Attachment 3

EX7.10

TORONTO HYDRO® Corporation

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2018

March 21, 2019

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PART 1 - FORWARD-LOOKING INFORMATION

Certain information included in this AIF 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 this AIF includes, but is not limited to, the statements regarding: anticipated capacity to be provided by Copeland Station, the expected completion date of Copeland Station and the expected capital expenditures required to complete Copeland Station as described in the sections entitled "LDC's Electricity Distribution System" and "Asset Management Risk"; wage increases for employees as described in the section entitled "Employees"; the effect of changes in energy consumption on future revenue as described in the section entitled "Seasonal Effects"; electricity distribution rates and rate applications as described in the section entitled "Rate Applications"; the plans to meet CDM targets and to receive reimbursement and/or cost efficiency incentives from the IESO as described in the section entitled "Conservation and Demand Management"; the effects of the Corporation or a subsidiary ceasing to be exempt from tax under the ITA and the TA and the payment of transfer taxes and the prescribed transfer tax rate for any future transfer of interest by the Corporation and its subsidiaries, or any changes to tax rates, as described in the section entitled "Tax Regime"; the Corporation's reliance on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures as described in the section 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 section entitled "Market and Credit Risk"; the Corporation's plans to attract, 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 section entitled "Human Capital Risk"; the expectation that approximately 33% of Toronto Hydro's electricity distribution assets have already exceeded or will reach the end of their expected useful lives by 2025 as described in the section entitled "Asset Management Risk"; the expectation that none of the legal actions and claims as described further in the section entitled "Legal Proceedings" would have a material adverse effect on the Corporation and the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled "Legal Proceedings".

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, 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 Toronto Hydro'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 Toronto Hydro's employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro's activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives that can potentially limit Toronto Hydro'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 attract, 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 Toronto Hydro 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 Part 8 "Risk Factors" in this AIF.

All of the forward-looking information included in this AIF is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Factors" section of this AIF. 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 AIF or as of the date specified in this AIF, 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.

PART 2 - GLOSSARY OF DEFINED TERMS

In addition to terms defined elsewhere in this AIF, the below defined terms shall have the following meanings:

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

"AIF" refers to the Corporation's Annual Information Form for the year ended December 31, 2018.

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

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

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

"Capital Assets" refers to the sum of property, plant and equipment and intangible assets, net of accumulated depreciation and amortization. See note 6 and note 7 to the Consolidated Financial Statements.

"CDM" refers to conservation and demand management.

"CDS" refers to CDS Clearing and Depository Services Inc.

"CEA" refers to the Canadian Electricity Association.

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

"CFO" refers to the Executive Vice-President and Chief Financial Officer.

"CIR" refers to Custom Incentive Rate-setting.

"City" refers to the city incorporated under the *City of Toronto Act, 1997* (Ontario), as amended.

"City Council" refers to Toronto City Council.

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

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

"Consolidated Financial Statements" refers to the comparative audited consolidated financial statements of the Corporation together with the auditors' report thereon and the notes thereto as at and for the years ended December 31, 2018 and December 31, 2017, a copy of which is available on the SEDAR website at www.sedar.com.

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

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

"Copeland Station" refers to the Clare R. Copeland transformer station, formerly called "Bremner Station".

"Corporation" refers to Toronto Hydro Corporation.

"CPAB" refers to Canadian Public Accountability Board.

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

"CUPE One" refers to the Canadian Union of Public Employees, Local One.

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

"DBRS" refers to DBRS Limited.

"Debentures" has the meaning set forth under section 9.2 under the heading "Debentures".

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

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

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

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

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

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

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

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

"ERM" refers to Enterprise Risk Management.

"ERP" refers to Enterprise Resource Planning.

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

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

"Hydro One" refers to Hydro One Limited, Hydro One Inc. or Hydro One Networks Inc. and their respective subsidiaries, as appropriate.

"ICD.D" refers to the designation granted by the Institute of Corporate Directors, through the Directors Education Program jointly developed by the Institute of Corporate Directors and the University of Toronto's Rotman School of Management.

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

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

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

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

"ISO" refers to the International Organization for Standardization.

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

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

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

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

"Management's Discussion and Analysis" or "MD&A" refers to Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation for the year ended December 31, 2018, a copy of which is available on the SEDAR website at www.sedar.com.

"MED" refers to Major Event Days as defined by IEEE Std 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices.

"MEU" refers to a Municipal Electricity Utility in the Province of Ontario.

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

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

"Named Executive Officer" or **"NEO"** means, collectively, the Corporation's CEO, the CFO, and/or a person serving in either of those capacities during the year and the three most highly compensated executive officers of Toronto Hydro who were serving as executive officers as at December 31, 2018, and each individual who would be amongst the three most highly compensated executive officers for Toronto Hydro, but for the fact that such individual was not an executive officer on December 31, 2018, if any.

"Oakville Hydro" refers to Oakville Hydro Electricity Distribution Inc.

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

"OEB" refers to the Ontario Energy Board.

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

"OEFC" refers to the Ontario Electricity Financial Corporation.

"OFHA" refers to the *Fair Hydro Act, 2017* (Ontario).

"OFHP" refers to Ontario's Fair Hydro Plan.

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

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

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

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

"OPG" refers to Ontario Power Generation Inc.

"OREC" refers to *Ontario Rebate for Electricity Consumers Act*, 2016 (Ontario).

"OSC" refers to the Ontario Securities Commission.

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

"PILs" refers to the Payments In Lieu of Corporate Taxes regime contained in the Electricity Act pursuant to which MEUs that are exempt from tax under the ITA and the TA are required to make, for each taxation year, payments in lieu of corporate taxes to the OEFC. See note 25(o) and note 20 to the Consolidated Financial Statements.

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

"Province" refers to the Province of Ontario.

"Prudential Facility" refers to a $75.0 million demand facility that the Corporation entered into with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO. See section 9.3 under the heading "Credit Facilities".

"PWU" refers to the Power Workers' Union.

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

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

"**Revolving Credit Facility**" refers to the Corporation's credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility. See section 9.3 under the heading "Credit Facilities".

"S&P" refers to Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Working Capital Facility" refers to a $20.0 million demand facility the Corporation entered into with a Canadian chartered bank for the purpose of working capital management. See section 9.3 under the heading "Credit Facilities".

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

PART 3 - CORPORATE STRUCTURE

3.1 Name, Address, Incorporation

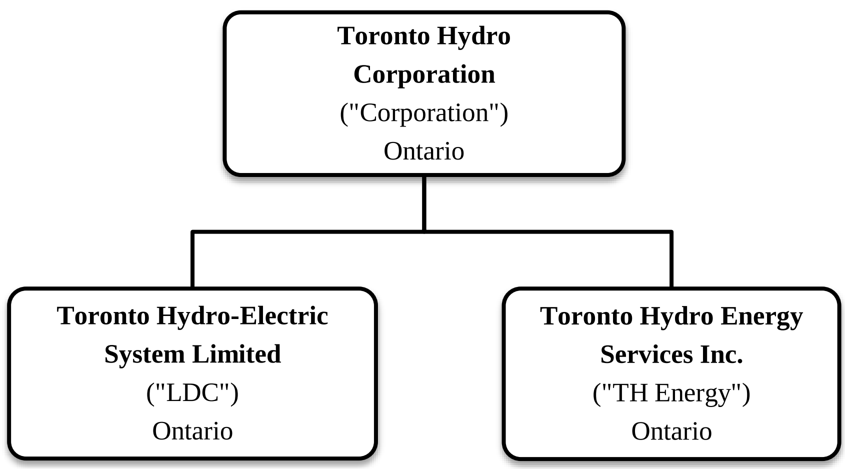
On January 1, 1998, the former municipalities of Metropolitan Toronto, Toronto, East York, Etobicoke, North York, Scarborough and York amalgamated to form the City. At the same time, the electric commissions of Toronto, East York, Etobicoke, North York, Scarborough and York were combined to form the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

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

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

3.2 Inter-corporate Relationships

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



PART 4 - BUSINESS OF TORONTO HYDRO

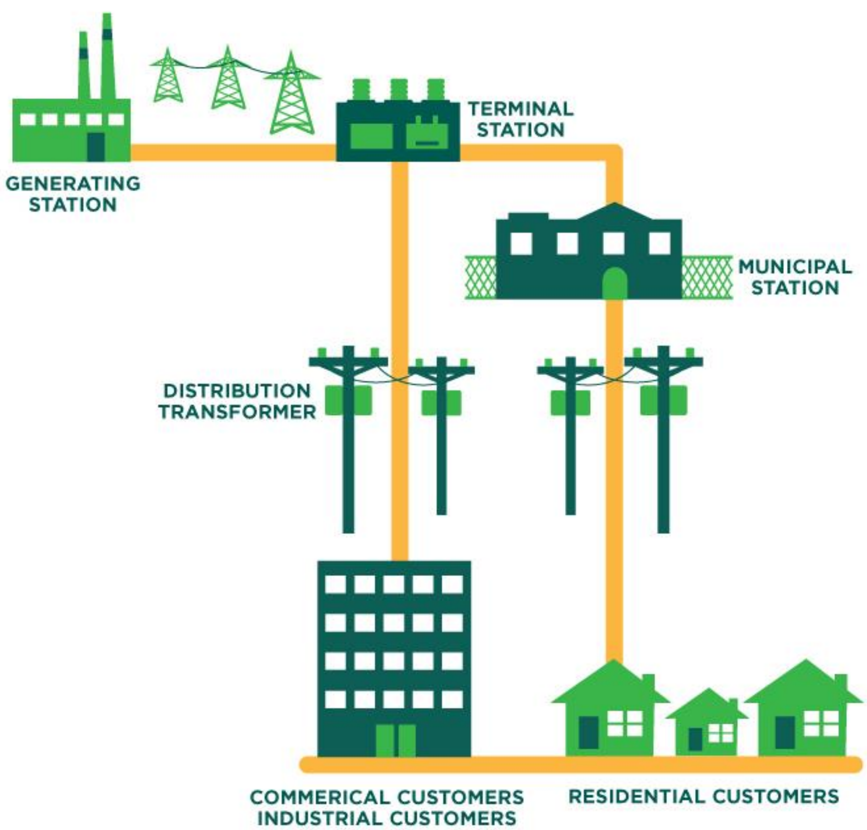
4.1 Industry Structure

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

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

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

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



4.2 Toronto Hydro Corporation

Toronto Hydro 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.

4.3 Toronto Hydro-Electric System Limited ("LDC")

The principal business of Toronto Hydro is the distribution of electricity by LDC. LDC 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. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in the Province.

(a) LDC's Electricity Distribution System

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

LDC's electricity distribution system is serviced from 1 control centre, 34 terminal stations and 1 transmission system terminal station, and is comprised of approximately 17,400 primary switches, approximately 60,560 distribution transformers, 146 in-service municipal substations, approximately 15,515 circuit kilometres of overhead wires supported by approximately 179,400 poles and approximately 13,207 circuit kilometres of underground wires.

(i) *Control Centre*

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

(ii) *Terminal Stations*

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

(iii) *Transmission System Terminal Stations*

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

One of LDC's largest capital initiatives currently in progress is the construction of Copeland Station in response to the developing need for distribution solutions in the downtown core of the City. Copeland Station will be considered a transmission system terminal station.

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. It will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During 2018, the testing on high voltage cable, the protection and control equipment, and the supervisory control and data acquisition system were all completed. 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. The second power transformer and associated switchgear is anticipated to be energized in the first half of 2019 following the 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. The total capital expenditures required to complete the project has increased from $200.0 million to approximately $204.0 million, plus capitalized borrowing costs. There may be additional unforeseen delays and expenditures prior to completion of the project. See Part 8 under the heading "Risk Factors" below for further information on the Copeland Station project.

(iv) *Distribution Transformers and Municipal Substations*

Electricity at distribution voltages is distributed from the terminal stations to distribution transformers that are typically located in buildings or vaults or mounted on poles or surface pads that are used to reduce or step down voltages to utilization levels for supply to customers. The electricity distribution system includes approximately 60,560 distribution transformers. The electricity distribution system also includes 146 in-service municipal substations that are located in various parts of the City and are used to reduce or step down electricity voltage prior to delivery to distribution transformers. LDC also delivers electricity at distribution voltages directly to certain commercial and industrial customers that own their own substations.

(v) *Wires*

LDC distributes electricity through a network comprised of an overhead circuit of approximately 15,515 kilometres supported by approximately 179,400 poles and an underground circuit of approximately 13,207 kilometres.

(vi) *Metering*

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

As part of its metering services, LDC also installs Unit Smart Meters in multi-unit complexes that fall within the Competitive Sector Multi-Unit Residential rate class. As at December 31, 2018, LDC had installed approximately 77,000 Unit Smart Meters in these types of multi-unit complexes.

(vii) *Reliability of Distribution System*

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

	LDC 2018	**LDC 2017**	**CEA 2017[(1)]**
SAIDI	0.98	0.99	7.15
SAIFI	1.48	1.43	2.53
CAIDI..	0.66	0.69	2.82

Note:

(1) Data was extracted from the CEA's 2017 Service Continuity Report on Distribution System Performance in Electrical Utilities, excluding significant events. At the date of this AIF, such report for the year 2018 has not been published by the CEA.

