision of Services by the External Auditors. Under the terms of the Policy:

- the external auditors may not provide services to Toronto Hydro that impair or have the potential to impair the independence and objectivity of the external auditors in relation to the external audit function (generally, prohibited services include services where the external auditors participate in activities that are normally undertaken by management of Toronto Hydro, are remunerated through

a "success fee" structure, act in an advocacy role for Toronto Hydro or may be required to audit their own work);

- the Audit Committee has pre-approved certain audit and permitted non-audit services as services that the auditors may provide to Toronto Hydro, including: services that constitute the agreed scope of the external audit or interim reviews of Toronto Hydro; services that are outside the agreed scope of, but are consistent with, the external audit or interim reviews of Toronto Hydro; tax services that do not compromise the independence and objectivity of the external auditors in relation to the external audit; and other services of an advisory nature that do not compromise the independence and objectivity of the external auditors in relation to the external audit work; and
- an authorization process has been established which provides, among other things: the Chief Financial Officer may authorize in advance all engagements of the external auditors to provide pre-approved services (other than audit services) to Toronto Hydro up to a maximum of \$25,000 for any engagement and up to a maximum of \$100,000 for all engagements in any fiscal quarter (the Chief Financial Officer must report all such authorized engagements to the Audit Committee at its next meeting); the Chair of the Audit Committee may authorize in advance all engagements of the external auditors to provide pre-approved services (other than audit services) to Toronto Hydro up to a maximum of \$50,000 for any engagement and up to a maximum of \$100,000 for all engagements in any fiscal quarter (the Chair must report all such authorized engagements to the Audit Committee at its next meeting); and the Audit Committee must authorize in advance all engagements of the external auditors to provide pre-approved services to Toronto Hydro above the prescribed thresholds and all engagements to provide services that are not pre-approved services regardless of the dollar value of the services.

Exceptions can be made to this Policy where the exceptions are in the interests of Toronto Hydro and appropriate arrangements are established to ensure the independence and objectivity of the external auditors in relation to the external audit. Any exception must be authorized by the Audit Committee and must be reported to the Board.

11.4 External Auditors Service Fees

The table below sets out the fees charged by the Corporation's external auditor, KPMG LLP, on an accrual basis, for each of last two fiscal years in respect of the services noted below.

	Year ended December 31,	
	2015	2014
Audit fees ⁽¹⁾	\$657,418	\$598,929
Audit-related fees ⁽²⁾	\$139,050	\$141,776
Tax fees ⁽³⁾	\$121,800	-
All other fees	-	-

Notes:

- (1) Fees for audit services and interim reviews, excluding CPAB levy.
- (2) Fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under (1) above. Includes, fees for professional services rendered for review of IFRS reporting to the City, the MTN Program and French translation.
- (3) Fees for tax advisory services.

PART 12 - EXECUTIVE COMPENSATION

12.1 Compensation Governance

(a) Human Resources Committee

(i) *Composition and Independence*

As a result of the amalgamation of the former Compensation and Health and Safety Committees of the Board on May 16, 2013 (as described in Section 10.2 (c) Human Resources Committee), the Corporation's executive compensation program is supervised by the Human Resources Committee under the direction of the Board. The Human Resources Committee is comprised of Brian Chu (Chair), Councillor Stephen Holyday, David McFadden and David Williams. Mr. Chu, Mr. McFadden and Mr. Williams are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Councillor Holyday is not independent within the meaning of applicable Canadian securities laws. The appointment of one of the Corporation's City Councillor directors to the Human Resources Committee is a requirement under the Shareholder Direction. Prior to December 10, 2015, the Human Resources Committee was comprised of Colum Bastable (Chair), Stephen Holyday and David Williams. See section 10.3 under the heading "Directors" for more information about the relevant education and experience of each member.

(ii) *Human Resources Committee Charter*

The Human Resources Committee operates under a written charter adopted by the Board. One of the primary functions of the Human Resources Committee is to advise and assist the Board in overseeing Toronto Hydro's compensation program and assessing the performance and compensation of the CEO and the other officers of the Corporation. Specifically, under the terms of its charter, the Human Resources Committee is responsible for assisting the Board in fulfilling its responsibilities with respect to: the recruitment and assessment of the performance of the CEO; the review and approval of the compensation of the CEO and the other executive officers of Toronto Hydro; the review and approval of executive compensation disclosure; and the general oversight of the compensation structure and benefit plans and programs for Toronto Hydro.

(b) Compensation Risk Oversight

Toronto Hydro has a rigorous risk management and governance structure in place to assist the Board with its oversight and management of all of the Corporation's risks, including risks related to Toronto Hydro's compensation policies and practices. While the Board and the Human Resources Committee have not conducted a formal assessment of the implications of risks specifically associated with the Corporation's compensation policies and practices, the Human Resources Committee has and continues to consider the Corporation's strategic objectives, plans and risk strategy in its review and recommendations regarding Toronto Hydro's compensation program. In addition to the Corporation's ERM program, the practices, processes and systems in place to identify and mitigate compensation policies and practices that could encourage an executive officer to take inappropriate or excessive risks include: the periodic review and audit of the Corporation's executive compensation program by the Corporation's internal auditor; the development and application of a management control reporting system providing transparency and control to compensation measures; the use of a balanced scorecard of corporate, divisional and individual performance objectives; the periodic benchmarking of the Corporation's compensation program; the review of the Corporation's compensation program by an independent compensation consultant and, from time to time, the OEB; and the application of maximum payout amounts for achievement of individual performance goals. See sections 8.1 under the heading "Risk Oversight" and 10.9 under the heading "Board Oversight and Management of Risks" for more information on the Corporation's ERM program, section 12.2(c)(ii) under the heading "Benchmarking" for more information on the Corporation's benchmarking of its compensation program, section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the Corporation's compensation consultant and section 12.2(d)(ii) under the heading "Performance-Based Incentive Compensation" for more information on the Corporation's performance-based incentive compensation program.

12.2 Compensation Discussion and Analysis

(a) Named Executive Officers

This Compensation Discussion and Analysis describes and explains all significant elements of compensation awarded to, earned by, paid to, or payable to the NEOs for the financial year ended December 31, 2015. The NEOs are:

- (i) **Anthony Haines**
President and Chief Executive Officer, Toronto Hydro Corporation
- (ii) **Jean-Sebastien Couillard⁽¹⁾**
Former Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation
- (iii) **Laura Foster⁽²⁾**
Interim, Chief Financial Officer, Toronto Hydro Corporation
- (iv) **Dino Priore**
Executive Vice-President and Chief Engineering and Construction Officer, Toronto Hydro-Electric System Limited
- (v) **Ben La Pianta**
Executive Vice-President and Chief Electric Operations and Procurement Officer, Toronto Hydro-Electric System Limited
- (vi) **Ave Lethbridge**
Executive Vice-President and Chief Human Resources and Safety Officer, Toronto Hydro-Electric System Limited

Note:

- (1) Effective December 15, 2015, Jean-Sebastien Couillard ceased to be Executive Vice-President and Chief Financial Officer of the Corporation.
- (2) Effective December 16, 2015, Laura Foster began acting in the capacity of Interim, Chief Financial Officer of the Corporation.

(b) General Objectives of Compensation Program

The Corporation's executive compensation program is designed to attract and retain executives who have the skills and experience to help the Corporation achieve its strategic goals, to motivate executives to achieve such corporate goals and to reward executives for superior performance and achievement of corporate, divisional and individual objectives.

