

Power. People. Performance.

2018 Annual Report



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Power.
People.
Performance.

2018 Annual Report



Message

From the Chair of the Board,
and President and Chief
Executive Officer

We're pleased to present Toronto Hydro's 2018 Annual Report: **Power. People. Performance.** In 2018, we continued to adapt to the evolving challenge of operating within Canada's largest city. We invested in the grid to address safety and reliability, support a growing city, meet customer service needs, and provide value to our customers and investors.

POWERING A GROWING MAJOR CITY

In 2018, we invested \$511.3 million in our grid to renew aging infrastructure, keep up with a growing city, and address reliability, safety and customer

service requirements. We also filed a comprehensive rates application with the Ontario Energy Board to enable continued investment. To help ensure we're able to meet our customers' needs and expectations now and in the future, our plan was developed in consultation with over 11,000 of our customers. The majority of the customers we heard from support our plans.

We continue to be challenged by the age of our electricity distribution assets. Many of our assets were installed during Toronto's post-war boom, and approximately one-third are at or near

the end of their useful life. The investments we've made in recent years have resulted in steady improvements to the reliability and safety of our grid – our customers lose power less often, and if they do lose power, we're restoring it faster. Although our investments have reduced the average number of service interruptions to customers caused by deteriorating equipment by over 40% since 2010, defective equipment remains the largest contributor to outages. Investing in the short-term performance and long-term viability of an aged and deteriorated grid that's in demand remains an urgent priority as we work to maintain and continuously improve our performance.

Toronto continues to grow at a record rate. More towers are being built in Toronto than almost any other city in North America, and numerous public transit upgrade and expansion projects are underway to serve an increasing, and increasingly dense, population. The challenge that Toronto Hydro faces is keeping up with this pace of growth. As part of meeting the challenge, we continue to invest in our grid in all areas of the city. For example, we expect our newly-energized Copeland Station – only the second underground transformer station of its kind in Canada – will help relieve concentrated growth in the downtown area of the city. As of the date of this report, it's now complete, and we expect it to add capacity equivalent to 70 skyscrapers to the downtown core, helping to ensure that Toronto continues to have safe and reliable electricity. We also continue to work closely with transit agencies to enable



David McFadden and Anthony Haines

electrification of public transit and keep people moving. In 2018, we received a Canadian Electricity Association (CEA) Sustainable Electricity award in recognition of our work with Metrolinx on a battery energy storage system that will provide backup and emergency power for the Eglinton Crosstown LRT.

There can be no doubt that the weather is changing, and those changes affect Toronto Hydro as well. In 2018, we had as many major grid events as the previous four years combined. We continue to invest in hardening the grid to increase its resilience in the face of extreme weather. We also continue to implement our grid emergency management program to help improve our response to increasingly frequent extreme weather events. The benefit of these investments is in the results: our system reliability has improved despite the increasing number and severity of extreme weather events.

FOCUSING ON PEOPLE

People are at the heart of what we do, in our work and in the community.

Safety is a top priority when it comes to our employees and the customers we serve. We thank our employees for working hard to serve our customers every day, sometimes in dangerous conditions. Our commitment to employee safety is demonstrated by our injury rate in the last several years being nearly half that of the industry

average. Our employees' commitment to serving our customers is demonstrated by our absenteeism rate being approximately one-third of the industry average. We also continue to drive increased customer and public safety awareness, including through education campaigns about how to stay safe around electrical equipment and be prepared for unexpected events, such as outages due to extreme weather. In 2018, we were recognized again as one of Canada's safest employers, receiving Canada's Safest Employers Gold Safety Award and the CEA President's Award of Excellence for Employee Safety.

Our goal is to make it easier for our customers to do business with us, and integrate their needs and expectations into how we do business with them. In 2018, we increased our call centre and billing performance, including through addressing customer concerns effectively on the first try nearly 90% the time, and generating accurate bills over 99% of the time. We also engaged our customer advisory panels to provide feedback on our initiatives and programs, such as the redesign of our website, and continued to serve our most vulnerable customers through community outreach by building awareness and promoting a variety of financial assistance programs.

VALUE THROUGH PERFORMANCE

Throughout our work, we're focused on delivering outcomes that our customers and investors value.

We continue to build on our track record of strong productivity. In 2018, we completed our operational centre consolidation project to reduce our facilities footprint in the city. This resulted in lowering operating costs from higher space utilization, and our customers receiving the proceeds of us selling our surplus properties. As a result of this project, we reduced our square footage per employee by more than 40%, and property sales from our consolidation efforts have allowed us to credit more than \$150 million of proceeds to customers to help lower their electricity bills.

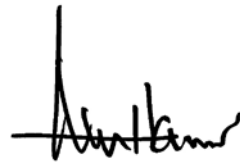
Sustainability is an important principle for Toronto Hydro's operations. We're proud to have been recognized as a Sustainable Electricity Company™ by the CEA since 2014, and we continue to pursue sustainability initiatives to help improve efficiency and reduce our environmental footprint. In 2018, we achieved BOMA BEST Gold Certification at two of our work centres. We also ranked second on *Corporate Knights'* list of the Best 50 Corporate Citizens in Canada, in recognition of our sustainability efforts in recent years. As part of us continuing to work towards the future of electricity, we received a CEA Centre of Excellence award for our pole-mounted energy storage pilot project, a collaboration with eCAMION, the

Government of Ontario and the Centre for Urban Energy at Ryerson University. And we continue to be active in our community. In 2018, we raised approximately \$150,000 for the United Way Greater Toronto through our annual employee campaign, and were recognized with a Gold Leader award. With the help of our partners and sponsors, we also raised more than \$750,000 in support of Sunnybrook's Ross Tilley Burn Centre, the largest burn centre in Canada.

In addition to our safety, service and performance results highlighted above, Toronto Hydro's financial performance in 2018 was also strong. We earned \$167.3 million of net income, and paid dividends to our shareholder, the City of Toronto, totalling \$93.9 million – dividends which can be used to fund essential municipal services that directly benefit Toronto residents.



David McFadden
Chair



Anthony Haines
President and Chief Executive Officer

On behalf of Toronto Hydro, we thank our customers and stakeholders for their continued support. We also recognize our employees for their continuing work over the past year: Toronto Hydro's accomplishments are a result of their ongoing determination, perseverance and dedication to our organization and the customers we serve.

Toronto Hydro Corporation Overview

Toronto Hydro Corporation (the Corporation) is a holding company which wholly-owns two subsidiaries:

- **Toronto Hydro-Electric System Limited** – distributes electricity to residential, commercial and industrial customers in the city of Toronto
- **Toronto Hydro Energy Services Inc.** – provides street lighting and expressway lighting services in the city of Toronto

Services

- Supervises the operations of its subsidiaries
- Provides corporate, management services and strategic direction to its subsidiaries

Toronto Hydro-Electric System Limited Overview

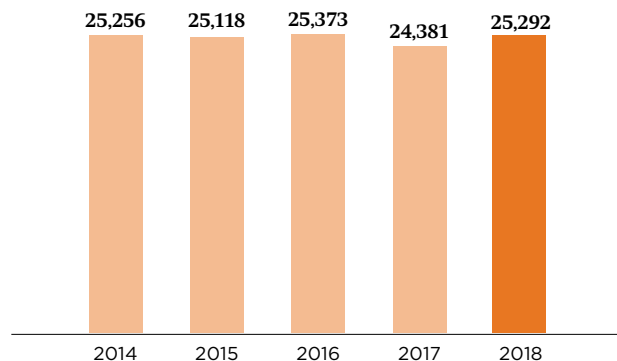
Toronto Hydro-Electric System Limited owns and operates \$4.7 billion of capital assets comprised primarily of an electricity distribution system that delivers electricity to approximately 772,000 customers located in the city of Toronto. It serves the largest city in Canada and distributes approximately 19% of the electricity consumed in the province of Ontario.

Services

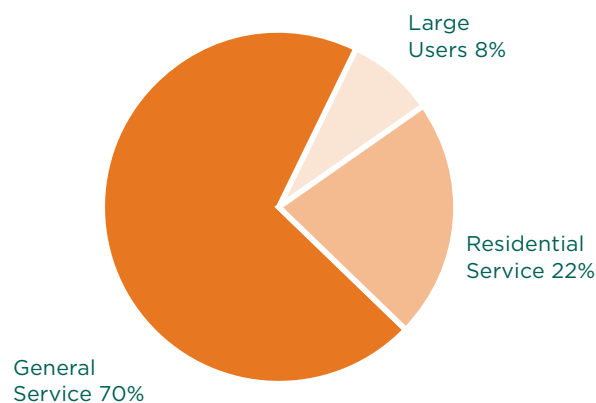
- Committed to delivering safe and reliable electrical power to approximately 772,000 residential, commercial and industrial customers in the city of Toronto, which has a population base of approximately 2.9 million
- Plans, maintains and operates its electricity distribution infrastructure safely, efficiently and in an environmentally responsible manner
- Strives to provide consistent, high-quality customer service



Electricity Delivered (GWh)



Electricity Distribution by Class (%)



Electricity Distribution by Class (GWh)

5,418
Residential Service

17,807
General Service

2,067
Large Users



772,000

Number of Customers

Approximate

689,560

Residential Service

82,292

General Service

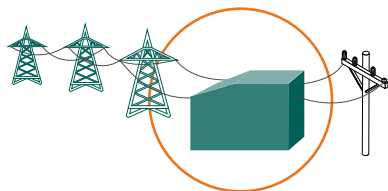
with monthly peak demand of less than 5,000 kW averaged over a 12-month period

38

Large Users

with monthly peak demand of 5,000 kW or greater averaged over a 12-month period

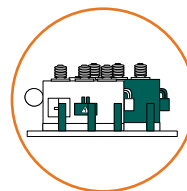
Our electricity distribution system is serviced from (approximate):



34
terminal stations



1
transmission system
terminal station



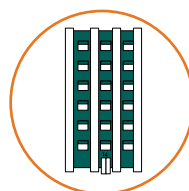
17,400
primary switches



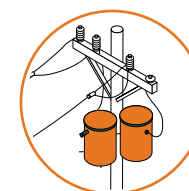
1
control centre



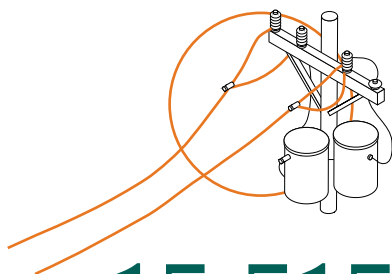
146
in-service municipal
substations



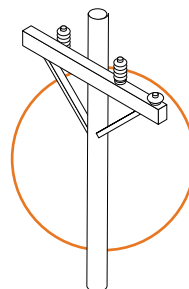
5
operations centres



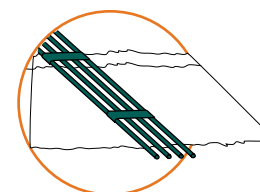
60,560
distribution transformers



15,515
kilometres of overhead wires



179,400
poles



13,207
kilometres of
underground wires

Governance

Corporate Governance

The Corporation has developed sound corporate governance practices. The Corporation's Board of Directors and management believe that strong corporate governance is essential for delivering customer value, operating on an efficient and commercially prudent basis, creating shareholder value and maintaining investor confidence.

Board of Directors

The Corporation and its subsidiary entities each have separate Boards of Directors, which are responsible for

supervising the management of the business and affairs of their respective organizational segments. The Boards are made up of individuals who collectively represent a wide range of skills and expertise necessary for effective public reporting issuer, and regulated operational utility governance. The Board of Directors of the Corporation is composed of eight independent directors and three city councillors. All directors are appointed by the sole shareholder of the Corporation. The Corporation appoints the Board of Directors of Toronto Hydro-Electric System Limited from among the directors of the Corporation and independent citizens. The Board of Directors has four regularly scheduled meetings

each year, but meets as often as is necessary to fulfill its responsibilities to the Corporation.

The Board of Directors has put in place a system of corporate governance that fulfills the requirements of applicable provincial legislation and Canadian securities rules, and meets best practices for regulated utilities in the energy industry in Ontario. As part of its ongoing commitment to good corporate governance, each of the organization's Boards operates in accordance with a written mandate, and the Board committees operate in accordance with written charters, which are all reviewed and approved by the appropriate Board of Directors.



Toronto Hydro Corporation Board of Directors

The members of the Corporation's Board of Directors, as well as the independent members of the Toronto Hydro-Electric System Limited Board of Directors, as of December 31, 2018, are introduced here. The description indicates committee and subsidiary Boards of Directors' participation.

Effective December 13, 2018, the City, as the sole shareholder of the Corporation, re-appointed Councillor Paul Ainslie, Deputy Mayor Stephen Holyday (as the Mayor's designate), and Deputy Mayor Denzil Minnan-Wong to the Board of Directors for a term ending December 31, 2020, or until their successors are appointed.

Effective April 26, 2017, the City appointed Juliana Lam to the Board of Directors. The appointment is effective for a term ending April 26, 2019, or until her successor is appointed.

Effective December 10, 2017, the City re-appointed David McFadden, Brian Chu, Heather Zordel, the Honourable Howard Wetston, Senator, Mary Ellen Richardson, Michael Nobrega and Tamara Kronis to the Board of Directors for a term ending December 10, 2019, or until their successors are appointed.

Code of Business Conduct and Whistleblower Procedure

All employees, officers and directors of the Corporation and its subsidiaries are required to comply with the

principles set out in the Code of Business Conduct and Whistleblower Procedure (the Code), which was implemented by the Corporation in 2003, and is reviewed, revised and approved by the Board of Directors from time to time. The Code provides guidance to all employees in situations of perceived conflict of interest. All employees, officers and directors of the Corporation and its subsidiaries are required to complete training in respect of the Code, and attest to compliance with the Code upon commencement of employment and every three years thereafter. The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. Where the complaint involves the conduct of a director or officer of Toronto Hydro, the Ethics Officer is required to report it to the Chair of the Human Resources and Environment Committee of the Board, or, where such conduct relates to questionable auditing or accounting matters, to the Chair of the Audit Committee of the Board, who oversees the investigation of that complaint. In addition to the provisions of the Code, the Ethics Officer reports quarterly to the Human Resources and Environment Committee of the Board on the nature of complaints received, and the Director, Internal Audit and Compliance, reports quarterly to the Audit Committee on matters related to audit and accounting. A copy of the Corporation's [Code of Business Conduct and Whistleblower Procedure](#) is available on our website.

Disclosure Policy

The Board of Directors recognizes the importance of ensuring that communications to the public about the Corporation and its subsidiaries are timely, factual, accurate and are broadly disseminated in accordance with all applicable legal and regulatory requirements. To ensure consistent and appropriate disclosure practices, the Corporation has adopted a Disclosure Policy to govern the disclosure by its employees, officers and directors, and those specifically authorized to speak on Toronto Hydro's behalf.

Committees of the Board of Directors

The Board of Directors believes that its ability to discharge its responsibilities is enhanced by the active participation of committees in the corporate governance process. The Board of Directors has established three standing committees: Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee. Each committee meets regularly throughout the year and provides a report at meetings of the Board of Directors on material matters considered by the committee.

Audit Committee

The Audit Committee is responsible for overseeing the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures and financial risk management systems. The Audit

Committee reviews the Corporation's and each of its subsidiaries' quarterly and annual financial statements, as well as financial statements prepared in connection with the requirements of applicable regulatory authorities, reviews the audit plans of the external auditors, oversees the internal audit of the Corporation, reviews and makes recommendations to the Board of Directors with respect to the payment of dividends or distribution of capital by the Corporation, reviews and recommends to the Board of Directors the Corporation's quarterly and annual financial press releases, and recommends the external auditor to the Board of Directors for appointment by the Corporation's sole shareholder.

Corporate Governance and Nominating Committee

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

As part of its governance function, the Corporate Governance and Nominating Committee develops and reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's

sole shareholder by the Board of Directors. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of Toronto Hydro-Electric System Limited for approval by the Corporation's Board of Directors. The Corporate Governance and Nominating Committee reviews and approves all orientation and education materials and programs for new and current directors undertaken by management.

Human Resources and Environment Committee

The Human Resources and Environment Committee is responsible for reviewing and assisting the Board of Directors in overseeing the recruitment and assessment of the CEO and the compensation of the CEO, reviewing and approving the compensation of executive officers, reviewing and approving executive compensation disclosure under applicable securities laws, and reviewing and making recommendations to the Board of Directors regarding the compensation structure and benefit plans and programs of the Corporation and its subsidiaries. The Human Resources and Environment Committee is also responsible for reviewing and approving the parameters of collective bargaining negotiations, the oversight of health and safety related matters and processes, and the oversight of environmental related matters and processes of the Corporation and its subsidiaries.

Other Committees

In 2018, the Board of Directors of the Corporation established a Steering Committee, consisting of the Chair of the Board of Directors and the Chairs of the respective standing committees, to assist the Board of Directors and its standing committees in fulfilling their responsibilities by providing effective and timely guidance on emerging, time-sensitive, significant issues arising with respect to matters that overlap with the mandates of the standing Board committees. The Steering Committee does not replace any of the functions of the Board of Directors or its standing committees unless otherwise expressly delegated by the Board of Directors from time to time. The role of the Steering Committee is to provide advice and recommendations to the respective Board committees(s) that will enable them to successfully carry out their responsibilities and ultimately properly advise and make recommendations to the Board of Directors.

Further, the Board of Directors may establish ad-hoc committees from time to time for a specific task or subject matter.

Board of Directors



David McFadden
Chair

- Former Counsel, Gowling WLG
- Former Member, Board of Trustees and Executive Committee, Gowling WLG
- Chair, 407 International Inc.
- Chair, PCI Geomatics Inc.
- Former Chair, Ontario Energy Association
- Director, Cricket Energy Holdings Inc.
- Vice-Chair, Electricity Transformation Network of Ontario, Independent Electricity System Operator
- Member, Advisory Board of the MaRS Advanced Energy Centre
- Member, Board of Governors, York University
- Member, Council for Clean and Reliable Electricity
- Member, Law Society of Ontario
- Former Member, Ontario Government's Electricity Distribution Sector Review Panel
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force
- Former Co-Chair, Electricity Transition Committee of the Ontario Government
- Former Chair, Ontario Centres of Excellence

Committee Memberships

- *Ex-Officio* Member, Audit Committee
- *Ex-Officio* Member, Human Resources and Environment Committee
- *Ex-Officio* Member, Corporate Governance and Nominating Committee



Brian Chu
Vice-Chair

- Partner, Bogart Robertson & Chu LLP
- Director, and Member of Safety Regulatory Affairs Committee, Technical Standards & Safety Authority
- Member, Canadian Tax Foundation
- Member, Law Society of Ontario
- Former Trustee and Chair, Centennial Centre of Science and Technology (Ontario Science Centre)
- Former Vice-Chair, Centennial College
- Former Chair, Board of Governors, Ontario College of Art and Design
- Former President, Laidlaw Foundation

Committee Memberships

- Human Resources and Environment Committee (Chair)
- Corporate Governance and Nominating Committee



Councillor Paul Ainslie

- City of Toronto Councillor, Ward 24 – Scarborough Guildwood (previously, City Councillor, Ward 43 – Scarborough East)
- Chair, City of Toronto – General Government and Licensing Committee
- Mayor's Designate, Board of Directors for the Toronto Public Library
- Member, City of Toronto – Toronto Zoo Board of Management
- Member, City of Toronto – Executive Committee
- Member, City of Toronto – Scarborough Community Council
- Member, Canadian National Exhibition Association, Municipal Section
- Member, Board of Directors of Guild Renaissance Group
- Member, Board of Directors of the Ontario Good Roads Association
- Member, Toronto and Region Conservation Authority
- Former Co-Chair, Rouge Valley Health System Centenary Buy a Bed Fundraising Campaign
- Past Chair, Board of Directors of Haliburton Club

Committee Membership

- Corporate Governance and Nominating Committee



Deputy Mayor Stephen Holyday, Mayor's Designate

- Deputy Mayor, City of Toronto
- City of Toronto Councillor, Ward 2 – Etobicoke Centre (formerly City Councillor, Ward 3 – Etobicoke Centre)
- Mayor's Designate and Chair of City Council's Special Committee on Governance
- Chair, City of Toronto – Audit Committee
- Member, City of Toronto – City Council's General Government and Licensing Committee
- Member, City of Toronto – City Council's Striking Committee
- Member, City of Toronto – Etobicoke York Community Council
- Member, Board of Directors, Hockey Hall of Fame
- Member, Exhibition Place, Board of Governors
- Member, Canadian National Exhibition Association, Municipal Section
- Former Vice-Chair, City of Toronto – Employee and Labour Relations Committee
- Former Acting Manager and Manager, Service Management, Ontario Ministry of Energy

Committee Membership

- Human Resources and Environment Committee



Tamara Kronis

- Member of the Board of Directors, Toronto Hydro Energy Services Inc.
- Founder and CEO, Studio1098
- Member, Law Society of Ontario
- Former Legal Counsel, Vertex Customer Management/Vertex Outsourcing
- Former Associate Lawyer, Torys LLP
- Former Director of Advocacy, EGALE Canada
- Former Trial Assistant, United Nations (International Criminal Tribunal for the former Yugoslavia)
- Fellow, Canadian Gemmological Association
- Fellow, Gemmological Association of Great Britain

Committee Membership

- Corporate Governance and Nominating Committee (Chair)



Juliana Lam

- Member of the Board of Directors, Toronto Hydro Energy Services Inc.
- Executive Vice-President and Chief Operating Officer, Chartered Professional Accountants of Ontario
- Former Executive Vice-President & CFO, Uranium One Inc.
- Former Senior Vice-President, Finance, Kinross Gold Corporation
- Former Chief Financial Officer, Nexans Canada Inc.
- MBA, CPA, CA and ICD.D designations

Committee Memberships

- Audit Committee
- Human Resources and Environment Committee



Deputy Mayor Denzil Minnan-Wong

- City of Toronto Deputy Mayor
- City of Toronto Councillor, Ward 16 – Don Valley East (formerly, City Councillor, Ward 34 – Don Valley East)
- Chair, City of Toronto – Civic Appointments Committee
- Chair, City of Toronto – Striking Committee
- Member, City of Toronto – Executive Committee
- Member, City of Toronto – Committee of Revision, North York Community Council
- Member, City of Toronto – Infrastructure and Environment Committee
- Member, Law Society of Ontario
- Former Chair, City of Toronto – Employee and Labour Relations Committee
- Former Chair, City of Toronto – Public Works and Infrastructure Committee
- Former Chair, City of Toronto – Economic Development Committee
- Former Chair, North York Community Council
- Former Member, City of Toronto – Planning and Transportation Committee
- Former Member, City of Toronto – Works and Emergency Services Committee
- Former Member, City of Toronto – Audit Committee
- Former Member, City of Toronto – Corporations Nominating Panel
- Former Member, Toronto Financial Service Advisory Committee
- Former Mayor's Designate, BUILD Toronto Board
- Former Mayor's Designate, Invest Toronto Board



Michael Nobrega

- Interim President and CEO, Waterfront Toronto
- Chair, Ontario Centres of Excellence
- Member, Board of Directors, IBI Group Inc.
- Former President and CEO, Ontario Municipal Employees Retirement System (OMERS)
- Former Chief Investment Officer, OMERS
- Former President and CEO, Borealis (OMERS) Infrastructure
- Former Partner, Arthur Andersen, Chartered Accountants
- Former Member, Board of Directors, Global Risk Institute
- Recipient, University of Toronto Arbor Award
- Fellow, Institute of Chartered Accountants of Ontario