(b) LDC's Service Area and Customers

LDC is the sole provider of electricity distribution services in the City, and serves approximately 772,000 customers. The City is the largest city in Canada with a population of approximately 2.9 million. The City is a financial centre with large and diversified service and industrial sectors.

The table below sets out LDC's customer classes and certain operating data with respect to each class for each of the years in the two-year period ended December 31, 2018:

	Year ended December 31	
	2018	**2017** [4]
Residential Service [1]		
Number of customers (as at December 31)......................	689,560	685,292
kWh..	5,418,189,931	4,933,060,853
Revenue	$815,401,037	$902,313,523
% of total service revenue	24.1%	25.5%
General Service [2]		
Number of customers (as at December 31)	82,292	82,233
kWh	17,806,672,372	17,276,676,523
Revenue	$2,337,309,219	$2,394,421,297
% of total service revenue	69.2%	67.8%
Large Users [3]		
Number of customers (as at December 31)	38	44
kWh	2,066,558,040	2,171,461,259
Revenue...	$225,602,981	$237,594,414
% of total service revenue	6.7%	6.7%
Total		
Number of customers (as at December 31)	771,890	767,569
kWh..	25,291,420,343	24,381,198,635
Revenue	$3,378,313,237	$3,534,329,234

Notes:

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

(2) "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 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.

(4) Effective January 1, 2018, the Corporation adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and resulted in $207.6 million income statement reclassification between energy sales and energy purchases for the year ended December 31, 2017. The 2017 revenue has been restated in accordance with IFRS 15.

(c) LDC's Real Property

The following table sets forth summary information with respect to the principal real property owned, leased or otherwise used by LDC as at December 31, 2018:

Property	Total
Terminal stations	34 sites
Transmission system terminal stations	1 site
Municipal substations	146 sites
Decommissioned municipal substations	24 sites
Control centre[(1)]	1 site
Operation centres[(2)]	5 sites
Other[(3)]	32 sites

Notes:

(1) LDC's control centre is located within one of its operation centres.

(2) LDC's operation centres accommodate office, staff, crews, vehicles, equipment and material necessary to operate and monitor the electricity distribution system.

(3) Other properties include locations under construction (including Copeland Station), small work centres and surplus properties.

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

(d) Regulation of LDC

(i) *Legislative Framework*

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

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

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

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

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

Through amendments to the Electricity Act, the operations and responsibilities of the IESO were amended on January 1, 2015 such that it was additionally authorized to implement an integrated power system supply plan and deliver CDM programs in the Province, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

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

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

(ii) *Licences*

Distribution Licence

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

Electricity Generation Licence

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

(iii) *Industry Codes*

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

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

These codes are summarized below.

Affiliate Relationships Code

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

Distribution System Code

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

Retail Settlement Code

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

Standard Supply Service Code

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

Conservation and Demand Management Code

CDM activities over the January 1, 2015 to December 31, 2020 timeframe are governed by the OEB's Conservation and Demand Management Requirement Guidelines for Electricity Distributors issued on December 19, 2014. See section 5.4 under the heading "Conservation and Demand Management" for more information on LDC's CDM activities.

(e) Distribution Rates

(i) *Rate Setting Mechanism*

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

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

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

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

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

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

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

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

On August 15, 2018, LDC filed a rate application with the OEB under the CIR method which sought 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.

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

(ii) *Other Regulated Charges*

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

(f) Competitive Conditions

The OEB distribution licence issued to LDC stipulates a service area that reflects the territory within the City. By law, only the OEB can grant such a licence for a service area and only an entity with such a licence can provide licenced services to the public-at-large within a service area. The OEB has not granted any other distribution licence that permits distribution within LDC's service area. In addition to this regulatory barrier to entry, there are other barriers to entry, including the cost of constructing an electricity distribution system, physical space limitations within and legal access to the right-of-way, the specialized skills associated with the distribution business, the level of expertise required to achieve operational and regulatory compliance, and LDC's relationships with its customers. Notwithstanding the existing barriers to entry, 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), government-based incentives, and technology advancements (e.g., multi-unit building sub-metering, micro-grids, electricity storage, virtual power).

4.4 Toronto Hydro Energy Services Inc.

TH Energy owns and operates $42.2 million of Capital Assets as of December 31, 2018. TH Energy owns certain street lighting assets located in the City, and has an agreement with the City to provide street lighting system maintenance and capital improvement services to the City. TH Energy sub-contracts street lighting services to LDC.

TH Energy also operates a wind turbine located at the Better Living Centre (Exhibition Place) in a joint venture with TREC Windpower Cooperative (No.1) Incorporated.

4.5 Environmental Matters

(a) Environmental Protection Requirements

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

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

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

(b) Financial and Operational Effects of Environmental Protection Requirements

In 2018, LDC spent approximately $3.1 million to meet environmental protection requirements. This includes costs for hazardous and non-hazardous waste disposal, testing, asbestos abatement, site remediation, wood and concrete pole removal, manifest and tonnage fees, Stewardship Ontario fees and the 2018 expenditure for the submersible transformer replacement program.

Toronto Hydro recognizes a liability for its best estimate of the future removal and handling costs for contamination in electricity distribution equipment in service. The liability is recognized when the decommissioning provision is incurred and when the fair value is determined. Actual future environmental costs may vary materially from the estimates used in the calculation of the decommissioning provision on Toronto Hydro's balance sheet.

(c) Environmental Policy and Oversight

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

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

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

LDC manages its environmental aspects in conformance with ISO 14001:2015 and was re-certified on January 18, 2019 as meeting the requirements of the ISO 14001:2015 standard by a third party auditor.

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

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

4.6 Additional Information Regarding Toronto Hydro

(a) Employees

At December 31, 2018, Toronto Hydro had approximately 1,400 employees. Included in Toronto Hydro's employees are 723 members of bargaining units represented by the Power Workers' Union ("PWU"), 70 engineers represented by the Society of United Professionals, and an additional 75 Information Technology (IT) Professionals who will soon also be represented by the Society of United Professionals. Toronto Hydro employees currently represented by PWU were formerly represented by Canadian Union of Public Employees, Local One ("CUPE One"), which merged with PWU on October 6, 2016. The Society of United Professionals was certified as the bargaining agent for IT Professionals at Toronto Hydro on November 21, 2018. Toronto Hydro expects to receive notice to bargain by the end of March 2019, and to thereafter bargain with the Society of United Professionals for a first collective agreement to represent these employees.

On May 24, 2018, the PWU ratified collective agreements governing inside and outside employees for a four-year period beginning February 1, 2018 and expiring January 31, 2022. The collective agreements implemented wage increases of 2.3% effective on each of February 1, 2018, February 1, 2019, February 1, 2020, and February 1, 2021. The collective agreements also contain cost of living escalator clauses in the third and fourth years of the current agreements that provide for wage adjustments corresponding to the percentage change in the Consumer Price Index. The escalator clauses only become effective if certain prescribed thresholds are exceeded.

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

In addition to OMERS, Toronto Hydro provides other employment and post-employment benefits to employees, including medical, dental and life insurance benefits. See note 25(m) and note 13 to the Consolidated Financial Statements.

(b) Specialized Skills and Knowledge

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

(c) Health and Safety

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

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

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

Toronto Hydro's health and safety performance is reviewed periodically by the Human Resources and Environment Committee of the Board. In 2018, the Total Recordable Injury Frequency was 0.83 recordable injuries per 200,000 hours worked compared to 1.06 in 2017.

LDC's legislated occupational health and safety requirements come under provincial jurisdiction exclusively and all legislated occupational health and safety reporting requirements are complied with. Management assurance that these requirements are met is accomplished by commissioning third party health and safety compliance audits conducted in conformance with LDC's environmental, health and safety audit plan.

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

(d) Code of Business Conduct and Whistleblower Procedure

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

The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. Where the complaint involves the conduct of a director or officer of 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 Toronto Hydro's Code of Business Conduct and Whistleblower Procedure is available on the SEDAR website at www.sedar.com.

(e) Insurance

Toronto Hydro's current insurance policies provide coverage for a variety of losses and expenses which might arise from time to time, including:

- comprehensive general liability insurance;
- all risk property, property terrorism, boiler and machinery insurance;
- automobile liability insurance;
- directors and officers liability insurance;
- cyber insurance;
- crime insurance; and
- insurance covering loss or damage on certain physical assets.

Toronto Hydro believes that the coverage, amounts and terms of its insurance arrangements are consistent with industry practice.

(f) Intangible Property

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

(g) Seasonal Effects

Toronto Hydro'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. Toronto Hydro's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions and rate orders.

PART 5 - GENERAL DEVELOPMENT OF THE BUSINESS

5.1 Business Operations

(a) Three Year History

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2018, 2017 and 2016. This information has been derived from the Consolidated Financial Statements and is presented in millions of dollars.

	Year ended December 31		
	2018	**2017**	**2016**
Net income after net movements in regulatory balances	$167.3	$156.5	$151.4
Capital expenditures	$511.3	$552.9	$551.7
Total assets and regulatory balances	$5,360.1	$5,226.2	$4,954.4
Total equity	$1,833.5	$1,760.4	$1,428.9

(b) Business Operations

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

5.2 Rate Applications

The following is an overview of LDC's rate applications from 2015 to date.

(a) 2015-2019 Rate Application

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

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

The OEB approved new deferral and variance accounts including accounts to capture variances related to revenue requirement for ICM capital work undertaken from 2012 to 2014 and revenue requirement associated with capital work during the CIR term. The OEB approved recovery of the $15.8 million forecasted net book value relating to the stranded meters. The OEB also approved foregone revenue rate riders for the May 1, 2015 to February 29, 2016 period as well as other requested rate riders. In addition, the OEB approved the transfer of LDC's street lighting assets into rate base effective January 1, 2015 at a transfer price of $39.8 million, representing the opening net book value of the assets in 2015. The financial impact of the OEB's CIR decision and rate order has been reflected in 2015.

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

On August 22, 2016, LDC filed its 2017 rate application seeking OEB’s approval to finalize distribution rates and other charges for the period commencing on January 1, 2017 and ending on December 31, 2017. On December 21, 2016, the OEB issued a decision finalizing LDC’s 2017 rates and providing for other deferral and variance account dispositions.

On August 23, 2017, LDC filed its 2018 rate application seeking OEB’s approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision finalizing LDC’s 2018 rates and providing for other deferral and variance account dispositions.

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.

(b) 2020-2024 Rate Application

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.

5.3 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 OFHP reduces electricity bills by 25% on average for eligible customers, which includes the 8% OREC rebate. 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.

5.4 Conservation and Demand Management

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 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 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.

PART 6 - RELATIONSHIP WITH THE CITY

6.1 Shareholder Direction

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

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

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

(a) Shareholder Objectives and Principles

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

- to operate Toronto Hydro on an efficient and commercially prudent basis;
- to optimize the City's return on equity as the sole shareholder of the Corporation and operate Toronto Hydro with a view to meeting the financial performance objectives of the City as set out in the Shareholder Direction;
- to provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the City;
- to operate Toronto Hydro in an environmentally responsible manner consistent with the City's energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;
- to ensure that the business is managed in material compliance with all law; and
- to engage in recruitment and procurement practices designed to attract employees and suppliers from the City's diverse community.

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

(b) Shareholder Approval

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

- subject to certain exceptions in the case of LDC, creating any security over the assets of the Corporation or LDC;

- in the case of LDC, providing any financial assistance to any person other than in accordance with the Shareholder Direction;

- in the case of the Corporation and LDC, making any investment in or providing any financial assistance to any subsidiary of the Corporation (other than LDC), other than trade payables incurred in the ordinary course of business on customary terms and an investment in or financial assistance to a subsidiary that originally was an investment in or financial assistance to LDC, in excess of 12% of the shareholder's equity of LDC as shown in its most recent financial statements; and

- acquiring any interest in the electricity distribution system, undertaking or securities of a distributor operating outside the City unless, among other things, the acquisition does not adversely affect the dividend payable to the City and there is no dilution of the City's shareholding in the Corporation.

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

(c) Financial Performance

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

(d) Credit Rating

The Shareholder Direction provides that the Corporation will obtain and maintain a rating of A minus or higher (or its equivalent rating, depending on the credit rating agency) on its senior debt securities, as rated by two accredited credit rating agencies in Ontario (which include S&P, DBRS and Moody's). See section 9.4 under the heading "Credit Rating" for more information on the Corporation's credit ratings as at December 31, 2018.

(e) Equity Contribution

In December 2016, City Council approved making an equity contribution to the Corporation. On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

(f) Dividends

In connection with receipt of the equity contribution of $250.0 million from the City on June 28, 2017, the Board declared dividends payable to the City and approved amendments to the Corporation's Dividend Policy, as follows:

- In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of two previously declared installments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

- In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year 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.

The revised Dividend Policy was set out in further detail, including that any dividends will be subject to restrictions imposed by law and the Shareholder Direction, in an amendment of the Shareholder Direction, which included the Corporation's former Dividend Policy. These changes also superseded the Board's previous decision announced in November 2016 that it would reduce dividend payments to the City to $25.0 million per year until further notice.

The Corporation declared and paid dividends to the City totalling $63.35 million in 2016, $75.0 million in 2017, and $93.9 million in 2018.