(c) Process for Establishing Compensation

(i) *Policies and Practices*

The Corporation's overall executive compensation structure and program is developed and supervised by the Human Resources Committee with the assistance of a compensation consultant, and approved by the Board. See section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the compensation consultant.

Pursuant to the terms of its charter, the Human Resources Committee has the responsibility to annually, and more frequently if appropriate, review and make recommendations to the Board with respect to the individual performance-based incentive compensation goals and objectives related to the compensation of the CEO and to assess the CEO's performance against those goals and objectives. The Human Resources Committee also makes recommendations to the Board with respect to the overall compensation and benefits of the CEO. The Board ultimately sets and approves the CEO's compensation.

The CEO has the responsibility to annually, and more frequently if appropriate, review and approve the individual performance-based incentive compensation goals and objectives related to the compensation of the other executive

officers, including the NEOs, and assess the other executive officers' performance against those goals and objectives. The CEO proposes the other executive officers' performance-based incentive compensation and overall compensation, subject to the Human Resources Committee's review and approval.

In February 2015, the Human Resource Committee with the assistance of Mercer developed an Executive Compensation Policy to guide executive compensation practice. This new policy is a refinement of Toronto Hydro's existing Compensation Policy (which remains in force) and as such, reflects the previous executive compensation practices with an expanded scope to include benefits and pensions. This new policy was approved by the Board on March 5, 2015.

(ii) *Benchmarking*

The Corporation periodically benchmarks the compensation it provides to the NEOs to ensure reasonableness, competitiveness and effectiveness of the Corporation's compensation program, including the level and type of compensation provided. The Human Resources Committee engages Mercer to provide executive compensation benchmarking consulting services. See section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on services provided by Mercer.

NEO compensation is generally benchmarked against the executive compensation provided by other electricity distributors and other organizations that are selected and deemed relevant due to the fact that they are similar to the Corporation in scope, complexity and revenue. Standard benchmarking best practice assumes that companies of approximately one-half to two times revenue are of comparable complexity. When benchmarking the NEOs' compensation with respect to the Corporation's revenue as compared to the revenue of other non-local distribution companies in the benchmarking group, Mercer excludes the Corporation's flow through revenue for electricity transmission and generation. This approach ensures that energy sales do not overstate the Corporation's complexity and scope when comparing compensation to the broader market. The benchmark group's compensation data is derived from the Mercer Benchmark Database, which includes data from industrial organizations located in the Greater Toronto Area, industrial organizations located across Canada, and organizations from the national public sector. Publicly-disclosed compensation information for executive officers is also considered. For the purposes of benchmarking the CFO's compensation, in addition to the above criteria, Mercer has included the cost of power in order to recognize accountability for total cash flow managed by the Corporation.

In addition, for the purposes of benchmarking the CEO's compensation, the Human Resources Committee has examined the executive compensation provided by the following companies: AltaGas Ltd., ATCO Ltd., British Columbia Hydro and Power Authority (operates as BC Hydro), Capital Power Corporation, Emera Inc., Enbridge Inc., ENMAX Corporation, Epcor Utilities Inc., Hydro One, IESO, OEB, OPG, SaskPower, TransAlta Corporation and Union Gas Limited.

The executive compensation information derived from the benchmarking analysis is designed to assist the Human Resources Committee in establishing, over a reasonable period of time, total compensation for NEOs in the range of the median total compensation of those companies within the benchmark group. Total compensation to NEOs may exceed the median of the marketplace when corporate, divisional and individual performance significantly exceeds objectives.

(iii) *Compensation Consultants and Advisors*

The Corporation began engaging the services of Mercer for executive compensation consulting services in 2005. In 2007, Mercer was retained directly by the then Compensation Committee for executive compensation consulting services. The services provided to the Human Resources Committee by Mercer include providing advice on the competitiveness and appropriateness of the Corporation's executive compensation program, compensation benchmarking services, and other compensation related matters that may arise from time to time.

The table below sets out the fees billed by Mercer for each of last two fiscal years in respect of the services noted below.

	Year ended December 31,	
	2015	2014
Executive Compensation – Related Fees ⁽¹⁾	\$122,066	\$68,300
All Other Fees ⁽²⁾	\$18,792	\$27,488

Notes:

- (1) Aggregate fees billed by Mercer, or any of its affiliates, for services related to determining compensation for any of the Corporation's directors and executive officers.
- (2) Aggregate fees billed by Mercer, or any of its affiliates, for services related to employee compensation and benefits management consultation that are not reported under (1) above.

(d) Elements of Compensation

The principal components of compensation for NEOs are:

- base salary;
- performance-based incentive compensation;
- personal benefits and perquisites;
- pension plan;
- retirement benefits;
- retirement allowances; and
- termination payments.

As the Corporation has a single shareholder that is the registered and beneficial owner of all of its issued and outstanding shares, the Corporation is not able to offer an equity incentive plan or other stock-based compensation to its NEOs. The lack of an equity incentive is an underlying consideration of the Corporation in determining the NEOs overall compensation package from the above-noted components.

(i) Base Salary

In accordance with the general objectives and process for establishing compensation noted above, the Corporation provides NEOs with a base salary to compensate them for services rendered during the fiscal year. The Corporation provides reasonably competitive market-based base salaries to help attract, motivate, and retain NEOs who are critical to the Corporation's success.

Annually, adjustments to base salaries for NEOs are driven by market benchmarking data and the NEO's individual performance rating. The performance rating is determined, in the case of the CEO, by the Human Resources Committee and, in the case of the other NEOs, by the CEO, based on the achievement of performance-based incentive compensation objectives, knowledge, skills, and competencies related to day-to-day performance, as well as demonstration of desired corporate behaviours, subject to the Human Resources Committee's review and approval.

(ii) Performance-Based Incentive Compensation

All NEOs receive a portion of their annual compensation in the form of performance-based cash payments. The performance-based incentive compensation is designed to retain, motivate and reward NEOs for reaching corporate, divisional and individual performance objectives established at the beginning of each calendar year.

The annual performance-based incentive compensation is calculated as a percentage of the NEO's base salary for the year and, if earned, paid in one lump sum in the next fiscal year.

In order for an NEO to earn and receive the performance-based incentive compensation, the Corporation and the NEO must each achieve certain pre-determined performance objectives. Each NEO's performance-based incentive compensation is based on a weighting of corporate, divisional and individual performance objectives, which weightings and objectives are determined at the start of each year and vary by role to reflect the performance focus of the role. The weighting and objectives are reviewed and set each year in order to reflect the Corporation's overall strategy and objectives.

Each year the board reviews and approves the Corporation's objectives. Each performance objective is weighted to reflect relative importance and includes threshold, target and outstanding expectations of performance. Specific performance targets are approved by the Board giving consideration to the Corporation's business plans and priorities for the upcoming year, prior year's performance and a review of forecasted results based on a historical analysis of performance. Similarly divisional objectives are approved by the CEO and reviewed by the Human Resources Committee to recognize unique divisional priorities and ensure alignment with the Corporation's overall objectives.

The CEO's individual objectives are reviewed and approved by the Board. The individual objectives of the other NEOs are reviewed and approved by the CEO. Each NEO's individual objectives are based on areas of strategic and operational emphasis related to their respective responsibilities and portfolios.

