

POWERING PROGRESS

TORONTO HYDRO CORPORATION 2015 ANNUAL REPORT





MESSAGE

FROM THE CHAIR OF THE BOARD, AND PRESIDENT AND CHIEF EXECUTIVE OFFICER

Powering progress. These two words sum up the successful year Toronto Hydro had. We took many steps to power our organization forward so that we can provide value, improved reliability and a high quality of service for Torontonians.

Strong financial performance – Toronto Hydro, once again, demonstrated superior financial performance, despite operating in a highly complicated, regulated industry. We met or exceeded all of our key performance targets, resulting in net income after net movements in regulatory balances of \$126.7 million, while delivering \$56.25 million in dividends to our sole shareholder, the City of Toronto.

Helping build our world-class city – As Toronto grows at an unprecedented rate, Toronto Hydro played an important role in key construction initiatives, such as Pan Am's Athletes' Village, the Metrolinx Eglinton Crosstown Light Rail Transit System and the Waterfront Revitalization project.

Investing in the future – A strong, stable electrical system is an integral part of this city and we've continued our commitment to addressing the challenges we face including renewing aging infrastructure, addressing increasing electricity demand and improving our system's resilience to severe weather. That's why we executed a large capital plan in 2015, investing \$537.2 million primarily to improve service reliability and address the need for additional distribution capacity. And we're seeing results. Since 2009, the average number of service interruptions has improved by 12% and the average duration of interruptions has improved by 23%.

However, with over one-third of our assets reaching end-of-life by 2020, more must be done to help ensure we're meeting the demands for our growing city and improving reliability for our customers. Our recent five-year Ontario Energy Board rates decision supports the need for continued investment in Toronto's electricity grid and has secured over \$2 billion in capital funding.

We also recognize that innovation is essential to maintaining a sustainable business. Some of our initiatives use the latest concepts and technologies to support our customers now and in the future. This includes Hydrostor, the world's first underwater compressed air energy storage system located three kilometres off Toronto Island. We also completed the tunnel connecting Hydro One equipment to Copeland Station, the second underground transformer station to be built in Canada.

Delivering excellent customer service – We continued to evolve our customer service model by offering new engagement and transaction options in an effort to help customers access the information and services they need 24 hours a day, seven days a week. This resulted in a 30% increase in our electronic interactions with our customers. Improvements to our call centre, online outage reporting and online outage map mean that our customers can communicate with us when they need us the most.

We also supported our customers with their conservation efforts to help them better manage their bills. We're proud to report that we delivered the largest Conservation and Demand Management results in the province – totalling 214.5 gigawatt hours saved (equivalent to taking 28,429 homes off the grid).

Steadfast commitment to safety – Public and employee safety remain a top priority. In 2015, we achieved an entire year without a lost-time injury and total recordable injuries were 53% lower than our benchmarked peers. This significant achievement illustrates our commitment to safety across the organization. In addition, we had one of the lowest averages of absenteeism in the industry, only 3.78 average sick days per employee – 57% below the Canadian average.

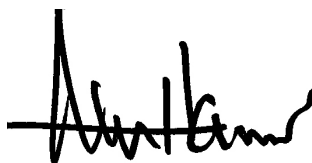
The safety of our customers is also a primary concern. A proud recipient of a 2015 Electrical Safety Authority (ESA) award, Toronto Hydro-Electric System Limited was recognized as a leader in consumer and home electrical safety.

We're proud of the accomplishments achieved in 2015, and more information is available in the Progress section of this report.

On behalf of the Board of Directors and our Management Team, we want to thank all of our stakeholders for their support. We especially want to thank all Toronto Hydro employees. Our successes wouldn't be possible without your contribution and dedication.

A handwritten signature in black ink, appearing to read "David Williams".

David Williams
Chair

A handwritten signature in black ink, appearing to read "Anthony Haines".

Anthony Haines
President and Chief Executive Officer



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 management of the business and affairs of the Corporation and its subsidiary entities. 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 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 good 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, 2015 are introduced here. The description indicates committee and subsidiary Boards of Directors' participation. There was one vacancy on the Board of Directors as of December 31, 2015.

Effective February 10, 2015, Councillor Paul Ainslie was appointed as a director of the Corporation.

Effective December 10, 2015, Brian Chu, Tamara Kronis, David McFadden, Howard Wetston and Heather Zordel were appointed as directors of the Corporation and the terms of office of David Williams (Chair) and Derek Cowbourne were extended to December 10, 2016. Effective May 4, 2016, Michael Nobrega was appointed as a director of the Corporation. Effective December 9, 2015, Colum Bastable, Glenna Carr, Sara Gelgor, Paulette Kennedy and Isabel Meharry ceased to be directors of the Corporation.

CODE OF BUSINESS CONDUCT AND WHISTLEBLOWER PROCEDURE

All employees, officers and directors of the Corporation and its subsidiaries are required to comply with the principles set out in the Code of Business Conduct and Whistleblower Procedure, which was implemented by the Corporation in 2003 and most recently amended and approved by the Board of Directors on May 12, 2015. The Code provides guidance to all employees in situations of perceived conflict of interest. All employees, officers and directors of the Corporation and its subsidiaries are required to complete training in respect of the Code and attest to compliance with the Code upon commencement of employment and every three years thereafter. The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. The Ethics Officer reports quarterly to the Audit Committee of the Board of Directors 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 the Corporation's Code of Business Conduct and Whistleblower Procedure is available on our website.

DISCLOSURE POLICY

The Board of Directors recognizes the importance of ensuring that communications to the public about the Corporation and its subsidiaries are timely, factual, accurate and are broadly disseminated in accordance with all applicable legal and regulatory requirements. To ensure consistent and appropriate disclosure practices, the Corporation has adopted a Disclosure Policy to govern the disclosure by its employees, officers and directors of material information about the Corporation and has established a Disclosure Policy Committee composed of senior executives to assist the Chair, Chief Executive Officer and other authorized spokespersons in making accurate, complete and timely disclosure. The composition and operation of the Disclosure Policy Committee are established in the Disclosure Policy.

COMMITTEES OF THE BOARD OF DIRECTORS

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

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee is responsible for considering and making recommendations to the Board of Directors with respect to matters relating to the corporate governance of the Corporation and its subsidiaries, including board and committee composition and mandates, guidelines for assessing the effectiveness of the Board and its committees and procedures to ensure that the Board of Directors functions independently from management. As part of its governance function, the Corporate Governance and Nominating Committee reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's sole shareholder by the Board of Directors. The Corporate Governance and Nominating Committee reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of Toronto Hydro-Electric System Limited for approval by the Corporation's Board of Directors. Additionally, the Corporate Governance and Nominating Committee is responsible for periodically reviewing with management the Corporation's energy policy strategies and related stakeholder management.

HUMAN RESOURCES COMMITTEE

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

BOARD OF DIRECTORS



David Williams (Chair), ICD.D

- Chair, Morrison Lamothe Inc.
- Director, Mitel Networks Corporation
- Lead Director, Mattamy Homes Corporation
- Director, PC Financial Bank
- Former Interim President, Chief Executive Officer and Chair, Shoppers Drug Mart Corporation
- Former President and Chief Executive Officer, Workplace Safety and Insurance Board
- Former President, National Grocers Limited
- Former Chief Financial Officer, Loblaw Companies Limited

Committee Memberships and Subsidiary Directorships

Human Resources Committee

BOARD OF DIRECTORS - CONTINUED



Councillor Paul Ainslie

- City of Toronto Councillor, Ward 43 - Scarborough East
- Chair, City of Toronto - Government Management Committee
- Member, City of Toronto - Executive Committee
- Member, City of Toronto - Scarborough Community Council
- Member, City of Toronto - Toronto Zoo Board of Management
- Member, City of Toronto - Toronto Public Library
- Vice-Chair, Board of Directors of the Federation of Ontario Public Libraries
- Member, Canadian National Exhibition Association, Municipal Section
- Member, Guild Renaissance Group Board of Directors
- Member, Toronto and Region Conservation Authority
- Former Co-Chair, Rouge Valley Health System Centenary Buy a Bed Fundraising Campaign
- Past Chair, Board of Directors Haliburton Club

Committee Memberships and Subsidiary Directorships

Corporate Governance and Nominating Committee

BOARD OF DIRECTORS - CONTINUED



Brian Chu

- Partner, Bogart Robertson & Chu LLP
- Director, Technical Standards and Safety Authority
- Trustee and Chair, Ontario Science Centre
- Former Chair, Audit Committee, Centennial College
- Former Member, Finance Committee, Ontario College of Art and Design
- Former Chair, Finance and Audit Committee, Laidlaw Foundation

Committee Memberships and Subsidiary Directorships

Human Resources Committee (Chair)

Audit Committee

Toronto Hydro-Electric System Limited



Derek Cowbourne, ICD.D

- Former Vice-President, Market and System Operations and Chief Operating Officer, Independent Electricity System Operator
- Former Chair, Operating Committee, North American Electric Reliability Council (NERC)
- Former Chair, Reliability Coordinating Committee, Northeast Power Coordinating Council (NPCC)
- Chartered Engineer and Fellow, Institution of Engineering & Technology
- Member, Professional Engineers of Ontario

Committee Memberships and Subsidiary Directorships

Corporate Governance and Nominating Committee (Chair)

Toronto Hydro Energy Services Inc. (Chair)

BOARD OF DIRECTORS - CONTINUED



Councillor Stephen Holyday, Mayor's Designate

- City of Toronto Councillor, Ward 3 - Etobicoke Centre
- Vice-Chair, City of Toronto - Audit Committee
- Vice-Chair, City of Toronto - Employee and Labour Relations Committee
- Member, City of Toronto - Public Works and Infrastructure Committee
- Member, Toronto Atmospheric Fund Board of Directors
- Member, Canadian National Exhibition Association, Municipal Section
- Member, Hockey Hall of Fame Board of Directors
- Former Manager, Service Management, Ontario Ministry of Energy

Committee Memberships and Subsidiary Directorships

Human Resources Committee



Tamara Kronis

- Owner, Chief Goldsmith, Gemmologist and Jewellery Designer, Studio1098
- Former Legal Counsel, Vertex Customer Management/Vertex Outsourcing
- Former Associate Lawyer, Torys LLP
- Former Director of Advocacy, EGALE Canada
- Former Trial Assistant, United Nations (International Criminal Tribunal for the Former Yugoslavia)
- Fellow, Canadian Gemmological Association (FGA)
Fellow, Gemmological Association of Great Britain (FCGmA)

Committee Memberships and Subsidiary Directorships

Audit Committee

Toronto Hydro-Electric System Limited

BOARD OF DIRECTORS - CONTINUED



David McFadden

- Counsel, Gowling Lafleur Henderson LLP
- Chair, Canadian and International Infrastructure Advisory Boards of Fengate Capital Management
- Chair, Ontario Energy Association
- Chair, Collus PowerStream Corporation
- Chair, PCI Geomatics Inc.
- Chair, 407 International Inc.
- Director, Energy Council of Canada
- Member, Smart Grid Forum, Independent Electricity System Operator
- Member, Board of Governors, York University
- Member, Council for Clean and Reliable Electricity
- Former Member of Review Panel, Ontario Distribution Sector
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force

Committee Memberships and Subsidiary Directorships

Corporate Governance and Nominating Committee

Human Resources Committee



Howard Wetston

- Advisory Board Member, Program on Ethics in Law and Business, University of Toronto
- Advisory Board Member, Shannon School of Business Advisory Board
- Former Chair and Chief Executive Officer, Ontario Securities Commission
- Former Vice-Chair, Ontario Securities Commission
- Former Chair and Chief Executive Officer, Ontario Energy Board
- Former Trial Judge, Federal Court of Canada, Trial Division
- Former Ex-officio Judge of the Federal Court of Canada's Appeal Division
- Former Director, Investigations and Research, Bureau of Competition Policy (Commissioner of Competition)

Committee Memberships and Subsidiary Directorships

Corporate Governance and Nominating Committee

Toronto Hydro-Electric System Limited (Chair)

BOARD OF DIRECTORS - CONTINUED



Deputy Mayor Denzil Minnan-Wong

- City of Toronto Deputy Mayor
- City of Toronto Councillor, Ward 34 - Don Valley East
- Chair, City of Toronto - Civic Appointments Committee
- Chair, City of Toronto - Striking Committee
- Chair, City of Toronto - Employee and Labour Relations Committee
- Vice-Chair, City of Toronto - Executive Committee
- Mayor's Designate, BUILD Toronto
- Mayor's Designate, Invest Toronto
- Mayor's Designate, Waterfront Toronto
- Commissioner, TTC Board
- Member, City of Toronto - Committee of Revision
- Member, City of Toronto - Debenture Committee
- Member, City of Toronto - Nominating Panel, Facilities and Finance



Heather Zordel

- Partner, Securities Group, Gardiner Roberts LLP
- Co-Director, Osgoode Hall Law School's Master of Laws Program in Securities Law
- Director and Executive Vice-President, Albany Club of Toronto
- Former Chair, Securities Advisory Committee, Ontario Securities Commission
- Former Partner, Cassels Brock and Blackwell LLP, Securities Group
- Former Member, Federal Expert Panel on Securities Regulation
- Former Director, Metro Toronto Convention Centre
- Former Director and President, MTCC No. 949, 77-99 Harbour Square

Committee Memberships and Subsidiary Directorships

Audit Committee (Chair)

Toronto Hydro Energy Services Inc.



SENIOR MANAGEMENT TEAM



Anthony M. Haines

President and Chief Executive Officer^{1,2}



Laura Foster

Interim, Chief Financial Officer^{1,2}



Ben LaPianta

Executive Vice-President and Chief Electric Operations and
Procurement Officer²



Ave Lethbridge

Executive Vice-President and Chief Human Resources and Safety Officer²



Dino Priore

Executive Vice-President and Chief Engineering and Construction Officer²



Chris Tyrrell

Executive Vice-President and Chief Customer Care and Conservation Officer²



Robert Wong

Executive Vice-President and Chief Information and Risk Officer²



Amanda Klein

Vice-President, Regulatory Affairs and General Counsel^{1,2}

¹ Toronto Hydro Corporation

² Toronto Hydro-Electric System Limited



TORONTO HYDRO CORPORATION 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
- Toronto Hydro Energy Services Inc. – which provides street lighting services in the city of Toronto

Services

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

2015 Achievements

- Raised more than \$165,000 for United Way Toronto and was recognized with a United Way Spirit Award
- Contributed \$700,000 from the company's second annual golf tournament in support of the Ross Tilley Burn Centre at Sunnybrook Hospital
- On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045

TORONTO HYDRO CORPORATION OVERVIEW - CONTINUED

- On September 2, 2015, the Corporation re-opened its Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures at a price of \$1,004.68 per \$1,000 principal amount due April 9, 2063
- Paid dividends to the City totalling \$56.25 million in 2015
- As at December 31, 2015, the debentures issued under the Corporation's medium-term note program were rated "A" by DBRS Limited and "A" by Standard & Poor's. The commercial paper issued under the Corporation's commercial paper program was rated "R-1 (low)" by DBRS Limited

2016 Objectives

The Corporation aims to:

- Maintain an engaged, healthy, productive and safe workforce to meet changing business requirements
- Improve reliability through sustainable system management
- Provide value to customers
- Meet the financial objectives of its Shareholder



BALANCED SCORECARD

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

Corporate Key Performance Indicators	Measure	2015 Target
Net income after net movements in regulatory balances (\$ millions)	Net income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements	\$100.1
LDC Regulated Capital (\$ millions) ⁽¹⁾	Achievement of LDC's capital work program	\$436.6
Productivity - Operating expenses ⁽²⁾ and other productivity related metrics	Consolidated operating expenses (excluding some defined costs) and other productivity related metrics	\$275.6
Key Account Worst Performing Feeders	Total number of feeders experiencing seven or more sustained outages affecting key account customers, including momentary and sustained interruptions, in a 12-month rolling time period	14
System Average Interruption Duration Index (SAIDI) (in minutes)	Measure of the annual system average interruption duration per customer served, not including Major Event Days (MED)	68.0
System Average Interruption Frequency Index (SAIFI) (number of interruptions)	Measure of the frequency of service interruptions per customer served, not including MED	1.5
Enhanced Online Customer Engagement (ECE)	Increase in customer self-serve transactions/engagements using various self-serve options and media channels	245,000
First Call Resolution	Percentage of telephone enquiries resolved within one call, within a 21-day time period	81%
Safety	Number of recordable injuries x 200,000/exposure hours	1.8
Attendance	Average days absent per employee	4.5

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

(2) This is a non-GAAP measure as it excludes demand billable operating expenses.

