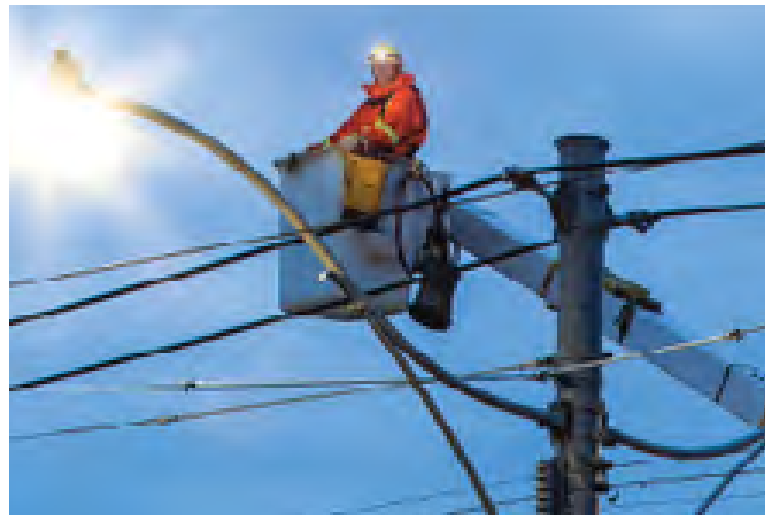
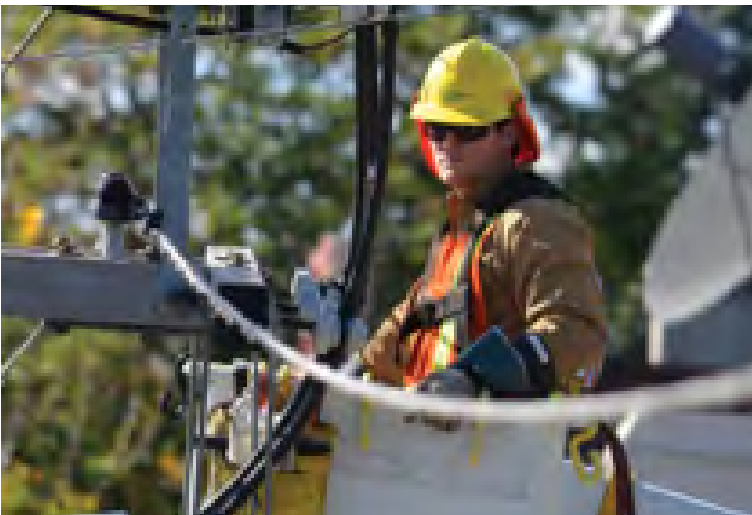


THE MEASURE OF OUR COMMITMENT



MESSAGE FROM THE CHAIRMAN OF THE BOARD



On June 23, 1999 Toronto Hydro Corporation (the “Corporation”) was incorporated under the Ontario Business Corporations Act, by the City of Toronto, its sole shareholder. Changes were happening at a rapid pace across Ontario’s electricity sector, and I was asked by the City to assume the Chairmanship of the new Corporation. The amalgamation of the former Metropolitan Toronto electricity utilities had been completed and the company’s customer base tripled in size in just 12 months. The company was well-positioned to take a leadership role in the provincial energy industry and I accepted the challenge.

The City had recruited a slate of eight top business-people with extensive Board experience from a range of commercial enterprises, and City Council had also appointed three Councillors to the inaugural Board of Directors. An experienced management team was in place, and together we began the process of defining and creating a corporate structure that would be the strategic foundation upon which the successful business would be built.

Like most business sectors, the electricity industry has been in a state of continuous change over the past decade. However, the foundation that we laid in 1999 has enabled Toronto Hydro to adapt quickly to the changing business environment and to continually move forward with confidence. The company has always been focussed on delivering excellent customer service, providing a safe and reliable supply of electricity to Toronto, and increasing the value of Toronto Hydro for our shareholder. This focus has enabled us to set our priorities over the years with clear objectives in mind.