The NEO's individual objectives are intended to be reasonably difficult to attain and to encourage success in the NEO's performance. Individual objectives are often but not always achieved by an NEO in any given year. NEOs review their objectives and measurements throughout the year, with one formal mid-year review with the Chair of the Board (in the case of the CEO), and with the CEO (in the case of the other NEOs), to track achievement to-date and revise performance goals as may be necessary to reflect any change in corporate strategy or priorities.

In the case of the CEO, an annual performance evaluation in respect of his individual performance goals is conducted by the Chair of the Board who provides a recommendation to the Human Resources Committee regarding the performance-based incentive compensation to be paid to the CEO. The amount paid to the CEO is approved by the Board after review of the recommendation of the Human Resources Committee.

In the case of each of the other NEOs, an annual performance evaluation in respect of the individual objectives for each individual is conducted by the CEO, who proposes the amount of performance-based incentive compensation to be paid to each other NEO. The Human Resources Committee reviews and approves the amounts of performance-based incentive compensation to be paid to each of the other NEOs.

The Human Resources Committee may exercise its discretion to increase or reduce the performance-based incentive compensation paid to the CEO or NEOs, as applicable, including in certain circumstances absent attainment of a relevant performance goal or similar condition.

(iii) *Personal Benefits and Perquisites*

The Corporation provides NEOs with other personal benefits and perquisites that the Corporation believes are reasonable and consistent with its overall compensation program to better enable the Corporation to attract and retain superior employees for key positions. Benefits include group health, dental, group life insurance, short-term and long-term disability, accidental death & dismemberment, a gym subsidy, and educational reimbursements, all of which are generally available to all salaried employees and do not discriminate in scope, terms or operation between employees of the same classification.

(iv) *Pension Plan*

All full-time employees of the Corporation, including the NEOs, are required to participate in the OMERS pension plan. Pursuant to the terms of the OMERS pension plan, NEOs are required to make equal plan contributions based on their eligible pensionable earnings. In 2015, the Corporation and each NEO was required to contribute 9% equally of the first \$53,600 of pensionable earnings and thereafter 14.6% equally on all earnings over \$53,600 and up to \$163,010. Beyond the \$163,010 maximum, contributions continue equally at 14.6% towards a Retirement Compensation Arrangement (RCA), which is governed separately under the Canadian Income Tax Act. The OMERS pension plan is generally available to all other salaried employees and does not discriminate in scope, terms or operation between employees of the same classification. See section 4.6 (a) under the heading "Employees" for more information on the OMERS pension plan.

(v) *Retirement Benefits*

NEOs are eligible to receive post-retirement health, dental and life insurance after a minimum of five years of service with the Corporation if they retire from the Corporation and begin collecting under the OMERS pension plan upon retirement. The post-retirement benefits provided to eligible NEOs are the same as are generally available to all other salaried employees and do not discriminate in scope, terms or operation between employees of the same classification.

Post-retirement benefits aid in attracting and retaining key executives to ensure the long-term success of the Corporation.

(vi) *Retirement Allowances*

From time to time, in certain circumstances, the Corporation enters into retirement allowance agreements with its NEOs. The retirement allowance agreements are designed to recognize service, and to promote retention, stability and continuity, of the NEOs. These agreements are made on a case-by-case basis based on an NEO's years of service and position. Any retirement allowance provided to the CEO is approved by the Board after review of the recommendation of the Human Resources Committee. In the case of each of the other NEOs, any retirement allowance agreement is proposed by the CEO and reviewed and approved by the Human Resources Committee. Retirement allowance payments are typically paid in one or two lump sum instalments following termination or retirement of the NEO.

(vii) *Termination Payments*

From time to time, the Corporation enters into agreements with NEOs which provide for payments upon termination. These agreements are made on a case-by-case basis based on the NEO's age, years of service and position. Any such agreement for the CEO is approved by the Board after review of the recommendation of the Human Resources Committee. In the case of each of the other NEOs, any such agreement is proposed by the CEO and reviewed and approved by the Human Resources Committee. Typically, termination payments are paid either as a lump sum or as salary continuation for an agreed period following termination.

12.3 Compensation of Named Executive Officers

(a) Summary Compensation Table

The following table provides a summary of the compensation earned during the years ended December 31, 2015, 2014 and 2013, by the NEOs:

Summary Compensation Table⁽¹⁾

NEO Name and Principal Position	Year	Salary ⁽²⁾ (\$)	Non-Equity Incentive Plan Compensation ⁽³⁾ (\$)	All Other Compensation ⁽⁴⁾ (\$)	Total Compensation (\$)
Anthony Haines President and Chief Executive Officer, Toronto Hydro Corporation	2015	\$509,459	\$488,301	\$10,210	\$1,007,970
	2014	\$504,138	\$455,179	\$10,086	\$969,403
	2013	\$484,965	\$465,175	\$8,882	\$959,022
Jean-Sebastien Couillard ⁽⁵⁾ Former Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation	2015	\$283,406	\$158,579	\$1,396	\$443,381
	2014	\$293,791	\$161,663	\$1,440	\$456,894
	2013	\$274,113	\$159,218	\$3,440	\$436,771
Laura Foster ⁽⁶⁾ Interim, Chief Financial Officer, Toronto Hydro Corporation	2015	\$157,997 ⁽⁷⁾	\$62,801	\$1,835	\$222,633
Dino Priore Executive Vice-President and Chief Engineering and Construction Officer, Toronto Hydro –Electric System Limited	2015	\$311,120	\$184,584	\$1,931	\$497,635
	2014	\$303,177	\$167,472	\$2,375	\$473,024
	2013	\$259,124	\$153,915	\$3,888	\$416,927
Ben La Pianta Executive Vice-President and Chief Electric Operations and Procurement Officer, Toronto Hydro –Electric System Limited	2015	\$273,165	\$161,120	\$3,376	\$437,661
	2014	\$269,721	\$146,907	\$2,840	\$419,468
	2013	\$247,193	\$147,847	\$4,550	\$399,590
Ave Lethbridge Executive Vice-President and Chief Human Resources and Safety Officer, Toronto Hydro –Electric System Limited	2015	\$244,865	\$142,614	\$5,468	\$392,947
	2014	\$242,996	\$136,429	\$4,888	\$384,313

Notes:

- (1) Amounts shown in this table are in Canadian dollars and have been rounded to the nearest dollar.
- (2) Amounts shown reflect actual amounts paid during the year. In 2014 there were 27 pay periods compared to a normal year which has 26 pay periods.
- (3) Each NEO's annual performance-based incentive compensation for a fiscal year is determined and paid in the next fiscal year. Accordingly, amounts reflected in respect of a particular year (i.e. 2014) represent the annual performance-based incentive compensation earned by the NEO for the achievement of performance objectives in respect of that fiscal year (i.e. 2014) but which amounts are paid in the following fiscal year (i.e. 2015).
- (4) Amounts shown in this column reflect all other compensation earned by the NEO during the year. The amounts shown include the aggregate value of perquisites and other personal benefits provided to the NEO, where such perquisites and personal benefits are not generally available to all employees and have been calculated by using the actual cost. In 2015, 2014 and 2013, perquisites and personal benefits were not worth \$50,000 or more for any NEO, nor were they worth 10% or more of any NEO's total salary for the year.
- (5) Effective December 15, 2015, Jean-Sebastien Couillard ceased to be Executive Vice-President, Chief Financial Officer of the Corporation. His salary and non-equity incentive plan compensation have been prorated to this date. See section 12.3(b)(vii) under the heading "Termination Payments" for a discussion regarding additional amounts respecting termination.
- (6) Effective December 16, 2015, Laura Foster began acting in the capacity of Interim, Chief Financial Officer of the Corporation. Prior to this role, Laura Foster was the Director of Internal Audit from October 18, 2012 to September 30, 2015, and Controller from October 1, 2015 to December 15, 2015. Her 2015 performance-based incentive compensation was in respect of her role as Director of Internal Audit and Controller.
- (7) As a result of Ms. Foster acting in the capacity of Interim, Chief Financial Officer, her annual base salary increased to \$180,000. In 2015, Ms. Foster's pro-rated salary was \$157,997.