BALANCED SCORECARD - CONTINUED

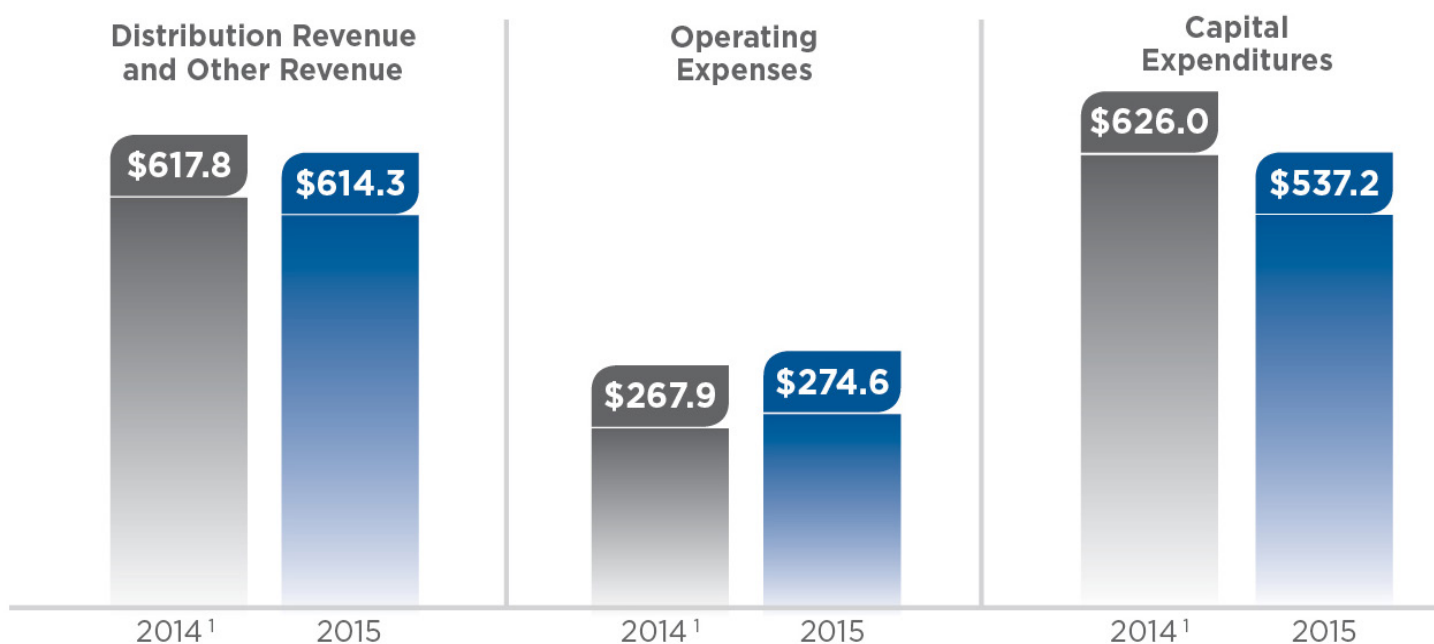
In 2015, the Corporation exceeded all of its corporate targets represented by its KPIs except the key accounts worst performing feeders, primarily due to an under estimation of the impact of uncontrollable momentary outages. Each of the corporate performance targets were reasonably difficult to attain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



FACTS AND FIGURES

Toronto Hydro Corporation

(in millions of Canadian dollars)



¹ Effective January 1, 2015, the Corporation's consolidated financial statements have been prepared in accordance with IFRS. Annual financial information for 2014 that was previously reported in accordance with US GAAP has been adjusted in accordance with IFRS.

FACTS AND FIGURES - CONTINUED

Number of Employees (as at December 31, 2015)

1,480

Toronto Hydro-Electric System Limited

System Average
Interruption
Duration Index

1.06
HOURS

System Average
Interruption
Frequency Index

1.45
INTERRUPTIONS

Customer Average
Interruption
Duration Index

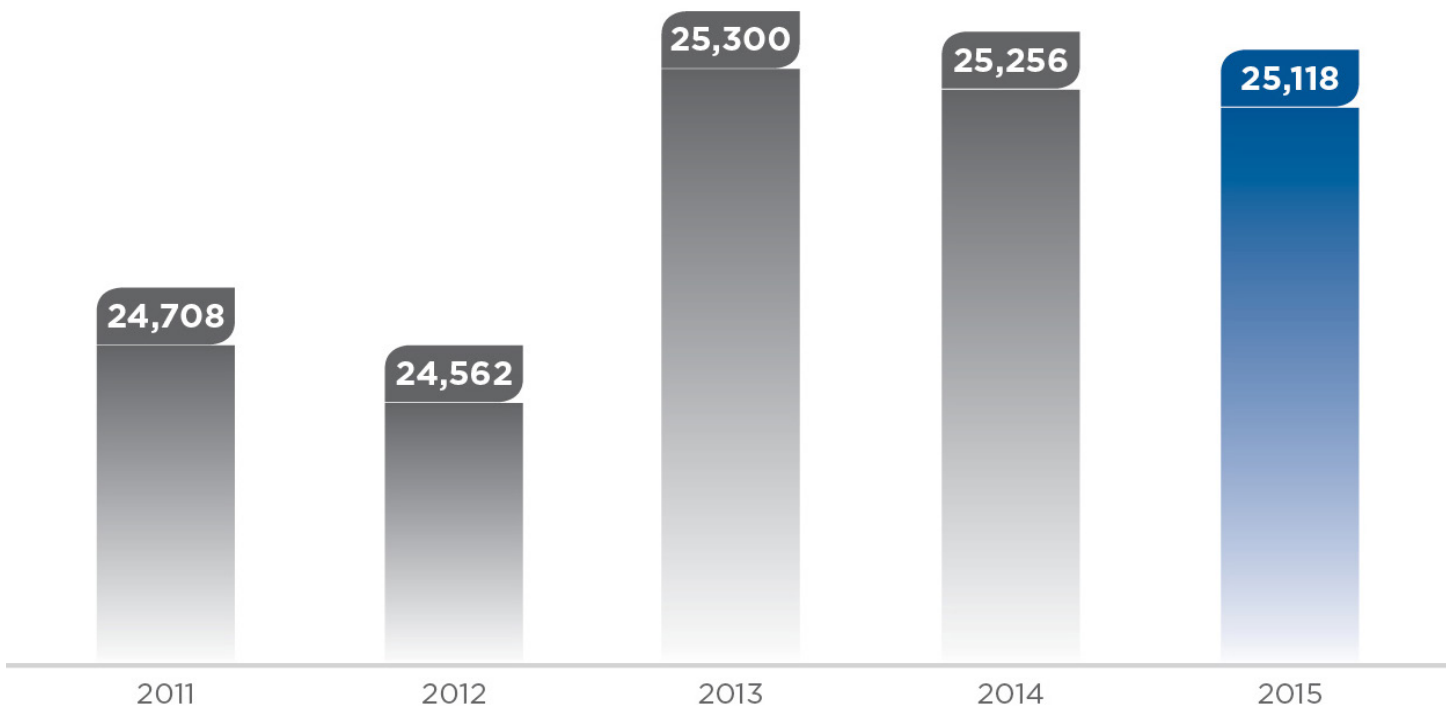
0.73
HOURS

Peak Load
on
August 17, 2015

4,404
MEGAWATTS

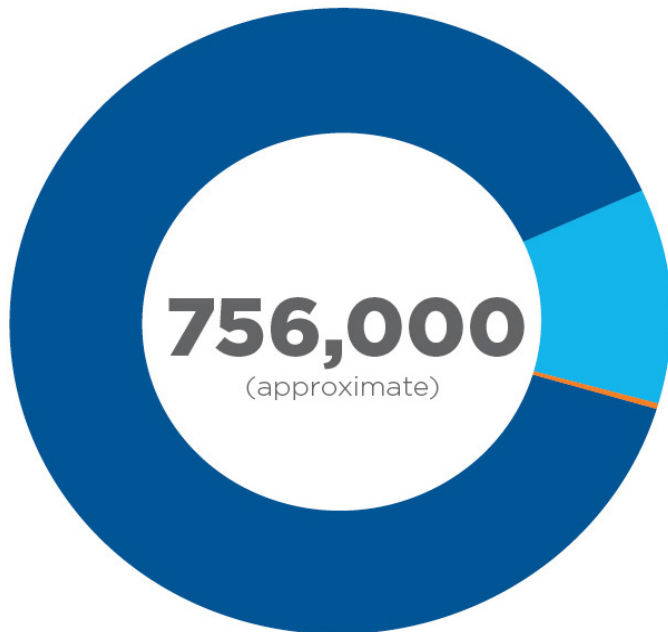
Electricity Delivered

2015 — 25,118 GWh



FACTS AND FIGURES - CONTINUED

Number of Customers



674,201

Residential Service

81,492

General Service with monthly
peak demand of 0-5,000 kW

44

Large Users with monthly
peak demand over 5,000 kW

Electricity Distributed by Class (approximate)



5,218_{GWh}

Residential Service

21%

17,743_{GWh}

General Service

70%

2,157_{GWh}

Large Users

9%

FACTS AND FIGURES - CONTINUED

Toronto Hydro Corporation 2015 Capital Expenditures

(in millions of Canadian dollars)

Regulated Local Distribution Company ¹ Distribution System	
Planned ²	\$392.8
Reactive	35.8
Copeland Station	23.7
Facilities Consolidation	31.3
Technology assets	28.9
Other ³	20.1
Regulated capital expenditures	\$532.6
Unregulated capital expenditures ⁴	4.6
TOTAL	\$537.2

Distribution System is serviced from: (approximate)

34	terminal stations
1	transmission system terminal station
16,900	primary switches
60,440	distribution transformers
161	in-service municipal substations
15,560	kilometres of overhead wires supported by
176,500	poles and approximately
12,920	kilometres of underground wires
1	Control Centre
5	Operations Centres

¹ Refers to Toronto Hydro-Electric System Limited

² Includes, among other initiatives, the replacement of underground and overhead infrastructure, and the delivery of customer connections

³ Includes fleet capital and buildings

⁴ Primarily relates to Toronto Hydro Energy Services Inc. equipment

2015 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). 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. One GWh is equal to one million kilowatt-hours.

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 ten 100-watt light bulbs burning for one hour.

Major Event Days (MED)

Refers to major event days as defined by IEEE Standard 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices.

Megawatt (MW)

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

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.

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.

2015 ANNUAL REPORT GLOSSARY - CONTINUED

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 \$3.8 billion of capital assets comprised primarily of an electricity distribution system that delivers electricity to approximately 756,000 customers located in the city 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 756,000 residential, commercial and industrial customers in the city of Toronto, which has a population base of approximately 2.8 million
- Plans, maintains and operates its electricity distribution infrastructure efficiently and in an environmentally responsible manner
- Provides consistent, high-quality customer service
- Designs and delivers CDM programs

2015 Achievements

- Recognized as a Sustainable Electricity Company™, a designation by the Canadian Electricity Association
- Launched the world's first underwater compressed air energy storage system located three kilometres off Toronto Island
- Recognized as the leading local distribution company in the delivery of CDM programs to help customers conserve energy, save money and help the environment

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED - CONTINUED

- Continued the construction of Clare R. Copeland Transformer Station, the first underground transformer station in downtown Toronto, which will help increase electricity distribution capacity
- Continued improving electronic communication channels with enhancements to our online tools in an effort to help customers access the information and services they need 24 hours a day, seven days a week
- Supported transformational construction initiatives such as the Metrolinx Eglinton Crosstown Light Rail Transit System, Waterfront District Redevelopment and Union Station Revitalization Project
- Achieved one year without a lost-time injury
- Recognized with an Electrical Safety Authority award in the category of Consumer and Home Safety
- Continued annual safety campaign to remind public of electrical hazards on the street and around the home
- Supported training programs at Georgian College to help drive recruitment in the electricity industry
- 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
- Supported the Toronto Pan American/Parapan American Games by relocating and upgrading infrastructure to help with additional electricity demand
- Recognized by the Electricity Distributors Association with the Communications Excellence Award for “Team Up for Green”, an innovative fundraising initiative with the Toronto District School Board designed to support the acquisition of new bike racks, while also supporting energy conservation and healthy living



PROGRESS

Continuous improvement and quality service are at the heart of every decision we make. We've taken many steps that have powered us forward to help secure a more stable electricity system, an enhanced customer experience, a safer community and a sustainable future for Toronto – this dynamic city that approximately 2.8 million people call home.

Our path of progress continues, and we're proud to share highlights of our achievements.

Grid Investment and Reliability

Investing in our grid is an investment in our city. It's what keeps electricity flowing to Toronto's homes and businesses. Considering the city's unprecedented growth, dependable electrical infrastructure is now more important than ever, as is looking at exploring innovative approaches to a smarter grid.

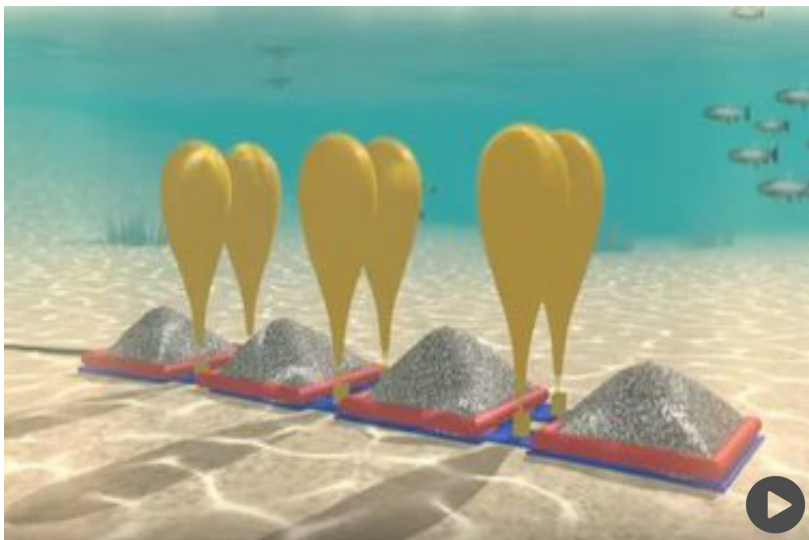
With over one-third of our assets reaching end-of-life by 2020, the Ontario Energy Board recognized our need for grid investment in our recently approved 2015-2019 rates application. Over this five-year period, we have secured more than \$2 billion in capital funding that we'll use to meet the growing demand for electricity, safeguard against extreme weather events and upgrade aging infrastructure. This way, we can help maintain the connected lifestyle Torontonians all enjoy.