In 1999, who could have foreseen what was ahead of us? Ice storms, hurricanes, and the blackout in 2003 that hit the north-eastern United States and Canada, underscoring the importance of investments in critical, aging infrastructure. The launching of innovative conservation and demand management (“CDM”) programs

THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



MESSAGE

to help our customers manage their electricity bills. The introduction of time-of-use rates, smart meters and smart grids. A tough recession that changed the business landscape in Ontario significantly. And our own investments of almost \$2 billion to renew Toronto Hydro's distribution grid, so that it will meet the needs of our customers today and for many years to come.

Now, after 14 years at the helm, I am retiring from the Board of Directors with pride in what we have achieved in such a short time. We have established a sound capital structure that is enabling the company to invest in its critical infrastructure assets and addressing systemic service reliability problems. We are growing the company's asset base while maintaining solid investment grade financial performance. We have delivered approximately \$2 billion to the City, while increasing productivity and reducing staffing levels significantly. Our workplace safety record is among the best in our industry. We are deeply involved in the community through our support of many social, environmental and educational programs. In just 14 years, we have become recognized as one of the most successful and innovative energy companies in Canada.

I would like to express my sincere thanks to all of the talented and committed business people and City Councillors who have served with me on the Board at Toronto Hydro. Your wise counsel and guidance have helped the company to rise to the challenges that are behind us, and to prepare the company for what lies ahead. Also, to the professional management teams that have worked so well with the Board since those early days, I extend my appreciation for your leadership and best wishes for your future endeavours. The employees who work for Toronto Hydro are dedicated to providing excellent customer service and safety, and they are among the best in the industry.

Finally, I want to thank The Mayor and the Councillors of the City of Toronto for their trust and support as we have written another incredible chapter in the long, proud history of Toronto Hydro.

I am pleased to present this Annual Report containing the highlights of our operational performance in 2012, and our consolidated financial statements for the year.

A handwritten signature in black ink, appearing to read "CR Copeland".

Clare R. Copeland

Chairman



GOVERNANCE



CORPORATE GOVERNANCE

The Corporation has developed sound corporate governance practices. The Corporation's Board of Directors and management believe that strong corporate governance is essential for creating shareholder value and maintaining investor confidence.

BOARD OF DIRECTORS

The Board of Directors of the Corporation is responsible for supervising the business and affairs of the Corporation and providing strategic guidance to management. The Board of Directors of the Corporation is composed of eight independent directors and three city councillors. All directors are appointed by the sole shareholder of the Corporation. The Board of Directors has four regularly scheduled meetings each year but meets as often as is necessary to fulfill its responsibilities to the Corporation.

The Board of Directors has worked to put in place a system of corporate governance that meets the requirements of applicable provincial legislation and Canadian Securities rules. As part of its ongoing commitment to corporate governance, the Board of Directors operates in accordance with a board mandate, and its committees operate in accordance with committee charters, which are all reviewed and approved by the Board of Directors.

The members of the Corporation's Board of Directors as of December 31, 2012 are introduced here. The description indicates committee and subsidiary Board of Directors' participation.

GOVERNANCE

BOARD OF DIRECTORS *(continued)*

Effective January 1, 2013, Councillor Gloria Lindsay Luby was appointed as a Director of the Corporation.

Effective April 15, 2013, David Williams was appointed Chair of the Corporation. Glenna Carr, Sara Gelgor, Colum Bastable and Isabel Meharry were appointed Directors of the Corporation.

CODE OF BUSINESS CONDUCT AND CORPORATE RESPONSIBILITY

All employees, officers and directors of Toronto Hydro are required to comply with the principles set out in the Code of Business Conduct, which was implemented by the Corporation in 2004 and most recently amended and approved by the Board of Directors in November 2012. 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. The Ethics Officer reports quarterly to the Audit Committee of the Board on the nature of complaints received including those related to audit and accounting matters. Where the complaint involves the conduct of a director or officer of the Corporation, the Ethics Officer is required to report it to the Chair of the Audit Committee, who oversees the investigation of that complaint. A copy of Toronto Hydro's Code of Business Conduct is available on our website.

DISCLOSURE

The Board of Directors recognizes the importance of complying with all disclosure requirements applicable by provincial Securities rules and is committed to promoting consistent disclosure practices aimed at accurate and timely disclosure of material information. To ensure consistent and appropriate disclosure practices, the Corporation has adopted a Disclosure Policy to govern the disclosure by its employees, officers and directors of material information about the Corporation and has established a Disclosure Committee composed of senior executives to assist the Chief Executive Officer and the Chief Financial Officer in making accurate, complete and timely disclosure. The composition and operation of the Disclosure Committee are established in the Disclosure Policy.