(b) Compensation of NEOs in 2015 – Narrative Discussion

(i) Base Salaries

The NEOs' annual base salaries for 2015 were: \$509,739 in the case of Mr. Haines, \$292,513 in the case of Mr. Couillard, \$180,000 in the case of Mrs. Foster, \$311,250 in the case of Mr. Priore, \$273,315 in the case of Mr. La Pianta, and \$244,987 in the case of Mrs. Lethbridge.

(ii) Performance-Based Incentive Compensation

The respective target performance-based incentive compensation amounts for each NEO for 2015 were as follows: 65% of the base salary, in the case of Mr. Haines, 40% of the base salary in the case of Mr. Couillard, 40% of the base salary in the case of Mr. Priore, 40% of the base salary in the case of Mr. La Pianta, and 40% of the base salary in the case of Mrs. Lethbridge. The performance-based incentive compensation amount payable to each NEO may exceed the respective target % of base salary indicated previously when results exceed corporate and divisional objectives and may be below the respective target % of base salary indicated previously when the corporate and divisional objectives are not achieved.

The weightings attributed to Mr. Haines' 2015 performance-based incentive compensation were as follows: 80% based on the performance of the Corporation and 20% based on the achievement of individual performance objectives. For Mr. Couillard, Mr. Priore, Mr. La Pianta, and Mrs. Lethbridge, the performance-based incentive compensation weightings were as follows: 60% based on the performance of the Corporation, 20% based on the Corporation's achievement of divisional objectives, and 20% based on the NEO's achievement of individual performance objectives.

The performance objectives of the Corporation for 2015 were as follows:

Corporate Key Performance Indicators	Measure	Target	Weight (%)
Net income after net movements in regulatory balances (\$ millions)	Net Income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements.	\$100.1	30%
LDC Regulated Capital (\$ millions) ⁽¹⁾	Achievement of LDC's capital work program.	\$436.6	20%
Productivity – Operating expenses ⁽²⁾ and other productivity related metrics	Consolidated operating expenses (excluding some defined costs) and other productivity related metrics.	\$275.6	10%
Key Account Worst Performing Feeders	Total number of feeders experiencing seven or more sustained outages affecting key account customers, including momentary and sustained interruptions, in a 12-month rolling time period.	14	5%
System Average Interruption Duration Index (SAIDI) (in minutes)	Measure of the annual system average interruption duration per customer served, not including MED.	68.0	5%
System Average Interruption Frequency Index (SAIFI) (number of interruptions)	Measure of the frequency of service interruptions per customer served, not including MED.	1.5	5%
Enhanced Online Customer Engagement (ECE)	Increase in customer self-serve transactions / engagements using various self-serve options and media channels.	245,000	5%
First Call Resolution	Percentage of telephone enquiries resolved within one call, within a 21-day time period.	81%	5%
Safety	Number of recordable injuries x 200,000 / exposure hours.	1.8	10%
Attendance	Average days absent per employee	4.5	5%

Notes:

- (1) This is a non-GAAP measure as it includes all eligible capital expenditures, net of capital contributions related to regulated operations excluding Copeland and the facilities consolidation program.
- (2) This is a non-GAAP measure as it excludes demand billable operating expenses.

The divisional performance objectives for 2015 were as follows:

Divisional Key Performance Indicators	FINANCE		ENGINEERING & CONSTRUCTION		ELECTRIC OPERATIONS & PROCUREMENT		HUMAN RESOURCES & SAFETY	
	Jean-Sebastien Couillard		Dino Priore		Ben La Pianta		Ave Lethbridge	
	Target	Weight (%)	Target	Weight (%)	Target	Weight (%)	Target	Weight (%)
Net income after net movements in regulatory balances (\$ millions)	\$100.1	35%	N/A	N/A	N/A	N/A	N/A	N/A
Productivity - Operating expense ⁽¹⁾ and other productivity metrics (\$ millions)	\$275.6	20%	N/A	N/A	N/A	N/A	N/A	N/A
Productivity - Operating expense ⁽¹⁾ and other productivity metrics per the divisional budgets (\$ millions)	\$19.3	10%	\$43.8	10%	\$85.4	15%	\$17.2	5%
Labour Cost Containment ⁽²⁾ (\$ millions)	N/A	N/A	N/A	N/A	N/A	N/A	14.0	30%
LDC Regulated Capital (\$ millions)	\$436.6	15%	\$408.1	35%	\$408.1	20%	N/A	N/A
Key Account Worst Performing Feeders	N/A	N/A	14	10%	14	10%	N/A	N/A
System Average Interruption Duration Index (SAIDI) (in minutes)	N/A	N/A	68.0	5%	68.0	5%	N/A	N/A
System Average Interruption Frequency Index (SAIFI) (number of interruptions)	N/A	N/A	1.5	5%	1.5	5%	N/A	N/A
Safety	N/A	N/A	1.8	5%	1.8	5%	1.8	20%
Safety Leadership (safety inspections completed as a percentage of plan) per division	N/A	N/A	95%	15%	95%	15%	95%	10%
Employee Engagement (average number of engagement sessions per employee)	5.0	5%	5.0	5%	5.0	5%	5.0	10%
Attendance (Corporate average days absent per employee)	N/A	N/A	N/A	N/A	N/A	N/A	4.5	10%
Attendance (Divisional average days absent per employee)	2.1	5%	4.5	5%	5.3	10%	2.1	5%
In-Service Assets (as per OEB definition)	80%	10%	80%	5%	80%	5%	N/A	N/A
Distribution System Health Index	N/A	N/A	N/A	N/A	4.0	5%	N/A	N/A
Training Delivery (percentage attendance vs planned)	N/A	N/A	N/A	N/A	N/A	N/A	85%	10%

Notes:

- (1) This is a non-GAAP measure as it excludes demand billable operating expenses.
- (2) This is a non-GAAP measure.
- (3) This is a non-GAAP measure as it includes all eligible capital expenditures, net of capital contributions related to regulated operations excluding Copeland Station and the facilities consolidation program.
- (4) This is a non-GAAP measure as it includes all eligible capital expenditures, net of capital contributions related to regulated operations excluding Copeland Station, Information Technology projects and facilities consolidation program

In 2015, the Corporation exceeded all of its corporate targets represented by its KPIs except the key accounts worst performing feeders, primarily due to an under estimation of the impact of uncontrollable momentary outages. The NEOs met most or exceeded his/her divisional and individual performance targets for 2015. Each of the corporate, divisional and individual performance targets were reasonably difficult to attain and served to encourage success in the NEOs performance and in the Corporation's financial and operational results. The Corporation's ability to deliver results in each of its strategic pillars is managed through good governance around the balanced scorecard, short interval control and enterprise risk management.