How we're improving the grid:

- In 2015, we invested approximately \$537.2 million primarily to improve service reliability and address the need for additional distribution capacity
- Since 2009, the average number of service interruptions has improved by 12% and the average duration of interruptions has improved by 23%

PROGRESS - CONTINUED

- With Hydrostor, we unveiled the world's first underwater compressed air energy storage system, located three kilometres off Toronto Island. This “underwater battery” stores electricity when the demand is low and can be released when the grid needs a boost. Innovative storage solutions like this help to extend the life of our aging equipment



- We completed the tunnel connecting Clare R. Copeland Transformer Station to Hydro One equipment. This is a major milestone in the construction of this new underground station – the second one of its kind in Canada. Construction of Copeland Station continues and once complete, it will add the electricity capacity of approximately 70 condos to the grid while respecting public space downtown



PROGRESS - CONTINUED

- We worked with Electrovaya, Ontario Centres of Excellence, Ryerson Centre of Urban Energy and other organizations to develop an intelligent energy storage unit. Located in the heart of Toronto on the Ryerson University campus, the storage unit converts surplus energy into battery energy, which it provides during on-peak periods and emergencies

[Learn more about the grid.](#)

PROGRESS - CONTINUED

Customer Service

Delivering clear, accessible, relevant communications to our customers is just as important as delivering reliable electricity. That's why every customer interaction matters to us. We're committed to providing the best customer experience whether in print, online, over the phone or in person.

We continue to listen to our customers' feedback and develop new ways to not only meet – but also exceed – their expectations. Our customers count on us to serve their evolving needs, including more communications channels and self-serve options online. We use our communications channels to help customers in a variety of ways, including providing bill and energy management advice, timely power outage updates, and information regarding new programs and services.

As our number of customers continues to grow, we remain committed to building relationships based on trust, transparency and a high quality of service.

How we're helping our customers:

- We've developed new online self-serve options resulting in improved outage communications. As a result, customers are choosing to use our digital channels more frequently, leading to a 30% increase in usage between 2014 and 2015, and a reduction in call volumes
- We launched a new and improved outage map allowing customers to get timely status updates and more detailed information about outages, including estimated times for restoration and crew status
- We redesigned our online "report an outage" tool and made it mobile-friendly and easier to use
- For our residential customers, we introduced bi-annual savings guides, including conservation tips and coupons for energy-efficient products



PROGRESS - CONTINUED

- We have dedicated key account managers for our larger customers and will work with them to uncover energy-savings opportunities
- We achieved and sustained the Ontario Energy Board's bill accuracy threshold of 98%
- We promoted our Conservation and Demand Management programs in multicultural media outlets to serve our diverse customer base. In 2015, we produced print, broadcast and digital communications in seven different languages
- We regularly offer a variety of electrical safety tips online, in our newsletters and at events to build safety awareness. In fact, Toronto Hydro-Electric System Limited was a recipient of the Electrical Safety Authority's 2015 Ontario Electrical Safety Award in the category of Consumer Home and Safety



- We strive to resolve customer inquiries as efficiently as possible. In 2015, 84% of enquiries were resolved in the first call. That's a 3% improvement from last year
- We also have an Office of the President, which is another channel to escalate customer concerns

PROGRESS - CONTINUED

Emergency Preparedness

We've seen how Mother Nature can be unpredictable. Fierce winds and severe storms can play havoc with our distribution system causing extended outages. That's why it's important to be prepared. While most outages don't last long, we've been raising awareness and reminding our customers that a little preparation can help them stay safe and minimize inconvenience. We've also been preparing better internally for emergencies while working with our stakeholders to be prepared and respond more efficiently.

- We established the Grid Emergency Management (GEM) project to address recommendations by the Independent Review Panel that investigated our response to the 2013 ice storm. As of the end of 2015, we have documented the processes, roles and analytical tools needed to improve grid emergency preparedness response and customer communications, as well as provided training to our staff
- We encourage Torontonians to create or check their 72-hour emergency kit throughout the year, especially during Emergency Preparedness Week in May. Our downloadable emergency kit guide is available in six different languages
- We worked with the City of Toronto during the annual Emergency Preparedness Week in May to further promote emergency preparedness
- In 2015, we supplied more than 800 vulnerable residents with emergency kits, which included a flashlight, checklist, battery-operated radio and additional resources to help them prepare for emergencies
- For our low-income and senior residents, we hosted presentations in more than 120 communities sharing emergency preparedness tips and resources
- In April, we signed the Canadian Electricity Association's National Mutual Assistance Agreement, which aims to improve effectiveness and response times during emergencies. We co-chaired the Agreement Working Group and are taking a leadership role in the overall framework development



PROGRESS - CONTINUED

- We launched a new emergency preparedness video on the second anniversary of the 2013 ice storm. The video provides tips to stay safe during a power outage



- We meet regularly with stakeholders such as the City of Toronto's Office of Emergency Management, the provincial Office of the Fire Marshall and Emergency Management Ontario, and the Emergency Preparedness Task Force, which is run by the Independent Electricity System Operator. These relationships help us work together during widespread emergencies
- We hosted the first North Atlantic Mutual Assistance Group (NAMAG) Fall Conference in Canada. The conference brought together utilities in the north-east that formally agreed to assist each other during emergencies. It helped build a tight network that strengthens mutual aid, and emergency preparedness planning and response aid



PROGRESS - CONTINUED

We also continued to participate in and lead important initiatives to study the effects of climate change and help improve the system's resiliency to severe weather.

- We completed a vulnerability assessment study following the Public Infrastructure Engineering Vulnerability Committee protocol developed by Engineers Canada. Through this study, a risk assessment was conducted for the various components and areas of the distribution system that are expected to be impacted by projected climate change. The results of this study were used to develop a road map on climate adaptation initiatives, which are now in progress
- We're also collaborating with the City of Toronto on climate change by participating in its Resilient City Working Group, which is aimed at improving coordination with the City and other stakeholders to mitigate the impacts of widespread outages. We have been working with the participants to identify areas of the grid that are vulnerable to extreme weather events and to improve information sharing processes to better prepare for major weather events and mitigate their impact on the city

[Learn more about being prepared for extended outages.](#)

PROGRESS - CONTINUED

Environmental Initiatives

Sustainability is the driving force behind daily activities and future endeavours of Toronto Hydro-Electric System Limited, a Sustainable Electricity Company™ as recognized by the Canadian Electricity Association. We're always considering the impact our actions have on the environment. To improve our organization's efficiency, we regularly monitor and assess our energy consumption and waste streams. From our internal recycling program to our external energy savings programs, we're determined to reduce our environmental footprint while helping our customers reduce theirs.

- In 2015, we continued to work with residential, small business, industrial and commercial customers to implement energy-efficient projects. Our Conservation and Demand Management programs led to an estimated energy savings of 214.5 gigawatt hours (equivalent to taking 28,429 homes off the grid) and reduced summer peak demand by 32.5 MW. These initiatives helped reduce greenhouse gas (GHG) emissions in the city by 16,516 tCO₂e
- We exceeded our paperless billing target by almost 33%, achieving more than 64,210 sign-ups by customers and saving more than 449,300 sheets of paper
- To raise awareness and participation in our conservation programs and online services, we attended over 279 events including business tradeshows, Earth Week celebrations, the City's Environment Days, community festivals and in-store activities with The Home Depot and Lowe's generating 14,000 interactions
- Toronto Hydro-Electric System Limited was successfully re-certified by independent auditors to the International Organization for Standardization's Environmental Management Systems Standard (ISO 14001:2004), and the Occupational Health and Safety Assessment Series Standard for Occupational Health and Safety Management Systems (OHSAS 18001:2007). These internationally recognized standards establish the systems for effective and efficient management of an organization's environmental, health and safety activities
- Our total GHG emissions were 64,119 tCO₂e, a decrease of 24% compared to 2014



PROGRESS - CONTINUED

- We reduced our footprint by 122,000 square feet by closing one facility and making better use of existing work centres
- We continued our initiative to automate and use electronic forms in place of paper. For staff, we introduced “MyTime”, a platform that allows electronic submission of time sheets and leave requests, which is estimated to save over 81,330 sheets of paper annually
- We piloted a waste reduction program entitled “Waste No More”. The objective of the program is to increase the amount of waste generated at our work centres that is diverted from landfill through effective source separation and reduction of materials entering waste streams. We increased the amount of waste diverted from landfill from 49% in 2013 to 68% in 2015
- We continued to install the GRIP Idle Management System on our vehicles, downsized our fleet and maintained a steady fleet of hybrid and electric vehicles. The cumulative 2015 savings, relative to 2013, associated with these three initiatives are: 19% reduction in total fuel consumed; 16% reduction in GHG emissions; 17% reduction in kilometres travelled and 21% reduction in total non-PTO idling hours
- We continued with the recycling of wood poles removed from service, fluorescent lights, batteries and electronic waste from landfill — we diverted 876 tonnes of wood poles from landfill



[Learn more about our sustainability efforts.](#)

PROGRESS - CONTINUED

Community Outreach

We've been part of this city for over a century with a long-standing tradition of good corporate citizenship. Whether we're fundraising for a charity, supporting our neighbourhoods or sponsoring events, we're committed to the community we serve. In 2015, we proudly supported the Toronto Pan American/Parapan American Games as the Official Electricity Distribution supplier. Big or small, our contributions to the community help to make our city brighter, greener and safer.

Our achievements:

- We support United Way, and in 2015, employees raised more than \$165,000 to help United Way agencies across the city
- Toronto Hydro employees, family and friends participated in the CIBC Run for the Cure, raising \$8,819 for the Canadian Breast Cancer Foundation
- In September, for the second year in a row, we hosted an annual golf tournament in support of the largest state-of-the-art burn treatment centre in Canada — the Ross Tilley Burn Centre at Sunnybrook Hospital. With help from our sponsors, we contributed \$700,000 — the single largest donation ever received by the burn centre



PROGRESS - CONTINUED

- The Electricity Distributors Association recognized Toronto Hydro-Electric System Limited with the Communications Excellence Award for “Team Up For Green”, an innovative fundraising initiative with the Toronto District School Board (TDSB). The program was designed to support the acquisition of new bike racks for TDSB schools while also supporting energy conservation and healthy living
- We co-hosted four Brighter Nights™ community events to help improve safety and energy efficiency in neighbourhoods across the city. We replaced light bulbs with compact fluorescent light bulbs, which cost very little to keep on overnight. The program is a joint effort with the City of Toronto’s Community Crisis Response Program, Toronto Community Housing, Toronto Police Service and local volunteers



- We continued to sponsor several community groups and events including: Cavalcade of Lights, Nuit Blanche and NXT City Prize’s “Innovation in Energy and Sustainability Category”
- In Scarborough’s Dean Park, Toronto Hydro employees and their friends and families planted 250 trees for Earth Week. Since 2004, we’ve planted more than 3,600 trees as part of our annual tree planting event
- We hosted a Summer Safety Event at Ryerson Community School where kids learned about the dangers of electrical equipment

[Learn more about our community outreach initiatives.](#)



FINANCIAL REPORT
DECEMBER 31, 2015

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management	KPIs – Key performance indicators
CGU – Cash generating unit	kW – Kilowatt
CIR – Custom Incentive Rate-setting	kWh – Kilowatt hour
City – City of Toronto	LDC – Toronto Hydro-Electric System Limited
Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”.	LRAM – Lost revenue adjustment mechanism
Corporation – Toronto Hydro Corporation	MD&A – Management's Discussion and Analysis
Electricity Act – <i>Electricity Act, 1998</i> (Ontario)	MED – Major event days as defined by the Institute of Electrical and Electronic Engineers Incorporated, standard 1366-2012.
ERM – Enterprise risk management	MEU – Municipal electricity utility
GAAP – Generally Accepted Accounting Principles	MW – Megawatt
GWh – Gigawatt hour	OCI – Other comprehensive income
Green Energy Act – <i>Green Energy Act, 2009</i> (Ontario)	OEB – Ontario Energy Board
HONI – Hydro One Networks Inc.	OEB Act – <i>Ontario Energy Board Act, 1998</i> (Ontario)
HST – Harmonized sales tax	OMERS – Ontario Municipal Employees Retirement System
IAS – International Accounting Standard	OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.
IASB – International Accounting Standards Board	OPEB – Other post-employment benefits
Ice Storm – Refers to an extreme winter storm involving freezing rain, ice pellets and snow that impacted Toronto in December 2013.	OSC – Ontario Securities Commission
ICM – Incremental Capital Module	PILs – Payments in lieu of corporate taxes
IESO – Independent Electricity System Operator. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.	PP&E – Property, plant and equipment
IFRIC – International Financial Reporting Interpretations Committee	ROC – Risk Oversight Committee
IFRS – International Financial Reporting Standards	TA – <i>Taxation Act, 2007</i> (Ontario)
IRM – Incentive Regulation Mechanism	TH Energy – Toronto Hydro Energy Services Inc.
ITA – <i>Income Tax Act</i> (Canada)	US GAAP – United States Generally Accepted Accounting Principles
ITC – Investment tax credit	WMS – Wholesale Market Service



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS AND YEARS ENDED
DECEMBER 31, 2015 AND 2014

Executive Summary

- Effective January 1, 2015, the Corporation adopted IFRS, including early adoption of IFRS 14 – *Regulatory Deferral Accounts* (“IFRS 14”), and the accompanying Consolidated Financial Statements (as defined below) are prepared in accordance with IFRS;
- net income after net movements in regulatory balances for the three months and year ended December 31, 2015 was \$74.3 million and \$126.7 million, respectively, compared to \$23.8 million and \$111.7 million for the comparable periods in 2014;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$134.6 million and \$537.2 million, respectively, for the three months and year ended December 31, 2015 compared to \$190.0 million and \$626.0 million for the comparable periods in 2014;
- on December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, approving a rate base of \$3,232.0 million and revenue requirement of \$633.1 million for 2015, and rates calculated on that basis;
- 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 March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures due July 28, 2045 and on September 2, 2015, the Corporation re-opened the Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures due April 9, 2063; and
- during 2015, the Corporation completed all construction work related to the tunnel for Copeland Station, and partially completed the placement of roof concrete and the reconstruction of the machine shop on top of the underground transformer station.