Committee Memberships

- Audit Committee (Chair)
- Human Resources and Environment Committee



Mary Ellen Richardson

- Member of the Board of Directors, Toronto Hydro-Electric System Limited
- Member, Board of Directors, Human Resources and Governance Committee and the Finance and Audit Committees, Markham District Energy Inc.
- Former President, Canadian District Energy Association
- Former Vice-President, Corporate Affairs, and Vice-President, Conservation Programs and External Relations, Ontario Power Authority
- Former President, Association of Major Power Consumers in Ontario
- Former Member, Board of Directors, and Human Resources Committee, Guelph Municipal Holdings Inc.
- Former Member, Management Board, Ontario Centres of Excellence in Energy
- Former Member, Board of Directors, Environmental Careers Organization of Canada
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force
- Former Member, Executive of the Stakeholders' Alliance for Competition and Customer Choice
- Former Member, Customer Advisory Board, Hydro One

Committee Membership

- Corporate Governance and Nominating Committee



The Honourable Howard Wetston, Senator

- Chair of the Board of Directors, Toronto Hydro-Electric System Limited
- Senator, Senate of Canada
- Member, Board of Directors, Spark Power Corp.
- Member, Competition Policy Council, C.D. Howe Institute
- Senior Fellow, C.D. Howe Institute
- Trustee, International Valuations Standards Council
- Former Member, Advisory Board, Program on Ethics in Law and Business, University of Toronto
- Former Member, Advisory Board, Shannon School of Business, Cape Breton University
- Former Chair and Chief Executive Officer, Ontario Securities Commission
- Former Vice-Chair, Ontario Securities Commission
- Former Chair and Chief Executive Officer, Ontario Energy Board
- Former Judge, Federal Court of Canada, Trial Division
- Former Ex-officio Judge of the Federal Court of Canada's Appeal Division
- Former Senior Member, Canadian Securities Administrators
- Former Vice-Chair, International Organization of Securities Commissions
- Former Director, Investigations and Research, Bureau of Competition Policy (Commissioner of Competition)
- Awarded Member, Order of Canada
- Board Diversity Champion, Catalyst Canada Honours
- Recipient, Queen Elizabeth II Diamond Jubilee Medal



Heather Zordel

- Chair of the Board of Directors, Toronto Hydro Energy Services Inc.
- Partner, Securities Group, Gardiner Roberts LLP
- Commissioner, Ontario Securities Commission
- Part-time Adjudicator, Law Society Tribunal
- Member, Board of Directors, Lawyers' Professional Indemnity Company (LawPro)
- Member, Board of Directors, Condominium Authority of Ontario
- Member and Benchler, Law Society of Ontario
- Co-Director and Course Director, Osgoode Hall Law School's Part-time LL.M. Program in Securities Law

Committee Membership

- Audit Committee



*Case Ootes

- Former Member of the Board of Governors, Seneca College
- Former Chair of Mayor Ford's Transition Team
- Former Chair of Mayor Tory's Transition Team
- Former Managing Director, Toronto Community Housing
- Former Deputy Mayor of the City of Toronto
- Former Chair of Labour Relations for the City of Toronto
- Former Chair, Toronto Financial Service Alliance
- Former Member, Toronto Police Services Board
- Former Member, Toronto Transit Commission
- Former Director, Municipal Property Assessment Corporation
- Former Director, GO Transit Board
- Former Director, Greater Toronto Marketing Alliance Board
- Former Director, Business Development Corp. Board
- Former Director, Toronto East General Hospital Board
- Former Director, Toronto Hydro Board
- Former Director, Toronto Region Conservation Board
- Former Seneca College Executive in Residence
- Former President of East York Kiwanis
- Former Corporate Credit Manager, Imperial Oil
- Former Manager of Accounting Service, Imperial Oil

* Member of the Board of Directors for Toronto Hydro-Electric System Limited only



***Dee Patterson**

- Managing Director, Lambay Group Inc.
- Member, Board of Directors, West Park Healthcare Centre
- Member, Board of Directors, Prostate Cancer Canada
- Former Member, Board of Directors, North York General Foundation
- Former Vice-President, Corporate Sales Canada, US and UK, Global Transaction Banking, Scotiabank
- Former Managing Director, Power and Utilities Group, Corporate Banking, Scotiabank
- MBA, MSc Finance and ICD.D designations



***Mario Silva**

- Published Author and International Legal Scholar
- Distinguished Visiting Professor at Ryerson University
- Non-Resident Fellow, Montreal Institute for Genocide and Human Rights Studies at Concordia University
- Professional Fellow of the Privacy and Cyber Crime Institute at Ted Rogers School of Management at Ryerson University
- Professional Fellow at Institute for the Study of Corporate Social Responsibility at Ted Rogers School of Management at Ryerson University
- Chair, Corporate Social Responsibility Advisory Council – Superior Medical
- Former Visiting Scholar, Faculty of Law at McGill University
- Former Member of Parliament
- Former Toronto City Councillor
- Former Chair, International Holocaust Remembrance Alliance (IHRA)
- Former Director, Toronto Hydro
- Former Director, Toronto Transit Commission
- Former Director, Exhibition Place
- Former Director, Mount Sinai Hospital
- Former Director, Canadian Opera Company
- Commander of the Order of Merit, Portugal
- Commander of the Order of Rio Branco, Brazil
- Knight, Ordre national de la Légion d'honneur, France
- Recipient, Insignia of the Autonomous Region of the Azores
- Recipient, Bridge Builder Award by the Parliament of Canada All Party Interfaith Friendship Group

* Member of the Board of Directors for Toronto Hydro-Electric System Limited only

Senior Management Team

Anthony Haines

President and Chief Executive Officer^{1,2}

Aida Cipolla

Executive Vice-President and
Chief Financial Officer^{1,2}

Amanda Klein

Executive Vice-President,
Public and Regulatory Affairs
and Chief Legal Officer^{1,2}

Ben LaPianta

Executive Vice-President and Chief Customer
Care and Electric Operations Officer²

Ave Lethbridge

Executive Vice-President and Chief
Human Resources and Safety Officer²

Dino Priore

Executive Vice-President and Chief
Engineering and Construction Officer²

Robert Wong

Executive Vice-President and
Chief Information Officer²



From left to right: Amanda Klein, Dino Priore, Aida Cipolla, Anthony Haines, Ave Lethbridge, Robert Wong and Ben LaPianta

¹ Toronto Hydro Corporation

² Toronto Hydro-Electric System Limited

Balanced Scorecard

The Corporation measures performance in relation to the achievement of strategic objectives by using a balanced scorecard approach. Key Performance Indicators (KPIs) are monitored throughout the year and appropriate actions are taken as required. The performance objectives of the Corporation for 2018 were as follows:

Corporate Key Performance Indicators	Measure
Consolidated Net Income (\$ millions)	Net Income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements
1-Year Distribution System Plan Investment (\$ millions) ¹	Toronto Hydro Board-approved cumulative regulated capital investments (not necessarily in service) as defined in the Distribution System Plan for the current year
5-Year Custom Incentive Rate-Setting (CIR) Distribution System Plan Investment (\$ millions) ¹	Toronto Hydro Board-approved cumulative regulated capital investments (not necessarily in service) as defined in the Distribution System Plan for the five-year rate period
System Average Interruption Duration Index (SAIDI) (in minutes) (Defective equipment only)	Measure of the annual system average interruption duration per customer served, not including Major Event Days
System Average Interruption Frequency Index (SAIFI) (number of interruptions) (Defective equipment only)	Measure of the frequency of service interruptions per customer served, not including Major Event Days
First Contact Resolution	Percentage of telephone and email enquiries resolved in one contact, within a 21-day time period
Bill Accuracy	The percentage of issued bills that are considered accurate or inaccurate as defined by the Ontario Energy Board
New Services Connected on Time	Percentage of connections for new low-voltage (<750 volts) service requests completed within five business days from the day on which all applicable service conditions are satisfied, or at such later date as agreed to by the customer
Employee Engagement	Average number of engagement sessions attended per employee per year
Safety – Total Recordable Injury Frequency (TRIF)	Number of recordable injuries x 200,000/exposure hours

¹ This is a non-GAAP measure as it includes all eligible capital expenditures, net of capital contributions related to regulated operations.

Powering a Growing Major City

In 2018, we invested \$511.3 million in our grid to renew aging infrastructure, keep up with a growing city, and address reliability, safety and customer service requirements.

Toronto Hydro Corporation 2018 Capital Expenditures (in millions of Canadian dollars)

Regulated Local Distribution Company

Distribution System

Planned ¹	\$369.7
Reactive	63.8
Copeland Station	9.9
Facilities Consolidation	–
Technology assets	54.4
Other ²	4.0
Regulated capital expenditures	\$501.8
Unregulated capital expenditures³	9.5
TOTAL	\$511.3

¹ Includes among other initiatives, the replacement of underground and overhead infrastructures, station programs, and the delivery of customer connections

² Includes fleet capital and buildings

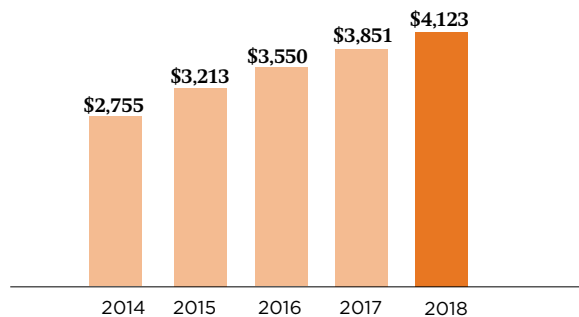
³ Primarily relates to streetlighting and generation equipment



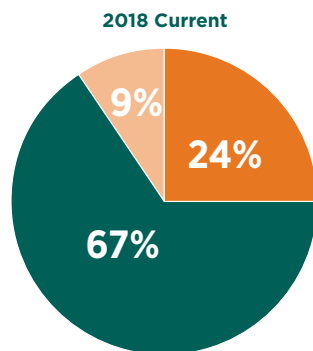
Although we continue our steady pace of investment, we also continue to be challenged by the age of our electricity distribution assets.

Toronto Hydro-Electric System Limited

*Rate Base Over Last 5 Years (in millions of Canadian dollars)



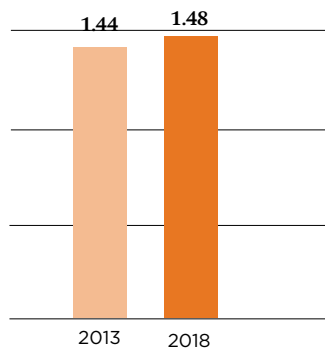
* Total Dollar Value of Regulated Assets



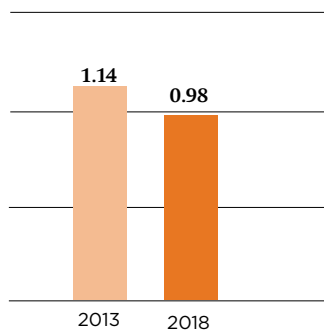
- Assets To Reach Useful Life by End of 2025
- Assets at End of Useful Life in 2018
- Assets Not Yet at End of Useful Life

The investments we've made in recent years have resulted in improvements to the reliability and safety of our grid over time.

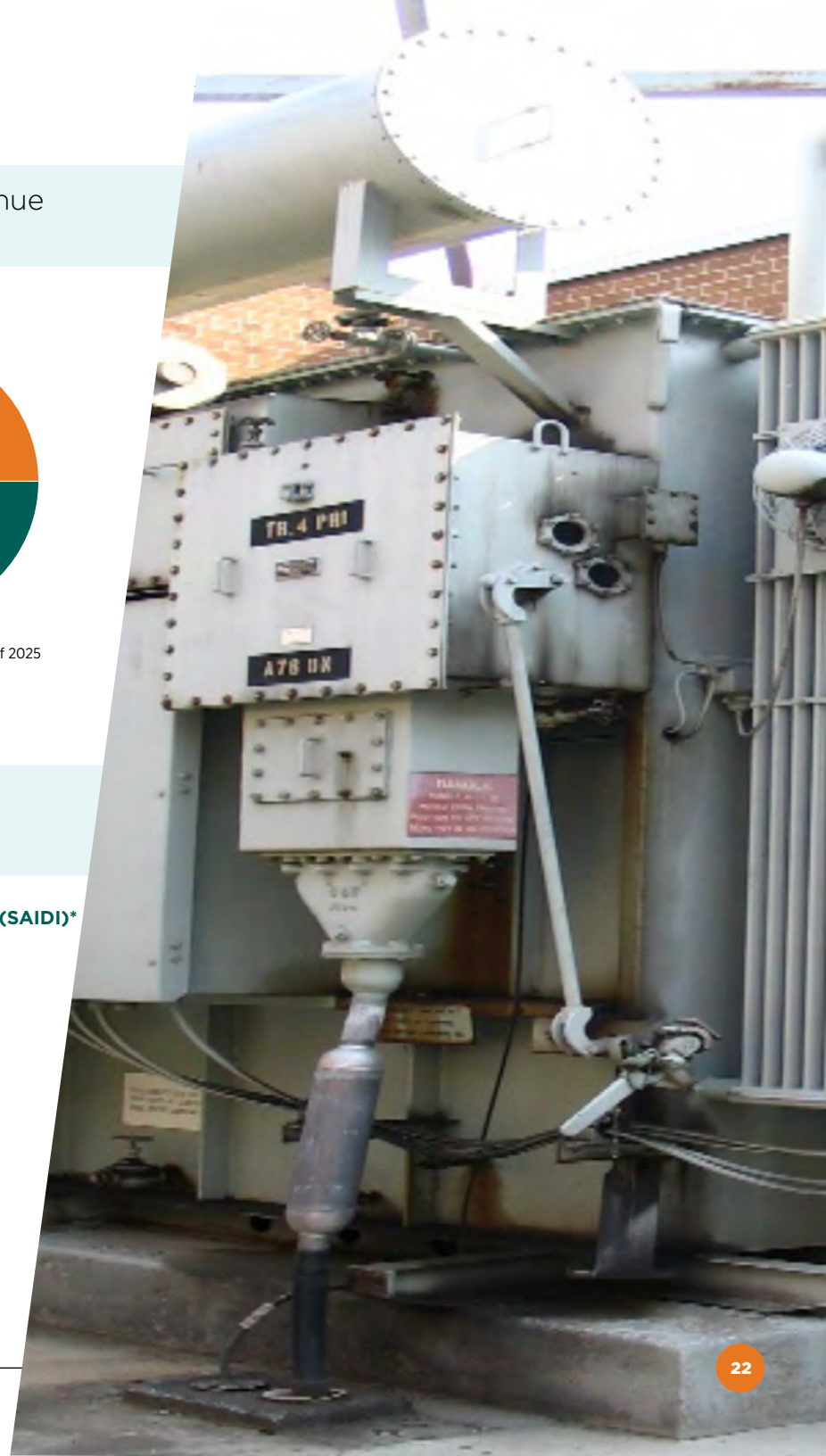
System Average Interruption Frequency Index (SAIFI)*
(Number of Outages for the Average Customer)



System Average Interruption Duration Index (SAIDI)*
(Average Duration of Outages)

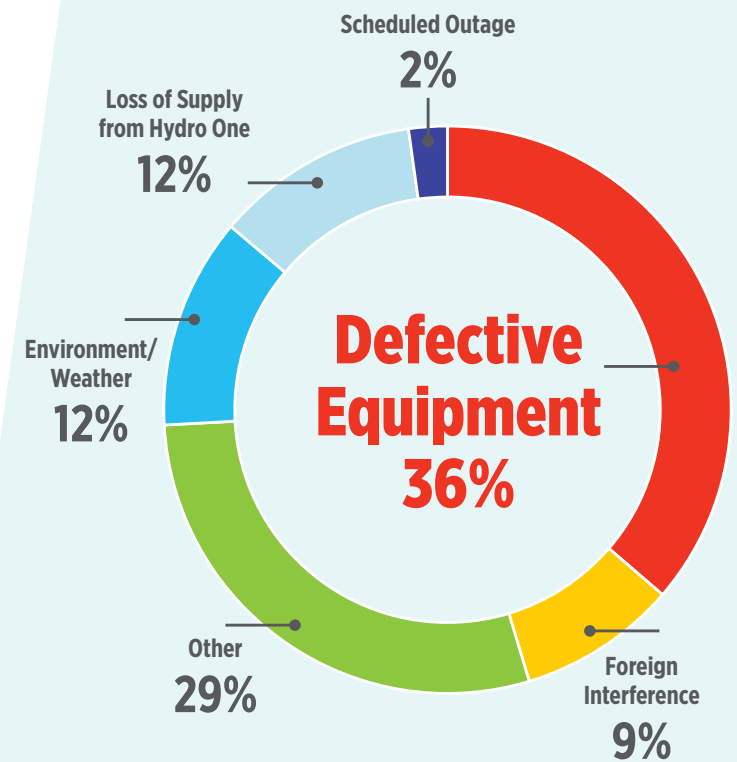
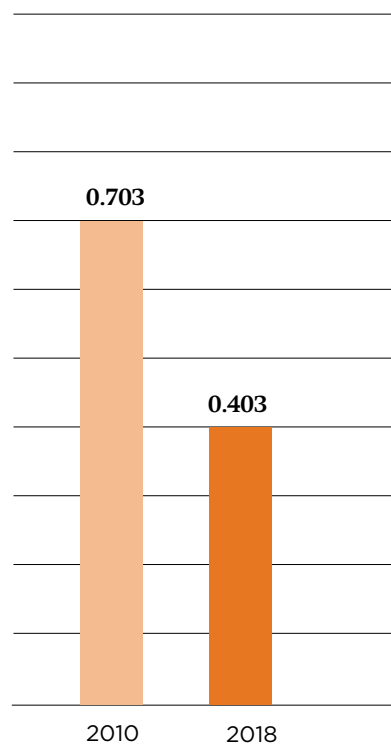


*Excludes Major Event Days

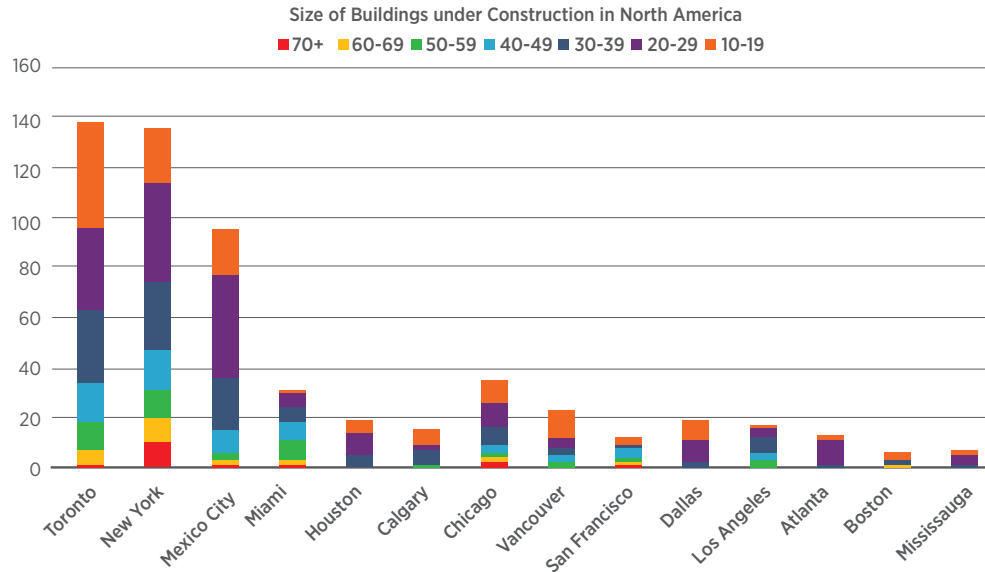


Although our investments have reduced the number of service interruptions caused by defective equipment by over 40%, it remains the largest contributor to outages.

SAIFI Defective Equipment

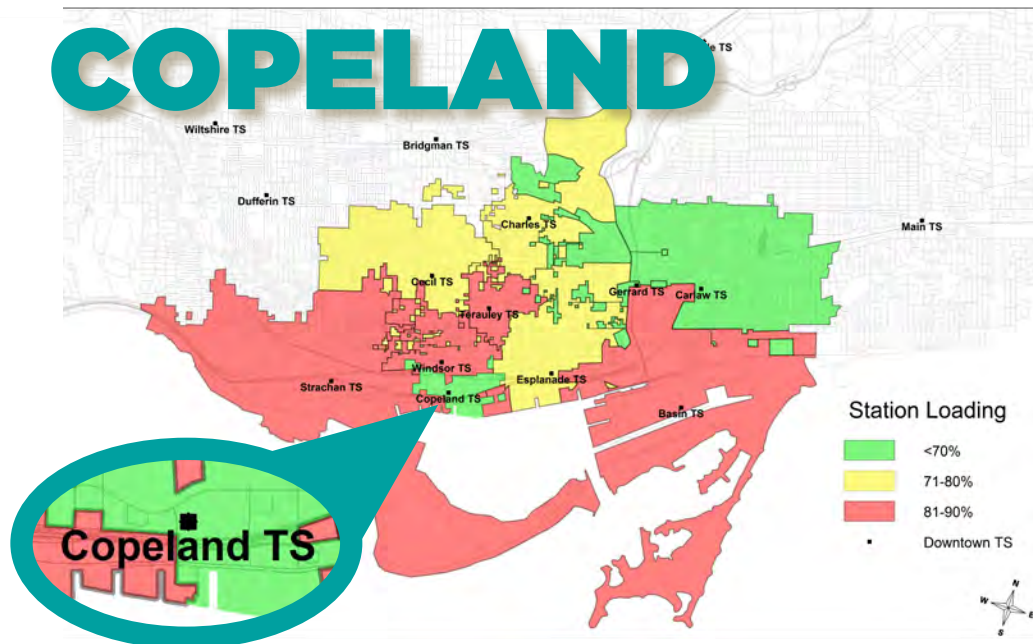


Powering a Growing Major City



Source: skyscraperpage.com (September 6, 2017)

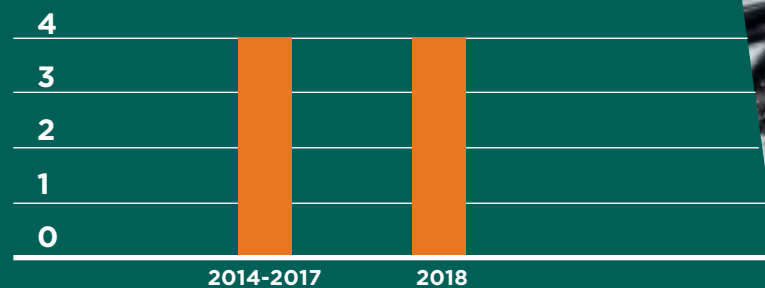
The city is growing at record rates, and we continue to invest in our grid in all areas of the city.



This includes our newly-energized Copeland Station, which will help relieve concentrated growth in the downtown core, and add capacity equivalent to 70 skyscrapers.

The weather is changing – in 2018, we had as many Major Event Days due to extreme weather than in the previous four years combined.

Major Event Days Due to Extreme Weather



We continue to invest in hardening the grid and implement our grid emergency management program.