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

LDC declared and paid $nil dividends to the Corporation in 2016, and declared and paid $2.1 million in 2017 and $42.7 million in 2018.

TH Energy declared and paid $nil dividends to the Corporation in 2016, 2017, and 2018.

6.2 Services Provided to the City

Toronto Hydro provides certain services to the City at commercial and regulated rates, including street lighting services. Ongoing street lighting services are provided by TH Energy and sub-contracted to LDC. See section 4.4 under the heading "Toronto Hydro Energy Services Inc." for more information. See note 22 to the Consolidated Financial Statements.

6.3 Shareholder Engagement

The Corporation believes that regular and constructive engagement with the City, its sole shareholder, is an important part of creating an open, candid and informed dialogue. In addition to the Corporation's annual shareholder meetings, representatives of the Corporation engage with the City through formal attendance at City of Toronto Council meetings and other engagements with Councillors throughout the year as required. Other means of communications with the City include the Corporation's annual and quarterly financial and management reports, and ward-specific updates.

PART 7- TAXATION

7.1 Tax Regime

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

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

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

- such corporation would become liable to make a PILs payment in respect of any income or gains arising as a result of these deemed dispositions; and

- the amount of annual taxes payable by the corporation under the ITA, and the TA may be different from the PILs payment that would be payable without a loss of tax-exempt status to reflect, among other things, the consequences of these deemed dispositions and acquisitions.

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

- any PILs payment made by the MEU in respect of the part of the taxation year up to and including the date that the transfer takes place or a previous taxation year;

- any amount that the MEU has paid as tax under Part III of the TA in respect of the part of the taxation year up to and including the date of the transfer or a previous taxation year; and

- any amounts that the MEU would be liable to pay as tax under Part I of the ITA in respect of the taxation year if that tax were computed on the basis that the MEU had no income other than the capital gain realized on the transfer of its interest in the property.

Transfers of Electricity Property made to a MEU, Hydro One or OPG, or subsidiary of either of them and where the transferee is exempt from tax under the ITA at the time of transfer, the transfer will be an excluded transfer and thereby exempt from the transfer tax. Capital gains arising from a transfer of Electricity Property occurring between January 1, 2016 and December 31, 2018 are also exempt from the transfer tax.

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

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

7.2 PILs Recoveries through Rates

The OEB's Filing Requirements for Electricity Distribution Rate Applications provides for electricity distribution rate adjustments to permit recoveries relating to PILs payments. These recoveries are recalculated and submitted for recovery by LDC in each cost of service or rebasing distribution rate application. LDC is also generally at risk for variances between forecasted and actual PILs paid, excluding variances arising from changes in tax legislation not assumed in the setting of rates for the period in question, which variances are disposed of through deferral accounts under cost of service, IRM or CIR. See note 8(n) to the Consolidated Financial Statements.

PART 8 - RISK FACTORS

Risk Management

Toronto Hydro 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. Toronto Hydro’s ERM framework utilizes industry best practices and international guidelines and focuses on identifying emerging trends in risks and related opportunities particular to Toronto Hydro through a comprehensive evaluation of Toronto Hydro’s business and the industry generally. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations. It helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Risk assessment is built into our decision-making process at all levels. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing all aspects of the business.

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

While Toronto Hydro'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 Toronto Hydro’s risk profile, the risk categories and the types of risks to which Toronto Hydro 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 Toronto Hydro. 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 Toronto Hydro who actively engage in the day-to-day management of risks. Working with the executive team, this group oversees Toronto Hydro'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.

Toronto Hydro 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, Toronto Hydro 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 Toronto Hydro’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 Toronto Hydro has a greater ability to realise opportunities central to its interests.

Toronto Hydro'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 Toronto Hydro 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

Toronto Hydro 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 Toronto Hydro'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 Toronto Hydro.

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

Toronto Hydro 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 Toronto Hydro'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 Toronto Hydro, and the manner of implementation and application of the same, could materially adversely affect Toronto Hydro. 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. Toronto Hydro 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 Toronto Hydro’s franchise interests may also result from impairment to Toronto Hydro's image in the community, public confidence or brand. Toronto Hydro 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 Toronto Hydro. In addition, events and/or external factors that draw negative media attention to Toronto Hydro could cause reputational damages and impact Toronto Hydro’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.

Toronto Hydro 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, Toronto Hydro 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. Toronto Hydro 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 Toronto Hydro and its customers. Through such engagements the parties review and consider the challenges to Toronto Hydro 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 Toronto Hydro'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.

Toronto Hydro is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support Toronto Hydro's future talent requirements. All retirements pose risks for knowledge management and business continuity at Toronto Hydro. 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.

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

Toronto Hydro'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 Toronto Hydro 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

Toronto Hydro 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, Toronto Hydro 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 Toronto Hydro'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 Toronto Hydro 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.

As described in section 4.3(a)(iii) under the heading "Transmission System Terminal Stations", 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 Toronto Hydro. 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, Toronto Hydro 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.

Toronto Hydro'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 Toronto Hydro'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 Toronto Hydro'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

Toronto Hydro 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. Toronto Hydro 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 Toronto Hydro 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 Toronto Hydro and also result in third-party claims against Toronto Hydro.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures. As such, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

Toronto Hydro 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 Toronto Hydro facilities.

Business Interruption Risk

Toronto Hydro 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. Toronto Hydro'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 Toronto Hydro’s response to the 2013 Ice Storm that affected Toronto. Although Toronto Hydro's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has insurance 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 Toronto Hydro employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro activities.

Occupational Health and Safety Risk

Toronto Hydro 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 Toronto Hydro'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. Toronto Hydro is subject to compliance with provincial Health and Safety legislation. Toronto Hydro'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, Toronto Hydro is subject to the risk of public injuries or fatalities. Toronto Hydro mitigates risks to public safety through equipment inspection, replacement and maintenance, employee training, communications programs and reactive and emergency work. Toronto Hydro 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

Toronto Hydro 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.

Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. Toronto Hydro estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of Toronto Hydro, 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 CP 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. Toronto Hydro manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. Toronto Hydro 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.

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

Capital Structure Risk

Toronto Hydro 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 MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be 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 MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market. In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its commercial paper obligations as they become due. 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.

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

PART 9 - CAPITAL STRUCTURE

9.1 Share Capital

The authorized capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,200 common shares are issued and outstanding as at the date of this AIF.

The City is the sole shareholder of the Corporation. See note 16 to the Consolidated Financial Statements.

9.2 Debentures

As at December 31, 2018, the Corporation had the following debentures (the "Debentures") outstanding, which have been issued pursuant to its MTN Program:

- $250.0 million of 4.49% Series 3 senior unsecured debentures, due November 12, 2019;
- $200.0 million of 5.54% Series 6 senior unsecured debentures due May 21, 2040;
- $300.0 million of 3.54% Series 7 senior unsecured debentures, due November 18, 2021;
- $250.0 million of 2.91% Series 8 senior unsecured debentures due April 10, 2023;
- $245.0 million of 3.96% Series 9 senior unsecured debentures due April 9, 2063;
- $200.0 million of 4.08% Series 10 senior unsecured debentures due September 16, 2044;
- $200.0 million of 3.55% Series 11 senior unsecured debentures due July 28, 2045;
- $200.0 million of 2.52% Series 12 senior unsecured debentures due August 25, 2026; and
- $200.0 million of 3.485% Series 13 senior unsecured debentures due February 28, 2048.

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

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

9.3 Credit Facilities

The Corporation has a Revolving Credit Facility, pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by $100.0 million from $700.0 million to $800.0 million and the maturity date extended by one year from October 10, 2019 to October 10, 2020. On August 19, 2016, the maturity date was extended by an additional year to October 10, 2021. On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022. 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 Revolving Credit Facility contains certain covenants, the most significant of which is a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2018, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a CP Program allowing up to $600.0 million of unsecured short-term promissory notes to be issued in various maturities of no more than one year. On July 30, 2015, the amount the Corporation may issue under this program was increased by $100.0 million from $500.0 million to $600.0 million. The CP Program is 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 CP Program are used for general corporate purposes. Borrowings under the CP Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation has a Prudential Facility and a Working Capital Facility. The available amount under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and CP Program are as follows:

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

For the year ended December 31, 2018, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and CP Program were $239.6 million with a weighted average interest rate of 1.68%.

As at December 31, 2018, $12.6 million had been drawn under the Working Capital Facility and $33.3 million of letters of credit had been issued against the Prudential Facility.

9.4 Credit Rating

As at December 31, 2018, the credit ratings of the Corporation were as follows:

	DBRS		S&P	
	Credit Rating	**Trend**	**Credit Rating**	**Outlook**
Issuer rating	A	Stable	A	Stable
Debentures................................	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

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

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

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

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

For the years ended December 31, 2018 and 2017, payments were made to both DBRS and S&P for credit rating services only.

PART 10 - DIRECTORS AND OFFICERS

10.1 Nomination of Directors

As at the date of this AIF, the Board consists of eleven directors, all of whom are appointed by the sole shareholder of the Corporation, the City.

Pursuant to the Shareholder Direction, in electing directors to the Board, the City gives due regard to the qualifications of a candidate, including: experience or knowledge; commercial sensitivity and acumen; independence of judgment; and personal integrity. The City seeks candidates with experience and knowledge in: public utility commissions or boards of major corporations or other commercial enterprises; corporate finance; corporate governance; market development; large system operation and management; urban energy industries; and public policy issues and laws relating to Toronto Hydro, the electricity industry, environmental matters, labour relations and occupational health and safety issues. Each citizen director is elected to serve for a term of up to two years or until his or her successor is appointed, and may be elected for a maximum of four consecutive terms for a maximum of eight consecutive years or such longer term until a successor is appointed. Each City Councillor director is elected to serve for two years or until his or her successor is elected. As at the date of this AIF, female directors constituted 36.4% (4 of 11) of the members of the Corporation's Board.

10.2 Committees of the Board of Directors

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

Board of Directors

Audit Committee	**Corporate Governance and Nominating Committee**	**Human Resources and Environment Committee**
Michael Nobrega (Chair)	Tamara Kronis (Chair)	Brian Chu (Chair)
Heather Zordel	Brian Chu	Juliana Lam
Juliana Lam	Mary Ellen Richardson	Michael Nobrega
	Councillor Paul Ainslie	Deputy Mayor Stephen Holyday

(a) Audit Committee

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

(b) Corporate Governance and Nominating Committee

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

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

The Corporate Governance and Nominating Committee is comprised of Tamara Kronis (Chair), Brian Chu, Mary Ellen Richardson and Councillor Paul Ainslie. Ms. Kronis, Mr. Chu and Ms. Richardson are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Councillor Ainslie is not independent within the meaning of applicable Canadian securities laws.

(c) Human Resources and Environment Committee

The Human Resources and Environment Committee is responsible for reviewing and assisting the Board in overseeing the recruitment and assessment of the CEO and the compensation of the CEO, reviewing and approving the compensation of the executive officers, reviewing and making recommendations to the Board concerning executive compensation disclosure under applicable securities laws, and reviewing and making recommendations to the Board regarding the compensation structure and benefit plans and programs of Toronto Hydro. The Human Resources 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 Toronto Hydro. See section 12.1(a) under the heading “Human Resources and Environment Committee” for further information on the Human Resources and Environment Committee.

(d) Other Committees

In 2018, the Board of Directors established a Steering Committee, consisting of the Chair of the Board and the Chairs of the respective standing committees, to assist the Board 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 or its standing committees unless otherwise expressly delegated by the Board 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.

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

10.3 Directors

The following summaries set forth, for each of the directors of the Corporation, his or her name, province and country of residence, the date on which he or she became a director and the expiry date of his or her current term, his or her relevant education and experience, principal occupations within the five preceding years and board memberships with other reporting issuers. The following tables also summarize the attendance of individual directors at the Board and standing committee meetings held during 2018 and 2019 as of the date of this AIF.

David McFadden, Chair of the Board
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Mr. McFadden is a lawyer whose practice focused on the energy, infrastructure, financial services and aerospace industries. He was formerly Counsel at Gowling WLG, and a former member of the firm's Board of Trustees and Executive Committee. Mr. McFadden currently serves as Chair of the Board of Directors of 407 International Inc. and PCI Geomatics Inc. He also serves on the Board of Directors of Cricket Energy Holdings Inc. He is also a Vice-Chair of the Electricity Transformation Network of Ontario of the Independent Electricity System Operator and serves on the Advisory Board of the MaRS Advanced Energy Centre and on the Council for Clean & Reliable Electricity. Mr. McFadden was named the Energy Leader of the Year by the Ontario Energy Association in 2013. In the past, Mr. McFadden served as the Chair of the Board of Directors of the Ontario Energy Association. Mr. McFadden has also served as co-chair of the Electricity Transition Committee of the Ontario Government, and also served on the Ontario Government’s Electricity Distribution Sector Review Panel and the Ontario Government's Electricity Conservation and Supply Task Force. Mr. McFadden has also been active in the higher education sector. He served as Chair of the Ontario Centres of Excellence from 2004-2010 and currently is a member of the Board of Governors of York University. Mr. McFadden holds a Bachelor of Laws at Osgoode Hall Law School and a Bachelor of Arts at the University of Toronto, and is a member of the Law Society of Ontario.