Introduction

This MD&A should be read in conjunction with:

- the Corporation’s audited consolidated financial statements and accompanying notes as at December 31, 2015, December 31, 2014 and January 1, 2014, and for the years ended December 31, 2015 and 2014, which were prepared in accordance with IFRS (the “Consolidated Financial Statements”); and
- the Corporation’s audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2014 and 2013, which were prepared in accordance with US GAAP.

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

The Consolidated Financial Statements are presented in Canadian dollars, the Corporation’s functional currency. Effective January 1, 2015, the Corporation adopted IFRS and its annual and interim financial statements have been prepared in accordance with IFRS and IFRS 1 *First-time Adoption of IFRS* (“IFRS 1”) (see “Transition to IFRS” below). The Corporation has elected to early adopt IFRS 14 in its annual and interim financial statements under IFRS. The Corporation’s annual and interim consolidated financial statements were prepared in accordance with US GAAP until December 31, 2014. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. Information for 2013 presented in this MD&A was prepared in accordance with US GAAP and was not required to be restated in accordance with IFRS. Users of this information are cautioned that 2013 results may not be directly comparable with those for 2014 and 2015.

Business of Toronto Hydro Corporation

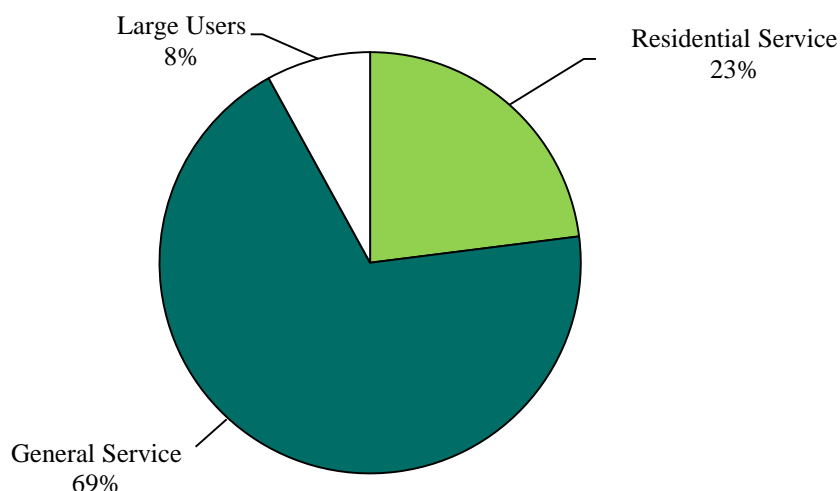
The Corporation is a holding company which wholly owns two subsidiaries:

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 756,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the year ended December 31, 2015, LDC earned energy sales and distribution revenues of \$3,481.0 million. As illustrated in the accompanying chart, 69% of the energy sales and distribution revenues were earned from general service users¹, 23% from residential service users², and 8% from large users³.

LDC Energy Sales and Distribution Revenues by Class

Year ended December 31, 2015



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

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

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

Electricity Distribution – Industry Overview

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

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

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

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

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

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

The IESO and the OPA were merged under the name IESO starting on January 1, 2015. The IESO supports CDM plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service and technical support, market research, program evaluation and measurement, and training.

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

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into

effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

Corporate Strategy

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

The Corporation is focused on the following four strategic pillars:

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

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

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

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

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

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

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

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

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

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

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

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

Performance Measurement

The Corporation measures its performance in relation to the achievement of its strategic objectives by using a balanced scorecard approach. KPIs are monitored throughout the year and appropriate actions are taken as required. The definitions of the 2015 KPIs associated with the previously mentioned four strategic pillars are as follows:

Strategic Pillars	Performance Measure	Definition
People	Safety	<ul style="list-style-type: none"> Number of recordable injuries x 200,000 / exposure hours.
	Attendance	<ul style="list-style-type: none"> Average days absent per employee.
Financial	Net income after net movements in regulatory balances	<ul style="list-style-type: none"> Net income after net movements in regulatory balances per the Corporation's consolidated financial statements.
	Operating expenses	<ul style="list-style-type: none"> Consolidated operating expenses (excluding some defined costs).
Operations	System average interruption duration index	<ul style="list-style-type: none"> Measure of the annual system average interruption duration per customers served, not including MED.
	System average interruption frequency index	<ul style="list-style-type: none"> Measure of the frequency of service interruptions per customers served, not including MED.
	Key account worst performing feeders	<ul style="list-style-type: none"> Total number of feeders experiencing seven or more sustained outages affecting key account customers in a 12-month rolling time period.
	LDC regulated capital	<ul style="list-style-type: none"> Achievement of LDC's capital work program.
Customer	First call resolution	<ul style="list-style-type: none"> Percentage of telephone enquiries resolved within one call, within a 21-day time period.
	Enhanced online customer engagement	<ul style="list-style-type: none"> Increase in customer self-serve transactions / engagements using various self-serve options and media channels.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. In 2015, the Corporation exceeded all of its corporate targets represented by its KPIs. Each of the corporate targets are reasonably difficult to attain and serve to encourage success in the Corporation's financial and operational results. The Corporation's ability to deliver results in each of its strategic pillars in 2015 is managed through good governance around the balanced scorecard, short interval control and enterprise risk management. However it is also limited by inherent risks as discussed under the section "Risk Management and Risk Factors" in this MD&A.

Selected Consolidated Financial Data

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

	2015 \$	2014 \$	Change \$	2013 ¹ \$
Revenues				
Energy sales	708.7	711.7	(3.0)	627.0
Distribution revenue	131.3	131.9	(0.6)	175.5
Other revenue	15.3	21.2	(5.9)	17.1
	855.3	864.8	(9.5)	819.6
Expenses				
Energy purchases	708.4	703.1	(5.3)	627.0
Operating expenses	71.6	69.1	(2.5)	79.3
Depreciation and amortization	59.7	60.2	0.5	66.7
	839.7	832.4	(7.3)	773.0
Finance costs	17.7	16.2	(1.5)	15.0
Gain on disposals of PP&E	3.7	-	3.7	0.2
Income before income taxes	1.6	16.2	(14.6)	31.8
Income tax expense (recovery)	15.5	(3.1)	(18.6)	2.5
Net income (loss) for the period	(13.9)	19.3	(33.2)	29.3
Net movements in regulatory balances, net of tax	88.2	4.5	83.7	N/A
Net income after net movements in regulatory balances	74.3	23.8	50.5	N/A

¹ The Corporation's consolidated financial statements for 2013 were prepared in accordance with US GAAP.

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

	2015	2014	Change	2013¹
	\$	\$	\$	\$
Revenues				
Energy sales	2,925.6	2,655.0	270.6	2,567.5
Distribution revenue	555.4	555.1	0.3	577.9
Other revenue	58.9	62.7	(3.8)	57.3
	3,539.9	3,272.8	267.1	3,202.7
Expenses				
Energy purchases	2,898.5	2,700.4	(198.1)	2,567.5
Operating expenses	274.6	267.9	(6.7)	272.0
Depreciation and amortization	194.3	184.9	(9.4)	172.8
	3,367.4	3,153.2	(214.2)	3,012.3
Finance costs	70.4	61.3	(9.1)	66.2
Gain on disposals of PP&E	10.1	1.5	8.6	1.3
Income before income taxes	112.2	59.8	52.4	125.5
Income tax expense	31.5	15.0	(16.5)	4.3
Net income for the year	80.7	44.8	35.9	121.2
Net movements in regulatory balances, net of tax	46.0	66.9	(20.9)	N/A
Net income after net movements in regulatory balances	126.7	111.7	15.0	N/A

¹ The Corporation's consolidated financial statements for 2013 were prepared in accordance with US GAAP.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

	As at December 31 2015 \$	As at December 31 2014 \$
Current assets	541.7	537.7
Non-current assets	3,903.5	3,593.5
Total assets	4,445.2	4,131.2
Regulatory balances	241.7	197.1
Total assets and regulatory balances	4,686.9	4,328.3
Current liabilities	875.9	870.8
Non-current liabilities	2,298.5	2,014.0
Total liabilities	3,174.4	2,884.8
Equity	1,340.9	1,270.5
Total liabilities and equity	4,515.3	4,155.3
Regulatory balances	171.6	173.0
Total liabilities, equity and regulatory balances	4,686.9	4,328.3

Results of Operations

Net Income after Net Movements in Regulatory Balances

Net income after net movements in regulatory balances for the three months and year ended December 31, 2015 was \$74.3 million and \$126.7 million compared to \$23.8 million and \$111.7 million for the comparable periods in 2014.

The increase in net income after net movements in regulatory balances for the three months ended December 31, 2015 was primarily due to approved rate riders and new deferral and variance accounts as a result of the OEB's CIR decision and rate order (\$62.7 million) (see "Corporate Developments" below), an adjustment to unbilled revenue recorded in 2014 (\$10.7 million), a favourable variance in income tax expense and income tax recorded in net movements in regulatory balances (\$9.3 million), and a gain on disposals of PP&E in the fourth quarter of 2015 (\$3.7 million). These variances were partially offset by the IFRS transitional regulatory adjustments recorded to income in 2014 (\$17.7 million) primarily related to PP&E, ICM income recognized in the fourth quarter of 2014 (\$10.2 million), lower other revenue (\$5.9 million), and higher operating expenses (\$2.5 million).

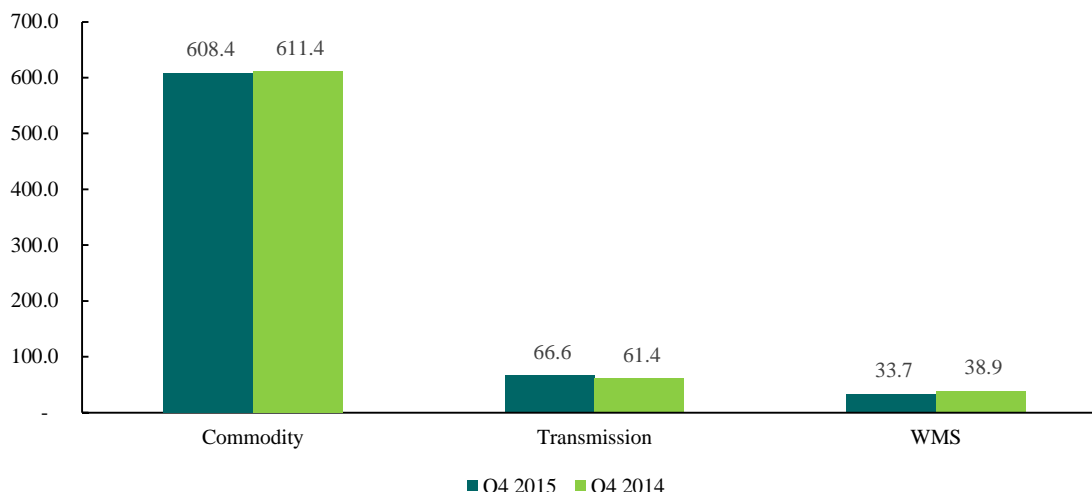
The increase in net income after net movements in regulatory balances for the year ended December 31, 2015 was primarily due to approved rate riders and new deferral and variance accounts as a result of the OEB's CIR decision and rate order (\$54.7 million) (see "Corporate Developments" below), an adjustment to unbilled revenue recorded in 2014 (\$10.7 million), a favourable variance in income tax expense and income tax recorded in net movements in regulatory balances (\$11.3 million), and a higher gain on disposals of PP&E (\$8.6 million). These variances were partially offset by the ICM income recognized in 2014 (\$25.1 million), the IFRS transitional regulatory adjustments recorded to income in 2014 (\$21.5 million) primarily related to PP&E, higher depreciation and amortization expense (\$9.4 million), higher finance costs (\$9.1 million), and higher operating expenses (\$6.7 million).

Energy Sales

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this

settlement variance is presented within regulatory balances on the consolidated balance sheet and within net movements in regulatory balances, net of tax on the consolidated statement of income.

LDC Energy Sales
(\$ Millions)
Three months ended December 31, 2015



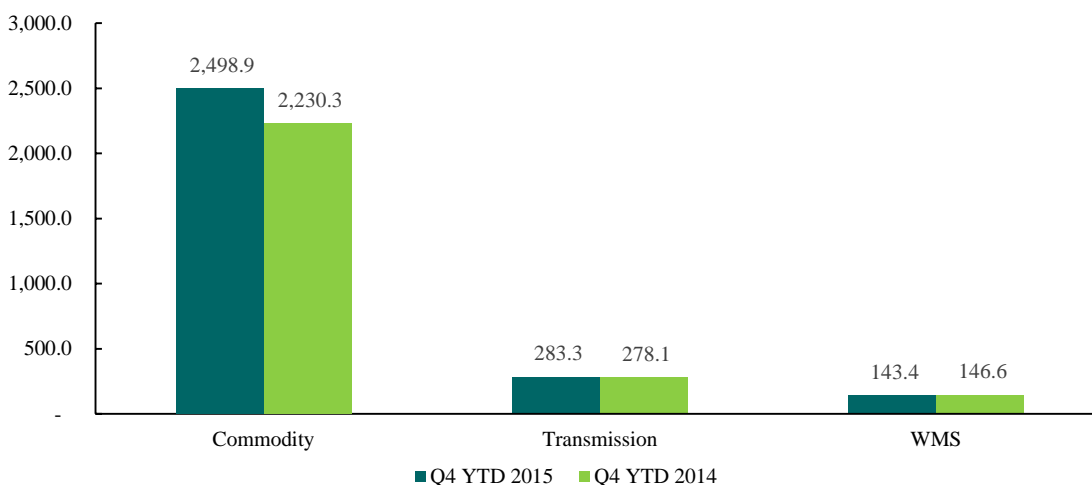
Energy sales for the three months ended December 31, 2015 were \$708.7 million compared to \$711.7 million for the comparable period in 2014. The decrease was due to lower commodity charges.

Energy Sales, Settlement Variances and Energy Purchases
Three months ended December 31, 2015
(in millions of Canadian dollars)

	Energy Sales \$	Settlement Variances \$	Energy Purchases \$
Commodity Charges	608.4	24.0	632.4
Retail Transmission Charges	66.6	(0.3)	66.3
WMS Charges	33.7	(24.0)	9.7
Total	708.7	(0.3)	708.4

For the three months ended December 31, 2015, LDC recognized \$708.7 million in energy sales to customers and was billed \$708.4 million for energy purchases from the IESO. The difference between energy sales (\$708.7 million) and energy purchases (\$708.4 million) represents a \$0.3 million settlement variance for the period. As such, the settlement variance was recorded as a decrease to the regulatory debit balance (\$0.1 million including carrying charges) on the consolidated balance sheet, and presented within net movements in regulatory balances, net of tax on the consolidated statement of income.

LDC Energy Sales
(\$ Millions)
Year ended December 31, 2015



Energy sales for the year ended December 31, 2015 were \$2,925.6 million compared to \$2,655.0 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$268.6 million).