COMMITTEES

The Board of Directors believes that its ability to discharge its responsibilities is enhanced by the active participation of committees in the corporate governance process. Currently there are four committees of the Board of Directors: Corporate Governance, Audit, Compensation, and Health and Safety. Each committee meets regularly throughout the year and provides a report at meetings of the Board of Directors on material matters considered by the committee.

GOVERNANCE

AUDIT COMMITTEE

The Audit Committee is responsible for overseeing the adequacy and effectiveness of financial reporting, accounting systems and internal controls. The Audit Committee reviews the Corporation's quarterly and annual financial statements as well as financial statements prepared in connection with securities offerings or required by applicable regulatory authorities, reviews the audit plans of the external auditors, oversees the internal audit of the Corporation and recommends the external auditor for appointment by the Corporation's sole shareholder.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance 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.

COMPENSATION COMMITTEE

The Compensation Committee is responsible for reviewing and assisting the Board in overseeing Toronto Hydro's compensation program, and reviewing and approving executive compensation.

HEALTH AND SAFETY COMMITTEE

The Health and Safety Committee is responsible for considering and making recommendations to the Board with respect to matters of health and safety.

THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



BOARD OF DIRECTORS (As of December 31, 2012)

Clare R. Copeland (Chairman)

- **Chief Executive Officer**
Falls Management Company

Committee Membership
Member, Compensation Committee

(Mr. Copeland ceased to be Chairman and a Director of the Corporation on April 14, 2013)

Brian Chu

- **Partner**
Bogart Robertson & Chu

Committee Memberships
Chair, Audit Committee
Member, Corporate Governance Committee

(Mr. Chu ceased to be a Director of the Corporation on April 14, 2013)

Vince Brescia

- **Chief Executive Officer**
Federation of Rental-Housing Providers of Ontario

Derek Cowbourne

- **Former Vice-President and Chief Operating Officer**
Independent Electricity System Operator

Committee Membership
Chair, Corporate Governance Committee

Patricia Callon

- **Chief Legal Officer**
Canadian Securities Transition Office

Committee Memberships
Chair, Compensation Committee
Member, Health and Safety Committee

(Ms. Callon ceased to be a Director of the Corporation on April 14, 2013)

Paulette Kennedy

- **Commissioner**
Ontario Securities Commission

Committee Memberships
Member, Audit Committee
Member, Corporate Governance Committee

BOARD OF DIRECTORS (As of December 31, 2012)

Shoba Khetrapal

- **Director**

St. Joseph's Health Centre

Committee Memberships

Member, Audit Committee

Member, Health and Safety Committee

(Ms. Khetrapal ceased to be a Director of the Corporation effective April 14, 2013)

David Williams

- **Director**

Shoppers Drug Mart Corporation

Committee Membership

Chair, Health and Safety Committee

(Mr. Williams was appointed Chair of the Corporation effective April 15, 2013)

Councillor Shelley Carroll

- **City Councillor**

Ward 33 (Don Valley East) – since 2003

Councillor Josh Colle

- **City Councillor**

Ward 15 (Eglinton-Lawrence)

Councillor Ron Moeser

- **City Councillor**

Ward 44 (Scarborough East)

(Councillor Moeser ceased to be a Director of the Corporation effective December 31, 2012)

Colum P. Bastable*

- **Chairman**

Cushman & Wakefield Ltd.

Committee Membership

Member, Compensation Committee

(Mr. Bastable was appointed a Director of the Corporation effective April 15, 2013)