Mr. McFadden currently serves as Chair of the Board of Directors. He is also an *ex-officio* member of the Audit Committee, Human Resources and Environment Committee, and Corporate Governance and Nominating Committee.

Principal Occupation:
Corporate Director

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Other Committees(1)	1 of 1	100%
	2019 Attendance(2)	
Board	1 of 1	100%

Board Memberships for other Reporting Issuers:
407 International Inc.

Notes:

(1) Committees other than the three standing committees (Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee).

(2) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Brian Chu, Vice-Chair of the Board
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

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

Mr. Chu currently serves as Vice-Chair of the Board of Directors, is the Chair of the Human Resources and Environment Committee and a member of the Corporate Governance and Nominating Committee. Mr. Chu also served as a director of the Corporation from August 1, 2005 to April 14, 2013, during which time he served as a member of the Audit Committee and the Corporate Governance Committee, the Chair of the Corporate Governance Committee (from August 25, 2005 to November 30, 2008) and the Chair of the Audit Committee (from December 1, 2008 to April 14, 2013).

Principal Occupation:
Partner at Bogart Robertson & Chu LLP

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Corporate Governance and Nominating Committee	4 of 4	100%
Human Resources and Environment Committee	4 of 4	100%
Other Committees(1)	1 of 1	100%
	2019 Attendance(2)	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Committees other than the three standing committees (Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee).

(2) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Heather Zordel
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Ms. Zordel is a lawyer with extensive experience in corporate finance, securities regulatory compliance and corporate governance. A partner in the Securities Group at Gardiner Roberts LLP, she is also a Commissioner of the Ontario Securities Commission, a Bencher of the Law Society of Ontario (LSO), a part-time adjudicator for the Law Society Tribunal, and a Board Member for the Lawyers' Professional Indemnity Company (LawPro) and the Condominium Authority of Ontario. Ms. Zordel is an audit committee member for the LSO and LawPro. Academically, she is the Co-Director and a Course Director for the Osgoode Part-time LL.M. program in securities law. Ms. Zordel has a Bachelor of Commerce from the University of Saskatchewan and a LL.B./J.D./LL.M. (Securities) from Osgoode Hall Law School.

Ms. Zordel currently serves as Chair of the Board of Directors of TH Energy.

Principal Occupation:
Partner and Securities Lawyer, Gardiner Roberts LLP
Former Partner at Cassels Brock and Blackwell LLP

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Audit Committee	5 of 5	100%
	2019 Attendance(1)	
Board	1 of 1	100%
Audit Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

The Honourable Howard Wetston, Senator
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

The Honourable Mr. Wetston, Senator was appointed to the Senate of Canada and assumed office on November 10, 2016. Mr. Wetston is a distinguished lawyer with a breadth of experience and expertise in competition law and policy, securities regulation, energy regulation and administrative law. In 2016, Mr. Wetston was awarded the Order of Canada for his significant contributions as a public servant, jurist and regulator. Mr. Wetston has served as Chair and Chief Executive Officer of the OSC, as Vice-Chair of the OSC, and as Chair and Chief Executive Officer of the OEB. During his time as Chair and Chief Executive Officer of the OSC, Mr. Wetston played a significant role in Canadian and international securities regulatory bodies by serving as a senior member of the Canadian Securities Administrators and as a Vice Chair of the International Organization of Securities Commissions. Mr. Wetston has served as a Judge of the Federal Court of Canada, Trial Division, an ex-officio member of the Federal Court's Appeal Division, and Director of Investigations and Research at the Bureau of Competition Policy. Mr. Wetston is a Senior Fellow of the C.D. Howe Institute and has served on several Advisory Boards, including the Program on Ethics in Law and Business at the University of Toronto, and the Shannon School of Business at Cape Breton University. He is a Board member of Spark Power Corp. Mr. Wetston is also a Trustee of the International Valuations Standards Council and a Member of the C.D. Howe Institute's Competition Policy Counsel. Mr. Wetston holds a Bachelor of Laws from Dalhousie University and a Bachelor of Science from Mount Allison University, and holds an ICD.D designation from the Institute of Corporate Directors and he has also received special recognition as a Board Diversity Champion from Catalyst Canada Honours. Mr. Wetston holds honorary doctorate degrees from Cape Breton University and Dalhousie University and he is a recipient of the Queen Elizabeth II Diamond Jubilee Medal.

Mr. Wetston currently serves as Chair of the Board of Directors of LDC.

Principal Occupation:
Senator

Board/Committee Membership	**2018 Attendance**	
Board	4 of 5	80%
	2019 Attendance(1)	
Board	1 of 1	100%

Board Memberships for other Reporting Issuers:
Spark Power Group Inc., parent company to Spark Power Corp.

Note:

(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Juliana Lam
Ontario, Canada

Director since:	April 26, 2017
Expiry of current term:	April 26, 2019, or effective date of appointment of a successor director

Ms. Lam has extensive executive level financial management experience in diverse industries including mining, manufacturing, services and distribution. She is currently serving as Executive Vice-President and Chief Operating Officer of Chartered Professional Accountants of Ontario. Prior to that, Ms. Lam was the Executive Vice-President and Chief Financial Officer of Uranium One Inc. Previously, Ms. Lam served as Senior Vice-President, Finance at Kinross Gold Corporation, Chief Financial Officer of Nexans Canada Inc., and has held senior finance roles within other publicly traded companies. She holds a Bachelor of Arts from the University of Toronto, an MBA from the Richard Ivey School of Business, University of Western Ontario, is a Chartered Professional Accountant (CPA, CA), and holds the ICD.D designation from the Institute of Corporate Directors. In addition to being a member of the board and the board committees of Toronto Hydro Corporation, Ms. Lam serves the community on the boards and board committees of two not-for-profit organizations in the Greater Toronto Area.

Ms. Lam currently serves as a member of the Board of Directors of TH Energy.

Principal Occupation:
Executive Vice-President & Chief Operating Officer, Chartered Professional Accountants of Ontario
Former Executive Vice-President & Chief Financial Officer, Uranium One Inc.

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Audit Committee	5 of 5	100%
Human Resources and Environment Committee	4 of 4	100%
	2019 Attendance(1)	
Board	1 of 1	100%
Audit Committee	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:
(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Mary Ellen Richardson
Ontario, Canada

Director since: December 11, 2016
Expiry of current term: December 10, 2019, or effective date of appointment of a successor director

Ms. Richardson is an independent consultant to the energy sector, with extensive experience in the oil, natural gas and electricity industries. Ms. Richardson currently serves as a member of the Board of Directors, is a member of the Human Resources and Governance Committee and the Finance and Audit Committee of Markham District Energy Inc. In the past, Ms. Richardson has served as President of the Canadian District Energy Association, Vice-President, Corporate Affairs and Vice-President, Conversation Programs and External Relations at the OPA, President of the Association of Major Power Consumers in Ontario, and was a member of the Board of Directors and Human Resources Committee of Guelph Municipal Holdings Inc. Ms. Richardson has also served on the management board of the Ontario Centre of Excellence in Energy, on the Board of Directors of Environmental Careers Organization of Canada, on the Ontario Government's Electricity Conservation and Supply Task Force, on the Executive of the Stakeholders' Alliance for Competition and Customer Choice, and on Hydro One's Customer Advisory Board. Ms. Richardson holds an Honours degree in Economics from the University of Calgary, and the ICD.D designation.

Ms. Richardson currently serves as a member of the Board of Directors of the LDC.

Principal Occupation:
President, Mary Ellen Richardson Inc.

Board/Committee Membership	**2018 Attendance**	
Board	4 of 5	80%
Corporate Governance and Nominating Committee	3 of 4	75%
	2019 Attendance(1)	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:
(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Michael Nobrega
Ontario, Canada

Director since:	May 10, 2016
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

Mr. Nobrega is a Chartered Accountant with extensive experience in finance and business. Mr. Nobrega has served as President & Chief Executive Officer of OMERS, Chief Investment Officer of OMERS, and as President & Chief Executive Officer of Borealis (OMERS) Infrastructure. Mr. Nobrega is currently interim President and Chief Executive Officer of Waterfront Toronto, and is the Chair of Ontario Centres of Excellence. Mr. Nobrega is also a member of the Board of Directors of IBI Group Inc. In the past, Mr. Nobrega was also president of a merchant bank, a tax partner at Arthur Anderson, Chartered Accountants, and a member of the Board of Directors of the Global Risk Institute. Mr. Nobrega earned an Honours Bachelor of Arts (Economics and Mathematics) from the University of Toronto, where, in 2002, he was honoured with the Arbor Award for outstanding community service. He holds a chartered accountancy designation from the Institutes of Chartered Accountants of Ontario and Canada, and was named a Fellow of the Institute of Chartered Accountants of Ontario in 2009. Mr. Nobrega has considerable experience in executive compensation matters from his years as the Chief Executive Officer of OMERS and Borealis (OMERS) Infrastructure. He is familiar with the structure of compensation systems and related benefit programs, and is experienced in executive performance evaluation.

Principal Occupation:
Interim President and CEO, Waterfront Toronto
Chair, Ontario Centres of Excellence
Former President & Chief Executive Officer of OMERS (from March 2007- March 2014)

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Audit Committee	5 of 5	100%
Human Resources and Environment Committee	4 of 4	100%
Other Committees(1)	1 of 1	100%
	2019 Attendance(2)	
Board	1 of 1	100%
Audit Committee	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
IBI Group Inc.
CellCube Energy Storage Systems Inc.

Notes:

(1) Committees other than the three standing committees (Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee).

(2) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Tamara Kronis
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	December 10, 2019, or effective date of appointment of a successor director

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

Ms. Kronis currently serves as a member of the Board of Directors of TH Energy.

Principal Occupation:
Founder and CEO, Studio1098

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Corporate Governance and Nominating Committee	4 of 4	100%
Other Committees(1)	1 of 1	100%
	2019 Attendance(2)	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Committees other than the three standing committees (Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee).

(2) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Denzil Minnan-Wong
Ontario, Canada

Director since:	December 3, 2014
Expiry of current term:	December 31, 2020, or effective date of appointment of a successor director

Deputy Mayor Minnan-Wong is the City Councillor for Ward 16 – Don Valley East, and was previously City Councillor for Ward 34 – Don Valley East since 1997. Deputy Mayor Minnan-Wong is currently serving as Chair of City Council's Civic Appointments Committee, Chair of City Council's Striking Committee, and member of City Council's Executive Committee. He also sits on City Council's Committee of Revision, North York Community Council, City Council's Infrastructure and Environment Committee, and the Toronto Transit Commission Board. Deputy Mayor Minnan-Wong's past experience includes serving as Chair of City Council's Employee and Labour Relations Committee, Chair of City Council's Public Works and Infrastructure Committee, Chair of City Council's Economic Development Committee, Chair of North York Community Council, and a member of City Council's Planning and Transportation Committee, City Council's Works and Emergency Services Committee, City Council's Audit Committee, City Council's Corporations Nominating Panel and the Toronto Financial Service Advisory Committee. He was formerly on the Board of Directors for BUILD Toronto, and Invest Toronto. Deputy Mayor Minnan-Wong holds a Juris Doctor from Osgoode Hall Law School, and is a member of the Law Society of Ontario.

Principal Occupation:
Deputy Mayor and Councillor, City of Toronto

Board/Committee Membership	**2018 Attendance**	
Board	3 of 5	60%
	2019 Attendance[(1)]	
Board	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:
(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Paul Ainslie
Ontario, Canada

Director since:	February 10, 2015
Expiry of current term:	December 31, 2020, or effective date of appointment of a successor director

Councillor Ainslie is the City Councillor for Ward 24 – Scarborough Guildwood, and was previously City Councillor for Ward 43 – Scarborough East since December 2006. Councillor Ainslie is currently serving as Chair of the General Government and Licensing Committee and is the Mayor's designate on the Board of Directors for the Toronto Public Library. Councillor Ainslie also sits on the City Council's Executive Committee, Scarborough Community Council, and the Toronto Zoo Board of Management. Mr. Ainslie is a member of the Board of Directors of the Canadian National Exhibition Association, Municipal Section, the Ontario Good Roads Association, Toronto and Region Conservation Authority, and the Guild Renaissance Group. Councillor Ainslie's past experience includes serving as Co-Chair of the Rouge Valley Health System Centenary Buy A Bed fundraising campaign and Chair of the Board of Directors of Haliburton Club.

Principal Occupation:
Councillor, City of Toronto

Board/Committee Membership	**2018 Attendance**	
Board	4 of 5	80%
Corporate Governance and Nominating Committee	2 of 4	50%
	2019 Attendance[(1)]	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	0 of 1	0%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

Stephen Holyday
Ontario, Canada

Director since:	December 3, 2014
Expiry of current term:	December 31, 2020, or effective date of appointment of a successor director

Deputy Mayor Holyday is the Mayor's designate to the Board effective as of December 3, 2014. Deputy Mayor Holyday has been the City Councillor for Ward 2 - Etobicoke Centre, and was previously City Councillor for Ward 3 - Etobicoke Centre since December 2014. Deputy Mayor Holyday is currently serving as a Mayor’s Designate, Chair of City Council’s Special Committee on Governance, and Chair of City Council's Audit Committee. Deputy Mayor Holyday also sits on City Council's General Government and Licensing Committee, City Council’s Striking Committee, and Etobicoke York Community Council. Deputy Mayor Holyday is a member of the Board of Directors of the Hockey Hall of Fame, Exhibition Place Board of Governors and a member of the Canadian National Exhibition Association. Before being elected to public office, Stephen Holyday was Manager, Service Management at the Ontario Ministry of Energy. He holds a Bachelor of Technology in Architectural Science from Ryerson University. Through his previous experience as Vice-Chair of City Council's Employee and Labour Relations Committee, Mr. Holyday is familiar with compensation systems and related benefit programs at all levels.