Energy Sales, Settlement Variances and Energy Purchases
Year ended December 31, 2015
(in millions of Canadian dollars)

	Energy Sales \$	Settlement Variances \$	Energy Purchases \$
Commodity Charges	2,498.9	5.5	2,504.4
Retail Transmission Charges	283.3	13.9	297.2
WMS Charges	143.4	(46.5)	96.9
Total	2,925.6	(27.1)	2,898.5

For the year ended December 31, 2015, LDC recognized \$2,925.6 million in energy sales to customers and was billed \$2,898.5 million for energy purchases from the IESO. The difference between energy sales (\$2,925.6 million) and energy purchases (\$2,898.5 million) represents a \$27.1 million settlement variance, which in isolation is expected to reduce future electricity distribution rates for customers. As such, the settlement variance was recorded as a decrease to the regulatory debit balance (\$26.4 million including carrying charges) on the consolidated balance sheet, and presented within net movements in regulatory balances, net of tax on the consolidated statement of income.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, which includes revenue related to the collection of OEB-approved rate riders. Distribution revenue for the three months and year ended December 31, 2015 was \$131.3 million and \$555.4 million compared to \$131.9 million and \$555.1 million for the comparable periods in 2014.

The decrease in distribution revenue for the three months ended December 31, 2015 was primarily due to revenue earned from the ICM rate riders recorded in 2014 (\$5.3 million), lower electricity consumption in the fourth quarter of 2015 (\$4.1 million) and lower revenue related to smart meter recoveries recorded in the fourth quarter of 2015 (\$2.4

million). These variances were partially offset by an adjustment to unbilled revenue based on new technology implemented to enhance the revenue estimation process in 2014 (\$10.7 million).

The increase in distribution revenue for the year ended December 31, 2015 was primarily due to an adjustment to unbilled revenue based on new technology implemented to enhance the revenue estimation process in 2014 (\$10.7 million), a reduction to distribution revenue recorded in 2014 for the disposition of regulatory liabilities approved by the OEB (\$2.6 million) mainly related to PILs variances, revenue recognition related to the IRM adjustment effective May 1, 2014 (\$1.9 million), and higher electricity consumption (\$0.9 million). These variances were partially offset by lower revenue earned from the ICM rate riders (\$14.2 million) and lower revenue related to smart meter recoveries recorded in 2015 (\$2.9 million).

Other Revenue

Other revenue includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services, revenue from demand billable activities, amortization of deferred revenue related to capital contributions from customers on capital projects, and CDM cost efficiency incentives. Other revenue for the three months and year ended December 31, 2015 was \$15.3 million and \$58.9 million compared to \$21.2 million and \$62.7 million for the comparable periods in 2014.

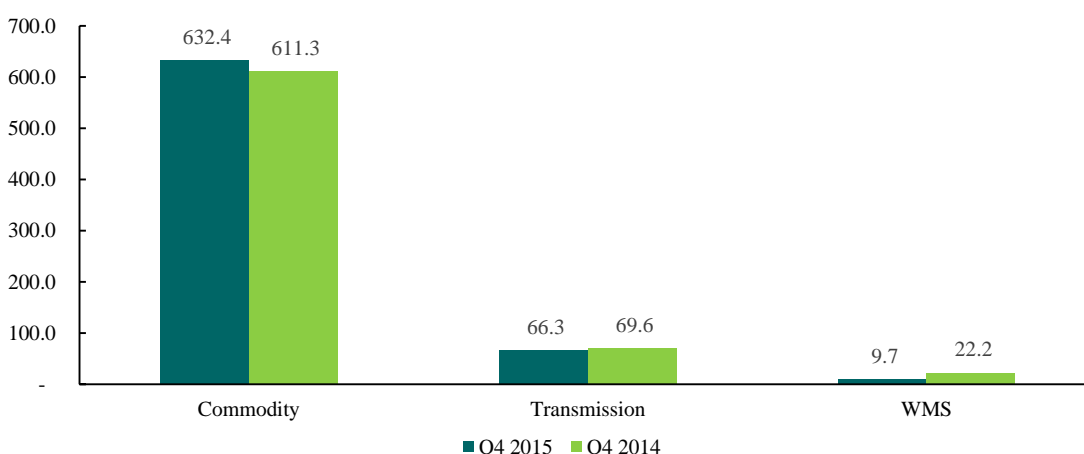
The decrease in other revenue for the three months ended December 31, 2015 was primarily due to the cost efficiency incentive recorded in 2014 related to the completion of the 2011-2014 CDM programs (see “CDM Activities” below).

The decrease in other revenue for the year ended December 31, 2015 was primarily due to the cost efficiency incentive recorded in 2014 related to the completion of the 2011-2014 CDM programs (see “CDM Activities” below), partially offset by higher recognition of capital contribution revenue received from customers for specific projects.

Energy purchases

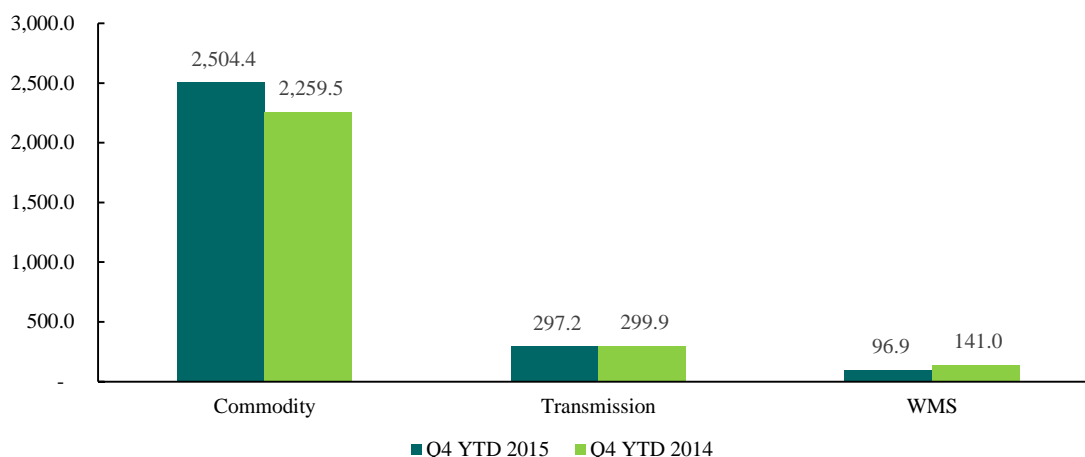
LDC’s energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
(\$ Millions)
Three months ended December 31, 2015



Energy purchases for the three months ended December 31, 2015 were \$708.4 million compared to \$703.1 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$21.1 million) offset by lower WMS charges (\$12.5 million) and lower retail transmission charges (\$3.3 million).

LDC Energy Purchases
(\$ Millions)
Year ended December 31, 2015



Energy purchases for the year ended December 31, 2015 were \$2,898.5 million compared to \$2,700.4 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$244.9 million), partially offset by lower WMS charges (\$44.1 million).

Operating expenses

Operating expenses for the three months and year ended December 31, 2015 were \$71.6 million and \$274.6 million compared to \$69.1 million and \$267.9 million for the comparable periods in 2014.

The increase in operating expenses for the three months ended December 31, 2015 was primarily due to higher system maintenance costs and higher compensation costs.

The increase in operating expenses for the year ended December 31, 2015 was primarily due to higher system maintenance costs (\$6.4 million), costs related to the 2015 emergency management and special event programs (\$2.2 million), and higher contractor costs in 2015 (\$1.5 million). These variances were partially offset by the repair costs for the electricity distribution infrastructure incurred in the first quarter of 2014 related to the Ice Storm that adversely affected the City at the end of December 2013 (\$3.4 million).

Depreciation and amortization

Depreciation and amortization expense for the three months and year ended December 31, 2015 was \$59.7 million and \$194.3 million compared to \$60.2 million and \$184.9 million for the comparable periods in 2014.

The increase in depreciation and amortization expense for the year ended December 31, 2015 was primarily due to new in-service asset additions, partially offset by certain assets being fully depreciated or derecognized.

Finance Costs

Finance costs for the three months and year ended December 31, 2015 were \$17.7 million and \$70.4 million compared to \$16.2 million and \$61.3 million for the comparable periods in 2014.

The increase in finance costs for the three months and year ended December 31, 2015 was primarily due to higher amount of long-term debt outstanding (see “Liquidity and Capital Resources” below), partially offset by higher capitalized borrowing costs.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2015 was \$3.7 and \$10.1 million compared to \$nil and \$1.5 million for the comparable periods in 2014.

The variance in gain on disposals of PP&E for the three months ended December 31, 2015 was due to gains realized in connection with the disposals of surplus properties by LDC during the fourth quarter of 2015.

The gain on disposals of PP&E for the year ended December 31, 2015 was primarily due to gains realized on disposal of surplus properties in 2015 (\$10.1 million). Consistent with the OEB's CIR decision and rate order, the pre-tax gain recorded on the surplus property sold by LDC during the first quarter of 2015 (\$5.9 million) under the facilities consolidation program was recorded as a regulatory credit balance on the consolidated balance sheet to reduce future electricity distribution rates charged to customers, with a corresponding offset in net movements in regulatory balances, net of tax.

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

Income tax expense (recovery) and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2015 were \$(5.2) million and \$2.9 million (see note 21 to the Consolidated Financial Statements) compared to \$4.1 million and \$14.2 million (see note 21 to the Consolidated Financial Statements) for the comparable periods in 2014.

The favourable variances in income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2015 were primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments offset by higher earnings before taxes.

Net Movements in Regulatory Balances, Net of Tax

In accordance with IFRS 14, the Corporation is required to separately present regulatory balances and related movements on the consolidated balance sheets and consolidated statements of income. The changes in the regulatory debit (\$44.6 million) and credit (\$1.4 million) balances for the period equal the net movements in regulatory balances, net of tax (\$46.0 million) for the year ended December 31, 2015 (see "Financial Position" below). Under IFRS 14, all regulatory related transactions impacting the consolidated statement of income are first recorded in accordance with other IFRS and then presented in the net movements in regulatory balances, net of tax caption. The tables below provide a breakdown of the net movements in regulatory balances, net of tax for the three months and year ended December 31, 2015 and the consolidated statement of income captions impacted.

Net Movements in Regulatory Balances, Net of Tax
Three months ended December 31
(in millions of Canadian dollars)

	2015 \$	2014 \$	Increase (Decrease) \$	Statement of Income Captions Impacted ⁴
Movements related to regulatory debit balances				
Foregone revenue	61.1	-	61.1	N/A
LRAM	9.1	-	9.1	N/A
Settlement variances ¹	(0.1)	(8.3)	8.2	Energy sales
Named properties	5.8	-	5.8	N/A
Capital contributions	1.9	-	1.9	N/A
OPEB cash versus accrual	1.8	-	1.8	N/A
Stranded meters	-	(0.6)	0.6	Depreciation and amortization
Post-employment benefits ²	-	(0.4)	0.4	Operating expenses
Smart meters	(1.9)	(2.0)	0.1	Distribution revenue
IFRS transitional adjustments	4.7	18.1	(13.4)	Depreciation and amortization
Other	(4.1)	0.9	(5.0)	Operating expenses
Movements related to regulatory credit balances				
Deferred taxes ³	20.7	(7.2)	27.9	Income tax expense
Gain on disposal	2.1	-	2.1	N/A
Tax-related variances	(0.1)	(0.7)	0.6	Distribution revenue
Derecognition	(9.9)	-	(9.9)	N/A
ICM	(0.1)	4.8	(4.9)	Distribution revenue
Capital-related revenue requirement	(2.8)	-	(2.8)	N/A
Other	-	(0.1)	0.1	N/A
Net movements in regulatory balances, net of tax	88.2	4.5	83.7	

¹ Settlement variances are recorded as a debit or credit balance depending on the net balance as at the balance sheet date, but can change from period to period.

² The regulatory balance related to post-employment benefits relates to the IFRS transitional adjustments recorded in 2014 from US GAAP to IFRS and the net actuarial loss arising from actuarial assumptions and experience adjustments. The change in this balance relating to the actuarial loss of \$46.1 million in 2014 was recorded to net movements in regulatory balances related to OCI.

³ The regulatory balance related to deferred taxes includes the income tax expense related to remeasurements of post-employment benefits that was recorded in net movements in regulatory balances related to OCI, net of tax of \$(12.2) million in 2014.

⁴ Foregone revenue, LRAM, named properties, capital contributions, OPEB cash versus accrual, gain on disposal, derecognition, and capital-related revenue requirement were related to the OEB's CIR decision and rate order, and will not impact the statement of income captions outside net movements in regulatory balances, net of tax until 2016.

Net movements in regulatory balances, net of tax for the three months ended December 31, 2015 were \$88.2 million compared to \$4.5 million for the comparable period in 2014.

The variance in net movements in regulatory balances, net of tax for the three months ended December 31, 2015 was primarily related to the approved rate riders and deferral and variance accounts as a result of the OEB's CIR decision and rate order (\$62.7 million), changes in the movements of deferred taxes (\$27.9 million) and settlement variance balances (\$8.2 million), and LRAM balance recognized for 2014 and 2015 (\$5.5 million). These variances were partially offset by the IFRS transitional regulatory adjustments (\$17.7 million) and changes in income related to the ICM balances (\$4.9 million).

Net Movements in Regulatory Balances, Net of Tax
Year ended December 31
(in millions of Canadian dollars)

	2015 \$	2014 \$	Increase (Decrease) \$	Statement of Income Captions Impacted ⁴
Movements related to regulatory debit balances				
Settlement variances ¹	(26.4)	45.9	(72.3)	Energy sales
IFRS transitional adjustments	4.7	23.3	(18.6)	Depreciation and amortization
Smart meters	(10.9)	(4.3)	(6.6)	Distribution revenue
Foregone revenue	61.1	-	61.1	N/A
LRAM	9.1	-	9.1	N/A
Named properties	5.8	-	5.8	N/A
Stranded meters	-	(2.5)	2.5	Depreciation and amortization
Capital contributions	1.9	-	1.9	N/A
OPEB cash versus accrual	1.8	-	1.8	N/A
Post-employment benefits ²	-	(1.8)	1.8	Operating expenses
Other	(2.5)	2.1	(4.6)	Operating expenses
Movements related to regulatory credit balances				
Deferred taxes ³	28.6	0.8	27.8	Income tax expense
ICM	(7.4)	3.7	(11.1)	Distribution revenue
Derecognition	(9.9)	-	(9.9)	N/A
Gain on disposal	(5.9)	-	(5.9)	Gain on disposal of PP&E
Capital-related revenue requirement	(2.8)	-	(2.8)	N/A
Tax-related variances	(1.2)	(0.1)	(1.1)	Distribution revenue
Other	-	(0.2)	0.2	Distribution revenue
Net movements in regulatory balances, net of tax	46.0	66.9	(20.9)	

¹ Settlement variances are recorded as a debit or credit balance depending on the net balance as at the balance sheet date, but can change from period to period.

² The regulatory balance related to post-employment benefits relates to the IFRS transitional adjustments recorded in 2014 from US GAAP to IFRS and the net actuarial loss arising from actuarial assumptions and experience adjustments. The change in this balance relating to the actuarial loss of \$46.1 million in 2014 was recorded to net movements in regulatory balances related to OCI.

³ The regulatory balance related to deferred taxes includes the income tax expense related to remeasurements of post-employment benefits that was recorded in net movements in regulatory balances related to OCI, net of tax of \$(12.2) million in 2014.