The percentage of total compensation that relates to the achievement of each NEO's individual performance objectives were as follows: 9% for Mr. Haines, 4% for Mr. Couillard, 7% for Mr. Priore, 7% for Mr. La Pianta and 6% for Mrs. Lethbridge. The 2015 performance-based incentive compensation amount for Ms. Foster was in relation to her previous role as the Director of Internal Audit and Controller. In 2016, Ms. Foster's performance-based incentive compensation will be determined in a manner similar to the former CFO.

(iii) *Personal Benefits and Perquisites*

In 2015, the NEOs received personal benefits and perquisites as described in section 12.2(d)(iii) under the heading "Personal Benefits and Perquisites", and as quantified in the Summary Compensation Table in section 12.3(a) above.

(iv) *Pension Plan*

In 2015, each of the NEOs participated in the OMERS pension plan. The OMERS pension plan is a group pension plan that is generally available to all salaried employees and does not discriminate in scope, terms or operation between employees of the same classification. See section 4.6(a) under the heading "Employees" and section 12.2(d)(iv) under the heading "Pension Plan" for further information on the OMERS pension plan.

(v) *Retirement Benefits*

As of December 31, 2015, Mr. Haines, Mr. Priore, Mr. La Pianta and Mrs. Lethbridge have each provided Toronto Hydro with more than five years of service and are therefore eligible for post-retirement medical, dental, and life insurance benefits if they retire from the Corporation and begin collecting under the OMERS pension plan upon retirement.

(vi) *Retirement Allowance*

Mr. Haines is the only NEO entitled to retirement allowances, which allowances are calculated based on completed years of service and are payable in the form of lump-sum cash payments following Mr. Haines' termination (without cause) or retirement from the Corporation.

Under the terms of Mr. Haines' existing retirement allowance (the "Existing Allowance"), if Mr. Haines is terminated (without cause) or retires from the Corporation during 2016, he will receive a \$410,000 retirement allowance. The amount of the Existing Allowance payable to Mr. Haines will thereafter be increased by an additional \$90,000 for 2016 and \$125,000 per year (from 2017 to 2020) for each full calendar year of service completed. The maximum Existing Allowance payable to Mr. Haines is \$1,000,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2020. In the event that Mr. Haines becomes permanently disabled while in active service for the Corporation, he will be deemed to remain in active service for the Corporation until December

31, 2020, at which point he will be considered to have retired and earned the maximum Existing Allowance of \$1,000,000. In the event of the death of Mr. Haines while in active service for the Corporation, the Existing Allowance which Mr. Haines would have earned as of the date of his death will be paid to his designated beneficiary or to the legal representative of Mr. Haines' estate.

As part of his compensation package, Mr. Haines also participates in the OMERS defined benefit pension plan. See “Pension Plan” above in section 12.3(b)(iv). OMERS made significant unilateral changes to its defined benefit pension plan that significantly reduce the value of Mr. Haines’ pension benefit under the OMERS pension plan. The changes made by OMERS do not significantly impact the other NEOs. In order to mitigate the impact of these changes in a manner consistent with the terms of his existing employment relationship with the Corporation, the Corporation has awarded Mr. Haines a second retirement allowance (the “Second Allowance”). Under the terms of the Second Allowance, if Mr. Haines is terminated (without cause) or retires from the Corporation during 2016, he will receive a \$300,000 retirement allowance. The amount of the Second Allowance payable to Mr. Haines will thereafter be increased by an additional \$225,000 per year (from 2016 to 2021) for each full calendar year of service completed. The maximum Second Allowance payable to Mr. Haines is \$1,650,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2021. In the event that Mr. Haines becomes permanently disabled while in active service for the Corporation, he will be deemed to remain in active service for the Corporation until December 31, 2021, at which point he will be considered to have retired and earned the maximum Second Allowance of \$1,650,000. The provisions relating to entitlement on death are identical to those established for the Existing Allowance.

(vii) *Termination Payments*

Mr. Haines has entered into an agreement with the Corporation which provide for certain payments upon termination.

If the employment of Mr. Haines is terminated without cause by the Corporation, then Mr. Haines is entitled to a payment equal to 24 months of base salary and performance pay that would have been paid had he continued to work for 24 months (approximately \$1,958,582 as at December 31, 2015), with the performance pay calculated based on the average annual performance pay earned by Mr. Haines during the 3 years preceding the date of termination. Mr. Haines would also be entitled to continued group health and dental benefit coverage for a period of 24 months from the date of termination.

In addition, and in connection with Mr. Couillard ceasing employment with the Corporation, Mr. Couillard was entitled to a termination payment in the aggregate amount of \$708,852, representing 18 months of base salary and performance pay, with the performance pay calculated based on the average annual performance pay earned by Mr. Couillard during the three years preceding the date of termination, of which \$29,343 has been paid as of December 31, 2015, and \$679,509 is payable in 2016 and 2017.

12.4 Compensation of Directors

(a) Director Compensation Table

Director Name	Total ⁽¹⁾ (\$)
David Williams	\$75,000
Derek Cowbourne	\$25,500
Paulette Kennedy ⁽²⁾	\$27,500
Colum Bastable ⁽²⁾	\$27,500
Sara Gelgor ⁽²⁾	\$20,500
Isabel Meharry ⁽²⁾	\$22,500
Glenna Carr ⁽²⁾	\$19,500

Director Name	Total⁽¹⁾ (\$)
Brian Chu ⁽³⁾	\$Nil
Tamara Kronis ⁽³⁾	\$Nil
David McFadden ⁽³⁾	\$Nil
Howard Wetston ⁽³⁾	\$Nil
Heather Zordel ⁽³⁾	\$Nil
Councillor Stephen Holyday	\$Nil
Deputy Mayor Denzil Minnan-Wong	\$Nil
Councillor Paul Ainslie	\$Nil

Notes:

- (1) There were no amounts paid to directors during 2015 other than in respect of director retainer fees and meeting attendance fees.
- (2) Effective December 9, 2015, Paulette. Kennedy, Colum Bastable, Sara Gelgor, Isabel Meharry and Glenna Carr ceased to be directors of the Corporation.
- (3) Effective December 10, 2015, Brian Chu, Tamara Kronis, David McFadden, Howard Wetston and Heather Zordel were appointed as directors of the Corporation.

(b) Compensation of Directors – Narrative Discussion

Directors of the Corporation, other than Councillors of the City, are compensated for their services as directors through a combination of retainer fees and meeting attendance fees. These fees are set by the sole shareholder of the Corporation, the City. The annual retainer fees are as follows: chair of the Board – \$75,000 and each of the other directors – \$12,500. The meeting attendance fees are as follows: each meeting of the Board and the subsidiaries attended – \$1,000 and each meeting of the Audit Committee, Corporate Governance and Nominating Committee, Human Resources Committee, or other Board committee attended – \$1,000, subject to annual maximum fees per committee member of \$5,000 for the Audit Committee, Corporate Governance Committee, Human Resources Committee or any other committee of the Board. The Chair receives no meeting attendance fees. Councillors receive no remuneration for their services as directors of the Corporation. The other directors, other than the Chair, are subject to a maximum annual total retainer and attendance fees of \$30,000.

PART 13 - LEGAL PROCEEDINGS

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

13.1 2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the Class Proceedings Act which sought damages in the amount of \$30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. On June 16, 2014, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice pursuant

to which LDC paid the amount of \$6.5 million, including all taxes and legal fees in settlement of the action of the class plaintiffs. LDC's liability insurance covered the settlement payment.