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

Board/Committee Membership	**2018 Attendance**	
Board	5 of 5	100%
Human Resources and Environment Committee	3 of 4	75%
	2019 Attendance(1)	
Board	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2019 attendance is for the period of January 1, 2019 to the date of this AIF.

10.4 Executive Officers

The following table sets forth the name, province and country of residence, office, and principal occupation for each of the executive officers of the Corporation. 66.7% (2 out of 3) of the executive officers of the Corporation are female. 42.9% (3 out of 7) of the executive officers of LDC are female.

Name	Residence	Office	Principal Occupation
Anthony Haines(1)	Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Toronto Hydro Corporation
Aida Cipolla(2)	Ontario, Canada	Executive Vice-President, Chief Financial Officer	Executive Vice-President, Chief Financial Officer, Toronto Hydro Corporation
Amanda Klein(3)	Ontario, Canada	Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer	Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer, Toronto Hydro Corporation

Notes:

(1) Mr. Haines has been the President of LDC since September 2006. He was also appointed the CEO of the Corporation effective October 1, 2009.

(2) Ms. Cipolla was Manager, Corporate Accounting and External Reporting of LDC (from December 3, 2012 to December 20, 2015) and then Controller of LDC (from December 21, 2015 to August 26, 2018). Ms. Cipolla was appointed as the Corporation's Executive Vice-President and Chief Financial Officer effective as of August 27, 2018. She replaced Sean Bovingdon, the former CFO who left the Corporation.

(3) Ms. Klein was Director, Rates and Regulatory Affairs of LDC (from August 23, 2012 to December 31, 2014) until her appointment as Vice-President, Regulatory Affairs and General Counsel of the Corporation effective January 1, 2015. Ms. Klein was appointed Executive Vice-President, Regulatory Affairs and General Counsel of the Corporation effective September 1, 2016. There was a change in Ms. Klein's position and title as Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer effective as of October 1, 2018.

10.5 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

1. No director or executive officer of the Corporation is, as at the date of this AIF, or has within ten (10) years prior to the date of this AIF:

   (a) been a director, chief executive officer or chief financial officer of any company (including the Corporation) that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer;

   (b) been a director, chief executive officer or chief financial officer of any company (including the Corporation) that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

2. No director, executive officer of the Corporation or, to the Corporation's knowledge, the City is, as at the date of this AIF, or has within ten (10) years prior to the date of this AIF:

   (a) been a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

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

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

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

10.6 Independence

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

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

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

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

10.7 Board Orientation and Continuing Education

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

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

10.8 Board, Committee and Director Assessments

The Corporate Governance and Nominating Committee oversees a process used to evaluate the effectiveness of the Board as a whole, its committees and the individual directors. The process may be facilitated by an independent consultant with expertise in board assessments as selected by the Board. Alternatively, the Board may complete an internal assessment. The process may consist of an in-person interview and/or a written questionnaire evaluating the Board, its committees and the individual directors that are completed periodically by each director. The directors' responses to the questionnaire and/or interviews related to the operation of the Board and its committees are compiled into a summary report that is reviewed by the Chair of the Board. This report and recommended remedial actions are presented to the Board for review, consideration and implementation.

10.9 Board Oversight and Management of Risks

In accordance with its mandate, the Board is responsible for overseeing the identification of the principal risks of the business and implementation of appropriate systems to manage these risks. In 2009, Toronto Hydro adopted an ERM program to add value and improve the Corporation's operations through enabling the attainment of its strategic goals and objectives. The ERM program helps the Corporation achieve this by bringing a systematic and disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks applicable to Toronto Hydro. Accordingly, ERM is an integral part of the strategic management of the Corporation's business and is routinely considered in forecasting, planning and executing all aspects of Toronto Hydro’s operations. The ERM program follows industry best practices and international guidelines, adopting a rigorous top-down / bottom-up approach towards the management of risks.

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

10.10 Indebtedness of Directors and Executive Officers

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

PART 11 - AUDIT COMMITTEE

11.1 Composition, Independence and Financial Literacy

The Audit Committee is comprised of Michael Nobrega (Chair), Juliana Lam and Heather Zordel, each of whom is independent and financially literate within the meaning of applicable Canadian securities laws.

11.2 Audit Committee Charter

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

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

11.3 Policy on the Provision of Services by the External Auditors

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

- the external auditors may not provide services to Toronto Hydro that impair or have the potential to impair the independence and objectivity of the external auditors in relation to the external audit function (generally, prohibited services include services where the external auditors participate in activities that are normally undertaken by management of Toronto Hydro, are remunerated through a "success fee" structure, act in an advocacy role for Toronto Hydro or may be required to audit their own work);

- the Audit Committee has pre-approved certain audit and permitted non-audit services as services that the auditors may provide to Toronto Hydro, including: services that constitute the agreed scope of the external audit or interim reviews of Toronto Hydro; services that are outside the agreed scope of, but are consistent with, the external audit or interim reviews of Toronto Hydro; tax services that do not compromise the independence and objectivity of the external auditors in relation to the external audit; and other services of an advisory nature that do not compromise the independence and objectivity of the external auditors in relation to the external audit work; and

- an authorization process has been established which provides, among other things: the Chief Financial Officer may authorize in advance all engagements of the external auditors to provide pre-approved services (other than audit services) to Toronto Hydro up to a maximum of $25,000 for any engagement and up to a maximum of $100,000 for all engagements in any fiscal quarter (the Chief Financial Officer must report all such authorized engagements to the Audit Committee at its next meeting); the Chair of the Audit Committee may authorize in advance all engagements of the external auditors to provide pre-approved services (other than audit services) to Toronto Hydro up to a maximum of $50,000 for any engagement and up to a maximum of $100,000 for all engagements in any fiscal quarter (the Chair must report all such authorized engagements to the Audit Committee at its next meeting); and the Audit Committee must authorize in advance all engagements of the external auditors to provide pre-approved services to Toronto Hydro above the prescribed thresholds and all engagements to provide services that are not pre-approved services regardless of the dollar value of the services.

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

11.4 External Auditors Service Fees

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

	Year ended December 31,	
	2018	**2017**
Audit fees[(1)]	$659,830	$683,720
Audit-related fees[(2)]	$31,270	$32,000

Notes:

(1) Fees for audit services and interim reviews, excluding CPAB levy.

(2) Fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under (1) above, specifically French translation.

PART 12 - EXECUTIVE COMPENSATION

12.1 Compensation Governance

(a) Human Resources and Environment Committee

(i) *Composition and Independence*

The Human Resources and Environment Committee, under the direction of the Board has oversight for Toronto Hydro's senior executive compensation program. The Human Resources and Environment Committee is comprised of Brian Chu (Chair), Juliana Lam, Michael Nobrega, and Deputy Mayor Stephen Holyday. Mr. Chu, Ms. Lam, and Mr. Nobrega are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Deputy Mayor Holyday is not independent within the meaning of applicable Canadian securities laws. The appointment of one of the Corporation's City Councillor directors to the Human Resources and Environment Committee is a requirement under the Shareholder Direction.

(ii) *Human Resources and Environment Committee Charter*

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

(b) Compensation Risk Oversight

Toronto Hydro has a rigorous risk management and governance structure in place to assist the Board with its oversight and management of all of Toronto Hydro's risks, including risks related to Toronto Hydro's compensation policies and practices. While the Board and the Human Resources and Environment Committee have not conducted a formal assessment of the implications of risks specifically associated with Toronto Hydro's compensation policies and practices, the Human Resources and Environment Committee has and continues to consider the Corporation's strategic objectives, plans and risk strategy in its review and recommendations regarding Toronto Hydro's compensation program. In addition to Toronto Hydro's ERM program, the practices, processes and systems in place to identify and mitigate compensation policies and practices that could encourage an executive officer to take inappropriate or excessive risks include: the periodic review and audit of Toronto Hydro's senior executive compensation program by

Toronto Hydro's internal auditor; the development and application of a management control reporting system providing transparency and control to compensation measures; the use of a balanced scorecard of corporate, divisional and individual performance objectives; the periodic benchmarking of Toronto Hydro's compensation program; the review of Toronto Hydro's compensation program by an independent compensation consultant and, from time to time, the OEB; and the application of maximum payout amounts for achievement of individual performance goals. See Part 8 under the heading "Risk Factors – Risk Management" and section 10.9 under the heading "Board Oversight and Management of Risks" for more information on Toronto Hydro's ERM program, section 12.2(c)(ii) under the heading "Benchmarking" for more information on Toronto Hydro's benchmarking of its compensation program, section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the Corporation's compensation consultant and section 12.2(d)(ii) under the heading "Performance-Based Incentive Compensation" for more information on Toronto Hydro's performance-based incentive compensation program.

12.2 Compensation Discussion and Analysis

(a) Named Executive Officers

This Compensation Discussion and Analysis describes and explains all significant elements of compensation awarded to, earned by, paid to, or payable to the NEOs for the financial year ended December 31, 2018. The NEOs are:

(i) **Anthony Haines**
President and Chief Executive Officer, Toronto Hydro Corporation

(ii) **Sean Bovingdon**(1)
Former Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation

(iii) **Aida Cipolla**(2)
Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation

(iv) **Dino Priore**
Executive Vice-President and Chief Engineering and Construction Officer, Toronto Hydro-Electric System Limited

(v) **Ben La Pianta**(3)
Executive Vice-President and Chief Customer Care and Electric Operations Officer, Toronto Hydro-Electric System Limited

(vi) **Amanda Klein**
Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer, Toronto Hydro-Electric System Limited

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Notes:

(1) Effective, August 26, 2018, Mr. Bovingdon ceased his role as Executive Vice-President and Chief Financial Officer.

(2) Effective August 27, 2018, Ms. Cipolla began her role as Executive Vice-President and Chief Financial Officer.

(3) Effective January 1, 2018 Mr. La Pianta began his role as Executive Vice-President and Chief Customer Care and Electric Operations & Procurement Officer. Effective October 1, 2018, the position and title of Mr. La Pianta was changed to Executive Vice-President and Chief Customer Care and Electric Operations Officer.

(b) General Objectives of Compensation Program

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

(c) Process for Establishing Compensation

(i) *Policies and Practices*

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

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

The CEO has the responsibility to annually, and more frequently if appropriate, review and approve the individual performance-based incentive compensation goals and objectives related to the compensation of the other senior executive officers, including the NEOs, and assess the other senior executive officers' performance against those goals and objectives. The CEO proposes the other senior executive officers' performance-based incentive compensation and overall compensation, subject to the Human Resources and Environment Committee's review and approval.

(ii) *Benchmarking*

Toronto Hydro periodically benchmarks the compensation it provides to the NEOs to ensure reasonableness, competitiveness and effectiveness of Toronto Hydro’s compensation program, including the level and type of compensation provided. The Human Resources and Environment Committee periodically engages a compensation consultant to conduct executive compensation benchmarking for the NEOs, to ensure that Toronto Hydro is able to attract, retain and motivate high-performing senior executives in the markets in which we compete for talent.

Toronto Hydro’s objective is to pay competitively with other Canadian Utility and Energy Industry companies of comparable size and complexity. NEO compensation is generally benchmarked against:

- industry comparators in the public sector of like size: publicly owned utility / energy companies in Canada with revenues of approximately ½ to 2x Toronto Hydro’s distribution revenue and / or total revenue;
- publicly and privately owned (including publicly traded) utility / energy companies in Canada with revenues of approximately ½ to 2x Toronto Hydro’s distribution revenue and / or total revenue;
- industrial companies in the Greater Toronto Area (“GTA”);
- industrial companies in Canada; and
- public sector organizations in Canada.

The benchmark data comes from proprietary compensation surveys, and publicly disclosed executive compensation information in Canada.

Toronto Hydro’s flow-through revenue for electricity transmission and generation is excluded for purposes of identifying comparable general industry (i.e., non-local-distribution-company) peer companies, except in the case of the CFO, where the Toronto Hydro’s full revenue is also considered because Toronto Hydro believes this role’s accountability for cash management more closely matches organizations with similar total revenues. The senior executive compensation information derived from the benchmarking analysis is designed to assist the Human Resources and Environment Committee in establishing, over a reasonable period of time, total cash compensation for NEOs in the range of the median total cash compensation of the benchmark data. Total cash compensation to NEOs may exceed the median of the marketplace when corporate, divisional and individual performance significantly exceeds objectives.

(iii) *Compensation Consultants and Advisors*

The Human Resources and Environment Committee began engaging the services of Willis Towers Watson for senior executive compensation consulting services in 2016. The consulting services provided to the Human Resources and Environment Committee include providing advice on the competitiveness and appropriateness of Toronto Hydro's senior executive compensation program, compensation benchmarking services, and other compensation related matters that may arise from time to time. The Corporation also engages Willis Towers Watson for actuarial services. The Human Resources and Environment Committee or the Board is required to pre-approve the actuarial services Willis Towers Watson provides to Toronto Hydro in accordance with the Corporation's Policy on the Provision of Services by Compensation Advisors. The actuarial services provided by Willis Towers Watson do not present any conflicts with the services provided as compensation advisor to the Human Resources and Environment Committee.