Powering a Growing Major City: Additional 2018 Highlights

- We received a Centre of Excellence award from the Canadian Electricity Association for our pole-mounted energy storage pilot project, a collaboration with eCAMION, the Government of Ontario and the Centre for Urban Energy at Ryerson University. The energy storage system, the first of its kind anywhere in the world, stores energy during off-peak hours and releases power as needed to help improve performance and reliability
- We continued our collaboration with Metrolinx to build an innovative energy storage system that will provide back-up and emergency power to the Eglinton Crosstown light rail transit (LRT) line. This environmentally-friendly energy solution replaces previous plans for a gas-powered Combined Heat and Power (CHP) plant, and is expected to help increase reliability, lower operating costs and reduce emissions for the Eglinton Crosstown LRT
- We initiated construction on a combined solar and energy storage pilot project with the City of Toronto at a Toronto Paramedic Services station. The project will involve the installation of roof- and wall-mounted solar panels on the station, which will be connected to a battery that will store the generated electricity. A sufficient amount of electricity will be stored in the battery to help operate the critical loads in the station during a power outage. The excess generated electricity will be connected to our distribution grid and used to help offset the cost of electricity at the station. This project is expected to help improve the ability of the station to respond to emergencies and provide a financial benefit to the city
- We jointly invested with the City of Toronto in solar photovoltaic (PV) projects on city-owned facilities. In 2018, Group A projects (for which Toronto Hydro has a 51% majority ownership) generated 1,380 MWh and displaced approximately 50 tCO₂e. In addition, Group B projects (for which Toronto Hydro has a 49% minority ownership) generated 1,884 MWh and displaced approximately 68 tCO₂e
- Our Grid Emergency Management program, established in 2014 to help improve our response to extreme weather events, is a key focus area for us. In 2018, we began aligning our disaster preparedness program to the Canadian Standard on Emergency and Continuity Program Management; implemented emergency management software to help streamline communications during an emergency response; and began development of a robust employee preparedness system to help employees fulfill emergency response functions

- To help support our emergency response, we also implemented a mass notification tool – ARCOS – to perform mass callouts to notify staff during emergencies
- We supplied close to 1,400 emergency kits to vulnerable residents at over 140 community events
- To help us build a strong local network of support for responding to emergencies, we participated in the City of Toronto's Emergency Management working group and the Toronto Emergency Management Program Committee, along with organizations including the City of Toronto's Office of Emergency Management, Toronto Water, Toronto Fire Services, Toronto Transit Commission, and Toronto and Region Conservation Authority
- We continued to maintain a strong, proactive role as a member of the North Atlantic Mutual Assistance Group (NAMAG), which brings together utilities from provinces and states along the northeast that have formally agreed to provide assistance to each other during emergencies.
- We're also members of the Canadian Mutual Assistance Group (CanMAG), coordinated through the Canadian Electricity Association
- As part of our ongoing commitment to mutual assistance, in 2018, we deployed mutual aid resources to the Bronx/Westchester, New York area to provide emergency assistance and help restore power following Winter Storms Riley and Quinn
- We also received an Irma Assistance Award from the Edison Electric Institute for excellence in power restoration for our work assisting customers impacted by Hurricane Irma in September 2017



Focusing on People

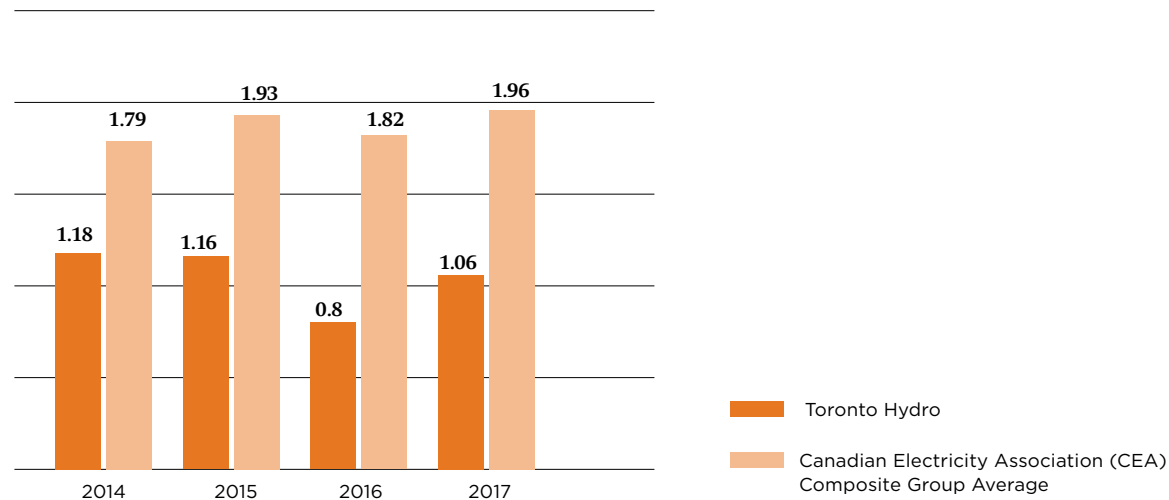


Focusing on People

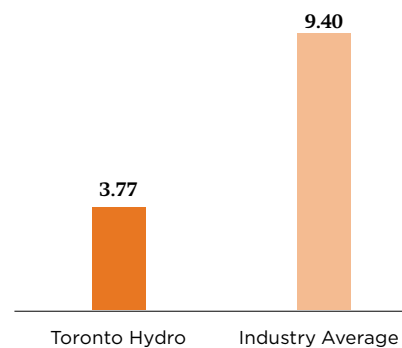
People are at the heart of what we do, in our work and in the community. Safety is a top priority when it comes to our employees and the customers we serve.

Our injury rate in the last several years has been nearly half that of the industry average.

Total Injury Frequency Rate (TRIF)



2018 Employee Absenteeism Rate (Days)

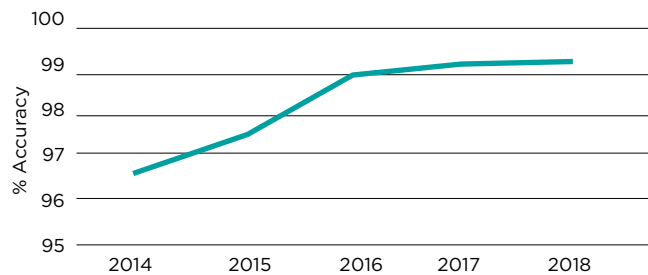


Our absenteeism rate is approximately one-third that of the industry average.

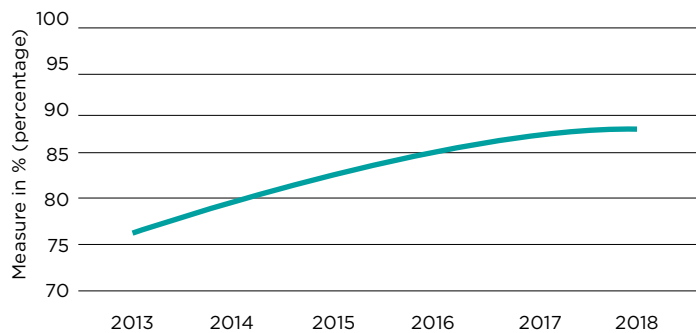
We continue to drive increased customer and public safety awareness, including through education campaigns.



Billing Accuracy



First Contact Resolution



Our goal is to make it easier for our customers to do business with us, and integrate their needs and expectations into how we do business with them. We're high performers when it comes to resolving customer issues on the first try, and in how often we generate accurate bills.





Focusing on People: Additional 2018 Highlights

- We engaged our customer advisory panels to provide feedback on our initiatives and programs, such as the redesign of our website, to help align our approach with their needs and preferences
- We continued to encourage our customers to move to paperless billing as a more convenient, sustainable and cost-effective way to receive bills. As a result, 34% of our customers are now receiving eBills
- We continued to serve our most vulnerable customers through community outreach by building awareness and promoting a variety of financial assistance programs, including the Ontario Electricity Support Program (OESP), Low-Income Energy Assistance Program (LEAP), AffordAbility Fund and Home Assistance Program (HAP), which can help customers reduce and manage electricity costs
- We increased engagements with our largest business customers by 70% compared to 2017, and continued to provide them with customized energy-saving opportunities and specific solutions to meet their business needs
- We launched Suitesaver, a new program for commercial and business customers, offering business-wide lighting upgrades in suites for qualifying multi-unit residential buildings
- We warned customers about text, email and phone-based scams, and provided tips to help them recognize and protect themselves from fraudulent behaviour
- We launched a new video series entitled “Be Enlightened,” to help answer common customer questions on topics such as power restoration, burying overhead wires, homeowner responsibilities and more
- We supported Georgian College’s engineering facility to help train future electrical utility workers and fund curriculum development
- We were recognized once again as one of Canada’s safest employers, receiving Canada’s Safest Employers Gold Safety Award in the Utilities and Electrical Category, and the 2018 CEA President’s Award of Excellence for Employee Safety

Value Through Performance

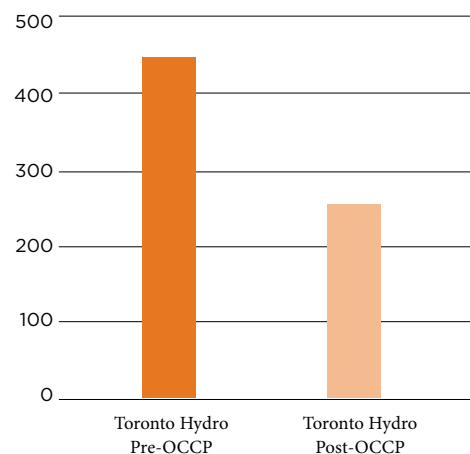
Throughout our work, we're focused on delivering outcomes that our customers and investors value.

We continue to build on our strong record of productivity. In 2018, we completed our operational centre consolidation project, resulting in lower operational costs from higher space utilization. Proceeds of property sales were credited back to our customers to help reduce electricity bills.

\$150 MILLION



**Space Utilization Per Employee
(2015-2019) (Sq. Ft.)**



OCCP refers to our Operating Centres Consolidating Program.

We're proud of the progress we continue to make. Below, we share our performance for some of our sustainability initiatives by highlighting our results from the past two years:

Category	Metric	Results		Our Performance
		2018	2017	
Conservation and Demand Management (CDM)	Energy saved through CDM programs	321.2 GWh	353.0 GWh	9% decrease*
Paper Purchased	Annual amount of paper purchased, including all paper sizes, but excluding speciality paper (e.g. plotter paper, business cards, etc.)	4,260,500 sheets of paper	4,276,850 sheets of paper	0.4% decrease
Kilometres (km) Travelled	Based on GPS data obtained from Fleet Assets & Maintenance Department	2,669,040 km	3,137,617 km	15% decrease
Fuel Usage (consumption)	Annual fuel consumption obtained from 4Refuel truck-to-truck fueling, use of 500 Commissioners pumps and TChek gas cards. This includes all types of fuel used by Toronto Hydro vehicles	908,462 litres	1,014,691 litres**	10% decrease
Non PTO Idling Time	Calculations are based on data gathered through vehicles' GPS system	51,642 hours	59,768 hours	14% decrease

* The 2018 CDM savings are Toronto Hydro's third highest annual result since savings began being tracked in 2009.

** This result has been updated from the figure reported in the 2017 Toronto Hydro Corporation Annual Report to reflect fuel used during Toronto Hydro's 2017 mutual aid efforts.

This year, we also received a CEA Centre of Excellence award for our pole-mounted energy storage pilot project.



We're proud to have ranked second on *Corporate Knights'* list of the Best 50 Corporate Citizens in Canada in 2018.

We also continued to be active in our community in 2018, including through fundraising efforts.

Toronto Hydro employees raised approximately

\$150,000

in donations to help the

 **United Way**
Greater Toronto

IN SUPPORT OF

 **Sunnybrook**
ROSS TILLEY BURN CENTRE



Contributed more than

\$750,000



Sustainability is an important principle for Toronto Hydro's operations. We're proud to have been recognized as a Sustainable Electricity Company™ by the CEA since 2014.

We continue to pursue sustainability to help improve efficiency and reduce our environmental footprint, such as achieving BOMA BEST Gold Certification at two of our work centres in 2018.





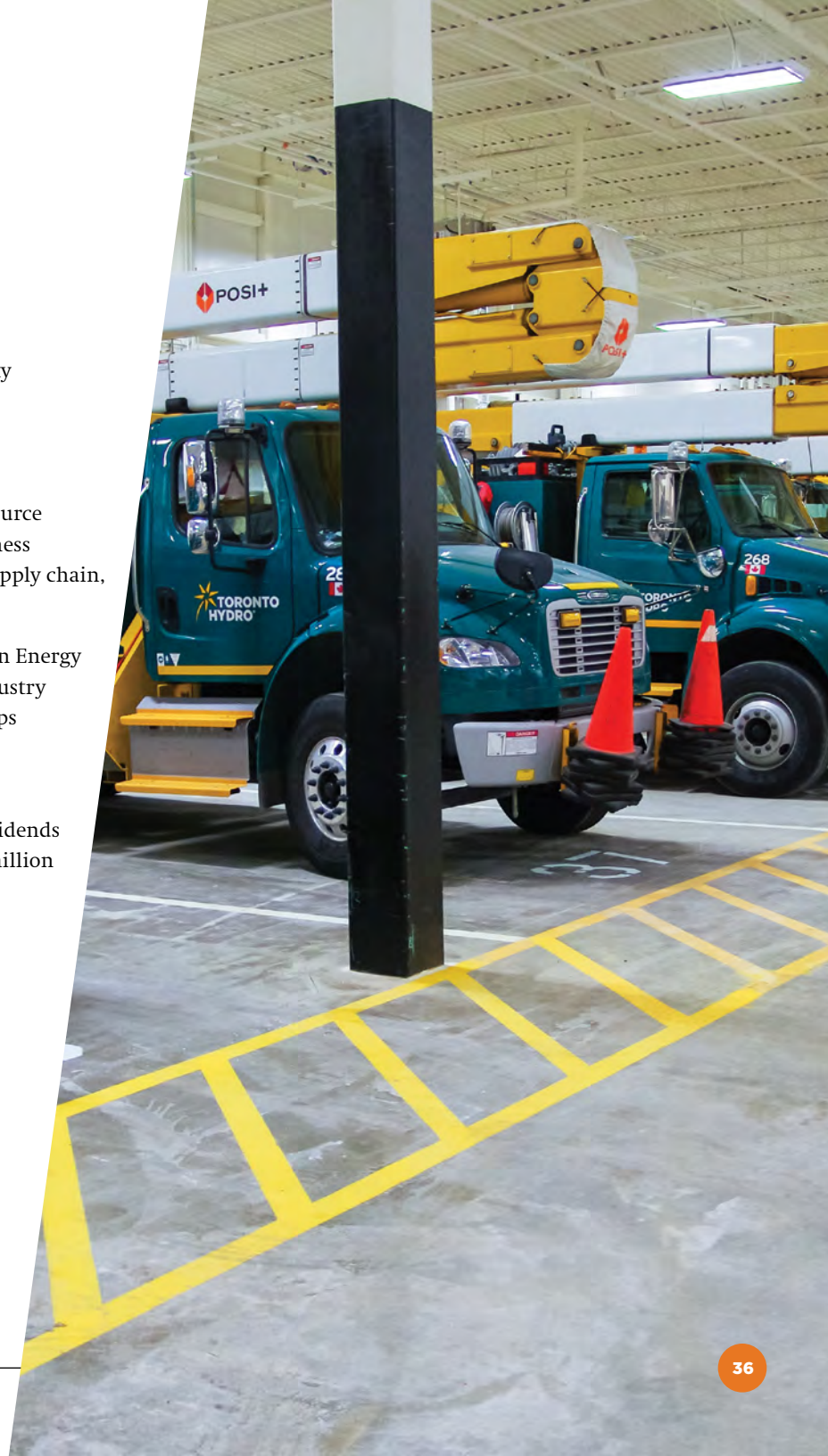
Toronto Hydro – 71 Rexdale Boulevard

Value Through Performance: Additional 2018 Highlights

- In November 2018, we successfully completed an external audit to re-certify our Health and Safety Management System to the Occupational Health and Safety Assessment Series Standard for Occupational Health and Safety Management Systems (OHSAS 18001:2007). Additionally, the audit also confirmed that we've effectively maintained our Environmental Management System certification in accordance with the International Organization for Standardization's 2015 Environmental Management Systems Standard (ISO 14001:2015)
- We reduced the total GHG emissions from electricity use and natural gas use in our facilities by 20% and 14% respectively, compared to 2017
- Our total GHG emissions were 36,836 tCO₂e – a decrease of 2% relative to 2017
- We continued to work with residential, small business, industrial and commercial customers to implement energy-efficiency projects through our Conservation and Demand Management (CDM) programs. In 2018, our CDM programs led to an estimated energy savings of 321.2 GWh
- We received a CEA Sustainable Electricity award for Leadership in External Collaboration and Partnerships, in recognition of our work with Metrolinx on an innovative battery energy storage system that will provide backup and emergency power for the Eglinton Crosstown LRT
- We helped support renewable generation by enabling 245 microFIT interconnections (10 kW or less in capacity), totalling 2.1 MW of generation, and 59 FIT interconnections (greater than 10 kW capacity), totalling more than 9.6 MW of generation
- We enrolled an additional 37,000 customers for eBills, and continued to encourage our customers to switch to paperless billing as a way to exercise sustainability
- We achieved a corporate waste recycling rate of 92%, which accounts for a broad pool of waste streams, including metals from transformers and cables, wood poles removed from service, fluorescent lights, batteries and electronic waste
- We continued to use and install the Governor to Reduce Idle and Pollution (GRIP) technology on our vehicles. In addition, we undertook Phase II of our pilot project with Centennial College and eCamion to test the effectiveness of lithium ion batteries in vehicles, and trialed the use of electric power take-off for our bucket trucks. The cumulative 2018 savings, relative to 2014, associated with our fleet-related initiatives were: a 33% reduction in total fuel consumed; a 33% reduction in GHG emissions; and a 43% reduction in total non-PTO idling hours¹
- We introduced eight fully-electric vehicles into our fleet to replace hybrid vehicles that were at the end of their useful life

¹ Some of our vehicles (e.g. bucket trucks) require engines to be kept on (idling) in order to charge and operate the vehicle hydraulics. This is referred to as PTO idling time.

- We sponsored Plug'n Drive, a non-profit organization committed to accelerating the adoption of EVs, and powered two charging stations in the test drive zone at the Plug'n Drive Electric Vehicle Discovery Centre in Toronto, the world's first experiential learning facility dedicated to EV education and awareness
- We also worked with various industry and government agencies to develop strategies and policies to help enable the adoption of electrified transportation
- Our employees, along with their families, planted 330 trees and shrubs at Earl Bales Park for our annual Tree Planting Event, which we hosted in collaboration with Local Enhancement & Appreciation of Forests (LEAF) and the Parks, Forestry and Recreation division of the City of Toronto. Since 2004, we've planted more than 4,660 trees across the city through this initiative
- To raise awareness and increase participation in our conservation programs and online services, we participated in over 200 event days, including community events, retail Deal Days events, business events and councillor-hosted Environment Days, generating approximately 35,000 total interactions
- To help support local organizations committed to a sustainable future, we continued to sponsor several community groups and events, including: LEAF, Cycle TO, CityFest, Cavalcade of Lights and the Kids' World of Energy Festival
- We implemented a new enterprise resource planning system, integrating our business processes in the areas of operations, supply chain, human resources and finance
- We participated in the Centre for Urban Energy at Ryerson University, an academic-industry collaboration that explores and develops sustainable solutions to urban energy challenges
- The Corporation declared and paid dividends to the City of Toronto totalling \$93.9 million





FINANCIAL REPORT
DECEMBER 31, 2018

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management

CIR – Custom Incentive Rate-setting

City – City of Toronto

Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”

Corporation – Toronto Hydro Corporation

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

ERM – Enterprise risk management

ERP – Enterprise resource planning

GWh – Gigawatt hour

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

ITA – Income Tax Act (Canada), as amended

kW – Kilowatt

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

MEU – Municipal electricity utility

OCI – Other comprehensive income

OEB – Ontario Energy Board

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

OFHP – Ontario's Fair Hydro Plan

OPEB – Other post-employment benefits

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

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

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

TH Energy – Toronto Hydro Energy Services Inc.

WMS – Wholesale Market Service



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2018 was \$31.9 million and \$167.3 million, respectively, compared to \$35.1 million and \$156.5 million for the comparable periods in 2017;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$157.3 million and \$511.3 million for the three months and year ended December 31, 2018, respectively, compared to \$148.9 million and \$552.9 million for the comparable periods in 2017;
- On January 16, 2018, the Corporation entered into an agreement to sell a property, including land and building, to a third party and closed the sale on April 17, 2018. The gain of \$98.6 million, net of tax and selling costs, was recognized and deferred as a regulatory credit balance, which reduces future electricity distribution rates for customers;
- On August 31, 2018, LDC filed its 2019 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a decision and rate order approving LDC's 2019 rates and providing for other deferral and variance account dispositions;
- On August 15, 2018, LDC filed a CIR application seeking approval of LDC's 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requests approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred prior to 2020; and

- On March 6, 2019, the Board of Directors of the Corporation declared a quarterly dividend in the amount of \$25.1 million with respect to the first quarter of 2019, payable to the City by March 29, 2019.

Introduction

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2018 and 2017, which were prepared in accordance with IFRS (the "Consolidated Financial Statements").

Copies of these documents are available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Business of Toronto Hydro Corporation

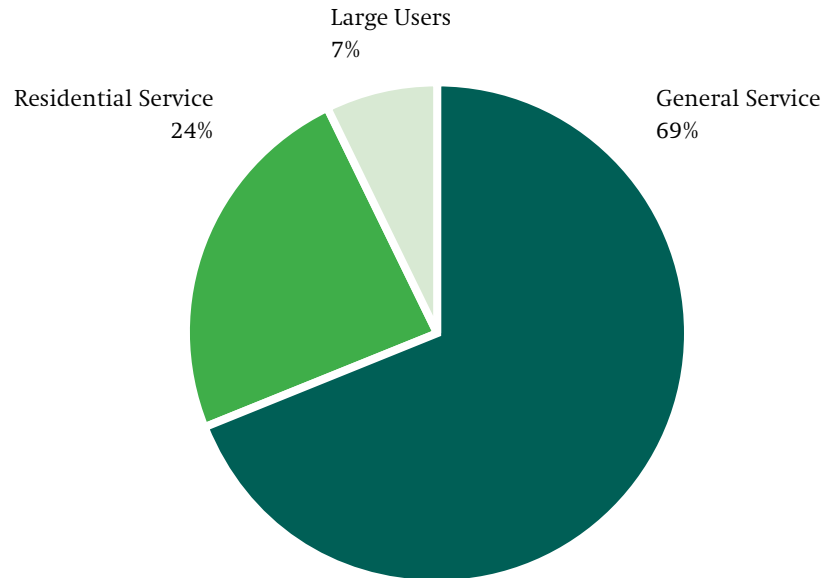
The Corporation is a holding company which wholly owns two subsidiaries:

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 772,000 customers located in the City. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC and other electricity distributors is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the year ended December 31, 2018, LDC earned energy sales and distribution revenue of \$3,378.3 million from general service users, residential service users and large users.

LDC Energy Sales and Distribution Revenue by Class Year ended December 31, 2018



¹ "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.

² "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

³ "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

Electricity Distribution – Industry Overview

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

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

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

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

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

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through back to operators of transmission facilities.
- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through back to the IESO.
- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

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

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

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

Results of Operations

Net Income after Net Movements in Regulatory Balances

Consolidated Statements of Income
Three months ended December 31
(in millions of Canadian dollars)

	2018 \$	2017 \$	Change \$
Revenues		[Restated] ¹	
Energy sales	660.2	638.9	21.3
Distribution revenue	163.9	181.7	(17.8)
Other	23.4	27.7	(4.3)
	847.5	848.3	(0.8)
Expenses			
Energy purchases	621.6	660.7	(39.1)
Operating expenses	73.5	77.8	(4.3)
Depreciation and amortization	67.3	62.0	5.3
	762.4	800.5	(38.1)
Finance costs	(18.8)	(18.9)	0.1
Gain on disposals of PP&E	0.2	0.2	-
Income before income taxes	66.5	29.1	37.4
Income tax expense	(16.2)	(11.1)	(5.1)
Net income	50.3	18.0	32.3
Net movements in regulatory balances	(26.3)	10.9	(37.2)
Net movements in regulatory balances arising from deferred tax assets	7.9	6.2	1.7
Net income after net movements in regulatory balances	31.9	35.1	(3.2)

The decrease in net income after net movements in regulatory balances for the three months ended December 31, 2018 was primarily due to higher depreciation related to new in-service asset additions (\$5.3 million), amounts being deferred into capital related regulatory accounts for future refunds to customers (\$4.2 million) and higher income taxes (including regulatory balances arising from deferred tax assets) (\$3.4 million). These variances were partially offset by higher 2018 electricity distribution rates (\$8.9 million) and higher electricity consumption (\$0.6 million).