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

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

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

13.2 2369 Lakeshore Boulevard West

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

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

PART 14 - MATERIAL CONTRACTS

Except for the indenture and the supplemental indentures under which the Debentures were issued, Toronto Hydro has not entered into any material contract (other than contracts entered into in the ordinary course of business) in the most recently completed financial year, or before the most recently completed financial year, if such contract is still in effect.

Copies of these material contracts are available on the SEDAR website at www.sedar.com.

PART 15 - NAMED AND INTERESTS OF EXPERTS

The external auditor of the Corporation is KPMG LLP. KPMG LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PART 16 - TRANSFER AGENTS AND REGISTRARS

The trustee and registrar for the outstanding debentures of the Corporation is BNY Trust Company of Canada, located in Toronto, Ontario.

PART 17 - ADDITIONAL INFORMATION

Additional information relating to the Corporation, including additional financial information provided in the Consolidated Financial Statements and Management's Discussion and Analysis, is available on the SEDAR website at www.sedar.com.

ANNEX A - CHARTER – AUDIT COMMITTEE

1. General

- (1) The board of directors (*Board*) of Toronto Hydro Corporation (*Corporation*) has established the Audit Committee (*Committee*) to assist the Board in fulfilling its corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit and external audit functions.
- (2) The composition, responsibilities and authority of the Committee are set out in this Charter.
- (3) This Charter and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Committee may adopt from time to time shall govern the meetings and procedures of the Committee.

2. Composition

- (1) The Committee shall be composed of at least three persons who are directors of the Corporation or a subsidiary of the Corporation (*Members*):
 - (a) all Members shall be *independent* (as determined by the Board in accordance with the rules of the Canadian Securities Administrators with respect to the role and composition of audit committees);
 - (b) the majority of Members shall be directors of the Corporation; and
 - (c) at least one of whom, including the chair of the Committee (Chair) is *financially literate* (ie, have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the accounting issues that can reasonably be expected to be raised by the financial statements of the Corporation).
- (2) Members shall be appointed by the Board on the recommendation of the Chair of the Board and shall serve until they resign, cease to be a Director or are removed or replaced by the Board.
- (3) The Board shall designate one of the Members as Chair. The Committee shall periodically review the position description of the Chair and make recommendations to the Board.
- (4) The Secretary of the Corporation shall be secretary of the Committee (*Secretary*).

3. Responsibilities

The Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit functions and external audit functions.

The Committee shall have the responsibilities set out below.

(1) *Managing the Relationship between the Corporation and its External Auditors*

The Committee shall be responsible for managing the relationship between the Corporation and its external auditors, including:

- (a) appointing and replacing the external auditors, subject to shareholder approval;

- (b) setting the compensation of the external auditors subject to the approval of the board of directors or shareholder, as applicable;
- (c) overseeing the work of the external auditors, including resolving disagreements between management and the external auditors with respect to financial reporting;
- (d) pre-approving all audit services and permitted non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors in accordance with the "Policy on the Provision of Services by the External Auditors";
- (e) having the external auditors report to the Committee in a timely manner with respect to all required matters, including those set out in paragraph 3(2);
- (f) ensuring the rotation of the audit partner having primary responsibility for the external audit of the Corporation, the audit partner responsible for reviewing the external audit and the external auditors at such intervals as may be required; and
- (g) reviewing and assessing the performance, independence and objectivity of the external auditors.

(2) ***Overseeing the External Audit***

The Committee shall be responsible for overseeing the external audit of the Corporation, including:

- (a) reviewing and approving the engagement letter and the audit plan, including financial risk areas identified by the external auditors and management;
- (b) reviewing and assessing the accounting and reporting practices and principles used by the Corporation in preparing its financial statements, including:
 - i) all significant accounting policies and practices used, including changes from preceding years and any proposed changes for future years;
 - ii) all significant financial reporting issues, estimates and judgments made;
 - iii) all alternative treatments of financial information discussed by the external auditors and management, the results of such discussions and the treatments preferred by the external auditors;
 - iv) any major issues identified by the external auditors with respect to the adequacy of internal control systems and procedures and any special audit steps adopted in light of material deficiencies and weaknesses;
 - v) the effect of regulatory and accounting initiatives and off-balance sheet transactions or structures on the financial statements;
 - vi) any errors or omissions in, and any required restatement of, the financial statements for preceding years;
 - vii) all significant tax issues;
 - viii) the reporting of all material contingent liabilities; and
 - ix) any material written communications between the external auditors and management;

- (c) reviewing and assessing the results of the external audit and the external auditors' opinion on the financial statements;
- (d) reviewing and discussing with the external auditors and management any management or internal control letters issued or proposed to be issued by the external auditors;
- (e) reviewing and discussing with the external auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management); and
- (f) reviewing and discussing with legal counsel any legal matters that may have a material impact on the financial statements, operations, assets or compliance policies of the Corporation and any material reports or enquiries received by the Corporation and its subsidiary entities from regulators or government agencies.

(3) ***Overseeing the Internal Audit***

The Committee shall be responsible for overseeing the internal audit of the Corporation, including:

- (a) periodically reviewing the Internal Audit Charter and making recommendations to the Board;
- (b) reviewing and approving the audit plan, including significant risk exposures identified by the internal auditor and management;
- (c) reviewing and discussing with the internal auditor and management the results of any internal audits;
- (d) reviewing and discussing with the internal auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management);
- (e) appointing and replacing the internal auditor;
- (f) reviewing and assessing the performance of the internal auditor;
- (g) ensure the Committee is kept informed of emerging trends and successful practices in internal auditing; and
- (h) confirm there is effective and efficient coordination of activities between internal and external auditors.

(4) ***Reviewing and Recommending to the Respective Boards for Approval the Financial Statements, MD&A and Interim Reports of the Corporation and its Subsidiaries***

The Committee shall review and recommend to the Board for approval, the financial statements, management's discussion and analysis of financial condition and results of operations (***MD&A***) and interim financial reports of the Corporation and its subsidiaries, annual information form (***AIF***) of the Corporation and other public disclosure of financial information extracted from the financial statements of the Corporation and its subsidiaries with particular focus on:

- (a) the quality and appropriateness of accounting and reporting practices and principles and any changes thereto;

- (b) major estimates or judgments, including alternative treatments of financial information discussed by management and the external auditors, the results of such discussions and the treatment preferred by the external auditors;
- (c) material financial risks;
- (d) material transactions;
- (e) material adjustments;
- (f) compliance with loan agreements;
- (g) material off-balance sheet transactions and structures;
- (h) compliance with accounting standards;
- (i) compliance with legal and regulatory requirements; and
- (j) disagreements with management.

(5) ***Overseeing Internal Financial Control Structure and Financial Risk Management Systems***

The Committee shall be responsible for overseeing the internal financial control structure and financial risk management systems of the Corporation, including:

- (a) reviewing and discussing with management and the external auditors the quality and adequacy of internal control over financial reporting structures of the Corporation, including any major deficiencies or weakness and the steps taken by management to rectify these deficiencies or weaknesses;
- (b) reviewing and discussing with management, the internal auditor and the external auditors the risk assessment and risk management policies of the Corporation, the major financial risk exposures of the Corporation and the steps taken by management to monitor and control these exposures;
- (c) reviewing and discussing with the Chief Executive Officer and the Chief Financial Officer of the Corporation the procedures undertaken by them in connection with the certifications required to be given by them in connection with annual and other filings required to be made by the Corporation under applicable securities laws; and
- (d) periodically reviewing the Treasury Policy and signing policies for the Corporation and its subsidiaries, making recommendations to the Board in respect of such policies and reviewing performance under those policies with Management.