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

	Year ended December 31,	
	2018	**2017**
Executive Compensation – Related Fees [(1)]	$20,779	$94,906
All Other Fees [(2)]	$88,050	$42,427

Notes:

(1) Aggregate fees billed by Willis Towers Watson, or any of its affiliates, for services related to determining compensation for any of Toronto Hydro's directors and executive officers.

(2) Aggregate fees billed by Willis Towers Watson, or any of its affiliates, for services related to employee compensation and benefits management consultation or actuarial services that are not reported under (1) above.

(d) Elements of Compensation

The principal components of compensation for NEOs are:

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

As the Corporation has a single shareholder that is the registered and beneficial owner of all of its issued and outstanding shares, the Corporation is not able to offer an equity incentive plan or other stock-based compensation to its NEOs.

(i) *Base Salary*

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

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

(ii) *Performance-Based Incentive Compensation*

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

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

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

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

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

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

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

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

(iii) *Personal Benefits and Perquisites*

Toronto Hydro provides NEOs with other personal benefits and perquisites that Toronto Hydro believes are reasonable and consistent with its overall compensation program to better enable the Corporation to attract and retain superior employees for key positions. Benefits include group health, dental, group life insurance, short-term and long-term disability, accidental death & dismemberment, a gym subsidy, and educational reimbursements, all of which are generally available to all salaried employees.

(iv) *Pension Plan*

All full-time employees of Toronto Hydro, including the NEOs, are required to participate in the OMERS pension plan. Pursuant to the terms of the OMERS pension plan, NEOs are required to make equal plan contributions based on their eligible pensionable earnings. In 2018, Toronto Hydro and each NEO was required to contribute 9.0% equally of the first $55,900 of pensionable earnings and thereafter 14.6% equally on all earnings over $55,900 and up to $175,223. From $175,223 and up to a maximum of $391,300, contributions continue equally at 14.6% towards a Retirement Compensation Arrangement (RCA), which is governed separately under the Canadian Income Tax Act. The OMERS pension plan is generally available to all other salaried employees. See section 4.6 (a) under the heading "Employees" for more information on the OMERS pension plan.

(v) *Post-employment Benefits*

NEOs are eligible to receive post-employment health, dental and life insurance benefits after a minimum of five years of service with Toronto Hydro if they retire from Toronto Hydro and begin collecting under the OMERS pension plan upon retirement. The post-employment benefits provided to eligible NEOs are the same as are generally available to all other salaried employees. Post-employment benefits aid in attracting and retaining key executives to ensure the long-term success of Toronto Hydro.

(vi) *Retirement Allowances*

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

(vii) *Termination Payments*

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

12.3 Compensation of Named Executive Officers

(a) Summary Compensation Table

The following table provides a summary of the compensation earned during the years ended December 31, 2018, 2017 and 2016, by the NEOs:

Summary Compensation Table[1]

NEO Name and Principal Position	Year	Salary[2] ($)	Non-Equity Incentive Plan Compensation[3] ($)	All Other Compensation[4] ($)	Total Compensation ($)
Anthony Haines President and Chief Executive Officer, Toronto Hydro Corporation	2018 2017 2016	$583,999 $548,490 $522,286	$570,068 $528,138 $508,551	$16,053 $10,452 $10,301	$1,170,120 $1,087,080 $1,041,138
Sean Bovingdon[5] Former Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation	2018 2017	$262,632 $274,039	$153,273 $166,500	$1,727 $200,000	$417,632 $640,539
Aida Cipolla[6] Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation	2018 2017 2016	$215,668 [6] $185,478 $163,246	$111,400 $71,250 $61,750	$1,560 $1,560 $1,058	$328,628 $258,288 $226,054
Dino Priore Executive Vice-President and Chief Engineering and Construction Officer, Toronto Hydro –Electric System Limited	2018 2017 2016	$377,561 $338,019 $326,019	$224,808 $211,371 $192,889	$4,580 $4,108 $2,330	$606,949 $553,498 $521,238
Ben La Pianta Executive Vice-President and Chief Customer Care and Electric Operations Officer, Toronto Hydro –Electric System Limited	2018 2017 2016	$346,704 $298,103 $287,100	$207,482 $195,137 $169,295	$9,133 $5,005 $3,823	$563,319 $498,245 $460,218
Amanda Klein Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer, Toronto Hydro –Electric System Limited	2018 2017 2016	$283,000 $237,767 $209,154	$169,800 $124,803 $114,819	$2,863 $0 $178	$455,663 $362,570 $324,151

Notes:

(1) Amounts shown in this table are in Canadian dollars and have been rounded to the nearest dollar.

(2) Amounts shown reflect actual amounts paid during the year.

(3) Each NEO's annual performance-based incentive compensation for a fiscal year is determined and paid in the next fiscal year. Accordingly, amounts reflected in respect of a particular year (i.e. 2017) represent the annual performance-based incentive compensation earned by the NEO for the achievement of performance objectives in respect of that fiscal year (i.e. 2017) but which amounts are paid in the following fiscal year (i.e. 2018).

(4) Amounts shown in this column reflect all other compensation earned by the NEO during the year. The amounts shown include the aggregate value of perquisites and other personal benefits provided to the NEO, where such perquisites and personal benefits are not generally available to all employees and have been calculated by using the actual cost. In 2018, 2017 and 2016, perquisites and personal benefits were not worth $50,000 or more for any NEO, nor were they worth 10% or more of any NEO's total salary for the year, with the exception of Mr. Bovingdon. Mr. Bovingdon received a one-time $200,000 relocation allowance when he joined the Corporation in 2017.

(5) Effective August 26, 2018, Mr. Bovingdon ceased to be Executive Vice-President and Chief Financial Officer of the Corporation. See section 12.3(b)(vii) under the heading "Termination Payments" for a discussion regarding additional amounts respecting termination.

(6) Effective August 27, 2018, Ms. Cipolla is the Executive Vice-President and Chief Financial Officer and her annual base salary was $250,563. Prior to this role, Ms. Cipolla was the Corporation's Controller since December 2015. Her 2018 performance-based incentive compensation was in respect of her role as the Controller and Executive Vice-President and Chief Financial Officer.

(b) Compensation of NEOs in 2018 – Narrative Discussion

(i) *Base Salaries*

The NEOs' annual base salaries for 2018 were: $584,685 in the case of Mr. Haines, $388,359 in the case of Mr. Bovingdon, $250,563 in the case of Ms. Cipolla, $379,744 in the case of Mr. Priore, $350,476 in the case of Mr. La Pianta, and $283,000 in the case of Ms. Klein.

(ii) *Performance-Based Incentive Compensation*

The targets and component weightings for the 2018 performance-based incentive compensation were as follows:

Position	Target Performance-Based Incentive (% of salary)	Individual Performance (% weighting)	Divisional Performance (% weighting)	Corporate Performance (% weighting)
CEO	65%	20%	—	80%
CFO	40%	20%	20%	60%
Other NEOs	40%	20%	20%	60%

The performance-based incentive compensation amount payable to each NEO may exceed the respective target % of base salary indicated above when results exceed corporate, divisional and individual objectives and may be below the respective target % of base salary indicated above when the corporate, divisional and individual objectives are not achieved. The component weightings outlined above have been unchanged since 2011.

The performance objectives of the Corporation for 2018 were as follows:

Corporate Key Performance Indicators	Measure	Target	Weight (%)
Consolidated Net Income ($M)	Net Income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements.	$148.0	40%
1-Year Distribution System Plan Investment ($M) (1)	TH Board approved cumulative regulated capital investments (not necessarily in service) as defined in the Distribution System Plan for the current year.	$435.0	5%
5-Year CIR Distribution System Plan Investment ($M) (1)	TH Board approved cumulative regulated capital investments (not necessarily in service) as defined in the Distribution System Plan for the five year rate period.	$1,942.6	5%
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.	29.00	10%
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.	0.54	10%
First Contact Resolution	Percentage of telephone and email enquiries resolved in one contact, within a 21 day time period	86%	5%
Bill Accuracy	The percentage of issued bills that are considered accurate or inaccurate as defined by the Ontario Energy Board.	98.8%	5%
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	96.5%	5%
Employee Engagement	Average number of engagement sessions attended per employee per year	6.0	5%
Safety – Total Recordable Injury Frequency (TRIF)	Number of recordable injuries x 200,000 / exposure hours.	1.45	10%

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

Corporate KPIs are cascaded down in the organization to create appropriate divisional performance objectives with strong line of sight.

Divisional KPIs support operational, financial, customer and employee targets. Weightings for these KPIs ranged from 5% to 25% of divisional performance. All divisional KPIs support achievement in the Corporation's four areas of focus: Customer, People, Operations, and Financial. These measures are aimed at increasing customer satisfaction, improving reliability, accomplishing LDC's work program safely and meeting regulatory requirements. Prioritization of these KPI's is determined based on divisional accountabilities. Some examples of Divisional measures are Customer Connection Index, Safety Inspections per Leader, Distribution System Health Index & Operating Expenses.

Performance-based incentives also include individual performance objectives which are set annually and are tied to business priorities and each individual's particular accountabilities. The number and weighting of individual objectives vary by individual and from year to year. Examples of the 2018 individual performance objectives for the NEOs include, but are not limited to, continuous improvement of operational processes to enhance performance and engagement.

In 2018, the Corporation exceeded all of its corporate targets represented by its KPIs. The NEOs exceeded the majority of their divisional and individual performance targets for 2018. Each of the corporate, divisional and individual performance targets were reasonably difficult to attain and served to encourage success in the NEOs performance and in the Corporation's overall results.

(iii) *Personal Benefits and Perquisites*

In 2018, the NEOs received personal benefits and perquisites as described in section 12.2(d)(iii) under the heading "Personal Benefits and Perquisites", and as quantified in the Summary Compensation Table in section 12.3(a) above.

(iv) *Pension Plan*

In 2018, each of the NEOs participated in the OMERS pension plan. The OMERS pension plan is a group pension plan that is generally available to all salaried employees. See section 4.6(a) under the heading "Employees" and section 12.2(d)(iv) under the heading "Pension Plan" for further information on the OMERS pension plan.

(v) *Post-employment Benefits*

As of December 31, 2018, Mr. Haines, Mr. Priore, Mr. La Pianta and Ms. Cipolla have each provided Toronto Hydro with more than five years of service and are eligible for post-employment medical, dental and life insurance benefits if they retire from Toronto Hydro and begin collecting under the OMERS pension plan upon retirement.

(vi) *Retirement Allowance*

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

Under the terms of Mr. Haines' existing retirement allowance (the "Existing Allowance"), if Mr. Haines is terminated (without cause) or retires from the Corporation during 2019, he will receive a $750,000 retirement allowance. The amount of the Existing Allowance payable to Mr. Haines will thereafter be increased by an additional $125,000 per year (from 2019 to 2020) for each full calendar year of service completed. The maximum Existing Allowance payable to Mr. Haines is $1,000,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2020. In the event that Mr. Haines becomes permanently disabled while in active service for the Corporation, he will be deemed to remain in active service for the Corporation until December 31, 2020, at which point he will be considered to have retired and earned the maximum Existing Allowance of $1,000,000. In the event of the death of Mr. Haines while in active service for the Corporation, the Existing Allowance which Mr. Haines would have earned as of the date of his death will be paid to his designated beneficiary or to the legal representative of Mr. Haines' estate.

As part of his compensation package, Mr. Haines also participates in the OMERS defined benefit pension plan. See "Pension Plan" above in section 12.3(b)(iv). OMERS made significant unilateral changes to its defined benefit pension plan that significantly reduce the value of Mr. Haines' pension benefit under the OMERS pension plan. In order to mitigate the impact of these changes in a manner consistent with the terms of his existing employment relationship with the Corporation, the Corporation has awarded Mr. Haines a second retirement allowance (the "Second Allowance"). Under the terms of the Second Allowance, if Mr. Haines is terminated (without cause) or retires from the Corporation during 2019, he will receive a $975,000 retirement allowance. The amount of the Second Allowance payable to Mr. Haines will thereafter be increased by an additional $225,000 per year (from 2019 to 2021) for each full calendar year of service completed. The maximum Second Allowance payable to Mr. Haines is $1,650,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2021. In the event that Mr. Haines becomes permanently disabled while in active service for the Corporation, he will be deemed to remain in active service for the Corporation until December 31, 2021, at which point he will be considered to have retired and earned the maximum Second Allowance of $1,650,000. The provisions relating to entitlement on death are identical to those established for the Existing Allowance.

(vii) *Termination Payments*

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

If the employment of Mr. Haines is terminated without cause by the Corporation, then Mr. Haines is entitled to a payment equal to 24 months of base salary and performance pay that would have been paid had he continued to work for 24 months (approximately $2,240,541 as at December 31, 2018), with the performance pay calculated based on the average annual performance pay earned by Mr. Haines during the 3 years preceding the date of termination. Mr. Haines would also be entitled to continued group health and dental benefit coverage for a period of 24 months from the date of termination.