The net decrease in distribution revenue is due to the implementation of the OEB-approved 2018 rate riders, which returned \$27.5 million to customers. However, the 2018 rate riders do not impact net income after net movements in regulatory balances as there are corresponding offsets in net movements in regulatory balances, given IFRS treatment.

¹ These numbers have been restated to account for the impact of adopting IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). Additional details on IFRS 15 are discussed in the "Changes in Accounting Policies" section of this MD&A.

Consolidated Statements of Income
Year ended December 31
(in millions of Canadian dollars)

	2018	2017	Change
	\$	\$	\$
Revenues		<i>[Restated]¹</i>	
Energy sales	2,704.1	2,810.2	(106.1)
Distribution revenue	674.2	724.2	(50.0)
Other	94.4	107.7	(13.3)
	3,472.7	3,642.1	(169.4)
Expenses			
Energy purchases	2,646.3	2,855.9	(209.6)
Operating expenses	307.5	293.0	14.5
Depreciation and amortization	238.3	224.2	14.1
	3,192.1	3,373.1	(181.0)
Finance costs	(74.6)	(77.7)	3.1
Gain on disposals of PP&E	108.6	9.8	98.8
Income before income taxes	314.6	201.1	113.5
Income tax expense	(82.4)	(44.7)	(37.7)
Net income	232.2	156.4	75.8
Net movements in regulatory balances	(111.9)	(13.1)	(98.8)
Net movements in regulatory balances arising from deferred tax assets	47.0	13.2	33.8
Net income after net movements in regulatory balances	167.3	156.5	10.8

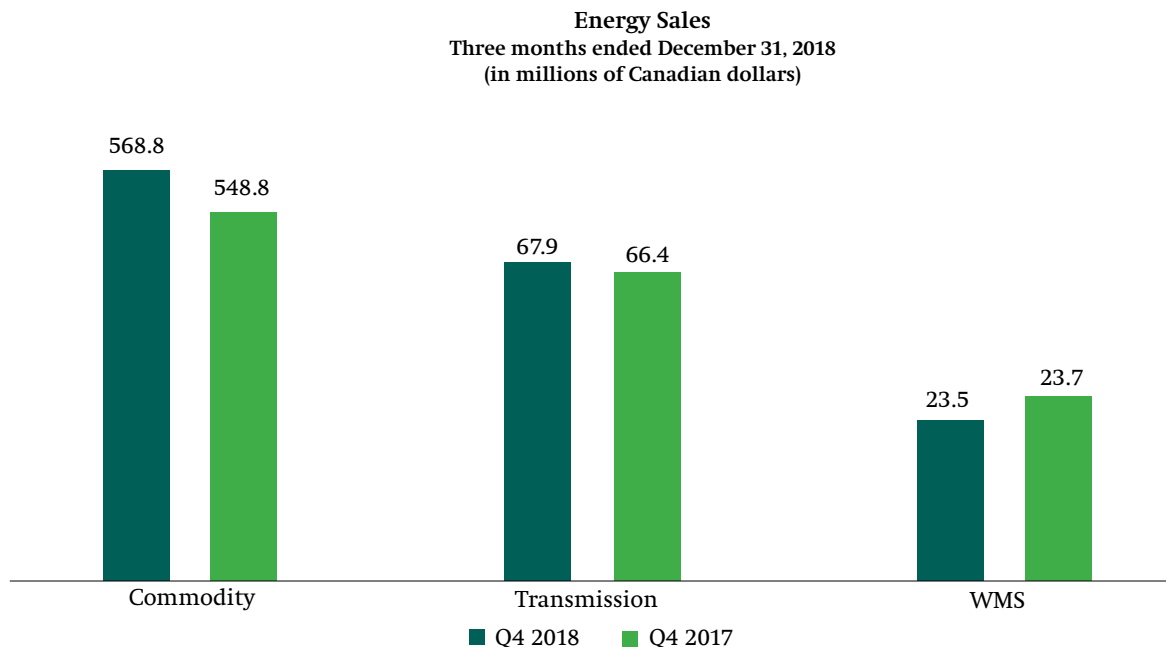
¹ These numbers have been restated to account for the impact of adopting IFRS 15. Additional details on IFRS 15 are discussed in the “Changes in Accounting Policies” section of this MD&A.

The increase in net income after net movements in regulatory balances for the year ended December 31, 2018 was primarily due to higher 2018 electricity distribution rates (\$33.1 million), higher electricity consumption (\$21.0 million), higher LRAM (\$7.7 million) and lower finance costs due to a lower average amount of outstanding debentures in the current year (\$3.1 million). These variances were partially offset by amounts being deferred into capital related regulatory accounts for future refunds to customers (\$18.1 million), higher operating expenses related to emergency power restoration due to major storms in 2018 and system maintenance (\$14.5 million), higher depreciation related to new in-service asset additions (\$14.1 million) and lower other revenue related to the recognition of the CDM mid-term incentive in 2017 (\$9.5 million).

The net decrease in distribution revenue is due to the implementation of the OEB-approved 2018 rate riders, which returned \$102.2 million to customers. The gain on disposals of PP&E is primarily due to the gain realized on a property sale deferred as a regulatory credit balance, which reduces future electricity distribution rates for customers. The 2018 rate riders and gain on disposal do not impact net income after net movements in regulatory balances as there are corresponding offsets in net movements in regulatory balances, given IFRS treatment.

Energy Sales

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. For any given period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future rates approved by the OEB. In accordance with IFRS 14 *Regulatory Deferral Accounts* ("IFRS 14"), this settlement variance is presented within regulatory balances on the Corporation's consolidated balance sheets ("Consolidated Balance Sheets") and within net movements in regulatory balances on the Corporation's consolidated statements of income ("Consolidated Statements of Income").



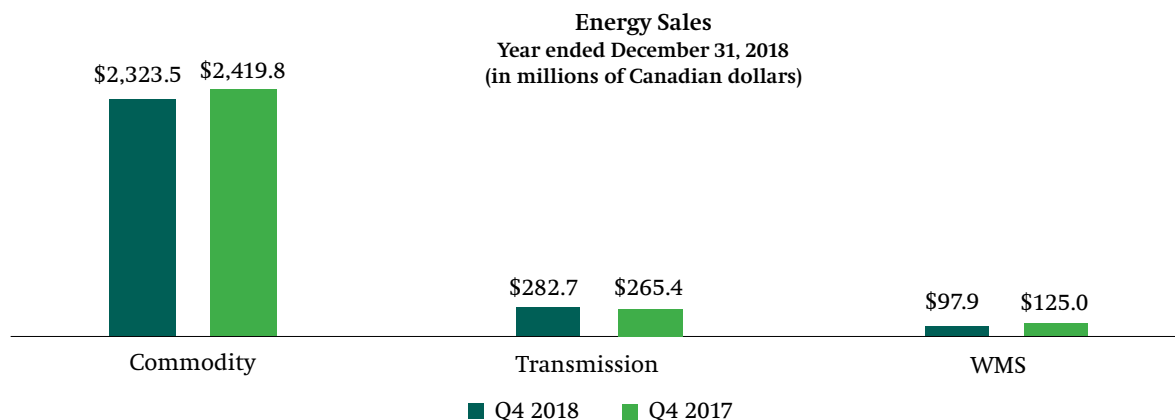
Energy sales for the three months ended December 31, 2018 were \$660.2 million compared to \$638.9 million for the comparable period in 2017. The increase was primarily due to higher commodity charges (\$20.0 million) and higher retail transmission charges (\$1.5 million).

Energy Purchases, Energy Sales, and Settlement Variances

Three months ended December 31, 2018
(in millions of Canadian dollars)

	Energy Purchases \$	Energy Sales \$	Settlement Variances \$
Commodity charges	536.3	568.8	(32.5)
Retail transmission charges	69.4	67.9	1.5
WMS charges	15.9	23.5	(7.6)
Total	621.6	660.2	(38.6)

For the three months ended December 31, 2018, LDC recognized \$660.2 million in energy sales to customers and was billed \$621.6 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$38.6 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory credit balance (\$39.4 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.



Energy sales for the year ended December 31, 2018 were \$2,704.1 million compared to \$2,810.2 million for the comparable period in 2017. The decrease was due to lower commodity charges (\$96.3 million) and lower WMS charges (\$27.1 million), partially offset by retail transmission charges (\$17.3 million).

Energy Purchases, Energy Sales, and Settlement Variances			
Year ended December 31, 2018			
(in millions of Canadian dollars)			
	Energy Purchases	Energy Sales	Settlement Variances
	\$	\$	\$
Commodity charges	2,244.2	2,323.5	(79.3)
Retail transmission charges	309.0	282.7	26.3
WMS charges	93.1	97.9	(4.8)
Total	2,646.3	2,704.1	(57.8)

For the year ended December 31, 2018, LDC recognized \$2,704.1 million in energy sales to customers and was billed \$2,646.3 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$57.8 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory credit balance (\$58.2 million including carrying charges on the accumulated settlement variance balance; see the regulatory credit balance table in note 8 to the Consolidated Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, and includes revenue collected through OEB-approved rate riders.

Distribution revenue for the three months and year ended December 31, 2018 was \$163.9 million and \$674.2 million, respectively, compared to \$181.7 million and \$724.2 million for the comparable periods in 2017.

The net decrease in distribution revenue for the three months ended December 31, 2018 was primarily due to lower revenue collected through OEB-approved rate riders (\$27.5 million), partially offset by higher electricity distribution rates (\$8.9 million) and higher electricity consumption (\$0.6 million).

The net decrease in distribution revenue for the year ended December 31, 2018 was primarily due to lower revenue collected through OEB-approved rate riders (\$104.6 million), partially offset by higher electricity distribution rates (\$33.1 million) and higher electricity consumption (\$21.0 million). The OEB-approved rate riders do not impact net income after net movements in regulatory balances as there is an offsetting increase in net movements in regulatory balances.

Other Revenue

Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, other regulatory service charges, capital contributions and CDM programs.

Other revenue for the three months and year ended December 31, 2018 was \$23.4 million and \$94.4 million, respectively, compared to \$27.7 million and \$107.7 million for the comparable periods in 2017.

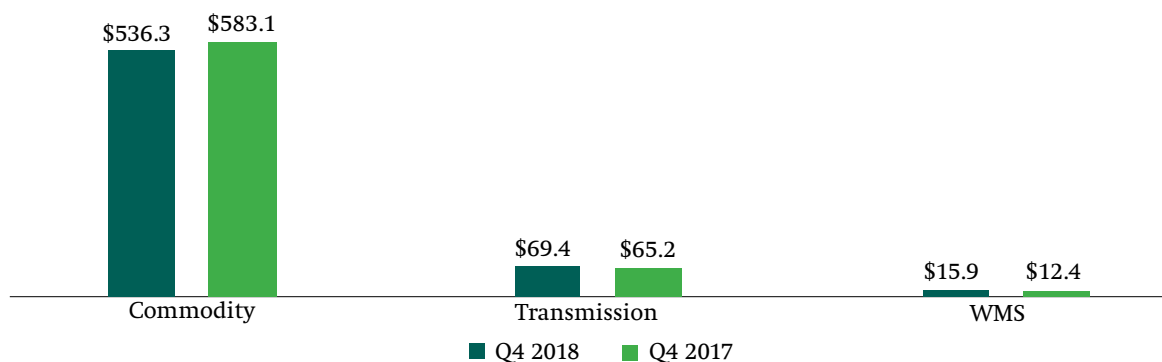
The decrease in other revenue for the three months ended December 31, 2018 was primarily due to lower revenue in connection with ancillary services and the recognition of the CDM mid-term incentive in 2017.

The decrease in other revenue for the year ended December 31, 2018 was primarily due to the recognition of the CDM mid-term incentive in 2017.

Energy Purchases

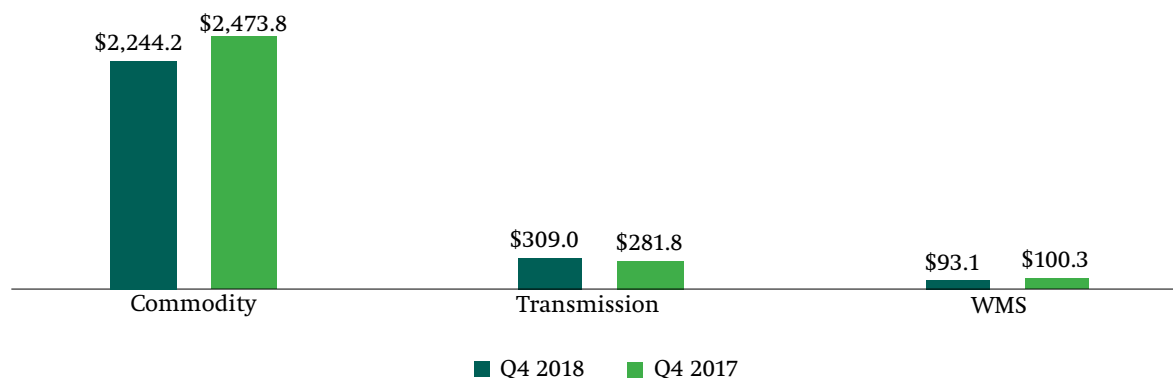
LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
Three months ended December 31, 2018
(in millions of Canadian dollars)



Energy purchases for the three months ended December 31, 2018 were \$621.6 million compared to \$660.7 million for the comparable period in 2017. The decrease was primarily due to lower commodity charges (\$46.8 million), partially offset by higher retail transmission charges (\$4.2 million) and higher WMS charges (\$3.5 million).

LDC Energy Purchases
Year ended December 31, 2018
(in millions of Canadian dollars)



Energy purchases for the year ended December 31, 2018 were \$2,646.3 million compared to \$2,855.9 million for the comparable period in 2017. The decrease was primarily due to lower commodity charges (\$229.6 million) and lower WMS charges (\$7.2 million), partially offset by higher retail transmission charges (\$27.2 million).

Operating Expenses

Operating expenses for the three months and year ended December 31, 2018 were \$73.5 million and \$307.5 million, respectively, compared to \$77.8 million and \$293.0 million for the comparable periods in 2017.

The decrease in operating expenses for the three months ended December 31, 2018 was primarily due to lower ancillary service costs and lower contractor costs, partially offset by higher system maintenance costs.

The increase in operating expenses for the year ended December 31, 2018 was primarily due to costs related to emergency power restoration due to major storms in 2018 and higher system maintenance costs.

Depreciation and Amortization

Depreciation and amortization expense for the three months and year ended December 31, 2018 was \$67.3 million and \$238.3 million, respectively, compared to \$62.0 million and \$224.2 million for the comparable periods in 2017.

The increase in depreciation and amortization for the three months ended December 31, 2018 was primarily due to new in-service asset additions in 2018 and higher derecognition of assets removed from service, partially offset by certain assets being fully depreciated.

The increase in depreciation and amortization for the year ended December 31, 2018 was primarily due to new in-service asset additions in 2018, partially offset by

certain assets being fully depreciated and a decrease in derecognition of assets removed from service.

Finance Costs

Finance costs for the three months and year ended December 31, 2018 were \$18.8 million and \$74.6 million, respectively, compared to \$18.9 million and \$77.7 million for the comparable periods in 2017. The decrease was primarily due to a lower average amount of outstanding debentures (\$2,034.5 million) in 2018 compared with 2017 (\$2,078.4 million).

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2018 was \$0.2 million and \$108.6 million, respectively, compared to \$0.2 million and \$9.8 million for the comparable periods in 2017. The variance in gain on disposals of PP&E for the year ended December 31, 2018 was primarily due to the gain realized on the sale of a property in the second quarter of 2018 (\$108.1 million). The realized gain of \$98.6 million, net of tax and selling costs, was recorded as a regulatory credit balance on the Consolidated Balance Sheets with a corresponding offset in net movements in regulatory balances. LDC has been returning the total forecasted net gains on sale of certain properties along with the future tax savings back to rate payers through a rate rider effective from March 1, 2016 to December 31, 2018 as part of the 2015 - 2019 CIR decision and rate order. The actual realized gain and tax savings that exceeded the approved rate riders reduce future electricity distribution rates for customers. LDC has requested disposition of this incremental balance in the 2020 - 2024 rate application over a 60-month period commencing on January 1, 2020.

Income Tax Expense and Income Tax Recorded in Net Movements in Regulatory Balances

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2018 were \$8.3 million and \$35.4 million, respectively, compared to \$4.9 million and \$31.5 million for the comparable periods in 2017.

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2018 was primarily due to lower net deductions for permanent and temporary differences between accounting and tax treatments.

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2018 was primarily due to the tax recognized on property disposition and higher income before taxes (including net movements in regulatory balance), offset by higher net deductions for permanent and temporary differences between accounting and tax treatments.

Net Movements in Regulatory Balances

In accordance with IFRS 14, the Corporation separately presents regulatory balances and related net movements on the Consolidated Balance Sheets and Consolidated Statements of Income.

The decrease in the regulatory debit (\$74.0 million) and increase in the regulatory credit (\$18.2 million) balances for the year ended December 31, 2018 equals the sum (\$92.2 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets and net movements in regulatory balances related to OCI, shown for the period (see “Financial Position” below). Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within balance sheet

regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (see discussion on “settlement variance” under “Results of Operations” above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three months and year ended December 31, 2018 were a charge of \$26.3 million and a charge of \$111.9 million, respectively, compared to a recovery of \$10.9 million and a charge of \$13.1 million for the comparable periods in 2017. The charge of \$26.3 million for the three months ended December 31, 2018 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers and amounts being deferred into capital-related regulatory accounts for future refunds to customers, partially offset by amounts disposed through OEB-approved rate riders. The recovery of \$10.9 million for the three months ended December 31, 2017 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by amounts disposed through OEB-approved rate riders and amounts being deferred into capital-related regulatory accounts for future refunds to customers.

The charge of \$111.9 million for the year ended December 31, 2018 was primarily due to the gain realized on disposal of a property in the second quarter of 2018, the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers and amounts being deferred into capital-related regulatory accounts for future refunds to customers, partially offset by amounts disposed through OEB-approved rate riders, and LRAM. The charge of \$13.1 million for the year ended December 31, 2017 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers, partially offset by amounts disposed through OEB-approved rate riders and amounts being deferred into capital-related regulatory accounts for future refunds to customers.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding December 31, 2018.

Summary of Quarterly Results of Operations (in millions of Canadian dollars)				
	December 31, 2018 \$	September 30, 2018 \$	June 30, 2018 \$	March 31, 2018 \$
Energy sales	660.2	741.1	660.4	642.4
Distribution revenue	163.9	175.8	162.9	171.6
Other	23.4	21.7	28.0	21.3
Revenues	847.5	938.6	851.3	835.3
Net income after net movements n regulatory balances	31.9	50.4	42.5	42.5
	December 31, 2017 \$	September 30, 2017 \$	June 30, 2017 \$	March 31, 2017 \$
	[Restated] ¹	[Restated] ¹	[Restated] ¹	[Restated] ¹
Energy sales	638.9	738.4	662.1	770.8
Distribution revenue	181.7	186.1	178.2	178.2
Other	27.7	36.6	23.0	20.4
Revenues	848.3	961.1	863.3	969.4
Net income after net movements n regulatory balances	35.1	46.8	35.0	39.6

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions and rate orders. The variation from the seasonal trend for the first quarter of 2018 was due to lower energy sales primarily related to lower commodity charges.

¹ These numbers have been restated to account for the impact of adopting IFRS 15. Additional details on IFRS 15 are discussed in the "Changes in Accounting Policies" section of this MD&A.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheets as at December 31, 2018 as compared to the Consolidated Balance Sheets as at December 31, 2017.

Consolidated Balance Sheets Data (in millions of Canadian dollars)		
Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
P&E and intangible assets	271.4	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition.
Deferred tax assets	(56.7)	The decrease was primarily due to lower net deductible temporary differences between tax and accounting values of PP&E and intangible assets, and regulatory balances.
Liabilities and Equity		
Commercial paper	(46.0)	The decrease was primarily due to proceeds received on disposition of a property in the second quarter of 2018 offset by issuances required for general corporate purposes (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	9.1	The decrease was primarily due to timing of payments, partially offset by the cessation of debt retirement charges.
Customer deposits	21.7	The increase was primarily due to expansion security deposits received, net of refunds.
Deferred revenue	101.1	The increase was primarily due to capital contributions received.
Post-employment benefits	(37.1)	The decrease was primarily due to the recognized actuarial gain driven by the updated actuarial assumptions.
Retained earnings	73.1	The increase was due to net income after net movements in regulatory balances (\$167.3 million), offset by dividends paid (\$93.9 million).
Regulatory Balances		
Regulatory debit balances	(74.0)	The decrease was primarily due to the amounts disposed through OEB-approved rate riders and the actuarial gain incurred on the valuation of post-employment benefit obligation recorded as a decrease to the regulatory debit balance.
Regulatory credit balances	18.2	The increase was primarily due to the balance of gain realized on disposal of a property in the second quarter of 2018 and higher amounts being deferred into capital-related regulatory accounts, partially offset by amounts disposed through OEB-approved rate riders and deferred taxes.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$517.1 million and \$975.4 million, respectively, as at December 31, 2018, resulting in a working capital deficit of \$458.3 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations.

The amount available under the Revolving Credit Facility (defined below) and the outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

(in millions of Canadian dollars)	Revolving Credit Facility Limit \$	Revolving Credit Facility Borrowings \$	Commercial Paper Outstanding \$	Revolving Credit Facility Availability \$
December 31, 2018	800.0	-	113.0	687.0
December 31, 2017	800.0	-	159.0	641.0

The Corporation is a party to a \$20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ("Working Capital Facility"). As at December 31, 2018, \$12.6 million had been drawn under the Working Capital Facility, compared to \$11.7 million as at December 31, 2017.

Consolidated Statements of Cash Flow Data (in millions of Canadian dollars)

	Three months ended December 31		Year ended December 31	
	2018 \$	2017 \$	2018 \$	2017 \$
Working capital facility, beginning of period	(7.4)	(10.1)	(11.7)	(7.1)
Net cash provided by operating activities	277.2	211.4	596.7	584.7
Net cash used in investing activities	(106.4)	(132.3)	(376.9)	(520.9)
Net cash used in financing activities	(176.0)	(80.7)	(220.7)	(68.4)
Working capital facility, end of period	(12.6)	(11.7)	(12.6)	(11.7)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2018 was \$277.2 million and \$596.7 million, respectively, compared to \$211.4 million and \$584.7 million for the comparable periods in 2017.

The increase in net cash provided by operating activities for the three months ended December 31, 2018 was primarily due to higher working capital related to timing differences in the settlement of receivables and payables and changes in regulatory balances.

The increase in net cash provided by operating activities for the year ended December 31, 2018 was primarily due to higher capital contributions, higher customer deposits, higher net income after net movements in regulatory balances and changes in non-cash items, partially offset by lower working capital related to timing differences in the settlement of receivables and higher income taxes paid.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2018 was \$106.4 million and \$376.9 million, respectively, compared to \$132.3 million and \$520.9 million for the comparable periods in 2017.