⁴ Foregone revenue, LRAM, named properties, capital contributions, OPEB cash versus accrual, derecognition, and capital-related revenue requirement were related to the OEB's CIR decision and rate order, which will not impact the statement of income captions outside net movements in regulatory balances, net of tax until 2016.

Net movements in regulatory balances, net of tax for the year ended December 31, 2015 were \$46.0 million compared to \$66.9 million for the comparable period in 2014.

The variance in net movements in regulatory balances, net of tax for the year ended December 31, 2015 was primarily due to changes in the movements of the settlement variance balances (\$72.3 million), IFRS transitional regulatory adjustments (\$21.5 million), ICM balances (\$11.1 million), and smart meter balances (\$6.6 million). These variances were partially offset by the changes as a result of the OEB's CIR decision and rate order (\$54.7 million), change in the movements of deferred taxes (\$27.8 million), and LRAM balance for 2014 and 2015 (\$5.5 million).

The changes in the movements of settlement variance balances (\$72.3 million) were primarily due to changes in commodity charges. The IFRS transitional regulatory adjustments recorded to income in 2014 (\$21.5 million) primarily related to PP&E. The change in the movements of ICM balances (\$11.1 million) was due to a lower amount collected through the ICM rate riders in 2015 offset by the revenue recorded within net movements in regulatory

balances, net of tax in 2014. The change in smart meter balances (\$6.6 million) was related to the amount collected through the smart meter rate riders in both 2015 and 2014, offset by smart meter incremental revenue within net movements in regulatory balances, net of tax in 2014. The changes as a result of the OEB's CIR decision and rate order were related to the approved rate riders and deferral and variance accounts including foregone revenue (\$61.1 million), named properties (\$5.8 million), IFRS transitional regulatory adjustments in 2015 (\$4.7 million), LRAM (\$3.6 million), capital contributions (\$1.9 million), OPEB cash versus accrual (\$1.8 million), partially offset by derecognition variance account (\$9.9 million), gain on disposal (\$5.9 million), impairment on regulatory debit balances (\$4.4 million), and capital-related revenue requirement variance account (\$2.8 million) (see "Corporate Developments" below). The change in the movements of deferred taxes (\$27.8 million) was primarily related to the temporary differences between accounting and tax treatments due to the timing of the OEB's CIR decision and rate order. The LRAM balance (\$5.5 million) was related to the difference between the level of CDM program activities in LDC's load forecast used to set rates and actual impact of authorized CDM activities achieved for 2014 and 2015.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for the quarters in 2015 and 2014. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

Summary of Quarterly Results of Operations¹
(in millions of Canadian dollars)

	December 31 2015 \$	September 30 2015 \$	June 30 2015 \$	March 31 2015 \$
Revenues	855.3	977.6	842.9	864.1
Net income after net movements in regulatory balances	74.3	20.0	15.9	16.5
	December 31 2014 \$	September 30 2014 \$	June 30 2014 \$	March 31 2014 \$
Revenues	864.8	808.4	702.5	897.1
Net income after net movements in regulatory balances	23.8	35.1	31.2	21.6

¹ Quarterly financial information for 2015 has been derived from the Consolidated Financial Statements and unaudited interim financial statements of the Corporation, which have been prepared in accordance with IFRS. Quarterly financial information for 2014 that was previously reported in accordance with US GAAP is now reported in accordance with IFRS.

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

The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. This resulted in a variation from the trend noted above for the fourth quarter of 2014 due to higher commodity charges as a result of global adjustments.

Financial Position

The following table outlines the significant changes in the consolidated balance sheet as at December 31, 2015 as compared to the consolidated balance sheet as at December 31, 2014.

Consolidated Balance Sheet Data (in millions of Canadian dollars)		
Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
PP&E and intangible assets	339.4	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition during the period.
Income tax receivable	9.1	The increase was primarily due to instalment payments in excess of the income tax provision.
Deferred tax assets	(29.4)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E and intangible assets.
Liabilities and Equity		
Working capital facility	8.1	The increase was primarily due to funding required for general corporate purposes (see “Liquidity and Capital Resources” below).
Commercial paper	16.0	The increase was primarily due to funding required for general corporate purposes (see “Liquidity and Capital Resources” below).
Accounts payable and accrued liabilities	(38.4)	The decrease was primarily due to lower capital activity and timing differences in payments, partially offset by higher electricity commodity costs payable to the IESO.
Deferred revenue	30.8	The increase was primarily due to capital contributions received in 2015.
Deferred conservation credit	17.9	The increase was primarily due to additional funding received for the CDM programs (see “Corporate Developments” below).
Debentures	243.8	The increase was primarily due to the issuance of senior unsecured debentures in the first and third quarters of 2015 (see “Liquidity and Capital Resources” below).
Post-employment benefits	9.1	The increase was due to benefits earned by employees for services rendered in the current period, offset by payments made to settle obligations.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Retained earnings	70.4	The increase was due to net income after net movements in regulatory balances (\$126.7 million), offset by dividends paid (\$56.3 million).
Regulatory Balances		
Regulatory debit balances ¹	44.6	The increase was primarily due to new deferral and variance accounts and foregone revenue rate riders as a result of the OEB's CIR decision and rate order (see "Corporate Developments" below), partially offset by the settlement variance between energy sales and energy purchases and recoveries through the smart meter rate riders in 2015 (see "Results of Operations" above).
Regulatory credit balances ¹	(1.4)	The decrease was primarily due to the tax impact of movements in regulatory balances, partially offset by revenue earned from the ICM rate riders, the recognition of a new derecognition account as a result of the OEB's CIR decision and rate order (see "Corporate Developments" below), and the gain on disposal of a surplus property in connection with the facilities consolidation program filed as part of LDC's CIR rate application (see "Liquidity and Capital Resources" below).

¹ The total of changes in the regulatory debit and credit balances reflects net movements in regulatory balances, net of tax (see "Results of Operations" above).

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$541.7 million and \$875.9 million, respectively, as at December 31, 2015, resulting in a working capital deficit of \$334.2 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, to purchase power, and to meet financing obligations. See "Liquidity Risk" under note 16 (b) to the Consolidated Financial Statements.

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

	Three months ended December 31		Year ended December 31	
	2015 \$	2014 \$	2015 \$	2014 \$
Cash and cash equivalents (working capital facility), beginning of period	2.8	(10.0)	(6.1)	(19.1)
Net cash provided by operating activities	123.0	110.1	426.7	356.2
Net cash used in investing activities	(133.5)	(169.2)	(557.4)	(570.7)
Net cash provided by (used in) financing activities	(6.5)	63.0	122.6	227.5
Working capital facility, end of period	(14.2)	(6.1)	(14.2)	(6.1)

The Corporation is a party to a \$20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management (“Working Capital Facility”). As at December 31, 2015, \$14.2 million had been drawn under the Working Capital Facility compared to \$6.1 million as at December 31, 2014.

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2015 was \$123.0 million and \$426.7 million compared to \$110.1 million and \$356.2 million for the comparable periods in 2014.

The increase in net cash provided by operating activities for the three months ended December 31, 2015 was primarily due to higher net income after net movements in regulatory balances and adjustments for non-cash items, the movements in non-cash working capital balances (see note 22 to the Consolidated Financial Statements), and capital contributions received. These variances were partially offset by net movements in regulatory balances (see “Net Movements in Regulatory Balances, Net of Tax” above).

The increase in net cash provided by operating activities for the year ended December 31, 2015 was primarily due to higher net income after net movements in regulatory balances and adjustments for non-cash items, and net movements in regulatory balances (see “Net Movements in Regulatory Balances, Net of Tax” above).

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2015 was \$133.5 million and \$557.4 million compared to \$169.2 million and \$570.7 million for the comparable periods in 2014.

The decrease in net cash used in investing activities for the three months and year ended December 31, 2015 was due to lower capital expenditures and higher proceeds on disposals of surplus properties in 2015.

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

The following table summarizes the Corporation's capital expenditures for the periods indicated.

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended December 31		Year ended December 31	
	2015 \$	2014 ¹ \$	2015 \$	2014 ¹ \$
Regulated LDC				
Distribution system				
Planned ²	88.9	118.8	392.8	394.7
Reactive	12.1	10.1	35.8	38.6
Copeland Station	5.2	26.2	23.7	82.4
Facilities consolidation	8.2	12.6	31.3	70.8
Technology assets	11.2	8.5	28.9	19.3
Other ³	7.4	13.0	20.1	17.3
Regulated capital expenditures	133.0	189.2	532.6	623.1
Unregulated capital expenditures ⁴	1.6	0.8	4.6	2.9
Total capital expenditures	134.6	190.0	537.2	626.0

¹ Capital expenditures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

² Includes, among other initiatives, the replacement of underground and overhead infrastructure, and the delivery of customer connections.

³ Includes fleet capital and buildings.

⁴ Primarily relates to TH Energy equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2015 were \$133.0 million and \$532.6 million compared to \$189.2 million and \$623.1 million for the comparable periods in 2014.

For the year ended December 31, 2015, the decrease in regulated capital expenditures was primarily related to a decrease in spending on Copeland Station (\$58.7 million) and facilities consolidation program (\$39.5 million). These variances were partially offset by higher spending on equipment for increased load demand related to the growing population in the City (\$9.0 million).

The largest capital initiatives in 2015 include the replacement of underground infrastructure, the replacement of overhead infrastructure, the delivery of customer connections, the facilities consolidation program, and the construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2015, capital expenditures for the underground and overhead infrastructures were \$122.8 million and \$117.1 million, respectively.

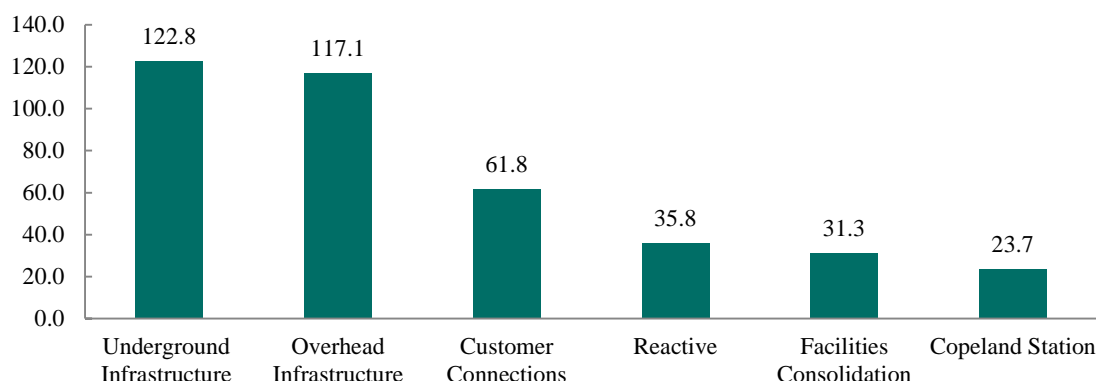
The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the year ended December 31, 2015, capital expenditures for the delivery of customer connections were \$61.8 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In 2015, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of \$31.3 million for the year ended December 31, 2015. In 2014, the Corporation incurred \$70.8 million in costs for the facilities consolidation program, including the purchase of a property to be used as an operation centre for \$13.1 million. The facilities consolidation program will reduce the total number of operating centres by two upon completion. Expected net proceeds on the sale of two surplus properties have been included in the rate application to mitigate electricity distribution rate increases. On March 3, 2015, the Corporation sold one of the related surplus properties owned by

LDC for \$10.5 million. The pre-tax gain of \$5.9 million is expected to reduce future electricity distribution rates for customers and as such, was recorded as a regulatory credit balance on the consolidated balance sheet.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest region of Toronto. During the third quarter of 2015, the Corporation completed construction of the separate ventilation structure for the tunnel and commenced the reconstruction of the machine shop on top of the underground transformer station. During the fourth quarter of 2015, all construction work related to the tunnel was completed and the Corporation continued the placement of roof concrete, which is now near completion. As at December 31, 2015, the cumulative capital expenditures on the Copeland Station project amounted to \$166.7 million, of which \$23.7 million was recorded in 2015. All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the most complex projects ever undertaken by the Corporation and unforeseen delays have extended the expected completion date from 2016 to 2017. The delays are attributable to a variety of factors, including the effect of inclement weather, challenging site conditions and contractor performance. Despite the delays, the total capital expenditures required to complete the project are expected to remain at approximately \$195.0 million, plus capitalized borrowing costs as applicable.

Most Significant Regulated Capital Initiatives
(\$ Millions)
Year ended December 31, 2015



Financing Activities

Net cash provided by (used in) financing activities for the three months and year ended December 31, 2015 was \$(6.5) million and \$122.6 million, respectively, compared to \$63.0 million and \$227.5 million for the comparable periods in 2014.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2020 ("Revolving Credit Facility"), pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by \$100.0 million from \$700.0 million to \$800.0 million and the expiry date extended by one year from October 10, 2019 to October 10, 2020. Borrowings under the Revolving Credit Facility bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Corporation's credit rating. As at December 31, 2015, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

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

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

(in millions of Canadian dollars)	Revolving Credit Facility Limit \$	Revolving Credit Facility Borrowings \$	Commercial Paper Outstanding \$	Revolving Credit Facility Availability \$
December 31, 2015	800.0	—	324.0	476.0
December 31, 2014	700.0	—	308.0	392.0

For the three months and year ended December 31, 2015, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$299.5 million and \$289.1 million with weighted average interest rates of 0.81% and 0.91%.

Additionally, the Corporation is a party to a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at December 31, 2015, \$32.4 million of letters of credit had been issued against the Prudential Facility.

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

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 ("Series 11"). The Series 11 debentures bear interest payable semi-annually in arrears. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 11 debentures were recorded against the carrying amount of the debentures in the first quarter of 2015 and are amortized to finance costs using the effective interest method.

On September 2, 2015, the Corporation re-opened its Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures at a price of \$1,004.68 per \$1,000 principal amount due April 9, 2063, carrying the same terms and conditions as the original issuance. The Series 9 debentures bear interest payable semi-annually in arrears. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$0.5 million relating to the re-opening of the Series 9 debentures were recorded against the carrying amount of the debentures in the third quarter of 2015 and are amortized to finance costs using the effective interest method.

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

As at December 31, 2015, the Corporation had long-term debentures outstanding in the principal amount of \$1.9 billion. These debentures will mature between 2017 and 2063. The Corporation may issue up to \$755.0 million of additional debentures under its existing base shelf prospectus. As at December 31, 2015, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

The Corporation's debentures and commercial paper were rated as follows:

Credit Ratings
As at December 31, 2015

	Debentures	Commercial Paper
DBRS	A	R-1 (low)
Standard & Poor's	A	-

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

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

Subject to applicable law, the Shareholder Direction provides that the Corporation will pay dividends to the City each year amounting to the greater of \$25.0 million or 50% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year. The dividends are not cumulative and are payable as follows:

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

For the year ended December 31, 2015, the Board of Directors of the Corporation declared and paid dividends to the City totalling \$56.25 million.

