

Attachment 2

2012 Audited Consolidated Financial Statements of Toronto Hydro Corporation

Date:	April 22, 2013
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer

Disclosure of Financial Results:

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

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

The *Business Corporations Act*, Ontario ("OBCA") (s.94) requires that an annual meeting of shareholders be called no later than 15 months after the last preceding annual meeting. The last annual general meeting of the Corporation was held at the Council meeting of July 11, 12, and 13, 2013 (Executive Committee Report No. EX21.2).

2012 Audited Consolidated Financial Results

Toronto Hydro Corporation's financial statements have been prepared to consolidate the operations of the following two wholly-owned subsidiaries: Toronto Hydro-Electric System Limited ("THESL"), and Toronto Hydro Energy Services Inc. ("THESI"). The principal business of the Toronto Hydro Corporation is the distribution of electricity by THESL. THESI provides street lighting services to the City of Toronto and have only a minor impact on the consolidated figures. Below is a summary of comparable financial data for 2012 and 2011:

\$million

Toronto Hydro Corporation: Key Financials	2012	2011	Increase/ (Decrease)	% Change
<u>Balance Sheet as at Dec 31</u>				
Cash	76.6	154.3	(77.7)	-50.4%
Assets	3,539.4	3,527.5	11.9	0.3%
Debentures	1,469.5	1,469.5	-	0.0%
Shareholder's Equity	1,140.3	1,102.2	38.1	3.5%
<u>Income Statement for the year ended Dec 31</u>				
Gross Revenues	2,852.5	2,823.5	29.0	1.0%
Purchased Power and Other	2,275.2	2,236.5	38.7	1.7%
Gross Margin	577.3	587.0	(9.7)	-1.7%
Operating Expenses	245.2	262.2	(17.0)	-6.5%
Depreciation and Amortization	141.5	151.2	(9.7)	-6.4%
Net Financing Charges	74.0	75.3	(1.3)	-1.7%
Gain on Disposal of Assets	(1.8)	(3.9)	2.1	-53.8%
Restructuring Costs	27.8	0	27.8	100.0%
Provision for PILs	4.6	6.3	(1.7)	-27.0%
Net Income	86.0	95.9	(9.9)	-10.3%
Capital Expenditures	290.4	437.1	(146.7)	-33.6%
Dividends Paid	48.0	33.1	14.9	45.0%

Gross revenues reflect all billed electricity charges, including those collected for the electricity commodity, transmission debt reduction and street lighting. Gross Margin is Toronto Hydro revenue collected for its own activities, almost entirely electricity distribution. The decrease in revenue is a result of lower electricity volumes, compounded by the delayed implementation (to 2013) of the 2012 rate increase.

For the fiscal year ended December 31, 2012 the Corporation generated a consolidated net income of \$86.0 million as compared with \$95.9 million in 2011, a decrease of \$9.9 million (or 10.3%). The decrease in net income was primarily due to restructuring costs of \$27.8 million partially offset by a reduction in operating expenses by \$17.0 million as a result of the restructuring. Restructuring was deemed necessary to mitigate revenue risk when the Ontario Energy Board required THESL to resubmit its 2012 rate application, ultimately delaying the final 2012 rate approval until early 2013.

In the first quarter of 2012, THC's Board of Directors approved a workforce restructuring program to reduce operating costs. The program costs were mainly severance for terminated management employees, and a voluntary exit incentive for targeted unionized positions. Other actions included the deferral of various planned capital expenditures and the release of related capital project contractors.

Capital expenditures declined substantially in 2012 due to the protracted rate application and uncertainty in regard to approved (for recovery from rates) expenditure levels. 2012

expenditures were well below previously planned expenditures to maintain the distribution system. The lower expenditure level will have some undetermined impact on system reliability, and delay revenue growth.

Subsequent Events

Toronto Hydro Corporation's first quarter unaudited statements are expected to be released before this report is considered by Council, but were not available at the time this report was written. The Deputy City Manager and Chief Financial Officer will provide a verbal update on the status of these statements.

The Ontario Energy Board recently approved THESL's distribution rate application for the period June 1, 2012 to May 31, 2014. Electricity distribution rates were increased by 0.68% retroactive to June 1, 2012, and are expected to increase by less than 1% each subsequent year over this period under the OEB rate review framework. The OEB recently approved THESL's 2012 and 2013 applications. The 2014 applications will be considered in the coming months. The 2015 rates are expected to be subject to "re-basing", taking into account all changes to costs and capital requirements.

In accordance with the shareholder direction, the City expects to receive dividends of \$43.0 million in 2013 based on 50% of 2012 net income of \$86.0 million. The City budgeted \$45 million for THC dividends in 2013.

CONTACT

Rob Hatton
Director, Strategic Initiatives & Intergovernmental Finance, Corporate Finance Division
Tel: (416) 392-9149;
Fax: (416) 397-4555; E-mail: rhatten@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager and Chief Financial Officer

ATTACHMENTS:

Appendix A - 2012 Audited Consolidated Annual Financial Statements of Toronto Hydro Corporation