The decrease in net cash used in investing activities for the three months ended December 31, 2018 was primarily due to lower cash spending on capital projects in the fourth quarter of 2018.

The decrease in net cash used in investing activities for the year ended December 31, 2018 was primarily due to proceeds received on disposition of a property in the second quarter of 2018 and lower cash spending on capital projects in 2018.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

The following table summarizes the Corporation's capital expenditures (on an accrual basis), both PP&E and intangible assets, for the periods indicated.

Capital Expenditure (in millions of Canadian dollars)				
	Three months ended December 31		Year ended December 31	
	2018 \$	2017 \$	2018 \$	2017 \$
Regulated LDC				
Distribution system				
Planned ¹	120.6	103.1	369.7	373.0
Reactive	13.1	12.8	63.8	48.1
Copeland Station	2.2	4.9	9.9	23.2
Facilities consolidation	–	–	–	35.2
Technology assets	14.9	20.3	54.4	54.9
Other ²	1.4	5.3	4.0	10.5
Regulated capital expenditures	152.2	146.4	501.8	544.9
Unregulated capital expenditures ³	5.1	2.5	9.5	8.0
Total capital expenditures	157.3	148.9	511.3	552.9

¹ Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, and the delivery of customer connections.

² Includes fleet capital and buildings.

³ Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2018 were \$152.2 million and \$501.8 million, respectively, compared to \$146.4 million and \$544.9 million for the comparable periods in 2017.

For the three months ended December 31, 2018, the increase in regulated capital expenditures was primarily related to higher spending on customer connections (\$11.0 million), partially offset by lower spending on the ERP project (\$5.1 million). The ERP project relates to the implementation of an ERP system, which is an information system that performs critical back-office processes, such as finance, human resources and supply chain activities to support the Corporation's operations. The Corporation completed the implementation of the ERP system on October 1, 2018.

For the year ended December 31, 2018, the decrease in regulated capital expenditures was primarily related to lower spending on the facilities consolidation program (\$35.2 million) which was completed by the end of 2017, station programs related to the renewal of aging station infrastructure (\$23.0 million) and underground infrastructure (\$16.0 million), partially offset by higher spending on customer connections (\$24.8 million).

The largest capital initiatives in 2018 include the delivery of customer connections, and the replacement of underground and overhead infrastructures.

The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the year ended December 31, 2018, capital expenditures for the delivery of customer connections were \$81.8 million.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2018, capital expenditures for the underground and overhead infrastructures were \$76.9 million and \$63.1 million, respectively.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During the fourth quarter of 2018, the Corporation received approval from HONI, the electricity transmission provider, and the IESO for energization of the project and successfully energized one of two Copeland Station power transformers with associated cables and switchgear, as well as the station service transformer and equipment. The second power transformer and associated switchgear is anticipated to be energized in the first half of 2019 following HONI's completion of additional servicing to some of their equipment. As at December 31, 2018, the cumulative capital expenditures on the Copeland Station project amounted to \$202.6 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E.

Copeland Station is one of the most complex projects ever undertaken by the Corporation and the expected completion date is in the first half of 2019. The total capital expenditures required to complete the project has increased from \$200.0 million to approximately \$204.0 million, plus capitalized borrowing costs. The increase in costs and delay in completion date are attributable to a variety of factors, including contractor performance and construction delays. On January 25, 2018, the Corporation was informed that Carillion Construction Inc., the general contractor for the Copeland Station Project, filed for creditor protection under the Companies' Creditors Arrangement Act

after its affiliate, Carillion plc, went into compulsory liquidation in the United Kingdom. Other contractors have taken on part of the remaining work to contribute to the completion of the project. See "Risk Management and Risk Factors" below for further information on the Copeland Station project.

Financing Activities

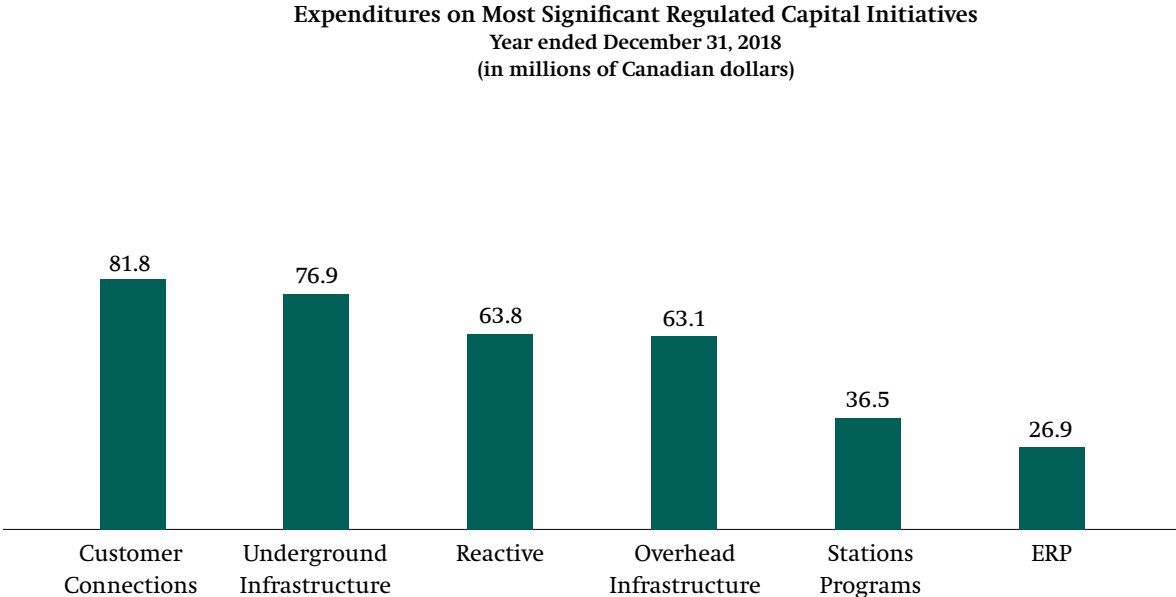
Net cash used in financing activities for the three months and year ended December 31, 2018 was \$176.0 million and \$220.7 million, respectively, compared to \$80.7 million and \$68.4 million for the comparable periods in 2017.

The increase in cash used in financing activities for the three months ended December 31, 2018 was primarily due to the Corporation's Series 13 debenture issuance in November 2017, higher repayment of commercial paper, net of issuances in 2018 and higher dividends paid compared to the prior year due to a change in the timing of the dividend payments, partially offset by the repayment of the Corporation's Series 2 debenture in 2017. In 2017, the dividends consisted of two instalments of \$6.25 million each paid in the first and second quarter and a final instalment of \$62.5 million paid in the third quarter in connection with receipt of the equity investment from the City. The Corporation's Dividend Policy was then amended for fiscal 2018 and subsequent fiscal years to provide that dividends be declared and paid in four equal quarterly instalments.

The increase in cash used in financing activities for the year ended December 31, 2018 was primarily due to the funding from the equity injection received from the City in June 2017, the Corporation's Series 13 debenture issuance in November 2017 and higher dividends paid, partially offset by the repayment of the Corporation's Series 2 debentures in 2017 and lower commercial paper, net of issuances.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2022 ("Revolving Credit Facility"), pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. As at December 31, 2018, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

On August 23, 2018, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2022 to October 10, 2023.



The Corporation has a commercial paper program allowing up to \$600.0 million of unsecured short-term promissory notes (“Commercial Paper Program”) to be issued in various maturities of no more than one year. The Commercial Paper Program is backstopped by the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

For the three months and year ended December 31, 2018, the average aggregate outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$289.2 million and \$239.6 million, respectively, with a weighted average interest rate of 1.92% and 1.68% (compared to \$140.2 million and \$210.3 million, respectively, with a weighted average interest rate of 1.21% and 0.93% for the comparable periods in 2017).

Additionally, the Corporation is a party to a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC’s prudential requirements with the IESO (“Prudential Facility”). As at December 31, 2018, \$33.3 million of letters of credit had been issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated May 8, 2017 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus.

As at December 31, 2018, the Corporation had debentures outstanding in the principal amount of \$2.0 billion. These debentures will mature between 2019 and 2063. As at December 31, 2018, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

The following table sets out the current credit ratings of the Corporation:

Credit Ratings As at December 31, 2018				
DBRS			Standard & Poor’s	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Stable
Senior unsecured debentures	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next twelve months.

For the year ended December 31, 2018, the Board of Directors of the Corporation declared and the Corporation paid dividends to the City totalling \$93.9 million (2017 - \$75.0 million).

On March 6, 2019, the Board of Directors of the Corporation declared a quarterly dividend in the amount of \$25.1 million, payable to the City by March 29, 2019.

Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

Summary of Contractual Obligations and Other Commitments					
As at December 31, 2018					
(in millions of Canadian dollars)					
	Total	2019	2020/2021	2022/2023	After 2023
	\$	\$	\$	\$	\$
Commercial paper ¹	113.0	113.0	–	–	–
Debentures – principal repayment	2,045.0	250.0	300.0	250.0	1,245.0
Debentures – interest payments	1,395.6	77.2	131.9	107.0	1,079.5
Capital projects ² and other	35.5	25.4	9.9	0.2	–
Leases	1.4	0.3	0.6	0.4	0.1
Total contractual obligations and other commitments	3,590.5	465.9	442.4	357.6	2,324.6

¹The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

²Primarily commitments for construction services.

Corporate Developments

Appointment of Chief Financial Officer

On August 27, 2018, the Corporation appointed Aida Cipolla to the position of Executive Vice-President and Chief Financial Officer ("CFO"). Ms. Cipolla replaced Sean Bovingdon, the former CFO who left the Corporation. Ms. Cipolla had been formerly the Corporation's Controller since December 2015.

Electricity Distribution Rates

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

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. 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. 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.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a decision and rate order approving LDC's 2019 rates and providing for other deferral and variance account dispositions.

On August 15, 2018, LDC filed a CIR application seeking approval of LDC's 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requests approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred prior to 2020.

CDM Activities

The objective of the CDM programs 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.

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. ("Oakville Hydro") for the delivery of CDM programs over the 2015-2020 period. 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, including a mid-term incentive based on a review of the 2015-2017 period.

The joint CDM plan provides combined funding of approximately \$421.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,648 GWh. The program for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received \$162.4 million from the IESO as at December 31, 2018 (2017 - \$102.3 million) to deliver the CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. On September 26, 2018, \$15.8 million was confirmed by the IESO as the joint mid-term incentive, of which \$14.9 million representing LDC's portion was received in November 2018.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers. There have been no material changes in legal proceedings as disclosed in note 24 to the Consolidated Financial Statements.

Share Capital

Share capital consists of the following:

	2018	2017
(in millions of Canadian dollars)	\$	\$
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,200 common shares, of which all were fully paid.	817.8	817.8

Transactions with Related Parties

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties. The Corporation provides electricity, street lighting and ancillary services to the City. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Summary of Transactions with Related Parties (in millions of Canadian dollars)		
	Year ended December 31	
	2018 \$	2017 \$
Revenues	276.7	283.3
Operating expenses and capital expenditures	18.3	22.2
Dividends declared and paid	93.9	75.0
Summary of Amounts Due to/from Related Parties (in millions of Canadian dollars)		
	As at December 31	
	2018 \$	2017 \$
Accounts receivable	9.8	13.8
Unbilled revenue	23.9	26.3
Accounts payable and accrued liabilities	40.5	40.1
Customer deposits	17.3	15.7
Deferred revenue	2.5	1.9

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City.

Accounts receivable represent receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the three months and year ended December 31, 2018 and 2017. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

The Corporation faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, based on an overall enterprise risk philosophy, and achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. The Corporation's ERM framework utilizes industry best practices and international guidelines and focuses on identifying emerging trends in risks and related opportunities particular to the Corporation through a comprehensive evaluation of the Corporation's business and the industry generally. The Corporation views ERM as a management activity undertaken to add value and improve overall operations. It helps the Corporation by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Risk assessment is built into our decision-making process at all levels. Accordingly, ERM is an integral part of the strategic management of the Corporation and is routinely considered in forecasting, planning and executing all aspects of the business.

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

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

At the first level is the Board, which maintains a general understanding of the Corporation's risk profile, the risk categories and the types of risks to which the Corporation may be exposed, and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key risks that may impede the Corporation from achieving certain or all of its strategic objectives, and which are most material to its operational success.

The second level is the executive team, which ensures systems are in place to identify, manage, and monitor risks and trends. Through input from the business and other considerations, the executive team assesses the appropriateness and consistent application of systems to manage risks within the Corporation. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across the Corporation who actively engage in the day-to-day management of risks. Working with the executive team, this group oversees the Corporation's risk profile and its performance against the defined risk philosophy. The senior leadership team understands changes in risk status and trends and determines appropriate risk responses and action plans. They also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

The Corporation is continually reviewing its ERM program to ensure the organization is focused upon and responsive to risks of the greatest significance, likelihood and impact. In 2018, the Corporation re-oriented its program to the key strategic and functional risk categories facing the organization, and the sub-component risks making up those categories. This allows the Corporation's executive leadership and responsible business units to concentrate on these risks and undertake deeper dives into root causes and risk trends in these areas on both a short-interval and long-term basis. By focusing in particular on the strategic risks to the organization, decision-making is strengthened and the Corporation has a greater ability to realize opportunities central to its interests.

The Corporation's business is subject to a variety of risks including those key risk areas and major component risks described in the following sections. There can be no assurance that any steps the Corporation may take to manage risks will avoid future loss resulting from the occurrence of such risks.

Strategic Risks

Oversight Risk

Risk that provincial government or regulator activity (laws, frameworks or policies) impedes the Corporation's effective performance, and its ability to meet its objectives and serve its customers.

Regulatory and Energy Policy Risk

The Corporation is subject to the risk that its business activities may be impeded through the actions of regulatory authorities or by changes in regulation. There is a risk that future changes to Ontario's regulatory model, manner of regulation, and/or broader energy policy framework does not align with the Corporation's business direction and could materially adversely affect the Corporation's strategic goals and financial results.

Ontario's electricity industry regulatory and other energy policy developments may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to deliver effective and efficient operations and reliable service to its customers, and as well as create barriers to LDC achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates at levels that will permit LDC to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- the OEB will approve and permit recovery through rates of past and future expenditures incurred by LDC in providing distribution services to customers, in a timely manner or at all;
- the OEB will adopt the other rate-setting principles, formulae, and inputs in a manner that result in rates that properly support LDC's activities;

- 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; and
- the OEB will not permit other parties 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.

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

LDC actively participates in industry engagement efforts in order to mitigate the above risks and realize potential opportunities in regulatory and energy policy development. Through these types of engagements, the Corporation monitors proposed regulatory and energy policy changes that may impede its business. LDC also employs a comprehensive organizational regulatory application program to ensure that all applications to the OEB achieve the highest utility standard of evidence gathering, preparation and presentation.

Emerging Government Policy Risk

The Corporation is subject to the risk that the policy priorities of provincial and federal governments and regulatory bodies beyond those specifically applicable to the energy space, including policies of more general application, and the implementation of policies by such bodies, may impact the Corporation's ability to deliver effective and efficient operations, meet business objectives, report on its activities and capitalize upon new opportunities. Developments and changes in any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation, and the manner of implementation and application of the same, could materially adversely affect the Corporation. This may include developments with respect to labour and employment laws, changes to accounting standards and financial reporting requirements, environmental

obligations and public safety rules, among others. The Corporation actively engages with government entities and participates in industry organizations to monitor emerging policies and where possible plays an advocacy role.

Franchise Risk

Risk that restrictions in LDC's business model and/or external conditions impede its ability to maintain and grow its right to be the sole provider of electricity distribution services in the City (its franchise) and serve its customers. The Corporation is subject to the risk that it is displaced from its strategic position or fails to gain a strategic advantage, which could materially adversely affect the Corporation's strategic goals and financial results.

The OEB has the authority to grant municipal distribution licences, has issued to LDC a licence stipulating a service area that reflects the territory within the City, and has not granted any other distribution licence that permits distribution within LDC's service area. In addition, there is a legal framework in place that establishes LDC, as the holder of the municipal distribution licence in the City, to be the sole provider of distribution activities across municipal rights of way. There is no assurance that these frameworks will continue to exist sufficiently or at all in order to provide LDC the opportunity to be the comprehensive distribution provider in the City.

While 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), technology development (e.g. energy storage), government-based incentives, regulatory frameworks, and compliance frameworks especially for non-utility entities.

There can be no assurance that the future nature, prevalence, or effects of these forms of competition will

be comparable to current or historic experience. Failure to effectively scan our external and internal environment could lead to missed business opportunities and loss of competitive advantage.

Risks to the Corporation's franchise interests may also result from impairment to the Corporation's image in the community, public confidence or brand. The Corporation is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Negative perceptions regarding this commitment could impact the public's perception of the Corporation. In addition, events and/or external factors that draw negative media attention to the Corporation could cause reputational damages and impact the Corporation's business and relationship with its stakeholders. These factors could lead customers, governments and regulators to look more favourably to alternative services and service providers to utility-based electricity distribution.

The Corporation has dedicated personnel focused on monitoring external competitive factors, including alternative service providers and technologies, and developing strategies for further enhancing the LDC's interactive grid which support the reliability of its core infrastructure grid operations, promote greater value, and deliver solutions for its customers. Additionally, the Corporation maintains relationships with its customers to better understand the specific needs and expectations of each class of customer. The Corporation also conducts customer research and consultations in the ordinary course of its operations, and as part of the development of its rate application whereby it directly considered customer preferences and feedback, in addition to other inputs, as part of developing its business plan. The Corporation also has dedicated personnel focused on the utility's key account customers, which respond to issues raised by large commercial and industrial customers and assists with their energy management needs. Through these types of engagements, the Corporation can monitor its customers' specific needs and can work with them to develop energy solutions.

Governance Risk

Risk that municipal activity (laws, policies, or intervention) impedes the Corporation's effective performance, and ability to meet its objectives and serve its customers.

The Corporation is a government-controlled enterprise whose sole shareholder is the City. The operations of the Corporation and its subsidiaries are influenced by the broad by-law enactment and enforcement powers of the City. Additionally, as the Corporation's sole shareholder, the City has set out the governing objectives and principles, including financial objectives, for the Corporation through the Shareholder Direction, as described above. Under the Shareholder Direction, the City has the power to direct the Corporation and its subsidiaries to conduct their affairs and govern their operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time. Certain conflicts may arise where the City's goals and objectives in implementing such rules, policies, directives or objectives differ from the Shareholder Direction principles and could materially adversely affect the Corporation's business, operations, financial condition or prospects.

The Corporation engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of the Corporation and its customers. Through such engagements the parties review and consider the challenges to the Corporation achieving the objectives and principles set out under the Shareholder Direction, and in particular the impact that proposed changes in city by-laws or municipal policies may create for the Corporation's ability to meet its business objectives and serve its customers.

Functional Risks

Human Capital Risk

Risk that the Corporation is unable to maintain necessary resource talent and skilled resources.

The Corporation is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support the Corporation's future talent requirements. All retirements pose risks for knowledge management and business continuity at the Corporation. Development and retention of talent to meet the evolving needs of the business requires LDC to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions, including negotiating collective bargaining agreements with the Society of United Professionals and PWU. There can be no assurance that the Corporation will be able to secure the support of its labour unions.

The Corporation's ability to develop its work processes to meet changing circumstances also depends on its ability to access adequate resources from its external contractor community. One way in which the Corporation seeks to mitigate this risk is through its use of business practices and internal procedures to identify a diverse group of reputable third party service providers and entering into contracts with, and monitoring the performance of, these third-party service providers.

Operations Risk

Risk that the Corporation is not able to effectively meet the needs of its customers and a growing city, and maintain the security and reliability of the grid at acceptable levels.

Asset Management Risk

The Corporation is subject to the risk that it may be unable to maintain continuous supply due to failure of the distribution infrastructure and assets which could materially adversely affect the Corporation. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure (such as the Copeland Station project) to address safety, reliability and customer service requirements now and in the future.

LDC estimates that approximately 33% of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives by 2025. Asset condition assessment demographics also indicate substantial asset investment needs for a number of critical assets during this period. At the same time, Toronto is a growing city, and LDC must make upgrades to keep pace with urban intensification and electrification and ensure good stewardship of the distribution system. Further, extreme weather is no longer an infrequent experience, and has instead become a regular condition of operating a distribution system. For example, the Corporation experienced four extreme weather events in the first half of 2018, leaving nearly 160,000 customers without electricity. In addition, as the City, Ontario and the Government of Canada implement policies and programs to respond to climate change and adoption of electric vehicles and fuel-switching potentially increases, the pressures on the Corporation's system will only increase, and such factors may drive a need for incremental capital expenditures for system upgrades so that the grid can handle increased loads.

LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of the Corporation to fund additional infrastructure investments, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

One of LDC's largest capital initiatives currently in progress is the construction of Copeland Station, which is also one of the most complex projects ever undertaken by the Corporation. The expected completion date for the Copeland Station is in the first half of 2019. The total capital expenditures required to complete the project has increased from \$200.0 million to approximately \$204.0 million, plus capitalized borrowing costs. The increase in costs and delay in completion date are attributable to a variety of factors, including contractor performance and construction delays. There may be additional unforeseen delays and expenditures prior to the completion of the project. On January 25, 2018, the Corporation was informed that Carillion Construction Inc., the general contractor for the Copeland Station Project, filed for creditor protection under the Companies' Creditors Arrangement Act after its affiliate, Carillion plc, went into compulsory liquidation in the United Kingdom. Other contractors have taken on part of the remaining work to contribute to the completion of the project. All capital projects for new and replacement infrastructure have risks related to delays or increased costs due to many factors, including: necessary modifications to project plans; the availability, scheduling and cost of materials, equipment and qualified personnel; LDC's ability to obtain necessary environmental and other regulatory and government approvals; and the impact of weather conditions, site conditions and contractor performance.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. It uses a variety of asset and project management tools to implement its plans, measures progress on a recurring

short interval basis, and regularly monitors and manages the health of its assets. However, if LDC is unable to carry out these plans in a timely and optimal manner or becomes subject to significant unforeseen equipment failures, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

The Corporation's ability to operate effectively is also in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and the Corporation's financial, billing and business systems to capture data and to produce timely and accurate information. Specifically, on October 1, 2018, the Corporation successfully completed the implementation of, and transitioned to, a new ERP system. The ERP system is being used to operate the Corporation's financial, and business systems to capture data and to produce timely and accurate information. Failure of the newly implemented ERP system could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The Corporation has mitigation strategies, access to consultants with ERP expertise and is developing an internal ERP centre of excellence to help assist in the implementation, and support of ERP for users. Additionally, in respect of the Corporation's operational technology systems in general, there is isolation from business systems and independent operation which mitigates against wider systemic risk to the business systems.

Security Risk

The Corporation is subject to the risk that it may be unable to preserve the confidentiality, integrity, authenticity, availability, accountability and non-repudiation of information assets.

LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to

damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. The Corporation has implemented security controls aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, corruption or unavailability of critical data or confidential employee or customer information. A significant breach could materially adversely affect the financial performance of the Corporation or its reputation and standing with customers, regulators and in the financial markets. It could also expose the Corporation to third-party claims.

LDC must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, contractors, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity incident or other unauthorized access, which could materially adversely affect the Corporation and also result in third-party claims against the Corporation.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that the Corporation can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a

target, the Corporation may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

The Corporation is subject to the risk of external threats to its physical and perimeter security. This includes the security of the Corporation's facilities including office buildings and distribution stations. In order to safeguard its assets and staff, the Corporation has developed policies and guidelines around physical and perimeter security and facilities related emergency preparedness. The Corporation has also implemented electronic security technologies to ensure that only authorized personnel have access to the Corporation facilities.