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

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments As at December 31, 2015 (in millions of Canadian dollars)

	Total \$	2016 \$	2017/2018 \$	2019/2020 \$	After 2020 \$
Working Capital Facility	14.2	14.2	-	-	-
Commercial paper ¹	324.0	324.0	-	-	-
Debentures – principal repayment	1,895.0	-	250.0	250.0	1,395.0
Debentures – interest payments	1,370.9	78.0	143.2	119.1	1,030.6
Operating leases	11.3	6.2	3.0	2.1	-
Capital projects ² and other	57.8	37.3	20.5	-	-
Capital leases	8.5	3.5	5.0	-	-
Total contractual obligations and other commitments	3,681.7	463.2	421.7	371.2	2,425.6

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

² Reflects capital project commitments for construction services and estimated capital contributions.

Corporate Developments

Changes to the Corporation's Board of Directors

Effective February 10, 2015, the City, as the sole shareholder of the Corporation, appointed Councillor Paul Ainslie to the Board of Directors. The appointment is effective for a term ending December 31, 2016, or until a successor is appointed.

Effective May 5, 2015, the City extended the term of office for all citizen directors of the Corporation to October 31, 2015, or until their successors are appointed. Effective December 10, 2015, the City extended the term of office of Derek Cowbourne and David Williams to December 10, 2016. Effective December 10, 2015, the City appointed Brian Chu, Tamara Kronis, David McFadden, Howard Wetston and Heather Zordel, to the Board of Directors for terms ending December 10, 2017 or until successors are appointed. The City also appointed Mary Ellen Richardson to the Board of Directors for a term of office starting on December 11, 2016 and ending on December 10, 2017 or until a successor is appointed. Effective December 9, 2015, Paulette Kennedy, Colum Bastable, Sara Gelgor, Isabel Meharry and Glenna Carr ceased to be directors of the Corporation. There is currently one vacancy on the Board of Directors.

Electricity Distribution Rates

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

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

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

became effective. The second rate rider related to the recovery of \$9.6 million, representing the forecasted 2014 incremental revenue requirement.

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

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

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

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

CDM Activities

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

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

efficiency incentives of \$5.7 million and the amount payable by LDC of \$4.9 million plus applicable taxes, which was paid in July 2015.

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

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

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

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

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

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. See note 25 to the Consolidated Financial Statements for a discussion of material legal proceedings.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,000 common shares were issued and are outstanding as at the date hereof. All issued shares were fully paid.

Transactions with Related Parties

Since the Corporation is a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties.

Summary of Transactions with Related Parties (in millions of Canadian dollars)

	Year ended December 31	
	2015 \$	2014 \$
Revenues	239.3	238.6
Operating expenses and capital expenditures	19.7	20.8
Dividends	56.3	60.6

Summary of Amounts Due to/from Related Parties (in millions of Canadian dollars)

	As at December 31	
	2015 \$	2014 \$
Accounts receivable	5.1	9.4
Unbilled revenue	20.8	22.3
Accounts payable and accrued liabilities	36.6	41.7
Customer deposits	11.7	8.2
Deferred revenue	1.0	1.5

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

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

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the year ended December 31, 2015 and 2014. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

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

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

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

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

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

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

The Corporation is subject to a variety of risks including those described below:

Condition of Distribution Assets

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

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

Information Technology Systems and Cyber Security

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

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

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

Regulatory Developments

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

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

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

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

Natural and Other Unexpected Occurrences

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

Additional Debt Financing and Credit Rating

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

In the event the Corporation is unable to maintain an R-1 (low) credit rating for its Commercial Paper Program, the Corporation has sufficient liquidity through its Revolving Credit Facility to repay its Commercial Paper obligations as they become due.

Conflicts of Interest

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

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

Change of Ownership

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

Market and Credit Risk

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

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-retirement benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations

would decrease the accrued benefit obligation, as at December 31, 2015, by \$45.5 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2015, by \$54.1 million.

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

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

Insurance

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

Real Property Rights

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

Work Force Renewal

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

Labour Relations

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

Electricity Usage

LDC's electricity distribution rates are comprised of a fixed charge and a usage-based (consumption or demand) charge. The volume of electricity used by LDC's customers during any period is governed by events largely outside LDC's control (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity and general economic conditions could affect overall electricity consumption). Additionally, usage may be decreased in the future due to the impact of CDM programs, distributed generation, renewable energy, and advances in technology. The current pace of technological advancement in distributed generation, renewable energy, and energy efficiency in both appliances and

equipment could reduce consumption as costs for new technology decrease and usage becomes widespread. Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

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

LDC Competition

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

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

Critical Accounting Estimates

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

The following critical accounting estimates involve significant estimates and judgments used in the preparation of the Consolidated Financial Statements:

Revenue Recognition

Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services and revenue from demand billable activities, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue not yet recognized from demand billable activities is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

Regulatory Balances

As at December 31, 2015, regulatory debit balances amounted to \$241.7 million and were primarily related to the new rate riders and deferral and variance accounts recorded as a result of the OEB's CIR decision and rate order, and the regulatory balance accumulating the actuarial gains and losses relating to post-employment benefits. As at December 31, 2015, regulatory credit balances amounted to \$171.6 million and were primarily related to tax impact of movements in regulatory balances, and the new rate riders and deferral and variance accounts as a result of the OEB's CIR decision and rate order. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances are assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statements of income in the period when the assessment is made. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

Employee Future Benefits

Employee future benefits (other than pension) provided by the Corporation include medical, dental and life insurance benefits, and accumulated sick leave credits. These plans provide benefits to employees when they are no longer providing active service. The accrued benefit obligation and net periodic benefit cost are calculated by independent actuaries using the projected unit credit method and based on assumptions that reflect management's best estimate. The assumptions were determined by management recognizing the recommendations of the Corporation's actuaries. There can be no assurance that actual employee future benefits cost will not differ significantly from the estimates calculated using management's assumptions.

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. These Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. In preparing the Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. The significant accounting policies of the Corporation are summarized in notes 2 and 4 to the Consolidated Financial Statements.

Transition to IFRS

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

The accounting policies set out in notes 2 and 4 of Consolidated Financial Statements have been applied in preparing the Consolidated Financial Statements. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. The retrospective adjustment to the January 1, 2014 equity balance is \$0.9 million. An explanation of the significant transitional adjustments as a result of the transition from US GAAP to IFRS, including IFRS 1 elections, on the Corporation's consolidated financial statements is provided in note 26 to the Consolidated Financial Statements.

The Corporation has completed the design and implementation phase of its IFRS conversion project. This included updating accounting policies and procedure manuals, preparing opening balance sheet, quarterly comparatives and disclosures in accordance with IFRS, and completing relevant training with affected finance and operational teams, management, and the Audit Committee of the Board of Directors. In addition, financial systems have been modified and controls have been implemented to address first-time IFRS adoption and ongoing accumulation of information in accordance with IFRS. The Corporation has determined that the transition to IFRS will have no significant impact to its debt covenants and the Corporation remains in compliance with its financial covenants using IFRS financial information.

Significant impacts of transition to IFRS

Regulatory Balances

The Corporation has elected to early adopt IFRS 14. IFRS 14 introduces new presentation requirements for rate regulated companies that isolates the impact of recognizing regulatory balances from the financial reporting requirements of other IFRS. The deferred tax asset or deferred tax liability and movement arising as a result of recognizing regulatory balances are presented with the related regulatory balance. This increases the transparency and enhances the comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14.

For the Corporation, the impact of IFRS 14 was to reclassify regulatory balances and related deferred tax amounts recorded as assets and liabilities under US GAAP to a new and separate section of the consolidated balance sheet. As at December 31, 2014, the impact was to reclassify current regulatory assets of \$11.8 million, non-current regulatory assets of \$564.4 million, current regulatory liabilities of \$1.6 million, non-current regulatory liabilities of \$156.2 million, and the related deferred tax amounts to the respective regulatory debit and credit balances. IFRS 14 does not allow a current and non-current distinction for the regulatory balances and offsetting of regulatory balances is not permitted. In addition, ICM eligible in-service capital expenditures that are permitted to be recognized as PP&E under IAS 16 *Property, Plant and Equipment* were reclassified from regulatory assets to PP&E.

Similarly, the net income effect of all changes in regulatory balances are segregated in a new and separate section of the consolidated statement of income called net movements in regulatory balances, net of tax. The income and expenses recorded before net movements in regulatory balances, net of tax are recorded in accordance with other IFRS. For the year ended December 31, 2014, the most significant impact was that energy sales no longer equal energy purchases as it did under US GAAP. Under IFRS, energy sales reflect the amounts charged by LDC to customers, based on regulated rates, and energy purchases record the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC and charged by the IESO in accordance with other IFRS. This resulted in a \$45.4 million decrease to 2014 energy sales reported under IFRS compared to US GAAP with the corresponding offsetting adjustment to net movement in regulatory balances, net of tax.

The table below provides a breakdown of the adjustments to energy sales for settlement variances as a result of IFRS 14 for each quarter of 2014.

IFRS Adjustments to Energy Sales in 2014
Three months ended
(in millions of Canadian dollars)

	March 31	June 30	September 30	December 31	Total
	\$	\$	\$	\$	
Commodity Charges	55.8	(68.5)	(16.6)	0.1	(29.2)
Retail Transmission Charges	(1.8)	(4.0)	(7.8)	(8.2)	(21.8)
WMS Charges	(20.5)	4.2	5.2	16.7	5.6
Total	33.5	(68.3)	(19.2)	8.6	(45.4)

Rate-regulated Deemed Cost

The Corporation elected to use the IFRS 1 deemed cost exemption allowing entities subject to rate regulation to use the previous GAAP carrying amount, net of accumulated depreciation, of PP&E and intangible assets at the transition date to IFRS as the deemed cost, except for construction in progress items for which capital contributions have been received. The accumulated depreciation for PP&E and intangible assets under IFRS no longer provides an indication of the aging of PP&E and intangible assets due to the deemed cost election. As at January 1, 2014, the impact of this change was to reduce both the cost and accumulated depreciation of PP&E by \$2,424.0 million and intangible assets

by \$201.9 million. There is no net impact to the consolidated balance sheet as at January 1, 2014 or consolidated statement of income for the year ended December 31, 2014.

Capital Contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at the same rate as the related PP&E, as a reduction in depreciation expense. Under IFRIC 18 *Transfer from Customers* (“IFRIC 18”), capital contributions are treated as deferred revenue, resulting in a reclassification of \$50.5 million from PP&E and \$22.1 million from accounts payable and accrued liabilities to deferred revenue (\$1.2 million current and \$71.4 million non-current) as at December 31, 2014. Deferred revenue is recognized as revenue over the useful life of the related PP&E, resulting in a \$0.7 million reclassification from depreciation and amortization expense to other revenue for the year ended December 31, 2014.

Going forward, deferred revenue balances will continue to increase as contributions are received, offset by amortization of the deferred revenue. There will be no net impact to the consolidated statement of income for capital contributions.

PP&E Derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balance and net movements in regulatory balances, net of tax. For the three months and year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances, and net movements in regulatory balances, net of tax by \$19.2 million and \$26.5 million.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not yet been applied in preparing these Consolidated Financial Statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its Consolidated Financial Statements.

Rate-Regulated Accounting

On September 17, 2014, the IASB issued a Discussion Paper – Reporting the Financial Effects of Rate Regulation (“DP”) as part of its active research programme to assess whether to develop proposals for a permanent standard for reporting specified financial effects of rate-regulation. This project is separate from the issuance of IFRS 14 which allowed first-time adopters to continue to apply their previous GAAP recognition and measurement policies for regulatory balances until the IASB concludes on the outcome of the DP. The comment period on the DP ended on January 15, 2015. The Corporation issued a separate and a joint letter with the Canadian Electricity Association in support of the DP.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation expects these amendments to have no material impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and

the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (“IFRS 9”), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* (“IFRS 16”), which replaces IAS 17 *Leases* (“IAS 17”). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 has been adopted. The Corporation is currently evaluating the impact of the new standard.

Forward-Looking Information

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

The forward-looking information in the MD&A includes, but is not limited to, the statements regarding the Corporation’s achievement of its strategic pillars as described in the section entitled “Corporate Strategy”, the settlement variance as described in the section entitled “Results of Operations”, the effect of changes in energy consumption on future revenue as described in the sections entitled “Quarterly Results of Operations” and “Risk Management and Risk Factors”, the expected reduction of future electricity distribution rates related to settlement variances and the gain and related future tax savings on disposal of a surplus property as described in the sections entitled “Results of Operations” and “Liquidity and Capital Resources”, the Corporation’s plans to finance the investment in LDC’s infrastructure and the Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”, the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled “Liquidity and Capital Resources”, the anticipated capacity to be provided by Copeland Station, the expected capital expenditures required to complete Copeland Station, and the anticipated completion date for Copeland Station as described in the section entitled “Liquidity and Capital Resources”, the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled “Liquidity and Capital Resources”, plans to meet CDM targets as described in the section entitled “Corporate Developments”, the ability to pay any damages in connection with legal actions and claims as described in the section entitled “Legal Proceedings”, the Corporation’s conversion to IFRS and trending of balances as described in the section entitled “Transition to IFRS”, and the impact on the Corporation’s consolidated financial statements in the section entitled “Future Accounting Pronouncements”. The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the

economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, and the level of interest rates and the Corporation's ability to borrow.

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

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

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

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2015, 2014 and 2013. This information has been derived from the Corporation's consolidated financial statements.

Selected Annual Consolidated Financial Information (in millions of Canadian dollars)			
	2015 \$	2014 \$	2013 ¹ \$
Year Ended December 31			
Total Revenues ²	3,539.9	3,272.8	3,202.7
Operating expenses ²	274.6	267.9	272.0
Net income after net movements in regulatory balances ²	126.7	111.7	N/A
Net income ²	N/A	N/A	121.2
Capital expenditures ³	537.2	626.0	450.4
As at December 31			
Total assets and regulatory balances ⁴	4,686.9	4,328.3	N/A
Total assets ⁴	N/A	N/A	3,797.5
Total debentures ^{4,5}	1,885.1	1,641.3	1,449.3
Other non-current financial liabilities ⁶	16.6	13.9	15.5
Total equity ⁴	1,340.9	1,270.5	1,218.5
Dividends ³	56.3	60.6	43.0

¹ The amounts for 2013 have not been restated to IFRS and are presented in US GAAP.

² See "Results of Operations" for further details on distribution revenue, other revenue, operating expenses and net income after net movements in regulatory balances.

³ See "Liquidity and Capital Resources" for further details on capital expenditures and dividends.

⁴ See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.

⁵ Total debentures include current and long-term debentures.

⁶ Other non-current financial liabilities include primarily non-current obligations under capital lease and non-current customers' advance deposits. Under IFRS, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

Additional Information

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

Toronto, Canada

March 2, 2016



**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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



MANAGEMENT'S REPORT

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

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 4 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 2, 2016.

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

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

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

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"

Anthony Haines

President and Chief Executive Officer

"Laura Foster"

Laura Foster

Interim, Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro Corporation

We have audited the accompanying consolidated financial statements of Toronto Hydro Corporation, which comprise the consolidated balance sheets as at December 31, 2015, December 31, 2014 and January 1, 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Toronto Hydro Corporation as at December 31, 2015, December 31, 2014 and January 1, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
March 2, 2016
Toronto, Canada

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KPMG Canada provides services to KPMG LLP.