Janet Beed*

- **President and Chief Executive Officer**

Markham Stouffville Hospital

Committee Membership

Member, Compensation Committee

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

SENIOR MANAGEMENT TEAM



***Anthony M. Haines¹**

President and Chief Executive Officer

Jean-Sebastien Couillard^{1,2}

Chief Financial Officer

Paul B. Sommerville^{1,2}

Vice-President, Regulatory Affairs
and General Counsel

Ivano Labricciosa²

Vice-President, Asset Management

Ben LaPianta²

Vice-President, Distribution Grid Management

Ave Lethbridge²

Vice-President, Organizational Effectiveness
and Environment, Health & Safety

Blair H. Peberdy²

Vice-President, Marketing, Communications
and Public Affairs

Dino Priore²

Vice-President, Distribution Services

Chris Tyrrell²

Vice-President, Customer Care and Chief
Conservation Officer

Robert Wong²

Vice-President, Information Technology
and Strategic Management

* Also President of Toronto Hydro-Electric System Limited

¹ Toronto Hydro Corporation

² Toronto Hydro-Electric System Limited

THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



OVERVIEW



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

- Toronto Hydro-Electric System Limited – which distributes electricity and engages in conservation and demand management (“CDM”) activities; and
- Toronto Hydro Energy Services Inc. – which provides street lighting services.

SERVICES

- Provides policy and strategic direction to its subsidiaries.
- Manages shareholder and key business relationships.

2012 ACHIEVEMENTS

- Named one of **Canada’s Top 100 Employers** as selected by editors of the Canada’s Top 100 Employers project, organized by Mediacorp Canada Inc.; one of **Greater Toronto’s Top Employers**, one of **Canada’s Top Family-Friendly Employers** and one of **Canada’s Greenest Employers**, all of which are also organized by Mediacorp Canada Inc. and featured in *The Globe and Mail*.
- Received an honourable mention in Canada’s Outstanding Employers by The Learning Partnership for its participation in the Take Our Kids to Work™ program.
- Raised more than \$380,000 for charities and community causes including United Way Toronto. Our United Way employee campaign raised approximately \$335,000.

THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



OVERVIEW



2012 ACHIEVEMENTS *(continued)*

- Recognized by Green Living Enterprises for Excellence in Corporate Responsibility for the company's dedication towards creating sustainable and ethical practices within a business framework.
- Recognized by PR News for Corporate Social Responsibility ("CSR") and Stakeholder Engagement efforts.
- Supported the City's Urban Forest campaign, Ontario Forestry Association and Local Enhancement and Appreciation of Forests through tree planting initiatives and forestry education programs for youth.
- Provided a consistent and fair return in line with the Corporation's shareholder direction.
- As at December 31, 2012, the debentures issued under the Corporation's medium-term note program were rated "A (high)" by DBRS Limited and "A" by Standard & Poor's.

2013 OBJECTIVES

- Conduct business with a skilled, safe and productive workforce.
- Improve reliability by rebuilding the existing aging infrastructure.
- Strive to be the best utility in customer service.
- Achieve consistent financial performance.

THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



FACTS & FIGURES



(in millions of dollars)

Net Revenues

\$577.3

\$586.9



2012

2011

Operating Expenses

\$245.2

\$262.2



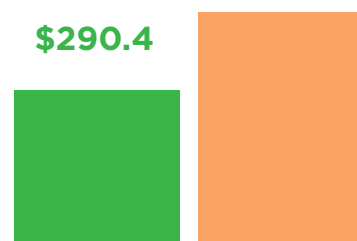
2012

2011

Capital Expenditures

\$290.4

\$437.1



2012

2011

FACTS & FIGURES

Toronto Hydro-Electric System Limited

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

1.03 hours

**System Average Interruption
Frequency Index (SAIFI)**

1.40 interruptions

**Customer Average Interruption
Duration Index (CAIDI)**

0.74 hours

Peak Load

4,830 megawatts
on July 17, 2012 representing
approximately

19% of the provincial demand

THE MEASURE OF OUR COMMITMENT

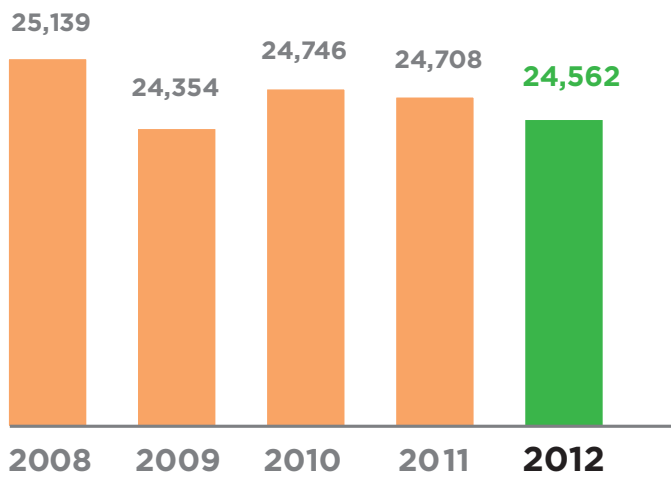
TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