Business Interruption Risk

The Corporation is subject to the risk that it may be unable to maintain continuing and sustainable business operations, or recover from business interruption, in an effective manner. The Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions and natural disasters, as well as terrorism and pandemics. The Corporation has implemented various initiatives aimed at improving the system's resiliency to increasingly frequent extreme weather events caused by climate change. These initiatives include updating major equipment specifications, revising planning guidelines, investigating the load forecast impact, revising design practices, and enhancing maintenance programs. The Corporation has also implemented a Grid Emergency Management (GEM) program to prepare for and respond to major power outage events and has incorporated recommendations from the independent review panel of experts formed to review the Corporation's response to the 2013 Ice Storm that affected Toronto. Although the Corporation's facilities and operations are constructed, operated and maintained to withstand such occurrences,

there can be no assurance that they will successfully do so in all circumstances. Any major damage to the Corporation's facilities or interruption of the Corporation's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Safety Risk

Risk to the Corporation employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon the Corporation activities.

Occupational Health and Safety Risk

The Corporation is subject to the risk that employees may be exposed to serious or fatal injuries or illness as a result of the work environment in which they operate. Due to the nature of the Corporation's business and business activities, occupational safety is an integral part of our corporate culture. Employees could be exposed to hazards when performing their work duties. This includes hazards such as electrical contact, working in confined spaces, fires and explosions, slips, trips and falls and motor vehicle accidents. The Corporation is subject to compliance with provincial Health and Safety legislation. The Corporation's management approach to occupational safety is to meet or excel on legal compliance and eliminate or safeguard known occupational hazards and risks. The Corporation also uses an IRS (Internal Responsibility System) to clearly define responsibility and accountability for safety at each level within the organization. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of our corporate values, including safety. LDC

received OHSAS 18001 certification in 2013 and conducts annual third party audits to maintain certification, in addition occupational health and safety legal compliance audits are conducted every two years.

Public Safety Risk

Due to the nature of the Corporation's business of operating and maintaining its distribution system, the Corporation is subject to the risk of public injuries or fatalities. The Corporation mitigates risks to public safety through equipment inspection, replacement and maintenance, employee training, communications programs and reactive and emergency work. The Corporation also has developed specific construction standards and design practices and new products for use in the distribution system go through a thorough review and introduction process. The selection process for new products and the development of standards promotes customer health and safety.

Financial Risk

Risk that the Corporation is unable to maintain its financial health and performance at acceptable levels.

Market and Credit Risk

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

by-case basis. LDC's security interest or other measures, if any, may also not provide sufficient protection. Additionally, security interests and other measures taken by, or in favour of, LDC, if any, may not provide sufficient protection.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of the Corporation, as at December 31, 2018, by \$41.3 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2018, by \$53.1 million.

The Corporation is exposed to short-term interest rate risk on the short-term borrowings under its Commercial Paper Program and Working Capital Facility, and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$2.1 million to annual finance costs.

The Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2018 was not material.

Capital Structure Risk

The Corporation is subject to the risk that it may not be able to optimize its debt to equity ratio or access capital markets at effective rates. There can be no assurance that debt or equity financing will be available or sufficient

to meet the Corporation's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to the Corporation.

The Corporation relies on debt financing through its medium term notes program, Commercial Paper Program or existing credit facilities to finance the Corporation's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, the regulatory environment in Ontario, the Corporation's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's medium term notes program by credit rating agencies, the rating assigned to short-term borrowings under the Commercial Paper Program by a credit rating agency, and the availability of the commercial paper market. In the event the Corporation is unable to maintain an R-1 (low) credit rating for its Commercial Paper Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its commercial paper obligations as they become due. The Corporation's only source of external equity financing is its existing shareholder, the City of Toronto.

The Corporation regularly reviews the external market environment and has regular engagements with its credit rating agencies, securities dealers and investor community to monitor capital structure risk.

Compliance Risk

Risk that the Corporation does not meet its material compliance obligations under legal and regulatory instruments.

The Corporation is committed to complying with applicable legal and regulatory requirements and other requirements to which the organization subscribes. The

Corporation has a Corporate Compliance program that strengthens the organization's culture of compliance and provides reasonable assurance, to the Corporation's senior leadership and the Corporation's Board of Directors, of adherence with material compliance requirements. There can be no assurance that the Corporation will comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that could have a material adverse effect on the Corporation. The OEB may not allow recovery in rates for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Critical Accounting Estimates

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

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

- Note 25(b) – Recognition and measurement of regulatory balances;
- Note 25(j) – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 25(f) and 25(g) – Determination of useful lives of depreciable assets;
- Notes 25(m) and 13 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 25(o) and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 24 – Recognition and measurement of provisions and contingencies.

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. The significant accounting policies of the Corporation are summarized in note 25 to the Consolidated Financial Statements.

Changes in Accounting Policies

Effective January 1, 2018, the Corporation has adopted new IFRS standards and applied the following new accounting policies in preparing the Consolidated Financial Statements:

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 effective for annual periods beginning on or after January 1, 2018, which replaced existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers

control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time.

The Corporation adopted IFRS 15 using the modified retrospective approach with the following practical expedients:

- The Corporation did not restate completed contracts that began and ended in the same annual reporting period or completed contracts at the beginning of the earliest period presented; and
- The Corporation did not disclose the amount of consideration allocated to the remaining performance obligations nor did it provide an explanation of when the Corporation expects to recognize that amount as revenue for comparative periods presented in the Consolidated Financial Statements.

The Corporation recognizes revenue in the amount that it has a right to invoice when the amount directly corresponds with the value of the Corporation's performance to date.

The adoption of IFRS 15 resulted in a \$207.6 million income statement reclassification between energy sales and energy purchases for the comparative year ended December 31, 2017, and had no impact to opening retained earnings as at January 1, 2018. The Corporation updated the impact previously disclosed in the 2017 audited consolidated financial statements for the year ended December 31, 2017 to include the additional income statement reclassification between energy sales and energy purchases for the comparative year ended December 31, 2017. Refer to note 25(q) of the Consolidated Financial Statements for details on the transitional adjustment.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9") effective for annual periods beginning on or after January 1, 2018, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Corporation adopted IFRS 9 retrospectively on January 1, 2018. Despite the retrospective adoption of IFRS 9, the Corporation is not required, upon initial application, to restate comparatives.

i) Classification and measurement of financial instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial instruments. The impact of IFRS 9 on the classification and measurement of financial instruments is set out below.

Financial Instrument	IAS 39 Measurement basis	IFRS 9 Measurement basis
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Unbilled revenue	Loans and receivables	Amortized cost
Working capital facility	Financial liability – amortized cost	Amortized cost
Commercial paper	Financial liability – amortized cost	Amortized cost
Customer deposits	Financial liability – amortized cost	Amortized cost
Leases	Financial liability – amortized cost	Amortized cost
Debentures	Financial liability – amortized cost	Amortized cost
Accounts payable	Financial liability – amortized cost	Amortized cost

Financial Instrument	IAS 39 Carrying amount as at January 1, 2018 \$	IFRS 9 Carrying amount as at January 1, 2018 \$
Cash and cash equivalents	—	—
Accounts receivable	217.7	218.3
Unbilled revenue	278.3	277.4
Working capital facility	11.7	11.7
Commercial paper	159.0	159.0
Customer deposits	58.1	58.1
Leases (1)	3.1	3.1
Debentures	2,034.0	2,034.0
Accounts payable	325.1	325.1

⁽¹⁾ Includes transitional adjustment for the recognition of new leases upon adoption of IFRS 16 *Leases* (“IFRS 16”) on January 1, 2018. Refer to note 25(q) of the Consolidated Financial Statements for details on the transitional adjustment

ii) Impairment of financial assets

Loss allowances for accounts receivable and unbilled revenue are always measured at an amount equal to life time expected credit losses (“ECL”). Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience, adjusted for forward-looking factors specific to the current credit environment.

The Corporation assumes that credit risk on a financial asset has increased if it is more than 30 days past due date.

The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation, such as realising security (if any is held).

If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* (“IFRS 16”), which replaced IAS 17 *Leases* (“IAS 17”) and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the previous distinction between finance and operating leases. IFRS 16 requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. Lessor accounting remained substantially unchanged.

Although IFRS 16 is effective for annual periods beginning on or after January 1, 2019, the Corporation early adopted IFRS 16 on January 1, 2018 using the modified retrospective approach, in accordance with the transitional provisions in IFRS 16. The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*. In applying this approach, the Corporation elected to use practical expedients that allowed it to exclude the initial direct costs from the measurement of the right-of use assets at the date of the initial application, and to use hindsight in determining the lease term. As a practical expedient permitted by IFRS 16, the Corporation applied IFRS 16 to existing contracts that were previously identified as leases applying IAS 17 and IFRIC 4, and did not apply IFRS 16 to contracts that were not previously identified as containing a lease.

The adoption of IFRS 16 resulted in an increase of \$1.6 million in total assets and total liabilities each for recognition of right-of-use assets and lease liabilities, respectively, and had no impact to opening retained earnings as at January 1, 2018. Refer to note 25(q) of the Consolidated Financial Statements for details on the transitional adjustment.

The adoption of IFRS 15, IFRS 9 and IFRS 16 resulted in no changes to the consolidated balance sheets as at December 31, 2017 or consolidated statements of cash flows for the year ended December 31, 2017.

Future Accounting Pronouncements

A number of new interpretations and amendments to existing standards have been issued but are not yet effective for the year ended December 31, 2018, and have not been applied in preparing the Consolidated Financial Statements.

IFRIC 23 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in situations in which there is uncertainty over income tax treatments. The interpretation is applicable for annual reporting periods beginning on or after January 1, 2019.

Annual Improvements to IFRS Standards 2015-2017 Cycle

On December 12, 2017, as part of its annual improvements process, the IASB issued narrow-scope amendments to the following standards:

IFRS 3 *Business Combinations* – the amendments clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business.

IFRS 11 *Joint Arrangements* – the amendments clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure previously held interests in that business.

IAS 12 *Income Taxes* – the amendments clarify that an entity recognizes income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend.

IAS 23 *Borrowing Costs* – the amendments clarify that an entity treats as general borrowings any borrowings made specifically to obtain a qualifying asset that remain outstanding when the asset is ready for its intended use or sale.

The amendments are effective for annual reporting periods beginning on or after January 1, 2019.

Definition of Material (Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 – the amendments clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation’s consolidated financial statements, if any.

Forward-Looking Information

Certain information included in this MD&A constitutes “forward-looking information” within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation’s current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words “anticipates”, “believes”, “budgets”, “committed”, “can”, “could”, “estimates”, “expects”, “focus”, “forecasts”, “future”, “intends”, “may”, “might”, “plans”, “propose”, “projects”, “schedule”, “seek”, “should”, “trend”, “will”, “would”, “objective”, “outlook” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation’s current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled “Results of Operations”; the statements regarding the reduction in future electricity distribution rates for customers as described in the section entitled “Results of Operations”; the effect of changes in energy consumption on future revenue as described in the section entitled “Summary of Quarterly Results of Operations”; the Corporation’s plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled “Liquidity and Capital Resources”; the Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”; the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled “Liquidity and Capital Resources”; the expected capital expenditures required to complete Copeland Station and the anticipated completion date for Copeland Station as described in the section entitled “Liquidity and Capital Resources” and the subsection entitled “Asset Management Risk”; the extension of the Revolving Credit Facility maturity date as referenced under the section entitled “Liquidity and Capital Resources”; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled “Liquidity and Capital Resources”; the payment of dividends as described in the section entitled “Liquidity and Capital Resources”; electricity distribution rates and rate applications as described in the section entitled “Corporate Developments”; approvals related to LDC’s CIR application as described in the section entitled “Corporate Developments”; the plans to meet CDM targets and to receive reimbursement and/or cost efficiency incentives from the IESO as described in the section entitled “Corporate Developments”; the Corporation’s reliance on debt financing through

its medium term notes program, Commercial Paper Program or existing credit facilities to finance the Corporation’s daily operations, repay existing indebtedness, and fund capital expenditures as described in the subsection entitled “Capital Structure Risk”; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the subsection entitled “Market and Credit Risk”; the Corporation’s plans to train and retain skilled employees, mitigate risks from retiring employees, maintain the support of its labour unions and enter into agreements with, and monitor the performance of, its third party providers as described in the subsection entitled “Human Capital Risk”; and the expectation that approximately 33% of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives by 2025 as described in the subsection entitled “Asset Management Risk”.

The forward-looking information is based on estimates and assumptions made by the Corporation’s management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, no unforeseen changes in the demand for energy consumption, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation’s capital projects (including Copeland Station), no unforeseen changes to project plans, no significant changes in weather compared to historical seasonal trends, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the receipt of applicable IESO approvals for cost efficiency CDM incentives, the ability of the Corporation to obtain and retain qualified staff, materials, equipment and

services in a timely and cost efficient manner, continued contractor performance, compliance with covenants, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the ratings issued by credit rating agencies, the level of interest rates and the Corporation’s ability to borrow and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC’s capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements; risks associated with capital projects, including Copeland Station; risks associated with electricity industry regulatory developments and other governmental policy changes including factors relating to LDC’s distribution activities; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC’s revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of the Corporation’s information assets; risks associated with failure of the newly implemented ERP system; risk of external threats to LDC’s facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and LDC’s limited insurance coverage for losses resulting from these events; risk to the Corporation’s employees and the general public of serious/fatal injuries and illnesses relating to or impacting upon its activities; risks of municipal government activity, including the risk that the City

could introduce rules, policies or directives that can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic and its potential inability to train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that the Corporation may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of the LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in this MD&A. Please review the section "Risk Management and Risk Factors" in detail. All of the forward-looking information included

in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section in this MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Selected Annual Information

The following table sets forth selected annual financial information for the three years ended December 31, 2018, 2017 and 2016. This information has been derived from the Corporation's consolidated financial statements.

Selected Annual Consolidated Financial Information (in millions of Canadian dollars)			
	2018 \$	2017 \$ [Restated] ⁶	2016 \$ [Restated] ⁶
Year Ended December 31			
Total Revenues ¹	3,472.7	3,642.1	3,996.0
Net income after net movements in regulatory balances ¹	167.3	156.5	151.4
As at December 31			
Total assets and regulatory balances ²	5,360.1	5,226.2	4,954.4
Total debentures ^{2,3}	2,034.9	2,034.0	2,084.6
Other non-current financial liabilities ⁴	33.9	9.1	17.3
Total equity ²	1,833.5	1,760.4	1,428.9
Dividends ⁵	93.9	75.0	63.4

¹ See "Results of Operations" for further details on distribution revenue, other revenue, and net income after net movements in regulatory balances.

² See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.

³ Total debentures include current and long-term debentures.

⁴ Other non-current financial liabilities include primarily non-current obligations under capital lease and non-current customer deposits. Under IFRS, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

⁵ See "Liquidity and Capital Resources" for further details on dividends.

⁶ These numbers have been restated to account for the impact of adopting IFRS 15. Additional details on IFRS 15 are discussed in the "Changes in Accounting Policies" section of this MD&A.

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Toronto, Canada

March 6, 2019



CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

See Financial Report for abbreviations and defined terms used in the audited consolidated financial statements.

Management's Report

The accompanying Consolidated Financial Statements have been prepared by management of Toronto Hydro Corporation (the "Corporation"), who are responsible for the integrity, consistency and reliability of the information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and applicable securities legislation.

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 25 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances

may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 6, 2019.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and internal audit, which is designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Corporation's assets are safeguarded and transactions are properly authorized and executed. The system includes formal policies and procedures and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these internal controls and reports its findings to management and the Audit Committee of the Corporation, as required.

The Board of Directors, through its Audit Committee, is responsible for overseeing management in the performance of its financial reporting and internal controls. The Audit Committee is composed of independent directors and meets periodically with management, the internal auditors and the external auditors to discuss internal controls over the financial

reporting process, auditing matters and financial reporting issues, to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholder, the appointment of the external auditors. The external auditors have direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Consolidated Financial Statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Corporation's shareholder. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The attached Independent Auditors' Report outlines the scope of their examination and their opinion.

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"

Anthony Haines

President and Chief Executive Officer

"Aida Cipolla"

Aida Cipolla

Executive Vice-President and Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro Corporation

Opinion

We have audited the consolidated financial statements of Toronto Hydro Corporation (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statement of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report."

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this

other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Chartered Professional Accountants,
Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Sarah deGuzman.

Toronto, Canada
March 6, 2019

CONSOLIDATED BALANCE SHEETS
[in millions of Canadian dollars]

As at December 31	2018 \$	2017 \$
ASSETS		
Current		
Accounts receivable [notes 4 and 15[b]]	215.7	217.7
Unbilled revenue [note 15[b]]	282.6	278.3
Materials and supplies	8.1	9.3
Other assets [note 5]	10.7	12.7
Assets held for sale	-	8.7
Total current assets	517.1	526.7
Property, plant and equipment [note 6]	4,392.1	4,143.4
Intangible assets [note 7]	318.9	296.2
Deferred tax assets [note 20]	0.3	57.0
Other assets [note 5]	5.8	3.0
Total assets	5,234.2	5,026.3
Regulatory balances [note 8]	125.9	199.9
Total assets and regulatory balances	5,360.1	5,226.2
LIABILITIES AND EQUITY		
Current		
Working capital facility [note 9]	12.6	11.7
Commercial paper [note 9]	113.0	159.0
Accounts payable and accrued liabilities [note 10]	525.4	516.3
Income tax payable	5.1	12.8
Customer deposits	48.1	49.2
Deferred revenue [note 11]	12.9	10.7
Deferred conservation credit [note 3[c]]	8.2	9.3
Debentures [note 12]	249.8	-
Other liabilities [note 23]	0.3	1.5
Total current liabilities	975.4	770.5
Debentures [note 12]	1,785.1	2,034.0
Customer deposits	31.7	8.9
Deferred revenue [note 11]	278.1	179.2
Post-employment benefits [note 13]	275.9	313.0
Other liabilities [note 23]	2.2	0.2
Total liabilities	3,348.4	3,305.8
Equity		
Share capital [note 16]	817.8	817.8
Retained earnings	1,015.7	942.6
Total equity	1,833.5	1,760.4
Total liabilities and equity	5,181.9	5,066.2
Regulatory balances [note 8]	178.2	160.0
Total liabilities, equity and regulatory balances	5,360.1	5,226.2

Commitments, contingencies and subsequent events [notes 2, 23 and 24]

ON BEHALF OF THE BOARD:

"David McFadden"

David McFadden,
Director

"Michael Nobrega"

Michael Nobrega,
Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
[in millions of Canadian dollars]

Year ended December 31	2018 \$	2017 \$
		[note 25[q]]
Revenues		
Energy sales [note 17]	2,704.1	2,810.2
Distribution revenue [note 17]	674.2	724.2
Other [note 17]	94.4	107.7
	3,472.7	3,642.1
Expenses		
Energy purchases	2,646.3	2,855.9
Operating expenses [note 18]	307.5	293.0
Depreciation and amortization [notes 6 and 7]	238.3	224.2
	3,192.1	3,373.1
Finance costs [note 19]	(74.6)	(77.7)
Gain on disposals of property, plant and equipment	108.6	9.8
Income before income taxes	314.6	201.1
Income tax expense [note 20]	(82.4)	(44.7)
Net income	232.2	156.4
Net movements in regulatory balances [note 8]	(111.9)	(13.1)
Net movements in regulatory balances arising from deferred tax assets [note 8]	47.0	13.2
Net income after net movements in regulatory balances	167.3	156.5

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
[in millions of Canadian dollars]

Year ended December 31	2018 \$	2017 \$
Net income after net movements in regulatory balances	167.3	156.5
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax [2018 - (\$9.9), 2017 - \$6.7] [note 13]	27.3	(18.4)
Net movements in regulatory balances related to OCI, net of tax [2018 - (\$9.9), 2017 - \$6.7] [note 13]	(27.3)	18.4
Other comprehensive income, net of tax	-	-
Total comprehensive income	167.3	156.5

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY
[in millions of Canadian dollars]

Year ended December 31	2018 \$	2017 \$
Share capital [note 16]	817.8	817.8
Retained earnings, beginning of year	942.6	861.1
Transition adjustment [note 25[q]]	(0.3)	-
Net income after net movements in regulatory balances	167.3	156.5
Dividends [notes 16 and 22]	(93.9)	(75.0)
Retained earnings, end of year	1,015.7	942.6
Total equity	1,833.5	1,760.4

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
[in millions of Canadian dollars]

Year ended December 31	2018 \$	2017 \$
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	167.3	156.5
Net movements in regulatory balances <i>[note 8]</i>	111.9	13.1
Net movements in regulatory balances arising from deferred tax assets <i>[note 8]</i>	(47.0)	(13.2)
Adjustments		
Depreciation and amortization <i>[notes 6 and 7]</i>	238.3	224.2
Amortization of deferred revenue <i>[note 11]</i>	(5.3)	(4.7)
Finance costs	74.6	77.7
Income tax expense	82.4	44.7
Post-employment benefits	0.1	7.4
Gain on disposals of property, plant and equipment	(108.6)	(9.8)
Other	0.8	1.0
Capital contributions received <i>[note 11]</i>	106.5	50.8
Net change in other non-current assets and liabilities	(2.4)	(6.9)
Increase in customer deposits	21.7	4.0
Changes in non-cash working capital balances <i>[note 21]</i>	(1.0)	62.0
Income tax paid	(42.6)	(22.1)
Net cash provided by operating activities	596.7	584.7
INVESTING ACTIVITIES		
Purchase of property, plant and equipment <i>[note 21]</i>	(439.8)	(440.0)
Purchase of intangible assets <i>[note 21]</i>	(54.5)	(93.4)
Proceeds on disposals of property, plant and equipment	117.4	12.5
Net cash used in investing activities	(376.9)	(520.9)
FINANCING ACTIVITIES		
Decrease in commercial paper, net of issuances <i>[note 9]</i>	(46.0)	(102.0)
Common shares issued	-	250.0
Dividends paid <i>[note 16]</i>	(93.9)	(75.0)
Proceeds from issuance of debentures	-	199.9
Debt issuance costs paid	-	(1.4)
Repayment of debentures	-	(250.0)
Repayment of lease liability	(1.8)	(3.0)
Interest paid	(79.0)	(86.9)
Net cash used in financing activities	(220.7)	(68.4)
Net increase in working capital facility during the year	(0.9)	(4.6)
Working capital facility, beginning of year	(11.7)	(7.1)
Working capital facility, end of year	(12.6)	(11.7)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

1. NATURE OF BUSINESS

The Corporation was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario) in accordance with the Electricity Act. The Corporation is wholly owned by the City and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5. The Corporation and its subsidiaries distribute electricity to customers and provide street lighting and expressway lighting services in the City.

2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2018 and 2017 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS as issued by the IASB.

The Consolidated Financial Statements are presented in Canadian dollars, the Corporation's functional currency, and have been prepared on the historical cost basis, except for post-employment benefits which are recorded at actuarial value.

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 6, 2019 when the Corporation's Consolidated Financial Statements were authorized for issuance by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in these notes to the Consolidated Financial Statements [note 16].

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

3. REGULATION

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

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

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO back to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.
- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through back to operators of transmission facilities.
- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through back to the IESO.

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

a) Electricity Distribution Rates

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

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and IRM adjustments. 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. 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.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a decision and rate order approving LDC's 2019 rates and providing for other deferral and variance account dispositions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

On August 15, 2018, LDC filed a CIR application seeking approval of LDC's 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requests approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred prior to 2020.

b) Ontario's Fair Hydro Plan

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

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

OFHP also includes the OFHA, which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and its impact is reflected in the Consolidated Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. The OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts

receivable, unbilled revenue, accounts payable and accrued liabilities for LDC. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

c) CDM Activities

The objective of the CDM programs 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.