(6) ***Establish and Review Certain Procedures and Policies***

The Committee shall establish adequate policies and procedures, or require that adequate policies and procedures are established, with respect to the following and shall annually, or on such other schedule as stated herein, assess the adequacy of these procedures:

- (a) the review of the public disclosure of financial information extracted from the financial statements of the Corporation;
- (b) the receipt, retention and treatment of complaints received by the Corporation with respect to accounting, internal controls or auditing matters;

- (c) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- (d) the disclosure to the Committee about the hiring of any present or former partner or employee of the external auditor in place at the time into a position of senior management with the Corporation or its subsidiaries; and
- (e) periodically review Expense Reimbursement Policy, and make recommendations to the Board in respect of the same.

(7) ***Review of Policy Reporting***

- (a) The Committee shall be responsible, on a quarterly basis, for reviewing and reporting to the Board in respect of the report prepared by the Ethics Officer of all incidents investigated under the Code of Business Conduct during the previous quarter.
- (b) The Committee shall be responsible for reviewing, on a quarterly basis, the disclosure report of executive and Board expense reimbursements made in accordance with the Corporation's Expense Reimbursement Policy for the immediately preceding quarter.

4. Authority

- (1) The Committee is authorized to carry out its responsibilities as set out in this Charter and to make recommendations to the Board arising therefrom.
- (2) The Committee may delegate by written policy to the Chair and the Chief Financial Officer of the Corporation (**CFO**) the authority, within specified limits, to authorize in advance all engagements of the external auditors to provide pre-approved services to the Corporation and its subsidiary entities. The Chair and the CFO shall report all engagements authorized by them to the Committee at its next meeting.
- (3) The Committee shall have direct and unrestricted access to the external and internal auditors, officers and employees and information and records of the Corporation.
- (4) The Committee is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.
- (5) The Committee is authorized to invite officers and employees of the Corporation and its subsidiaries and outsiders with relevant experience and expertise to attend or participate in its meetings and proceedings if it considers this appropriate.
- (6) The external auditors shall have direct and unrestricted access to the Committee and shall report directly to the Committee.
- (7) The Corporation shall pay directly or reimburse the Committee for the expenses incurred by the Committee in carrying out its responsibilities, in accordance with the Corporation's Expense Reimbursement Policy.

5. Meetings and Proceedings

- (1) The Committee shall meet as frequently as required but not less frequently than four times each year.
- (2) Any Member or the Secretary may call a meeting of the Committee. The external auditors or the CFO may ask a Member to call a meeting of the Committee.
- (3) The Chair shall approve the agenda of each meeting of the Committee, including input from the officers and employees of the Corporation, external auditors, other Members and other directors of the Corporation as

appropriate. Meetings will include presentations by management or professional advisors and consultants when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

- (4) Unless waived by all Members, a notice of each meeting of the Committee confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded, electronically or otherwise, to each Member at least three days before the date of the meeting.
- (5) The quorum for each meeting of the Committee is two Members. In the absence of the Chair, the other Members may appoint one of their number as chair of a meeting. The Chair of a meeting shall not have a second or casting vote.
- (6) The Chair or a delegate of the Chair shall report to the Board following each meeting of the Committee.
- (7) The Secretary or a delegate of the Secretary shall keep minutes of all meetings of the Committee, including all resolutions passed by the Committee. Minutes of all meetings shall be distributed to the Members. The minutes shall be available for review by the other directors of the Corporation after approval thereof by the Committee.
- (8) An individual who is not a Member may be invited to attend a meeting of the Committee for all or part of the meeting. A standing invitation to all meetings shall be given to the Chairman of the Board, the President and Chief Executive Officer of the Corporation, the CFO except where the meeting, or part of the meeting, is for Members only or a private session with the internal auditor or the external auditors. A standing invitation should be given to the internal auditor and the engagement partners of the external auditors for all meetings where financial information is reviewed and approved.
- (9) The Committee shall meet regularly alone and in private sessions with the Director of Internal Audit, the external auditors and management of the Corporation to facilitate full communication.

6. Review

- (1) This Charter shall be reviewed by the Corporate Governance Committee of the Corporation every 2 years and any recommended changes shall be referred first to the Audit Committee for review and comment and second, after consideration of the input from the Audit Committee, to the Board of the Corporation for consideration and disposition.

ANNEX B - MANDATE – BOARD OF DIRECTORS

1. General

- (1) The board of directors (**Board**) of *Toronto Hydro Corporation (Corporation)* is responsible for supervising the management of the business and affairs of the Corporation and its subsidiary entities (**Group**).
- (2) The composition, responsibilities, and authority of the Board are set out in this Mandate.
- (3) This Mandate, the Shareholder Direction issued by the City of Toronto (**Shareholder**) and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Board may adopt from time to time shall govern the meetings and procedures of the Board.

2. Composition

- (1) The directors of the Corporation (**Directors**) should have a mix of competencies and skills necessary to enable the Board and Board committees to properly discharge their responsibilities.
- (2) All of the Directors shall be residents of Canada.
- (3) The Shareholder shall appoint Directors every two years.
- (4) In appointing Directors the Shareholder shall give due regard to the qualifications of the candidates including:
 - (a) experience on a public utility commission or board of a major corporation or other commercial enterprise and/or the completion of formal training in directorship / governance;
 - (b) experience in regulated electricity utility sector at a senior management level;
 - (c) experience at an executive level in resource and performance management / compensation, including ability to appoint and evaluate the performance of the CEO and senior executives; oversee strategic human resource management, including workforce planning, compensation models, and labour relations; and oversee large scale organizational change;
 - (d) educational background, including university degrees and professional designations;
 - (e) experience or knowledge with respect to:
 - i) strategic planning, including ability to identify and critically assess strategic opportunities and threats to the organization;
 - ii) risk management, including ability to assess key risks to the organization on an enterprise basis and monitor the risk management framework systems;
 - iii) corporate finance / accounting / audit / securities, including ability to analyze financial statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements;
 - iv) corporate governance;
 - v) market development;
 - vi) large system operation and management;

- vii) urban energy industries;
 - viii) public policy issues and laws relating to the Corporation and its subsidiary entities and the electricity industry;
 - ix) environmental matters, including experience in environmental management;
 - x) labour relations;
 - xi) occupational health and safety issues;
 - xii) information technology governance, including privacy, data management and security;
 - xiii) legal and regulatory compliance, including ability to monitor compliance of legal and regulatory requirements;
 - xiv) stakeholder engagement / advocacy / communications, including ability to effectively engage and communicate to industry stakeholders and advocate on behalf of the organization;
- (f) the following interpersonal skills and attributes:
- i) leadership, including ability to make, and take responsibility for, decisions and take necessary actions in the best interest of the organization, set appropriate Board and organizational culture and represent the organization favourably;
 - ii) personal integrity / ethics, including understanding and fulfilling the duties and responsibilities of a director, being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining Board confidentiality;
 - iii) communications skills, including ability to listen constructively and appropriately debate others' viewpoints, develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders;
 - iv) constructive questioning, including preparedness to ask questions and challenge management and peer directors in a constructive and appropriate manner;
 - v) critical and innovative thinking / decision making, including ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems;
 - vi) influencing and negotiating, including ability to negotiate outcomes and influence others to agree with those outcomes and gain stakeholder support for the Board's decisions;
 - vii) crisis management, including ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders;
 - viii) individual and team contribution, including ability to work as part of a team, and demonstrate the passion and time to make a genuine and active contribution to the Board and the organization;
 - ix) commercial sensitivity and acumen; and
 - x) independence of judgement;
- (g) at least three directors with financial management expertise.