FACTS & FIGURES

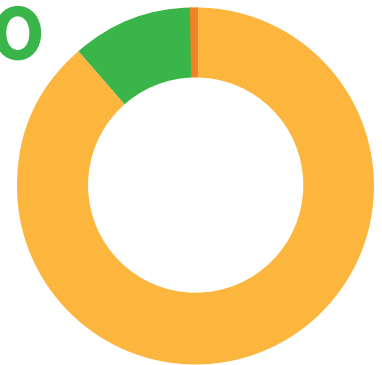
Electricity Delivered (GWh)

2012 — 24,562 GWh



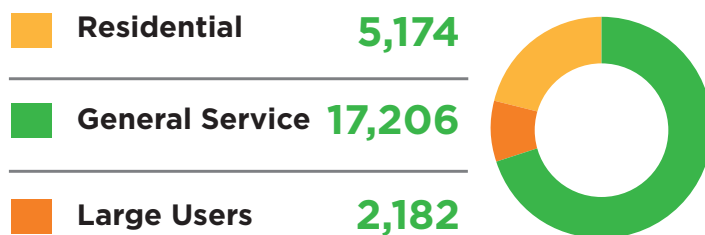
Total Number of Customers

719,000
(approximate)

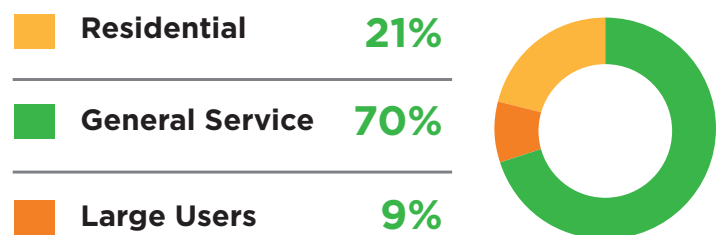


Residential Service	637,910
General Service with monthly demand of 0-5,000 kW	80,699
Large Users with monthly demand over 5,000 kW	52

Electricity Distributed by Class (GWh) (approximate)



Electricity Distributed by Class (%) (approximate)



THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



FACTS & FIGURES



Number of Employees
(as of December 31, 2012)

1,540
(approximate)

Toronto Hydro Corporation 2012 Capital Expenditures (in millions of dollars)

Distribution System	\$257.4
Information Technology	22.8
Other	9.5
Non-regulated	0.7
TOTAL	\$290.4

Distribution System is serviced from: (approximate)

35	Terminal Stations
20,400	Primary Switches
60,650	Distribution Transformers
169	In-service Municipal Substations
15,100	Kilometres of overhead wires supported by 174,700 poles and approximately 10,800 kilometres of underground wires
1	Control Centre
7	Operations Centres

2012 Annual Report Glossary

Conservation and Demand Management (“CDM”)

Customer Average Interruption Duration Index (“CAIDI”)

A measure (in hours) of the average duration of interruptions experienced by customers, not including Major Event Days (“MED”) as defined by the Institute of Electrical and Electronic Engineers Inc. specification 1366. CAIDI represents the quotient obtained by dividing the System Average Interruption Duration Index (SAIDI) by the System Average Interruption Frequency Index (SAIFI). See below for more explanation.

Gigawatt-Hour (“GWh”)

A standard unit for measuring electrical energy produced or consumed over time. A GWh is equal to one million kilowatt-hours.

International Organization for Standardization (“ISO”)

Kilovolt

Equals 1,000 volts

Kilowatt (“kW”)

A common measure of electrical power equal to 1,000 watts.

Kilowatt-Hour (“kWh”)

A standard unit for measuring electrical energy produced or consumed over time. One kWh is the amount of electricity consumed by 10 - 100 watt light bulbs burning for one hour.

Megawatt (“MW”)

A common measure of electrical power equal to one million watts.

Megawatt-Hour (“MWh”)

A megawatt-hour is equal to 1,000 kilowatt-hours.

Occupational Health and Safety Management System (“OHSAS”)

Peak Load

The maximum demand for power, measured in megawatts, that occurs within a stated period of time. Toronto Hydro’s peak system load (or peak demand) normally occurs in the summer because of power demands from air conditioning.