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. ["Oakville Hydro"] for the delivery of CDM programs over the 2015-2020 period. 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, including a mid-term incentive based on a review of the 2015-2017 period.

The joint CDM plan provides combined funding of approximately \$421.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,648 GWh. The program for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received \$162.4 million from the IESO as at December 31, 2018 [2017 - \$102.3 million] to deliver the CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. On September 26, 2018, \$15.8 million was confirmed by the IESO as the joint mid-term incentive, of which \$14.9 million representing LDC's portion was received in November 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2018	2017
	\$	\$
Trade receivables	201.5	189.9
Due from related parties <i>[note 22]</i>	9.8	13.8
CDM mid-term incentive <i>[note 3[c]]</i>	—	12.2
Other	4.4	1.8
	215.7	217.7

5. OTHER ASSETS

Other assets consist of the following:

	2018	2017
	\$	\$
Prepaid expenses	9.4	11.3
Deferred financing costs	1.6	1.6
Other	5.5	2.8
Total other assets	16.5	15.7
Less: Current portion of other assets relating to:		
Prepaid expenses	9.4	11.3
Deferred financing costs	0.4	0.4
Other	0.9	1.0
Current portion of other assets	10.7	12.7
Non-current portion of other assets	5.8	3.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets	Land and buildings	Equipment and other	Construction in progress	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at January 1, 2017	3,376.3	321.5	235.2	451.0	4,384.0
Additions/(Transfers)	404.4	84.8	38.4	(76.1)	451.5
Assets held for sale [note 8[d]]	—	(11.8)	—	—	(11.8)
Disposals and retirements	(31.5)	(3.2)	(0.4)	—	(35.1)
Balance as at December 31, 2017	3,749.2	391.3	273.2	374.9	4,788.6
Additions/(Transfers)	363.6	18.7 ⁽¹⁾	27.4	53.0	462.7
Disposals and retirements	(32.0)	(0.4)	(4.4)	—	(36.8)
Balance as at December 31, 2018	4,080.8	409.6	296.2	427.9	5,214.5
Accumulated depreciation					
Balance as at January 1, 2017	347.3	26.3	103.2	—	476.8
Depreciation	138.1	13.6	26.6	—	178.3
Assets held for sale [note 8[d]]	—	(3.1)	—	—	(3.1)
Disposals and retirements	(5.9)	(0.5)	(0.4)	—	(6.8)
Balance as at December 31, 2017	479.5	36.3	129.4	—	645.2
Depreciation	147.6	15.0	27.3	—	189.9
Disposals and retirements	(8.4)	(0.3)	(4.0)	—	(12.7)
Balance as at December 31, 2018	618.7	51.0	152.7	—	822.4
Carrying amount					
Balance as at December 31, 2017	3,269.7	355.0	143.8	374.9	4,143.4
Balance as at December 31, 2018	3,462.1	358.6	143.5	427.9	4,392.1

⁽¹⁾ Includes transitional adjustment for the recognition of the right-of-use assets upon adoption of IFRS 16 *Leases* ["IFRS 16"] on January 1, 2018 [note 25[q]].

As at December 31, 2018, "Land and buildings" included right-of-use assets related to leases of land and office space with cost of \$8.8 million [December 31, 2017 - \$7.2 million], accumulated depreciation of \$0.7 million [December 31, 2017 - \$0.4 million], and carrying amount of \$8.1 million [December 31, 2017 - \$6.8 million]. For the year ended December 31, 2018, the Corporation recorded depreciation expense of \$0.3 million [2017 - \$0.1 million] related to the right-of-use assets.

As at December 31, 2018, "Equipment and other" included right-of-use assets with cost of \$11.0 million [December 31, 2017 - \$11.0 million], accumulated depreciation of \$11.0 million [December 31, 2017 - \$10.0 million], and carrying amount of \$nil [December 31, 2017 - \$1.0 million]. For the year ended December 31, 2018, the Corporation recorded depreciation expense of \$1.0 million [2017 - \$2.0 million] related to the right-of-use assets.

For the year ended December 31, 2018, borrowing costs in the amount of \$3.7 million [2017 - \$6.2 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.61% [2017 - 3.73%].

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software \$	Contributions \$	Software in development \$	Contributions for work in progress \$	Total \$
Cost					
Balance as at January 1, 2017	113.5	75.5	20.2	70.1	279.3
Additions/(Transfers)	23.4	—	34.0	44.0	101.4
Balance as at December 31, 2017	136.9	75.5	54.2	114.1	380.7
Additions/(Transfers)	73.8	88.6	(39.2)	(74.6)	48.6
Disposals and retirement	(2.9)	—	—	—	(2.9)
Balance as at December 31, 2018	207.8	164.1	15.0	39.5	426.4
Accumulated amortization					
Balance as at January 1, 2017	57.4	4.1	—	—	61.5
Amortization	20.0	3.0	—	—	23.0
Balance as at December 31, 2017	77.4	7.1	—	—	84.5
Amortization	20.9	3.6	—	—	24.5
Disposals and retirement	(1.5)	—	—	—	(1.5)
Balance as at December 31, 2018	96.8	10.7	—	—	107.5
Carrying amount					
Balance as at December 31, 2017	59.5	68.4	54.2	114.1	296.2
Balance as at December 31, 2018	111.0	153.4	15.0	39.5	318.9

For the year ended December 31, 2018, borrowing costs in the amount of \$5.2 million [2017 - \$3.6 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.61% [2017 - 3.73%].

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

“Computer software” is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 10 years, and from 10 to 25 years, respectively.

“Contributions” represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2018	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2018	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
OPEB net actuarial loss	85.3	(37.2)	—	—	48.1	note 8[a]	—
LRAM	16.7	18.7	(6.4)	—	29.0	note 8[b]	(1)
Foregone revenue	44.0	—	(20.8)	—	23.2	12	—
Gain on disposal	19.1	—	—	(19.1)	—	note 8[d]	(1)
IFRS transitional adjustments	15.0	—	(8.0)	—	7.0	12	—
OPEB cash versus accrual	4.2	1.2	—	—	5.4	note 8[f]	—
Stranded meters	7.5	—	(3.9)	—	3.6	12	(1)
Named properties	3.1	—	(1.5)	—	1.6	12	—
Capital contributions	1.0	—	(0.5)	—	0.5	12	—
Other	4.0	3.5	—	—	7.5	—	(1)
	199.9	(13.8)	(41.1)	(19.1)	125.9		

	January 1, 2017	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2017	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
OPEB net actuarial loss	60.2	25.1	—	—	85.3	note 8[a]	—
LRAM	10.5	11.0	(4.8)	—	16.7	note 8[b]	(1)
Foregone revenue	64.3	—	(20.3)	—	44.0	24	—
Gain on disposal	8.6	(8.1)	18.6	—	19.1	note 8[d]	(1)
IFRS transitional adjustments	22.8	—	(7.8)	—	15.0	24	—
OPEB cash versus accrual	2.9	1.3	—	—	4.2	note 8[f]	—
Stranded meters	11.4	—	(3.9)	—	7.5	24	(1)
Named properties	4.6	—	(1.5)	—	3.1	24	—
Capital contributions	1.5	—	(0.5)	—	1.0	24	—
Smart meters	2.1	—	(3.1)	1.0	—	—	—
Other	1.9	2.1	—	—	4.0	—	(1)
	190.8	31.4	(23.3)	1.0	199.9		

⁽¹⁾ Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 1.50% for January 1, 2018 to March 31, 2018, 1.89% for April 1, 2018 to September 30, 2018 and 2.17% for October 1, 2018 to December 31, 2018 [January 1, 2017 to September 30, 2017 - 1.10% and October 1, 2017 to December 31, 2017 - 1.50%].

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2018	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2018	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Gain on disposal	—	99.0	(18.1)	(19.1)	61.8	note 8[d]	(1)
Capital-related revenue requirement	25.0	31.5	—	—	56.5	note 8[j]	(1)
Derecognition	15.9	5.9	—	—	21.8	note 8[k]	(1)
Settlement variances ⁽²⁾	41.0	58.2	(80.0)	—	19.2	note 8[l]	(1)
Development charges	5.3	2.6	—	—	7.9	note 8[m]	(1)
Deferred taxes	58.8	(56.9)	—	—	1.9	note 8[n]	—
Tax-related variances	9.3	—	(8.2)	—	1.1	—	(1)
Smart meters	0.3	—	—	—	0.3	—	—
Other	4.4	3.7	(0.4)	—	7.7	—	(1)
	160.0	144.0	(106.7)	(19.1)	178.2		

	January 1, 2017	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2017	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Capital-related revenue requirement	8.8	16.2	—	—	25.0	note 8[j]	(1)
Derecognition	12.8	3.1	—	—	15.9	note 8[k]	(1)
Settlement variances	62.8	(45.2)	23.4	—	41.0	note 8[l]	(1)
Development charges	—	5.3	—	—	5.3	note 8[m]	(1)
Deferred taxes	65.3	(6.5)	—	—	58.8	note 8[n]	—
Tax-related variances	17.5	—	(8.2)	—	9.3	12	(1)
Smart meters	—	—	(0.7)	1.0	0.3	—	—
Other	2.2	2.7	(0.5)	—	4.4	—	(1)
	169.4	(24.4)	14.0	1.0	160.0		

⁽¹⁾ Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 1.50% for January 1, 2018 to March 31, 2018, 1.89% for April 1, 2018 to September 30, 2018 and 2.17% for October 1, 2018 to December 31, 2018 [January 1, 2017 to September 30, 2017 - 1.10% and October 1, 2017 to December 31, 2017 - 1.50%].

⁽²⁾ In 2018, a reclassification between settlement variances and accounts payable, with a corresponding impact to energy purchases and net movements in regulatory balances, was recorded in the amount of \$50.4 million. The immaterial adjustment arose in 2017 and was reflected prospectively in 2018.

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. There was no impairment recorded for the year ended December 31, 2018.

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

	2018 \$	2017 \$
Total movements per regulatory debit balances table	(74.0)	9.1
Total movements per regulatory credit balances table	(18.2)	9.4
Total net movements	(92.2)	18.5
Net movements per financial statements:		
Net movements in regulatory balances	(111.9)	(13.1)
Net movements in regulatory balances arising from deferred tax assets	47.0	13.2
Net movements in regulatory balances related to OCI, net of tax	(27.3)	18.4
Total net movements per financial statements	(92.2)	18.5

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

The regulatory balances of the Corporation consist of the following:

a) OPEB net actuarial loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2018 of \$37.2 million is related to the actuarial gain recorded for the year [2017 - \$25.1 million actuarial loss] [note 13[a]]. The net position is an actuarial loss that is recoverable in future rates. LDC is seeking disposition of the balance in the 2020-2024 rate application [note 3[a]]. The timing of disposition of the balance is currently unknown.

b) Lost revenue adjustment mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. New variances are accrued based on current CDM activities. Approved variances for 2017 will be disposed through OEB-approved rate riders over 12 months commencing on January 1, 2019. Variances pertaining to years subsequent to 2017 have yet to be applied for disposition.

c) Foregone revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the 2015 – 2019 CIR decision and rate order, the OEB approved foregone revenue rate riders over 46 months commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates.

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d) Gain on disposal

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (credits) and the after-tax gain realized on two significant LDC properties (credits). As part of the 2015 – 2019 CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on both properties back to ratepayers, effective from March 1, 2016 to December 31, 2018. The gain on disposal of the two properties was realized by LDC in 2015 and 2018, respectively. In the second quarter of 2017, LDC realized a gain in connection with the disposal of a third property.

The balance arising during the year ended December 31, 2018 relates to a realized gain of \$98.6 million (net of tax and selling costs of \$14.9 million), in connection with the disposal of the second property by LDC in 2018. The proceeds on the disposition of this property were \$122.2 million. The actual realized gain and tax savings that exceeded the approved rate riders reduce future electricity distribution rates for customers. LDC is seeking disposition of this incremental balance in the 2020 – 2024 rate application [note 3[a]]. The timing of disposition of the incremental balance is currently unknown.

e) IFRS transitional adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the 2015 – 2019 CIR decision and rate order, the OEB approved disposition of the balance over 46 months commencing on March 1, 2016.

f) OPEB cash versus accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. The OEB directed LDC to track the difference as a

temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. On September 14, 2017, the OEB issued its final report on the consultation and established the use of the accrual accounting method as the default method on which to set rates for OPEB costs. LDC will continue to track the cash versus accrual difference until December 2019. LDC is seeking disposition of the balance in the 2020-2024 rate application [note 3[a]]. The timing of disposition of the balance is currently unknown.

g) Stranded meters and smart meters

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

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. In the 2015 – 2019 CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 over 46 months commencing on March 1, 2016.

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

h) Named properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net

gains realized upon the sale of the named properties. In the 2015 – 2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

i) Capital contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the 2015 – 2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

j) Capital-related revenue requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. If the cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeds the actual capital-related revenue requirement over the same rate period, LDC must apply for disposition of this account in order to clear the balance to ratepayers through a rate rider. This account was approved by the OEB in the 2015 – 2019 CIR decision and rate order. LDC is seeking disposition of the balance in the 2020-2024 rate application [note 3[a]]. The timing of disposition of the balance is currently unknown.

k) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the 2015 – 2019 CIR decision and rate order. LDC is seeking disposition of the balance in the 2020-2024 rate application [note 3[a]]. The timing of disposition of the balance is currently unknown.

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l) Settlement variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. New variances are accrued based on current charges while approved variances up to 2017, including carrying charges forecasted to the end of 2018, will be disposed through OEB-approved rate riders over 12 months commencing on January 1, 2019. Settlement variances pertaining to years subsequent to 2017 have yet to be applied for disposition.

m) Development charges

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

The excess expansion deposits were recorded as a regulatory balance on the consolidated balance sheets, with a corresponding offset in net movements in regulatory balances. LDC is seeking disposition of the balance in the 2020-2024 rate application [note 3[a]]. The timing of disposition of the balance is currently unknown.

n) Deferred taxes

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

The amounts reclassified under IFRS 14 include the deferred tax asset related to regulatory balances of \$1.1 million as at December 31, 2018 [December 31, 2017 - \$34.9 million deferred tax liability], and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$1.0 million as at December 31, 2018 [December 31, 2017 - \$8.5 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was \$4.0 million as at December 31, 2018 [December 31, 2017 - \$32.4 million].

o) Tax-related variance accounts

This regulatory credit balance arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates. In the 2015 – 2019 CIR decision and rate order, the OEB approved disposition of the balance over 10-34 months commencing on March 1, 2016.

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9. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ["Revolving Credit Facility"], pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On August 23, 2018, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2022 to October 10, 2023. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a commercial paper program allowing up to \$600.0 million of unsecured short-term promissory notes ["Commercial Paper Program"] to be issued in various maturities of no more than one year. The Commercial Paper Program is backstopped by the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to:

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

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

	Revolving Credit Facility Limit \$	Revolving Credit Facility Borrowings \$	Commercial Paper Outstanding \$	Revolving Credit Facility Availability \$
December 31, 2018	800.0	—	113.0	687.0
December 31, 2017	800.0	—	159.0	641.0

For the year ended December 31, 2018, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$239.6 million [2017 - \$210.3 million] with a weighted average interest rate of 1.68% [2017 - 0.93%].

As at December 31, 2018, \$12.6 million had been drawn under the Working Capital Facility [December 31, 2017 - \$11.7 million] and \$33.3 million of letters of credit had been issued against the Prudential Facility [December 31, 2017 - \$38.4 million].

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10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2018 \$	2017 \$
Trade payables	335.1	325.1
Accrued liabilities	130.1	133.2
Due to related parties [note 22]	40.5	40.1
Accrued interest	17.6	15.9
Other	2.1	2.0
	525.4	516.3

11. DEFERRED REVENUE

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

	2018 \$	2017 \$
Capital contributions, beginning of year	188.2	143.6
Capital contributions received	106.5	50.8
Amortization	(5.3)	(4.7)
Other	(0.8)	(1.5)
Capital contributions, end of year	288.6	188.2
Other, beginning of year	1.7	1.8
Other received	8.4	8.1
Revenue recognized	(7.7)	(8.2)
Other, end of year	2.4	1.7
Total deferred revenue	291.0	189.9
Less: Current portion of deferred revenue relating to:		
Capital contributions	10.5	9.0
Other	2.4	1.7
Current portion of deferred revenue	12.9	10.7
Non-current portion of deferred revenue	278.1	179.2

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12. DEBENTURES

Debentures consist of the following:

	2018 \$	2017 \$
Senior unsecured debentures		
Series 3 – 4.49% due November 12, 2019	250.0	250.0
Series 6 – 5.54% due May 21, 2040	200.0	200.0
Series 7 – 3.54% due November 18, 2021	300.0	300.0
Series 8 – 2.91% due April 10, 2023	250.0	250.0
Series 9 – 3.96% due April 9, 2063	245.0	245.0
Series 10 – 4.08% due September 16, 2044	200.0	200.0
Series 11 – 3.55% due July 28, 2045	200.0	200.0
Series 12 – 2.52% due August 25, 2026	200.0	200.0
Series 13 – 3.485% due February 28, 2048	200.0	200.0
Total debentures	2,045.0	2,045.0
Less: Unamortized debt issuance costs	9.4	10.2
Unamortized discount/premium	0.7	0.8
Current portion of debentures	249.8	—
Long-term portion of debentures	1,785.1	2,034.0

All debentures of the Corporation rank equally.

The Corporation filed a base shelf prospectus dated May 8, 2017 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to \$1.0 billion during the 25-month period following the date of the prospectus.

On November 14, 2017, the Corporation issued \$200.0 million senior unsecured debentures at a rate of 3.485% ["Series 13"]. The Series 13 debentures due on February 28, 2048 were priced at \$999.29 per \$1,000 principal amount and bear interest payable semi-annually in arrears. The net proceeds were used to repay certain existing indebtedness and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 13 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2017 and are amortized to finance costs using the effective interest method.

The Corporation's Series 2 debentures matured and were repaid on November 14, 2017.

The Corporation may redeem all or part of its outstanding debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price agreed upon with the holder of the debentures being purchased. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

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13. EMPLOYEE FUTURE BENEFITS

Pension

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2018, the OMERS plan was 96.0% funded [December 31, 2017 - 94.0%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2018, the Corporation's contributions were \$18.1 million [2017 - \$17.6 million], representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately \$20.1 million to the OMERS plan in 2019.

Post-employment benefits other than pension

a) Benefit obligation

	2018 \$	2017 \$
Balance, beginning of year	313.0	280.5
Current service cost	4.8	4.1
Interest cost	11.0	11.2
Benefits paid	(10.9)	(11.0)
Experience loss (gain) ⁽¹⁾	(8.2)	1.9
Actuarial gain arising from changes in demographic assumptions ⁽¹⁾	(22.4)	—
Actuarial loss (gain) arising from changes in financial assumptions ⁽¹⁾	(11.4)	26.3
Balance, end of year	275.9	313.0

⁽¹⁾ Actuarial loss (gain) on accumulated sick leave credits of (\$4.8) million [2017 - \$3.1 million] is recognized in benefit cost [note 13[c]] and actuarial loss (gain) on medical, dental and life insurance benefits of (\$37.2) million [2017 - \$25.1 million] is recognized in OCI [note 13[d]].

b) Amounts recognized in regulatory balances

As at December 31, 2018, the amount recognized in regulatory balances related to net actuarial loss was \$48.1 million [December 31, 2017 - \$85.3 million] [note 8[a]].

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c) Benefit cost recognized

	2018 \$	2017 \$
Current service cost	4.8	4.1
Interest cost	11.0	11.2
Actuarial loss (gain) on other employee benefits [note 13[a]]	(4.8)	3.1
Benefit cost	11.0	18.4
Capitalized to PP&E and intangible assets	4.8	8.1
Charged to operating expenses	6.2	10.3

d) Amounts recognized in OCI

	2018 \$	2017 \$
Actuarial loss (gain) [note 13[a]]	(37.2)	25.1
Income tax expense (recovery) in OCI [note 20]	9.9	(6.7)
Remeasurements of post-employment benefits, net of tax	(27.3)	18.4
Net movements in regulatory balances related to OCI, net of tax	27.3	(18.4)
OCI, net of tax	—	—

e) Significant assumptions

	2018	2017
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	3.75	3.50
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	4.00	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	5.00	5.00
For other retirements	5.00	5.50
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	5.00	5.00
For other retirements	5.00	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	2015	2015
For other retirements	2018	2018

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f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2018 was 16.7 [2017 – 16.7]. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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

	Change in assumption	2018 \$	2017 \$
Benefit obligation		275.9	313.0
Discount rate	1% ↑	(41.3)	(46.8)
	1% ↓	53.1	60.2
Medical and dental cost trend rate	1% ↑	35.7	40.2
	1% ↓	(31.9)	(36.0)

14. CAPITAL MANAGEMENT

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system of LDC;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses capital debt markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2018, the Corporation's definition of capital included equity, borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2017. As at December 31, 2018, equity amounted to \$1,833.5 million [December 31, 2017 - \$1,760.4 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, amounted to \$2,162.0 million [December 31, 2017 - \$2,206.2 million].

The Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization as defined in the agreements. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt agreements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2018 and December 31, 2017, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

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15. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2018 and December 31, 2017, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable approximated their carrying amounts due to the short maturity of these instruments [note 25[k]]. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

The carrying amounts and fair values of the Corporation's debentures consist of the following:

	2018 \$		2017 \$	
	Carrying amount	Fair value ⁽¹⁾	Carrying amount	Fair value ⁽¹⁾
Senior unsecured debentures				
Series 3 – 4.49% due November 12, 2019	249.8	254.5	249.6	260.6
Series 6 – 5.54% due May 21, 2040	198.7	249.5	198.7	264.2
Series 7 – 3.54% due November 18, 2021	299.4	307.6	299.1	313.9
Series 8 – 2.91% due April 10, 2023	249.3	250.7	249.2	255.5
Series 9 – 3.96% due April 9, 2063	243.4	246.4	243.3	266.4
Series 10 – 4.08% due September 16, 2044	198.4	207.9	198.4	221.0
Series 11 – 3.55% due July 28, 2045	198.4	190.6	198.3	202.9
Series 12 – 2.52% due August 25, 2026	199.0	192.3	198.9	196.2
Series 13 – 3.485% due February 28, 2048	198.5	187.8	198.5	200.7
	2,034.9	2,087.3	2,034.0	2,181.4

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

b) Financial risks

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

Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis. The credit risk related to cash and cash equivalents is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

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The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation is subject to credit risk with respect to customer non-payment of electricity bills. As at December 31, 2018, LDC had approximately 772,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2018, LDC held security deposits in the amount of \$79.8 million [December 31, 2017 - \$58.2 million], of which \$51.9 million [December 31, 2017 - \$29.8 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. The Corporation's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2018, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2018 and December 31, 2017.

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

	2018 \$	2017 \$
Accounts receivable (net of loss allowance)		
Outstanding for not more than 30 days	188.6	178.6
Outstanding for more than 30 days and not more than 120 days	21.5	33.8
Outstanding for more than 120 days	5.6	5.3
Total accounts receivable	215.7	217.7
Unbilled revenue (net of loss allowance)	282.6	278.3
Total accounts receivable and unbilled revenue	498.3	496.0

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered in conjunction with accounts receivable and is included in the loss allowance as at December 31, 2018 and December 31, 2017.

The Corporation has a broad base of customers. As at December 31, 2018 and December 31, 2017, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional loss allowance was required for these balances.