- (5) For the purposes of determining whether a Director is independent, the Board shall use the definition of independence within the meaning of National Instrument 52-110 *Audit Committee* adopted by the Canadian Securities Administrators.
- (6) The Board shall appoint a Chair of the Board upon the nomination of the Shareholder from time to time.
- (7) The Secretary of the Corporation shall be secretary of the Board (*Secretary*).

3. Responsibilities

- (1) The Board is responsible for supervising the management of the business and affairs of the Group, including the following specific matters:
 - (a) establishing sound financial principles and performance objectives;
 - (b) approving any dividend payment or distribution of capital;
 - (c) appointing the officers of the Corporation;
 - (d) approving the overall business strategy and related business plan;
 - (e) approving the financing strategy, including the selection of financial institutions and related banking authorities;
 - (f) directing labour and employee relations matters; and
 - (g) approving the financial statements in accordance with the requirements of the Business Corporations Act (Ontario).
- (2) In discharging their responsibilities, the Directors owe the following duties to the Corporation:
 - *a fiduciary duty*: they must act honestly and in good faith with a view to the best interests of the Corporation; and
 - *a duty of care*: they must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In discharging their responsibilities, the Directors are entitled to rely on the honesty and integrity of the senior officers of the Corporation and the auditors and other professional advisors of the Corporation.

In discharging their responsibilities, the Directors are also entitled to directors and officers liability insurance purchased by the Corporation and indemnification from the Corporation to the fullest extent permitted by law and the constating documents of the Corporation.

- (3) The Board has specifically recognized its responsibilities for:
 - (a) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer (*CEO*) and other senior officers of the Corporation and that the CEO and other senior officers of the Corporation create a culture of integrity throughout the Group;
 - (b) adopting a strategic planning process and approving annually (or more frequently if appropriate) a strategic plan which takes into account, among other things, the opportunities and risks of the business of the Group;

- (c) overseeing the identification of the principal risks of the business of the Group and overseeing the implementation of appropriate systems to manage these risks;
 - (d) overseeing the integrity of the internal control and management information systems of the Group;
 - (e) succession planning (including appointing, training and monitoring the senior officers of the Corporation);
 - (f) recruiting and assessing the performance of the CEO, the compensation of the CEO and other officers of the Group, executive compensation disclosure and oversight of the compensation structure and benefit plans and programs of the Group;
 - (g) assessing the effectiveness of the Board;
 - (h) adopting a disclosure policy for the Group;
 - (i) developing and overseeing the orientation of new Directors, and the continuing education of existing Directors, of the Group; and
 - (j) developing the approach of the Corporation to corporate governance including a periodic review of the Code of Business Conduct and Whistleblower Procedure of the Group.
- (4) In addition to those matters which must by law be approved by the Board, the Board oversees the development of, and reviews and approves, significant corporate plans and initiatives, including the annual business plan and budget, major acquisitions and dispositions and other significant matters of corporate strategy or policy, including the Environmental Policy, Occupational Health and Safety Policy, Code of Business Conduct and Whistleblower Procedure, Disclosure Policy, Signing Policy and Treasury Policy.
- (5) The Board shall periodically review the Shareholder Direction and make recommendations to the Shareholder to facilitate and clarify interaction and communication between the Shareholder and the Board.
- (6) The Board shall periodically review the performance of the Board against the Shareholder Direction.
- (7) The Board shall periodically review the structure and mandate of each Board committee, the effectiveness of each committee, and the appointment and removal of committee members.
- (8) The Board shall periodically review performance under the Environmental Policy with management.
- (9) To assist the Directors in discharging their responsibilities, the Board expects management of the Corporation to:
- (a) review and update annually (or more frequently if appropriate) the strategic plan and report regularly to the Board on the implementation of the strategic plan in light of evolving conditions;
 - (b) prepare and present to the Board annually (or more frequently if appropriate) a business plan and budget and report regularly to the Board on the Corporation's performance against the business plan and budget; and
 - (c) report regularly to the Board on the Corporation's business and affairs and on any matters of material consequence for the Corporation and its Shareholder.

Additional expectations are developed and communicated during the annual strategic planning and budgeting process and during regular Board and Board committee meetings.

- (10) The Board considers that generally management should speak for the Corporation in its communications with securities holders and the public. The Corporation's investor relations personnel are required to respond to inquiries from securities holders and the public after review and discussion, as appropriate, by senior management and the Board and Board committees. The Corporation's investor relations personnel are available to the securities holders by telephone, fax and e-mail. The Corporation maintains an investor relations section on its website. Presentations at investor conferences are posted promptly on the Corporation's website. They are also available on request. The Board reviews the Corporation's major communications with securities holders and the public. All disclosures on behalf of the Corporation are to be made in compliance with the Corporation's disclosure policy.
- (11) Directors are expected to attend Board meetings and meetings of Board committees of which they are members. Directors are also expected to spend the time needed, and to meet as frequently as necessary, to discharge their responsibilities.
- (12) Directors are expected to undertake such activities as are required from them to remain current in their knowledge of issues relating to the business of the Group and matters relating to any Board committee of which they are members.
- (13) Directors are expected to comply with the Code of Business Conduct and Whistleblower Procedure of the Group.

4. Authority

- (1) The Board is authorized to carry out its responsibilities as set out in this Mandate.
- (2) The Board is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.
- (3) The Board is authorized to invite officers and employees of the Corporation and others to attend or participate in its meetings and proceedings if it considers this appropriate.
- (4) The Directors have unrestricted access to the officers of the Corporation. The Directors will use their judgment to ensure that any such contact is not disruptive to the operations of the Corporation and, except for the chair of any committee established by the Board advise the Chair and the Chief Executive Officer of the Corporation of any direct communications between them and the officers of the Corporation.
- (5) The Board and the Directors have unrestricted access to the advice and services of the Secretary.
- (6) The Board may delegate certain of its functions to Board committees, each of which will have its own charter.

5. Meetings and Proceedings

- (1) The Board shall meet as frequently as is determined to be necessary but not less than four times each year.
- (2) Any Director or the Secretary may call a meeting of the Board.
- (3) The Chair is responsible for the agenda of each meeting of the Board, including input from other Directors and the officers and employees of the Corporation as appropriate. Meetings will include presentations by management and others when appropriate and allow sufficient time to permit a full and open discussion of agenda items.
- (4) Unless waived by all Directors, a notice of each meeting of the Board confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded to each Director at least 48 hours before the date of the meeting.

- (5) The quorum for each meeting of the Board is a majority of the number of Directors. In the absence of the Chair, the other Directors shall appoint one of their number as chair of a meeting. The chair of a meeting shall not have a second or casting vote.
- (6) The Secretary or his delegate shall keep minutes of all meetings of the Board, including all resolutions passed by the Board. Minutes of meetings shall be distributed to the Directors.
- (7) An individual who is not a Director may be invited to attend a meeting of the Board for all or part of the meeting.
- (8) The Directors shall meet regularly alone to facilitate full communication.

6. Review

- (1) This Mandate shall be reviewed by the Corporate Governance Committee of the Corporation every 2 years and any recommended changes shall be brought to the Board of the Corporation for consideration and disposition.