2012 Annual Report Glossary

System Average Interruption Duration Index (“SAIDI”)

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.

System Average Interruption Frequency Index (“SAIFI”)

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.

Watt

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.

Watt-Hour

A measure of energy production or consumption equal to one watt produced or consumed for one hour.

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED



Toronto Hydro-Electric System Limited owns and operates \$2.6 billion of capital assets comprised primarily of an electricity distribution system, which delivers electricity to approximately 719,000 customers located in the City of Toronto. It is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in the Province of Ontario.

SERVICES

- Delivers safe, reliable and cost-effective electrical power to approximately 719,000 residential, commercial and industrial customers in the City of Toronto, which has a population base of approximately 2.8 million.
- Plans, maintains and operates the City of Toronto's electrical distribution system infrastructure efficiently and in an environmentally responsible manner.
- Provides consistent, high-quality customer service.
- Designs and delivers electricity CDM programs.

2012 ACHIEVEMENTS

- Among the leading local distribution companies in the delivery of CDM programs to help customers conserve energy, save money and help the environment.
- Achieved savings of 116,900 MWh in its conservation portfolio in 2012, for a total cumulative savings of 462,700 MWh since 2011.
- Unveiled the first energy storage system installed directly in an urban community, which will allow Toronto Hydro-Electric System Limited to monitor and validate the benefits of this technology on the grid.
- Recognized by Infrastructure Health & Safety Association for achieving three million hours without a lost time injury.

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED



2012 ACHIEVEMENTS (continued)

- Passed audit towards certification for ISO 14001 (Environmental Management System) and OHSAS 18001 (Occupational Health and Safety Management System) international standards.
- Introduced My TorontoHydro™, a new fully automated online customer service portal available for customers to complete account transactions 24/7.
- Launched **peaksaver PLUS**®, a demand response program, which provides participants with an energy information display and load control devices.
- Launched the Electric Vehicle (EV) Connections Program and currently collecting EV data from charging stations located in residential homes, and industrial and commercial areas throughout the city, in an effort to create charging profiles and provide insight on how the grid is handling the additional growth.
- Supported training programs at Georgian College to help drive recruitment in the electricity industry.
- Supported the Mowat Centre for Policy Innovation, School of Public Policy & Governance, University of Toronto for research on energy technology policy.
- Participated in the Centre for Urban Energy at Ryerson University, a research and technology demonstration centre devoted to the discovery and commercialization of innovative solutions to urban energy issues.
- Continued a public consultation for the new Toronto Hydro Transformer Station and cable tunnel in the south-central downtown core of Toronto to help increase electricity capacity.
- Increased stakeholder outreach and met with a wide range of stakeholders to hear what is most valued by our community.

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED



2012 ACHIEVEMENTS (continued)

- Continued to work with Hydro One Inc. to refurbish the existing 115 kilovolt transmission infrastructure serving midtown to help improve service reliability.
- Prepared for the Pan Am Games by relocating and upgrading infrastructure to help with additional electricity demand.
- Relocated and upgraded aging infrastructure as part of Waterfront Toronto's initiative to transform the waterfront into a world-class showpiece for Toronto.
- Continued public safety campaign to remind public of electrical hazards on the street and around the home.
- Launched first annual pet safety week with Toronto Humane Society, which takes place during the third week in October.
- Recognized by Toronto City Council and Ontario Ministry of Energy for Hurricane Sandy power restoration efforts in Toronto and in the United States.
- Launched a solar photovoltaic (PV) project with City of Toronto to install 8,800 solar PV panels on 10 city-owned buildings.
- Introduced new Key Accounts Management initiative to provide 24/7 service to Toronto Hydro's largest commercial and industrial customers in the event of emergencies.
- Teamed up with Toronto Real Estate Board and created a new *Homeowners Kit*, which provides REALTORS® and their clients with information about key programs and services available through Toronto Hydro.

THE MEASURE OF OUR COMMITMENT

TORONTO HYDRO CORPORATION 2012 ANNUAL REPORT



TORONTO HYDRO ENERGY SERVICES INC.



2012 ACHIEVEMENTS

- Continued to provide reliable street lighting services to the City of Toronto.