Ms. Cipolla has entered into an agreement with the Corporation which provides for certain payments upon termination.

If the employment of Ms. Cipolla is terminated without cause by the Corporation, then Ms. Cipolla is entitled to one (1) month of severance pay for each completed year of employment, to a minimum of twelve (12) months and a maximum of eighteen (18) months, and would continue to be eligible for performance pay that would otherwise have been earned during the severance period. Ms. Cipolla would be entitled to benefits during the severance period.

In addition, and in connection with Mr. Bovingdon ceasing employment with the Corporation, Mr. Bovingdon was entitled to a termination payment in the aggregate amount of $580,569, representing 12 months of working notice of termination or pay in lieu thereof and performance pay that would otherwise have been earned and/or paid during the 12 month period of which $137,644 has been paid as of December 31, 2018, $341,019 is payable by December 31, 2019 and $101,906 will be payable by the end of 2020.

12.4 Compensation of Directors

(a) Director Compensation Table

Director Name	Total[1] ($)
David McFadden	$75,000
Brian Chu	$26,500
Heather Zordel	$26,500
Howard Wetston	$21,500
Juliana Lam	$26,500
Mary Ellen Richardson	$22,500
Michael Nobrega	$27,500
Tamara Kronis	$26,500
Deputy Mayor Denzil Minnan-Wong	$Nil
Councillor Paul Ainslie	$Nil
Deputy Mayor Stephen Holyday	$Nil

Note:

(1) There was no compensation paid to directors during 2018 other than in respect of director retainer fees and meeting attendance fees.

(b) Compensation of Directors – Narrative Discussion

Directors of the Corporation, other than Councillors of the City, are compensated for their services as directors through a combination of retainer fees and meeting attendance fees. These fees are set by the sole shareholder of the Corporation, the City. The annual retainer fees are as follows: chair of the Board – $75,000 and each of the other directors – $12,500. The meeting attendance fees are as follows: each meeting of the Board and the subsidiaries attended – $1,000 and each meeting of the Audit Committee, Corporate Governance and Nominating Committee, Human Resources and Environment Committee, or other Board committee attended – $1,000, subject to annual maximum fees per committee member of $5,000 for the Audit Committee, Corporate Governance Committee, Human Resources and Environment Committee or any other committee of the Board. The Board does, from time to time and in the normal course, strike ad hoc committees to streamline and expedite certain matters as they come before the Board. Any compensation Directors have earned from their attendance at these committees has been included in the table above. The Chair receives no meeting attendance fees. Councillors receive no remuneration for their services as directors of the Corporation. The other directors, other than the Chair, are subject to a maximum annual total retainer and attendance fees of $30,000.

PART 13 - LEGAL PROCEEDINGS

In the ordinary course of business, Toronto Hydro is subject to various legal actions and claims from customers, suppliers, former employees and other parties. As at the date hereof, the Corporation believes that none of these legal actions and claims from customers, suppliers, former employees and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on the Corporation. On an ongoing basis, Toronto Hydro assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy.

If damages were awarded under these actions, Toronto Hydro would make a claim under any applicable liability insurance policies which Toronto Hydro believes would cover any damages which may become payable by Toronto Hydro in connection with these actions, subject to such claim not being disputed by the insurers.

PART 14 - MATERIAL CONTRACTS

The following are material contracts (other than contracts entered into in the ordinary course of business) that the Corporation has entered into in the most recently completed financial year, or before the most recently completed financial year if such material contract is still in effect:

(a) trust indenture dated as of May 7, 2003 between Toronto Hydro Corporation and CIBC Mellon Trust Company (now BNY Trust Company of Canada) (the "**Trust Indenture**");

(b) a third supplemental trust indenture dated as of November 12, 2009 relating to the issuance of Series 3 senior unsecured debentures in the aggregate principal amount of $250,000,000;

(c) a sixth supplemental trust indenture dated as of May 20, 2010 relating to the issuance of Series 6 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(d) a seventh supplemental trust indenture made as of September 20, 2011 amending the definition of "GAAP" under the Trust Indenture;

(e) an eighth supplemental trust indenture dated as of November 18, 2011 relating to the issuance of Series 7 senior unsecured debentures in the aggregate principal amount of $300,000,000;

(f) a ninth supplemental trust indenture dated as of April 9, 2013 relating to the issuance of Series 8 senior unsecured debentures in the aggregate principal amount of $250,000,000;

(g) a tenth supplemental trust indenture dated as of April 9, 2013, as amended and restated as of September 2, 2015, relating to the issuance of Series 9 senior unsecured debentures in the aggregate principal amount of $245,000,000;

(h) an eleventh supplemental trust indenture dated as of September 16, 2014 relating to the issuance of Series 10 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(i) a twelfth supplemental trust indenture dated as of March 16, 2015 relating to the issuance of Series 11 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(j) a thirteenth supplemental trust indenture dated as of June 14, 2016 relating to the issuance of Series 12 senior unsecured debentures in the aggregate principal amount of $200,000,000; and

(k) a fourteenth supplemental trust indenture dated as of November 14, 2017 relating to the issuance of Series 13 senior unsecured debentures in the aggregate principal amount of $200,000,000.

Each of these supplemental trust indentures supplement the terms of the Trust Indenture, which contains customary covenants and representations by the Corporation for the public issuance of debt securities in the Canadian capital market.

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

PART 15 - NAMED AND INTERESTS OF EXPERTS

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

PART 16 - TRANSFER AGENTS AND REGISTRARS

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

PART 17 - ADDITIONAL INFORMATION

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

ANNEX A - CHARTER – AUDIT COMMITTEE

1. General

(1) The board of directors ***(Board)*** of Toronto Hydro Corporation ***(Corporation)*** has established the Audit Committee ***(Committee)*** to assist the Board and the boards of directors of the Corporation's subsidiary entities in fulfilling their respective corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit and external audit functions.

(2) The composition, responsibilities and authority of the Committee are set out in this Charter.

(3) This Charter and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Committee may adopt from time to time shall govern the meetings and procedures of the Committee.

2. Composition

(1) The Committee shall be composed of at least three persons who are directors of the Corporation ***(Members)***:

(a) all Members must be *independent*, (as determined by the Board in accordance with the meaning of "independence", as the context requires, given to it in the Canadian Securities Administrators' National Instrument 52-110 Audit Committees, as the same may be amended and/or replaced from time to time) ; and

(b) at least one of whom, including the chair of the Committee (***Chair***) is *financially literate* (ie, have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the accounting issues that can reasonably be expected to be raised by the financial statements of the Corporation).

(2) In addition to the Members, the Committee shall also include at least one director of Toronto Hydro-Electric System Limited who is not also a director of the Corporation (***THESL Members***). The THESL Members shall be invited to all the meetings of the Committee, shall be entitled to receive all Committee materials and to participate in all Committee discussions and deliberations, but shall have no voting rights.

(3) Members and THESL Members shall be appointed by the Board on the recommendation of the Chair of the Board and the Chair of the THESL Board, respectively, and shall serve until they resign, cease to be a director of the respective board, as applicable, or are removed or replaced by the Board.

(4) The Board shall designate one of the Members as Chair. The Committee shall periodically review the position description of the Chair and make recommendations to the Board.

(5) The Executive Vice-President and Chief Financial Officer (***Designated Representative)*** shall be appointed from time to time to act as the principal interface between the Committee and other senior management of the Corporation and its subsidiary entities.

(6) The Secretary of the Corporation shall be secretary of the Committee ***(Secretary)***.

(7) The Chair of the Corporation's Board of Directors shall be an *ex-officio* Member of the Committee with all of the responsibilities and privileges thereof, but shall only count towards meeting quorum if he or she is present at the meeting.

3. Responsibilities

The Committee shall assist the Board and the boards of directors of the Corporation's subsidiary entities in fulfilling their corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit functions, external audit functions, and the payment of dividends by the Corporation and its subsidiary entities.

The Committee has specifically recognized its responsibilities for overseeing the identification of the principal financial and audit risks of the Corporation and its subsidiary entities and overseeing the implementation of appropriate systems to manage these risks. In particular, the Committee shall have the responsibilities set out below.

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

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

(a) appointing and replacing the external auditors, subject to the Boards of Directors and shareholder approval;

(b) setting the compensation of the external auditors subject to the approval of the board of directors or shareholder, as applicable;

(c) overseeing the work of the external auditors, including resolving disagreements between management and the external auditors with respect to financial reporting;

(d) pre-approving all audit services and permitted non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors in accordance with the "Policy on the Provision of Services by the External Auditors";

(e) having the external auditors report to the Committee in a timely manner with respect to all required matters, including those set out in paragraph 3(2);

(f) ensuring the rotation of the audit partner having primary responsibility for the external audits of the Corporation and its subsidiary entities, the audit partner responsible for reviewing the external audit and the external auditors at such intervals as may be required; and

(g) reviewing and assessing the performance, independence and objectivity of the external auditors.

(2) ***Overseeing the External Audits***

The Committee shall be responsible for overseeing the external audits of the Corporation and its subsidiary entities, including:

(a) reviewing and approving the engagement letters and the audit plans, including financial risk areas identified by the external auditors and management;

(b) reviewing and assessing the accounting and reporting practices and principles used by the Corporation and its subsidiary entities in preparing their financial statements, including:

(1) all significant accounting policies and practices used, including changes from preceding years and any proposed changes for future years;

(2) all significant financial reporting issues, estimates and judgments made;

(3) all alternative treatments of financial information discussed by the external auditors and management, the results of such discussions and the treatments preferred by the external auditors;

(4) any major issues identified by the external auditors with respect to the adequacy of internal control systems and procedures and any special audit steps adopted in light of material deficiencies and weaknesses;

(5) the effect of regulatory and accounting initiatives and off-balance sheet transactions or structures on the financial statements;

(6) any errors or omissions in, and any required restatement of, the financial statements for preceding years;

(7) all significant tax issues;

(8) the reporting of all material contingent liabilities; and

(9) any material written communications between the external auditors and management;

(c) reviewing and assessing the results of the external audit and the external auditors' opinion on the financial statements;

(d) reviewing and discussing with the external auditors and management any management or internal control letters issued or proposed to be issued by the external auditors;

(e) reviewing and discussing with the external auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management); and

(f) reviewing and discussing with legal counsel any legal matters that may have a material impact on the financial statements, operations, assets or compliance policies of the Corporation and its subsidiary entities and any material reports or enquiries received by the Corporation and its subsidiary entities from regulators or government agencies.

(3) ***Overseeing the Internal Audits***

The Committee shall be responsible for overseeing the internal audits of the Corporation and its subsidiary entities, including:

(a) periodically reviewing the Internal Audit Charter and making recommendations to the Board;

(b) reviewing and approving the audit plans, including significant risk exposures identified by the internal auditor and management;

(c) reviewing and discussing with the internal auditor and management the results of any internal audits;

(d) reviewing and discussing with the internal auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management);

(e) appointing and replacing the internal auditor;

(f) reviewing and assessing the performance of the internal auditor;

(g) ensuring the Committee is kept informed of emerging trends and successful practices in internal auditing; and

(h) confirming there is effective and efficient coordination of activities between internal and external auditors.

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

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

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

(b) major estimates or judgments, including alternative treatments of financial information discussed by management and the external auditors, the results of such discussions and the treatment preferred by the external auditors;

(c) material financial risks;

(d) material transactions;

(e) material adjustments;

(f) compliance with loan agreements;

(g) material off-balance sheet transactions and structures;

(h) compliance with accounting standards;

(i) compliance with legal and regulatory requirements;

(j) controls; and

(k) disagreements with management.

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

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

(a) reviewing and discussing with management and the external auditors the quality and adequacy of internal control over financial reporting structures of the Corporation and its subsidiary entities, including any major deficiencies or weakness and the steps taken by management to rectify these deficiencies or weaknesses;

(b) reviewing and discussing with management, the internal auditor and the external auditors the risk assessment and risk management policies of the Corporation and its subsidiary entities, the major financial risk exposures of the Corporation and its subsidiary entities, and the steps taken by management to monitor and control these exposures;

(c) reviewing and discussing with the Chief Executive Officer and the Chief Financial Officer of the Corporation the procedures undertaken by them in connection with the certifications required to be given by them in connection with annual and other filings required to be made by the Corporation under applicable securities laws; and

(d) periodically reviewing the Treasury Policy Register and making recommendations to the Board in respect of such policy and reviewing performance under this policy with Management.

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

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

(a) the review of the public disclosure of financial information extracted from the financial statements of the Corporation;

(b) the receipt, retention and treatment of complaints received by the Corporation with respect to accounting, internal controls or auditing matters;

(c) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

(d) the approval by the Committee of the hiring policies for any present or former partner or employee of the current and former external auditor into a position of senior management with the Corporation or its subsidiaries; and

(e) the periodic review of the Policy on the Provision of Services by the External Auditors and Expense Reimbursement Policy, and provision of recommendations to the Board in respect of the same.

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

(a) The Committee shall be responsible, on a quarterly basis, for reviewing and reporting to the Board in respect of the report of Internal Audit with respect to incidents regarding questionable accounting or auditing matters investigated under the Code of Business Conduct and Whistleblower Procedure during the previous quarter.

(b) The Committee shall be responsible for reviewing, on a quarterly basis, the report of Internal Audit concerning executive and Board expense reimbursements made in accordance with the Corporation's Expense Reimbursement Policy for the immediately preceding quarter.