Reconciliation between the opening and closing loss allowance balances for accounts receivable and unbilled revenue is as follows:

	2018 \$	2017 \$
Balance, beginning of year	(10.2)	(9.8)
Transitional adjustment [note 25[q]]	(0.3)	—
Loss allowance	(4.5)	(6.2)
Write-offs	4.4	6.0
Recoveries	(0.2)	(0.2)
Balance, end of year	(10.8)	(10.2)

c) Market risks

Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations [note 13[f]]. The Corporation is also exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program [note 9] and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

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As at December 31, 2018, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$2.1 million to annual finance costs.

Liquidity risk

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

Liquidity risks associated with financial commitments are as follows:

	2018					
	Due within 1 year	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Due after 5 years
	\$	\$	\$	\$	\$	\$
Working Capital Facility	12.6	—	—	—	—	—
Commercial paper ⁽¹⁾	113.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	507.8	—	—	—	—	—
Obligations under leases	0.3	0.3	0.3	0.2	0.1	0.1
Senior unsecured debentures						
Series 3 – 4.49% due November 12, 2019	250.0	—	—	—	—	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	300.0	—	—	—
Series 8 – 2.91% due April 10, 2023	—	—	—	—	250.0	—
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	245.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Series 12 – 2.52% due August 25, 2026	—	—	—	—	—	200.0
Series 13 – 3.485% due February 28, 2048	—	—	—	—	—	200.0
Interest payments on debentures	77.2	65.9	66.0	55.3	51.7	1,079.5
	960.9	66.2	366.3	55.5	301.8	2,324.6

⁽¹⁾ The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.

⁽²⁾ Accounts payable and accrued liabilities exclude \$17.6 million of accrued interest on debentures included within "Interest payments on debentures".

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Foreign exchange risk

As at December 31, 2018, the Corporation had limited exposure to the changing values of foreign currencies.

While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the Consolidated Financial Statements.

16. SHARE CAPITAL

Share capital consists of the following:

	2018 \$	2017 \$
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,200 common shares, of which all were fully paid.	817.8	817.8

Dividends

The Shareholder Direction adopted by the City with respect to the Corporation provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to credit rating and dividends.

Subject to applicable law, the Shareholder Direction provides that the Corporation will pay dividends to the City each year amounting to 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year. The dividend shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

For the year ended December 31, 2018, the Board of Directors of the Corporation declared and the Corporation paid dividends to the City totalling \$93.9 million [2017 - \$75.0 million].

On March 6, 2019, the Board of Directors of the Corporation declared a quarterly dividend in the amount of \$25.1 million, payable to the City by March 29, 2019.

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17. REVENUES

Revenues consist of the following:

	2018 \$	2017 \$
		Restated [note 25[q]]
Revenue from contracts with customers		
Energy sales	2,704.1	2,810.2
Distribution revenue	674.2	724.2
Ancillary services revenue	21.3	19.7
Street lighting services	21.1	18.9
Pole and duct rentals	15.7	15.8
Other regulatory service charges	11.7	13.3
Miscellaneous	9.0	13.7
Revenue from other sources		
Capital contributions	5.3	4.7
CDM mid-term incentive [note 3[c]]	2.7	12.2
Other	7.6	9.4
	3,472.7	3,642.1

Energy sales and Distribution revenue by customer class are as follows:

	2018 \$	2017 \$
		Restated [note 25[q]]
Residential service ⁽¹⁾	815.4	902.3
General service ⁽²⁾	2,337.3	2,394.5
Large users ⁽³⁾	225.6	237.6
Total energy sales and distribution revenue	3,378.3	3,534.4

⁽¹⁾“Residential Service” means a service that is for domestic or household purposes, including single family or individually metered multifamily 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 less than 5,000 kW 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 greater averaged over a twelve-month period.

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18. OPERATING EXPENSES

Operating expenses consist of the following:

	2018 \$	2017 \$
Salaries and benefits	231.5	226.5
External services	151.5	138.6
Materials and supplies	22.7	21.6
Other support costs ⁽¹⁾	20.4	22.3
Less: Capitalized costs	(118.6)	(116.0)
	307.5	293.0

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

For the year ended December 31, 2018, the Corporation recognized operating expenses of \$11.7 million related to materials and supplies used to service electricity distribution assets [2017 - \$13.0 million].

19. FINANCE COSTS

Finance costs consist of the following:

	2018 \$	2017 \$
Interest income	(1.4)	(0.2)
Interest expense		
Interest on long-term debt ⁽¹⁾	78.2	83.2
Interest on short-term debt	5.8	3.7
Other interest	0.9	0.8
Capitalized borrowing costs	(8.9)	(9.8)
	74.6	77.7

⁽¹⁾Includes amortization of debt issuance costs, discounts and premiums.

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20. INCOME TAXES

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

	2018 \$	2017 \$
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	314.6	201.1
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected income tax expense	83.4	53.3
Non-taxable amounts	(9.4)	(10.0)
Gain on disposal	8.0	1.3
Other	0.4	0.1
Income tax expense	82.4	44.7
Effective tax rate	26.2%	22.2%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax ⁽¹⁾	202.7	188.0
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected income tax expense	53.7	49.8
Temporary differences recoverable in future rates	(25.5)	(17.4)
Gain on disposal	8.0	1.3
Other	(0.8)	(2.2)
Income tax expense and income tax recorded in net movements in regulatory balances	35.4	31.5
Effective tax rate	17.5%	16.8%

⁽¹⁾Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

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

	2018 \$	2017 \$
Income tax expense	82.4	44.7
Income tax recorded in net movements in regulatory balances	(47.0)	(13.2)
Income tax expense and income tax recorded in net movements in regulatory balances	35.4	31.5
Income tax expense (recovery) in OCI [note 14[d]]	9.9	(6.7)
Income tax expense (recovery) in OCI recorded in net movements in regulatory balances	(9.9)	6.7
Income tax expense in OCI	—	—

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

	2018 \$	2017 \$
Current tax expense		
Current year	36.1	32.5
Adjustment for tax positions taken in prior periods	(0.6)	(1.1)
	35.5	31.4
Deferred tax expense		
Origination and reversal of temporary differences	(0.1)	0.1
Income tax expense and income tax recorded in net movements in regulatory balances	35.4	31.5

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Deferred tax assets consist of the following:

	Net balance January 1, 2018 \$	Recognized in net income \$	Recognized in OCI \$	Net balance December 31, 2018 \$
PP&E and intangible assets	(14.9)	(31.0)	—	(45.9)
Post-employment benefits	82.9	—	(9.9)	73.0
Other taxable temporary differences	(11.0)	(15.8)	—	(26.8)
	57.0	(46.8)	(9.9)	0.3

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

As at December 31, 2018, the Corporation had accumulated net capital losses of \$18.7 million [December 31, 2017 - \$18.7 million], which are available to offset capital gains in future years. As at December 31, 2018, the Corporation fully utilized the accumulated non-capital losses for income tax purposes [December 31, 2017 - \$1.7 million accumulated non-capital losses were available to offset net income in future years before expiring].

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom.

	2018 \$	2017 \$
Deductible temporary differences	7.3	7.4
Net capital losses	5.0	5.0
Non-capital losses	—	0.4
	12.3	12.8

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21. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2018 \$	2017 \$
Accounts receivable	2.6	12.1
Unbilled revenue	(5.2)	42.2
Materials and supplies	1.2	0.4
Other current assets	2.0	0.8
Accounts payable and accrued liabilities	6.2	(6.0)
Income tax payable	(7.7)	4.7
Deferred revenue	2.2	5.6
Deferred conservation credit	(1.1)	3.8
Other current liabilities	(1.2)	(1.6)
	(1.0)	62.0

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

	2018 \$	2017 \$
Purchase of PP&E, cash basis	439.8	440.0
Net change in accruals related to PP&E	20.3	9.9
Other	2.6	1.6
Total additions to PP&E	462.7	451.5
Purchase of intangible assets, cash basis	54.5	93.4
Net change in accruals related to intangible assets	(5.9)	8.0
Total additions to intangible assets	48.6	101.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Summary of changes in liabilities arising from financing activities:

	2017 \$	Cash flows ⁽¹⁾ \$	Non-cash changes \$		2018 \$
			Foreign exchange	Other	
Year ended December 31					
Commercial paper	159.0	(46.0)	—	—	113.0
Dividends payable	—	(93.9)	—	93.9	—
Debentures <i>[note 12]</i>	2,034.0	—	—	0.9	2,034.9
Accrued interest ⁽²⁾	15.9	(79.0)	—	80.7	17.6
Lease liability ⁽³⁾	1.5	(1.8)	—	1.6	1.3
	2,210.4	(220.7)	—	177.1	2,166.8

	2016 \$	Cash flows ⁽¹⁾ \$	Non-cash changes \$		2017 \$
			Foreign exchange	Other	
Year ended December 31					
Commercial paper	261.0	(102.0)	—	—	159.0
Dividends payable	—	(75.0)	—	75.0	—
Debentures <i>[note 12]</i>	2,084.6	(51.5)	—	0.9	2,034.0
Accrued interest ⁽²⁾	16.6	(86.9)	—	86.2	15.9
Lease liability ⁽³⁾	4.6	(3.0)	(0.1)	—	1.5
	2,366.8	(318.4)	(0.1)	162.1	2,210.4

⁽¹⁾ Cash inflows and cash outflows arising from commercial paper borrowings and debentures are presented on a net basis.

⁽²⁾ Included within accounts payable and accrued liabilities *[note 10]*.

⁽³⁾ Included within other liabilities.

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22. RELATED PARTY TRANSACTIONS

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties.

Summary of Transactions with Related Parties	2018 \$	2017 \$
Revenues	276.7	283.3
Operating expenses and capital expenditures	18.3	22.2
Dividends declared and paid	93.9	75.0

Summary of Amounts Due to/from Related Parties	2018 \$	2017 \$
Accounts receivable	9.8	13.8
Unbilled revenue	23.9	26.3
Accounts payable and accrued liabilities	40.5	40.1
Customer deposits	17.3	15.7
Deferred revenue	2.5	1.9

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City [note 16].

Accounts receivable represent receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue represents receivables from the City mainly related to electricity provided and not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects. Deferred revenue represents amounts received from the City primarily for the construction of electricity distribution assets.

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

	2018 \$	2017 \$
Short-term employee benefits	4.8	4.6
Post-employment benefits	1.0	1.1
Termination benefits	1.9	—
	7.7	5.7

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23. COMMITMENTS

Capital projects

As at December 31, 2018, the future minimum payments for capital projects and other commitments were as follows:

	Capital projects ⁽¹⁾ and other \$
Less than one year	25.4
Between one and five years	10.1
Total amount of future minimum payments⁽²⁾	35.5

⁽¹⁾ Mainly commitments for construction services.

⁽²⁾ Refer to note 15 for financial commitments excluded from the table above.

Leases

As at December 31, 2018, the contractual undiscounted cash flows related to leases were as follows:

	2018 \$		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	0.3	—	0.3
Between one and five years	1.0	0.1	0.9
More than five years	0.1	—	0.1
	1.4	0.1	1.3
Current portion included within other liabilities			0.3
Non-current portion included within other liabilities			1.0

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24. CONTINGENCIES

Legal Proceedings

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

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14.

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize

regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

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

regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

c) Cash and cash equivalents

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

d) Accounts receivable and unbilled revenue

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

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default

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or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, adjusted for forward-looking factors specific to the current economic and credit conditions.

Effective, January 1, 2018, the Corporation measures the loss allowance at an amount equal to the lifetime expected credit losses ["ECL"] for all trade receivables or contract assets that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by the Corporation to measure the lifetime ECL of accounts receivable from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures in different customer classes.

e) Materials and supplies

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

f) Property, plant and equipment

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

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

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Other capital assets	4.0% to 25.0%
Right-of-use assets	1.0% to 21.1%

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying assets. Right-of-use assets are recognized for contracts that are, or contain, leases. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

g) Intangible assets

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

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

Computer software	10.0% to 25.0%
Contributions	4.0%

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

h) Impairment of non-financial assets

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into

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the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

i) Capitalized borrowing costs

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

j) Revenue recognition

The Corporation assesses each contract with the customer to identify the performance obligation. Revenue is recognized when the control of the goods or services has been transferred to the customer at a point of time or

over time. The transaction price and the payment terms are agreed upon in the contract between the Corporation and the customer.

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. The performance obligation is satisfied over time when the electricity is simultaneously received and consumed by the customer. The majority of billings cycle and payment terms are on a monthly basis. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

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

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

Other revenue includes revenue from services ancillary to the electricity distribution, delivery of street lighting services, pole and duct rentals, other regulatory service charges, capital contributions and CDM programs.

Capital contributions received in advance from electricity customers and developers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"].

Revenues and costs associated with CDM programs are presented using the net basis of accounting and recorded in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

The Corporation has not incurred any additional costs to obtain or fulfil contracts with its customers nor any kind of variable considerations from the above mentioned revenue generating activities.

k) Financial instruments

All financial assets and financial liabilities are classified as "Amortized cost". These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets.

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The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

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

- Cash and cash equivalents are classified as "Amortized cost" and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Accounts receivable and unbilled revenue are classified as "Amortized cost" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Working capital facility, revolving credit facility and commercial paper are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation's revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.
- Accounts payable are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.

- Customer deposits are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.
- Obligations under leases are classified as "Amortized cost" and are initially measured at fair value, or the present value of the minimum lease payments, if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.
- Debentures are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments [note 15[a]]. Debt issuance costs incurred in connection with the Corporation's debenture offerings are capitalized as part of the carrying amount of the debentures and amortized over the term of the related debentures, using the effective interest method, and the amortization is included in finance costs.

l) Fair value measurements

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how

market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

m) Employee benefits

(i) Short-term employee benefits

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

(ii) Multi-employer pension plan

The Corporation's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and

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share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

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

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

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2018.

n) Customer deposits

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

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

o) Income taxes

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

The Corporation uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Corporation recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax

positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

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

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

p) Use of judgments and estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances,

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the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance.

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

- Note 25[b] – Recognition and measurement of regulatory balances;
- Note 25[j] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 25[f] and 25[g] – Determination of useful lives of depreciable assets;
- Notes 25[m] and 13 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 25[o] and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 24 – Recognition and measurement of provisions and contingencies.

q) Changes in accounting policies

Effective January 1, 2018, the Corporation has adopted new IFRS standards and applied the following new accounting policies in preparing the Consolidated Financial Statements:

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 effective for annual periods beginning on or after January 1, 2018, which replaced existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time.

The Corporation adopted IFRS 15 using the modified retrospective approach with the following practical expedients:

- The Corporation did not restate completed contracts that began and ended in the same annual reporting period or completed contracts at the beginning of the earliest period presented; and
- The Corporation did not disclose the amount of consideration allocated to the remaining performance obligations nor did it provide an explanation of when the Corporation expects to recognize that amount as revenue for comparative periods presented in the Consolidated Financial Statements.

The Corporation recognizes revenue in the amount that it has a right to invoice when the amount directly corresponds with the value of the Corporation's performance to date.

The adoption of IFRS 15 resulted in a \$207.6 million income statement reclassification between energy sales and energy purchases for the comparative year ended December 31, 2017, and had no impact to opening retained earnings as at January 1, 2018. The Corporation updated the impact previously disclosed in the 2017 audited consolidated financial statements for the year ended December 31, 2017 to include the additional

income statement reclassification between energy sales and energy purchases for the comparative year ended December 31, 2017.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"] effective for annual periods beginning on or after January 1, 2018, which replaced IAS 39 [*Financial Instruments: Recognition and Measurement*] ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Corporation adopted IFRS 9 retrospectively on January 1, 2018. Despite the retrospective adoption of IFRS 9, the Corporation is not required, upon initial application, to restate comparatives.

i) Classification and measurement of financial instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies related to financial instruments. The impact of IFRS 9 on the classification and measurement of financial instruments is set out below.

Financial Instrument	IAS 39 Measurement basis	IFRS 9 Measurement basis
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Unbilled revenue	Loans and receivables	Amortized cost
Working capital facility	Financial liability – amortized cost	Amortized cost
Commercial paper	Financial liability – amortized cost	Amortized cost
Customer deposits	Financial liability – amortized cost	Amortized cost
Leases	Financial liability – amortized cost	Amortized cost
Debentures	Financial liability – amortized cost	Amortized cost
Accounts payable	Financial liability – amortized cost	Amortized cost

Financial Instrument	IAS 39 Carrying amount as at January 1, 2018 \$	IFRS 9 Carrying amount as at January 1, 2018 \$
Cash and cash equivalents	—	—
Accounts receivable	217.7	218.3
Unbilled revenue	278.3	277.4
Working capital facility	11.7	11.7
Commercial paper	159.0	159.0
Customer deposits	58.1	58.1
Leases ⁽¹⁾	3.1	3.1
Debentures	2,034.0	2,034.0
Accounts payable	325.1	325.1

⁽¹⁾ Includes transitional adjustment for the recognition of new leases upon adoption of IFRS 16 on January 1, 2018 [note 25[q]].

ii) Impairment of financial assets

Loss allowances for accounts receivable and unbilled revenue are always measured at an amount equal to lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

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When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience, adjusted for forward-looking factors specific to the current credit environment.

The Corporation assumes that credit risk on a financial asset has increased if it is more than 30 days past due date.

The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation, such as realising security (if any is held).

If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Leases

In January 2016, the IASB issued IFRS 16, which replaced IAS 17 *Leases* ["IAS 17"] and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the previous distinction between finance and operating leases. IFRS 16 requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. Lessor accounting remained substantially unchanged.

Although IFRS 16 is effective for annual periods beginning on or after January 1, 2019, the Corporation early adopted IFRS 16 on January 1, 2018 using the modified retrospective approach, in accordance with the transitional provisions in IFRS 16. The comparative information has not been restated and continues to be

reported under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*. In applying this approach, the Corporation elected to use practical expedients that allowed it to exclude the initial direct costs from the measurement of the right-of-use assets at the date of the initial application, and to use hindsight in determining the lease term. As a practical expedient permitted by IFRS 16, the Corporation applied IFRS 16 to existing contracts that were previously identified as leases applying IAS 17 and IFRIC 4, and did not apply IFRS 16 to contracts that were not previously identified as containing a lease.

The adoption of IFRS 16 resulted in an increase of \$1.6 million in total assets and total liabilities each for recognition of right-of-use assets and lease liabilities, respectively, and had no impact to opening retained earnings as at January 1, 2018.

The adoption of IFRS 15, IFRS 9 and IFRS 16 resulted in no changes to the consolidated balance sheet as at December 31, 2017 or consolidated statements of cash flows for the year ended December 31, 2017.

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Transition to IFRS 15

CONSOLIDATED STATEMENTS OF INCOME	Note	December 31, 2017	Transitional adjustments	December 31, 2017
		\$	\$	\$
				Restated
Revenues				
Energy sales	A	3,017.8	(207.6)	2,810.2
Distribution revenue		724.2	—	724.2
Other		107.7	—	107.7
		3,849.7	(207.6)	3,642.1
Expenses				
Energy purchases	A	3,063.5	(207.6)	2,855.9
Operating expenses		293.0	—	293.0
Depreciation and amortization		224.2	—	224.2
		3,580.7	(207.6)	3,373.1
Finance costs		(77.7)	—	(77.7)
Gain on disposals of property, plant and equipment		9.8	—	9.8
Income before income taxes		201.1	—	201.1
Income tax expense		(44.7)	—	(44.7)
Net income		156.4	—	156.4
Net movements in regulatory balances		(13.1)	—	(13.1)
Net movements in regulatory balances arising from deferred tax assets		13.2	—	13.2
Net income after net movements in regulatory balances		156.5	—	156.5

A. Energy sales and energy purchases

Energy sales are based on the cost and usage of electricity by the customer. For Regulated Price Plan ["RPP"] customers, the OEB has set a fixed rate which should approximate the cost of energy purchased. The Corporation recovers the difference between amounts billed to RPP customers for electricity charges and the cost to purchase the energy from the IESO ["RPP Settlement Amount"].

In 2017, the Government of Ontario announced the Ontario's Fair Hydro Plan, which included a number of initiatives aimed at decreasing electricity bills. For eligible non-RPP customers, the bill reduction was implemented through a reduction in the Global Adjustment charges that they would have otherwise paid ["GA Modifier"]. The Corporation recovers the GA Modifier from the IESO.

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The RPP Settlement Amount and the GA Modifier will be recorded differently under IFRS 15 than they were under IAS 18. Under IAS 18, energy sales were recorded at the fair value of the consideration received or receivable, including amounts received from the electricity customers and the IESO. Consequently, both the RPP Settlement Amount and the GA Modifier were recorded as energy sales. Under IFRS 15, revenue is recognized at the transaction price as per the contract with electricity customers only, and would therefore exclude amounts that are received or receivable from the IESO. As such, the RPP Settlement Amount and the GA Modifier received or receivable from IESO will be recorded as a reduction/addition from/to energy purchases instead of energy sales.

Transition to IFRS 9

Reconciliation of loss allowance balance from IAS 39 to IFRS 9:

	Note	Loss allowance under IAS 39 as at December 31, 2017 \$	Transitional adjustments \$	Loss allowance under IFRS 9 as at January 1, 2018 \$
ASSETS				
Current				
Loss allowance	A	(10.2)	(0.3)	(10.5)

A. Impairment of financial assets

Under IAS 39, accounts receivable would first be provisioned for when it is deemed that the collection is unlikely. Upon adoption of IFRS 9, the Corporation measures the loss allowance at an amount equal to the lifetime ECL for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and do not contain a significant financing component. The Corporation uses a provision matrix to measure the lifetime ECL of accounts receivable from individual customers which accounts for exposures in different customer classes. The revised impairment allowance resulted in a restatement of opening retained earnings as at January 1, 2018.

Transition to IFRS 16

The Corporation determined the cumulative effect of applying IFRS 16 on January 1, 2018 to be \$nil impact in opening retained earnings and recorded \$1.6 million as right-of-use assets and \$1.6 million as lease liabilities.

The office space leases were recognized as operating leases under IAS 17, and the corresponding lease payments were recorded as expenses on a straight-line basis over the lease term. Upon transition, the Corporation recognized right-of-use assets and lease liabilities for these leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at January 1, 2018. The right-of-use assets were measured at an amount equal to the lease liabilities.

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	Operating leases as at December 31, 2017 \$	Transitional adjustments \$	Leases as at January 1, 2018 \$
ASSETS			
Current			
Property, plant and equipment	—	1.6	1.6
Total assets	—	1.6	1.6
LIABILITIES AND EQUITY			
Current			
Other liabilities	—	0.3	0.3
Total current liabilities	—	0.3	0.3
Other liabilities	—	1.3	1.3
Total liabilities	—	1.6	1.6

The weighted average incremental borrowing rate applied to the lease liabilities was 1.92%.

r) Future accounting pronouncements

A number of new interpretations and amendments to existing standards have been issued but are not yet effective for the year ended December 31, 2018, and have not been applied in preparing the Consolidated Financial Statements.

IFRIC 23 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in situations in which there is uncertainty over income tax treatments. The interpretation is applicable for annual reporting periods beginning on or after January 1, 2019.

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Annual Improvements to IFRS Standards 2015-2017 Cycle

On December 12, 2017, as part of its annual improvements process, the IASB issued narrow-scope amendments to the following standards:

IFRS 3 *Business Combinations* – the amendments clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business.

IFRS 11 *Joint Arrangements* – the amendments clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure previously held interests in that business.

IAS 12 *Income Taxes* – the amendments clarify that an entity recognizes income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend.

IAS 23 *Borrowing Costs* – the amendments clarify that an entity treats as general borrowings any borrowings made specifically to obtain a qualifying asset that remain outstanding when the asset is ready for its intended use or sale.

The amendments are effective for annual reporting periods beginning on or after January 1, 2019.

Definition of Material (Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 – the amendments clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation’s consolidated financial statements, if any.



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