(8) ***Review and Recommendations for Dividend Payment***

(a) The Committee shall be responsible for reviewing and making recommendations to each respective board of directors, as applicable, with respect to the declaration of dividends or distribution of capital by the Corporation or its subsidiary entities.

4. Authority

(1) The Committee is authorized to carry out its responsibilities as set out in this Charter and to make recommendations to the Board and the boards of directors of the Corporation's subsidiaries arising therefrom.

(2) The Committee may delegate by written policy to the Chair and the Executive Vice-President and Chief Financial Officer of the Corporation ***(CFO)*** the authority, within specified limits, to authorize in advance all engagements of the external auditors to provide pre-approved services to the Corporation and its subsidiary entities. The Chair and the CFO shall report all engagements authorized by them to the Committee at its next meeting.

(3) The Committee shall have direct and unrestricted access to the external and internal auditors, officers and employees and information and records of the Corporation and its subsidiary entities.

(4) The Committee is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.

(5) The Committee is authorized to invite officers and employees of the Corporation and its subsidiaries and outsiders with relevant experience and expertise to attend or participate in its meetings and proceedings if it considers this appropriate.

(6) The external auditors shall have direct and unrestricted access to the Committee and shall report directly to the Committee.

(7) The Corporation shall pay directly or reimburse the Committee for the expenses incurred by the Committee in carrying out its responsibilities, in accordance with the Corporation's Expense Reimbursement Policy.

5. Meetings and Proceedings

(1) The Committee shall meet as frequently as required but not less frequently than four times each year.

(2) Any Member or THESL Member or the Secretary may call a meeting of the Committee. The external auditors or the CFO may ask a Member to call a meeting of the Committee. The Chair, along with the Designated Representative, is responsible for the agenda of each meeting of the Committee, including input from the officers and employees of the Corporation and its subsidiary entities, external auditors, other Members and THESL Members, and other directors of the Corporation as appropriate. Meetings will include presentations by management and others when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

(3) Unless waived by all Members and THESL Members, a notice of each meeting of the Committee confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded, electronically or otherwise, to each Member and THESL Member at least three days before the date of the meeting.

(4) The quorum for each meeting of the Committee is at least 50% of the Members. In the absence of the Chair, the other Members may appoint one of their number as chair of a meeting. The Chair of a meeting shall not have a second or casting vote.

(5) The Chair or a delegate of the Chair shall report to the Board following each meeting of the Committee.

(6) The Secretary or a delegate of the Secretary shall keep minutes of all meetings of the Committee, including all resolutions passed by the Committee. Minutes of all meetings shall be distributed to the Members and THESL Members. The minutes shall be available for review by the other directors of the Corporation after approval thereof by the Committee.

(7) An individual who is not a Member may be invited to attend a meeting of the Committee for all or part of the meeting. A standing invitation to all meetings shall be given to the President and Chief Executive Officer of the Corporation and the CFO, except where the meeting, or part of the meeting, is for Members only or a private session with the internal auditor or the external auditors. A standing invitation should be given to the internal auditor and the engagement partners of the external auditors for all meetings where financial information is reviewed and approved.

(8) The Committee shall meet regularly alone and in private sessions with the Vice President, Audit and Corporate Compliance, the external auditors and management of the Corporation to facilitate full communication.

6. Review

(1) This Charter shall be reviewed by the Corporate Governance and Nominating Committee of the Corporation every three (3) years and any recommended changes shall be referred first to the Audit Committee for review and comment and second, after consideration of the input from the Audit Committee, to the Board of the Corporation for consideration and disposition.

(2) In addition to the triennial review, the Audit Committee may at any time review the Charter and make recommendations to the Corporate Governance and Nominating Committee for their review and recommendations to the Board with respect thereto.

ANNEX B - MANDATE – BOARD OF DIRECTORS

1. General

(1) The board of directors ***(Board)*** of *Toronto Hydro Corporation* ***(Corporation)*** is responsible for supervising the management of the business and affairs of the Corporation and its subsidiary entities ***(Group)***.

(2) The composition, responsibilities, and authority of the Board are set out in this Mandate.

(3) This Mandate, the Shareholder Direction issued by the City of Toronto ***(Shareholder)*** and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Board may adopt from time to time shall govern the meetings and procedures of the Board.

2. Composition

(1) The directors of the Corporation ***(Directors)*** should have a mix of competencies and skills necessary to enable the Board and Board committees to properly discharge their responsibilities.

(2) All of the Directors shall be residents of Canada.

(3) The Shareholder shall appoint Directors every two years.

(4) In appointing Directors the Shareholder shall give due regard to the qualifications of the candidates including:

(a) experience on a public utility commission or board of a major corporation or other commercial enterprise and/or the completion of formal training in directorship / governance;

(b) experience in regulated electricity utility sector at a senior management level;

(c) experience at an executive level in resource and performance management / compensation, including ability to appoint and evaluate the performance of the CEO and senior executives; oversee strategic human resource management, including workforce planning, compensation models, and labour relations; and oversee large scale organizational change;

(d) educational background, including university degrees and professional designations;

(e) experience or knowledge with respect to:

i) strategic planning, including ability to identify and critically assess strategic opportunities and threats to the organization;

ii) risk management, including ability to assess key risks to the organization on an enterprise basis and monitor the risk management framework systems;

iii) corporate finance / accounting / audit / securities, including ability to analyze financial statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements;

iv) corporate governance;

v) market development, innovation and development of new strategic business lines;

vi) large system operation and management;

vii) urban energy industries;

viii) public policy issues and laws relating to the Corporation and its subsidiary entities and the electricity industry;

ix) environmental matters, including experience in environmental management;

x) labour relations;

xi) occupational health and safety issues;

xii) information technology governance, including privacy, data management and security;

xiii) legal and regulatory compliance, including ability to monitor compliance of legal and regulatory requirements;

xiv) stakeholder engagement / advocacy / communications, including ability to effectively engage and communicate to industry stakeholders and advocate on behalf of the organization;

(f) the following interpersonal skills and attributes:

i) leadership, including ability to make, and take responsibility for, decisions and take necessary actions in the best interest of the organization, set appropriate Board and organizational culture and represent the organization favourably;

ii) personal integrity / ethics, including understanding and fulfilling the duties and responsibilities of a director, being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining Board confidentiality;

iii) communications skills, including ability to listen constructively and appropriately debate others' viewpoints, develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders;

iv) constructive questioning, including preparedness to ask questions and challenge management and peer directors in a constructive and appropriate manner;

v) critical and innovative thinking / decision making, including ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems;

vi) influencing and negotiating, including ability to negotiate outcomes and influence others to agree with those outcomes and gain stakeholder support for the Board's decisions;

vii) crisis management, including ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders;

viii) individual and team contribution, including ability to work as part of a team, and demonstrate the passion and time to make a genuine and active contribution to the Board and the organization;

ix) commercial sensitivity and acumen; and

x) independence of judgement

(g) at least three directors with financial management expertise.

(5) The Board shall appoint a Chair of the Board upon the nomination of the Shareholder from time to time.

(6) The Secretary of the Corporation shall be secretary of the Board ***(Secretary)***.

3. Responsibilities

(1) The Board is responsible for supervising the management of the business and affairs of the *Group*, including the following specific matters:

a) establishing sound financial principles and performance objectives;

b) approving any dividend payment or distribution of capital;

c) appointing the officers of the Corporation;

d) approving the overall business strategy and related business plan;

e) approving the financing strategy, including the selection of financial institutions and related banking authorities;

f) directing labour and employee relations matters; and

g) approving the financial statements in accordance with the requirements of the *Business Corporations Act* (Ontario).

(2) In discharging their responsibilities, the Directors owe the following duties to the Corporation:

a fiduciary duty: they must act honestly and in good faith with a view to the best interests of the Corporation; and

a duty of care: they must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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

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

(3) The Board has specifically recognized its responsibilities for:

(a) to the extent feasible, satisfying itself as to the integrity of the President and Chief Executive Officer ***(CEO)*** and other senior officers of the Group and that the CEO and other senior officers of the Group create a culture of integrity throughout the Group;

(b) adopting a strategic planning process and approving annually (or more frequently if appropriate) a strategic plan which takes into account, among other things, the opportunities and risks of the business of the Group;

(c) considering and overseeing the strategic development of new business opportunities and innovation;

(d) overseeing the identification of the principal risks of the business of the Group and overseeing the implementation of appropriate systems to manage these risks;

(e) interaction of the Board with the Shareholder in accordance with the Shareholder Direction subject to the duties of the Directors at law;

(f) overseeing the integrity of the internal control and management information systems of the Group;

(g) succession planning (including appointing, training and monitoring the senior officers of the Corporation);

(h) recruiting and assessing the performance of the CEO, the compensation of the CEO and other officers of the Group, executive compensation disclosure and oversight of the compensation structure and benefit plans and programs of the Group;

(i) assessing the effectiveness of the Board;

(j) adopting a disclosure policy for the Group;

(k) developing and overseeing the orientation of new Directors, and the continuing education of existing Directors, of the Group; and

(l) developing the approach of the Corporation to corporate governance including a periodic review of the Code of Business Conduct and Whistleblower Procedure of the Group.

(4) In addition to those matters which must by law be approved by the Board, the Board oversees the development of, and reviews and approves, significant corporate plans and initiatives, including the annual business plan and budget, major acquisitions and dispositions and other significant matters of corporate strategy or policy, including the Environmental Policy, Occupational Health and Safety Policy, Code of Business Conduct and Whistleblower Procedure, Disclosure Policy, Signing Policy and Treasury Policy.

(5) In undertaking its responsibilities and overseeing and authorizing the activities of the Corporation, the Board shall consider the interests of its customers, as well as considering and balancing the interests of such other stakeholders as appropriate in the circumstances.

(6) The Board shall periodically review the Shareholder Direction and make recommendations to the Shareholder to facilitate and clarify interaction and communication between the Shareholder and the Board.

(7) The Board shall periodically review the performance of the Board and the Corporation's subsidiary entities against the Shareholder Direction.

(8) The Board shall periodically review the structure and mandate of each Board committee, the effectiveness of each committee, and the appointment and removal of committee members.

(9) The Board shall periodically review performance under the Environmental Policy with management.

(10) To assist the Directors in discharging their responsibilities, the Board expects management of the Corporation to:

(a) review and update annually (or more frequently if appropriate) the strategic plan and report regularly to the Board on the implementation of the strategic plan in light of evolving conditions;

(b) prepare and present to the Board annually (or more frequently if appropriate) a business plan and budget and report regularly to the Board on the Group's performance against the business plan and budget; and

(c) report regularly to the Board on the Corporation's business and affairs and on any matters of material consequence for the Corporation and its Shareholder.

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

(11) The Board considers that generally management should speak for the Corporation in its communications with securities holders and the public. The Board reviews the Corporation's continuous and timely material disclosure with securities holders and the public. All disclosures on behalf of the Corporation are to be made in compliance with the Corporation's disclosure policy.

(12) Directors are expected to attend Board meetings and meetings of Board committees of which they are members. Directors are also expected to spend the time needed, and to meet as frequently as necessary, to discharge their responsibilities.

(13) Directors are expected to undertake such activities as are required from them to remain current in their knowledge of issues relating to the business of the Group and matters relating to any Board committee of which they are members.

(14) Directors are expected to comply with the Code of Business Conduct and Whistleblower Procedure of the Group.

4. Authority

(1) The Board is authorized to carry out its responsibilities as set out in this Mandate.

(2) The Board is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.

(3) The Board is authorized to invite officers and employees of the Corporation and others to attend or participate in its meetings and proceedings if it considers this appropriate.

(4) The Directors have unrestricted access to the officers of the Corporation. The Directors will use their judgment to ensure that any such contact is not disruptive to the operations of the Corporation and, except for the chair of any committee established by the Board, will advise the Chair and the CEO of the Corporation of any direct communications between them and the officers of the Corporation.

(5) The Board and the Directors have unrestricted access to the advice and services of the Secretary.

(6) The Board may delegate certain of its functions to Board committees, each of which will have its own charter.

5. Meetings and Proceedings

(1) The Board shall meet as frequently as is determined to be necessary but not less than four times each year.

(2) Any Director or the Secretary may call a meeting of the Board.

(3) The Chair is responsible for the agenda of each meeting of the Board, including input from other Directors and the officers and employees of the Corporation as appropriate. Meetings will include presentations by management and others when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

(4) Unless waived by all Directors, a notice of each meeting of the Board confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded to each Director at least 48 hours before the date of the meeting.

(5) The quorum for each meeting of the Board is a majority of the number of Directors. In the absence of the Chair, the other Directors shall appoint one of their number as chair of a meeting. The chair of a meeting shall not have a second or casting vote.

(6) The Secretary or his delegate shall keep minutes of all meetings of the Board, including all resolutions passed by the Board. Minutes of meetings shall be distributed to the Directors.

(7) An individual who is not a Director may be invited to attend a meeting of the Board for all or part of the meeting.

(8) The Directors shall meet alone regularly to facilitate full communication.

6. Review

(1) This Mandate shall be reviewed by the Corporate Governance Committee every 3 years and any recommended changes shall be brought to the Board of the Corporation for consideration and disposition.