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

	As at December 31, 2015 \$	As at December 31, 2014 \$	As at January 1, 2014 \$
		[note 26]	[note 26]
ASSETS			
Current			
Accounts receivable [notes 5 and 16[b]]	191.7	206.9	202.6
Unbilled revenue [note 16[b]]	320.4	307.5	326.9
Income tax receivable	9.9	0.8	0.5
Materials and supplies	9.8	8.6	8.6
Other assets [note 6]	9.9	9.9	8.9
Assets held for sale	-	4.0	-
Total current assets	541.7	537.7	547.5
Property, plant and equipment [note 7]	3,588.7	3,249.9	2,845.1
Intangible assets [note 8]	199.3	198.7	171.5
Deferred tax assets [note 21]	114.3	143.7	133.8
Other assets [note 6]	1.2	1.2	0.9
Total assets	4,445.2	4,131.2	3,698.8
Regulatory balances [note 9]	241.7	197.1	88.3
Total assets and regulatory balances	4,686.9	4,328.3	3,787.1
LIABILITIES AND EQUITY			
Current			
Working capital facility [note 10]	14.2	6.1	19.1
Commercial paper [note 10]	324.0	308.0	150.0
Accounts payable and accrued liabilities [note 11]	474.3	512.7	427.5
Customer deposits	37.5	38.5	37.3
Deferred revenue [note 12]	4.8	2.9	-
Deferred conservation credit [note 3[b]]	17.9	-	20.7
Other liabilities [note 24]	3.2	2.6	2.1
Total current liabilities	875.9	870.8	656.7
Debentures [note 13]	1,885.1	1,641.3	1,442.4
Customer deposits	9.9	4.7	7.4
Deferred revenue [note 12]	100.3	71.4	45.7
Post-employment benefits [note 14]	296.5	287.4	236.0
Other liabilities [note 24]	6.7	9.2	14.5
Total liabilities	3,174.4	2,884.8	2,402.7
Commitments, contingencies and subsequent events [notes 2, 24 and 25]			
Equity			
Share capital [note 17]	567.8	567.8	567.8
Retained earnings	773.1	702.7	651.6
Total equity	1,340.9	1,270.5	1,219.4
Total liabilities and equity	4,515.3	4,155.3	3,622.1
Regulatory balances [note 9]	171.6	173.0	165.0
Total liabilities, equity and regulatory balances	4,686.9	4,328.3	3,787.1

ON BEHALF OF THE BOARD:

"David Williams"

David Williams, Director

"Heather Zordel"

Heather Zordel, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	2015 \$	2014 \$
Revenues		[note 26]
Energy sales	2,925.6	2,655.0
Distribution revenue	555.4	555.1
Other [note 18]	58.9	62.7
	3,539.9	3,272.8
Expenses		
Energy purchases	2,898.5	2,700.4
Operating expenses [note 19]	274.6	267.9
Depreciation and amortization [notes 7 and 8]	194.3	184.9
	3,367.4	3,153.2
Finance costs [note 20]	70.4	61.3
Gain on disposals of property, plant and equipment	10.1	1.5
Income before income taxes	112.2	59.8
Income tax expense [note 21]	31.5	15.0
Net income	80.7	44.8
Net movements in regulatory balances, net of tax [note 9]	46.0	66.9
Net income after net movements in regulatory balances	126.7	111.7

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	2015 \$	2014 \$
Net income after net movements in regulatory balances	126.7	[note 26] 111.7
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax (2015 - \$nil, 2014 - \$12.2) [note 14]	-	(33.9)
Net movements in regulatory balances related to OCI, net of tax (2015 - \$nil, 2014 - \$12.2) [note 9]	-	33.9
Other comprehensive income, net of tax	-	-
Total comprehensive income	126.7	111.7

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	2015 \$	2014 \$
Share capital [note 17]	567.8	[note 26] 567.8
Retained earnings, beginning of year	702.7	651.6
Net income after net movements in regulatory balances	126.7	111.7
Dividends [notes 17 and 23]	(56.3)	(60.6)
Retained earnings, end of year	773.1	702.7
Total equity	1,340.9	1,270.5

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	2015 \$	2014 \$
OPERATING ACTIVITIES		[note 26]
Net income after net movements in regulatory balances	126.7	111.7
Adjustments		
Depreciation and amortization [notes 7 and 8]	194.3	184.9
Amortization of deferred revenue [note 12]	(2.2)	(0.7)
Finance costs	70.4	61.3
Income tax expense	31.5	15.0
Post-employment benefits	9.1	5.3
Gain on disposals of property, plant and equipment	(10.1)	(1.5)
Other	0.7	(1.8)
Capital contributions received [note 12]	33.0	28.2
Net change in other non-current assets and liabilities	-	(5.6)
Increase (decrease) in customer deposits	4.2	(1.5)
Changes in non-cash working capital balances [note 22]	24.0	38.1
Income taxes paid	(8.9)	(10.3)
Net movements in regulatory balances [note 9]	(46.0)	(66.9)
Net cash provided by operating activities	426.7	356.2
INVESTING ACTIVITIES		
Purchase of property, plant and equipment [note 22]	(550.7)	(525.7)
Purchase of intangible assets [note 22]	(21.1)	(46.8)
Proceeds on disposals of property, plant and equipment	14.4	1.8
Net cash used in investing activities	(557.4)	(570.7)
FINANCING ACTIVITIES		
Increase in commercial paper [note 10]	16.0	158.0
Dividends paid [notes 17 and 23]	(56.3)	(60.6)
Proceeds from debentures [note 13]	244.9	199.9
Debt issuance costs paid [note 13]	(1.9)	(1.6)
Repayment of finance lease liability	(2.9)	(2.2)
Interest paid	(77.2)	(66.0)
Net cash provided by financing activities	122.6	227.5
Net increase (decrease) in cash and cash equivalents (working capital facility) during the year	(8.1)	13.0
Working capital facility, beginning of year	(6.1)	(19.1)
Working capital facility, end of year	(14.2)	(6.1)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

1. NATURE OF BUSINESS

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

The Corporation is a holding company which wholly owns two subsidiaries also incorporated under the *Business Corporations Act* (Ontario):

- [i] LDC (incorporated June 23, 1999) – distributes electricity to customers located in the City. Electricity distribution is the principal business of the Corporation, and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities; and
- [ii] TH Energy (incorporated June 23, 1999) – provides street lighting services in the City.

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

2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2015 and 2014 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS with respect to the preparation of annual financial information. These are the Corporation's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of IFRS* ["IFRS 1"], and applying the accounting policies described in note 4. The Corporation's date of transition to IFRS and its opening IFRS balance sheet is as at January 1, 2014. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 26.

These Consolidated Financial Statements are presented in Canadian dollars, the Corporation's functional currency, and have been prepared on the historical cost basis, except for the valuation of post-employment benefits.

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 2, 2016 when the Corporation's Consolidated Financial Statements were authorized for issue by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in the notes to the Consolidated Financial Statements [notes 3, 4, 9 and 17].

3. REGULATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

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

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

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

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

The IESO and the OPA were merged under the name IESO starting on January 1, 2015. The IESO supports CDM plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service and technical support, market research, program evaluation and measurement, and training.

a) *Electricity Distribution Rates*

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

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,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

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

On January 16, 2014, the OEB approved LDC's request for disposition of the smart meter regulatory balances related to smart meter installations in 2008, 2009 and 2010 through two separate rate riders effective May 1, 2014 [note 9[e]]. The first rate rider related to the recovery of \$23.9 million, representing the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider related to the recovery of \$9.6 million, representing the forecasted 2014 incremental revenue requirement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

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2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters [note 9[e]].

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

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

The OEB approved new deferral and variance accounts including accounts to capture variances related to revenue requirement for ICM capital work undertaken from 2012 to 2014 and revenue requirement associated with capital work during the CIR term. The OEB approved recovery of the \$15.8 million forecasted net book value relating to the stranded meters. The OEB also approved foregone revenue rate riders for the May 1, 2015 to February 29, 2016 period as well as other requested rate riders [note 9]. In addition, the OEB approved the transfer of the street lighting assets into rate base effective January 1, 2015 at a transfer price of \$39.8 million, representing the opening net book value of the assets in 2015. The financial impact of the OEB's CIR decision and rate order has been reflected in these Consolidated Financial Statements.

The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively [note 9[b]].

b) CDM Activities

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

Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately \$50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to \$45.8 million for the delivery of CDM programs from 2011 to 2014. All programs delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC estimated that approximately \$5.7 million qualified as cost efficiency incentives, and approximately \$4.9 million was repayable to the OPA for the remaining program administration budget, included within accounts payable and accrued liabilities [note 4[j]]. On May 8, 2015, the

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For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

IESO confirmed both the cost efficiency incentives of \$5.7 million and the amount payable by LDC of \$4.9 million plus applicable taxes, which was paid in July 2015.

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

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The objective of the new CDM efforts is to reduce electricity consumption in the Province of Ontario by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

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

b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"]:

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The standard is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Corporation has elected to early adopt IFRS 14.

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

c) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

d) Accounts receivable and unbilled revenue

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

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

e) Materials and supplies

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

f) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. For PP&E used in rate-regulated activities, the Corporation elected to use the exemption available for assets subject to rate regulation such that the previous US GAAP carrying amount became the deemed cost under IFRS at the date of transition [note 26]. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Corporation and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use. Any gain or loss arising on derecognition is recorded in the consolidated statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the difference between the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

[All tabular amounts in millions of Canadian dollars]

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

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.5% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Assets under finance lease	1.0% to 14.3%
Other capital assets	4.0% to 25.0%

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term. Assets under finance lease included a 99-year land lease. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

g) *Intangible assets*

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable. For intangible assets used in rate-regulated activities, the Corporation elected to use the exemption available for assets subject to rate regulation such that the previous US GAAP carrying amount became the deemed cost under IFRS at the date of transition [note 26].

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

Computer software	10.0% to 25.0%
Contributions	4.0%

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

h) *Impairment of non-financial assets*

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has

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increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

i) Capitalized borrowing costs

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

j) Revenue recognition

Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. The Corporation applies judgment to determine whether revenues are recorded on a gross or net basis. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. The Corporation has primary responsibility for the delivery of electricity to the customer. The difference between the amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs billed monthly by the IESO to LDC, is recorded as a settlement variance. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets and within net movements in regulatory balances, net of tax on the consolidated statements of income.

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

Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services and revenue from demand billable activities, is recognized as the services are rendered. When services are made up of different components which are not separately identifiable, the related other revenues are recognized on a straight-line basis over the term of the contract. Capital contributions received from electricity customers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Revenue not yet recognized from demand billable activities is also included within deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

k) Financial instruments

All financial assets are classified as "Loans and Receivables" and all financial liabilities are classified as "Other Financial Liabilities". These financial instruments are recognized initially at fair value adjusted for any directly

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attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

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

- Cash, cash equivalents and short-term investments are classified as "Loans and Receivables" and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Accounts receivable and unbilled revenue are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Working capital facility, revolving credit facility and commercial paper are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation's revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.
- Customer deposits are classified as "Other Financial Liabilities" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.
- Obligations under finance leases are classified as "Other Financial Liabilities" and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.
- Debentures are classified as "Other Financial Liabilities" and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments [note 16[a]]. Debt issuance costs incurred in connection with the Corporation's debenture offerings are capitalized as part of the carrying amount of the debentures and amortized over the term of the related debentures, using the effective interest method, and the amortization is included in finance costs.

l) *Fair value measurements*

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

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

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

m) Employee benefits

(i) Short-term employee benefits

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

(ii) Multi-employer pension plan

The Corporation's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the Province of Ontario for employees of municipalities, local boards and school boards. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits other than pension

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

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

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The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2014.

n) Customer deposits

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

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

o) Income taxes

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

The Corporation uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Corporation recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

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

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

p) Use of estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make estimates and assumptions which affect the application of accounting policies, reported

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

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

- Note 4[b] – Recognition and measurement of regulatory balances;
- Note 4[j] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 4[f] and 4[g] – Determination of useful lives of depreciable assets;
- Notes 4[m] and 14 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 4[o] and 21 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 25 – Recognition and measurement of provisions and contingencies.

q) Future accounting pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not yet been applied in preparing these Consolidated Financial Statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its consolidated financial statements.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation expects these amendments to have no material impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers* ["IFRIC 18"]. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard.

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Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"], which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ["IAS 39"]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"]. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 has been adopted. The Corporation is currently evaluating the impact of the new standard.

5. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Trade receivables	185.6	196.1	195.7
Due from related parties [note 23]	5.1	9.4	5.6
Other	1.0	1.4	1.3
	191.7	206.9	202.6

6. OTHER ASSETS

Other assets consist of the following:

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Prepaid expenses	9.5	9.6	8.6
Deferred financing costs	1.6	1.5	1.2
Total other assets	11.1	11.1	9.8
Less: Current portion of other assets relating to:			
Prepaid expenses	9.5	9.6	8.6
Deferred financing costs	0.4	0.3	0.3
Non-current portion of other assets	1.2	1.2	0.9

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7. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets \$	Land and buildings \$	Equipment and other \$	Construction in progress \$	Total \$
Cost or deemed cost					
Balance as at January 1, 2014	2,284.6	111.7	140.3	337.2	2,873.8
Additions	428.4	34.3	20.9	95.6	579.2
Disposals and retirements	(27.3)	(3.6)	(0.1)	—	(31.0)
Transfers to assets held for sale	—	(4.8)	—	—	(4.8)
Balance as at December 31, 2014	2,685.7	137.6	161.1	432.8	3,417.2
Additions	368.0	67.6	14.6	65.9	516.1
Disposals and retirements	(26.5)	(2.1)	—	—	(28.6)
Balance as at December 31, 2015	3,027.2	203.1	175.7	498.7	3,904.7
Accumulated depreciation					
Balance as at January 1, 2014	—	—	28.7	—	28.7
Depreciation	107.2	7.9	25.6	—	140.7
Disposals and retirements	(1.1)	(0.1)	(0.1)	—	(1.3)
Transfers to assets held for sale	—	(0.8)	—	—	(0.8)
Balance as at December 31, 2014	106.1	7.0	54.2	—	167.3
Depreciation	118.9	9.1	23.5	—	151.5
Disposals and retirements	(2.4)	(0.4)	—	—	(2.8)
Balance as at December 31, 2015	222.6	15.7	77.7	—	316.0
Carrying amount					
Balance as at January 1, 2014	2,284.6	111.7	111.6	337.2	2,845.1
Balance as at December 31, 2014	2,579.6	130.6	106.9	432.8	3,249.9
Balance as at December 31, 2015	2,804.6	187.4	98.0	498.7	3,588.7

As at December 31, 2015, Equipment and other included assets under finance lease with cost of \$18.2 million [December 31, 2014 - \$18.2 million; January 1, 2014 - \$16.1 million] and accumulated depreciation of \$6.0 million [December 31, 2014 - \$3.8 million; January 1, 2014 - \$nil]. For the year ended December 31, 2015, the Corporation recorded depreciation expense of \$2.2 million [2014 - \$3.8 million] related to assets under finance lease.

For the year ended December 31, 2015, borrowing costs in the amount of \$7.0 million [2014 - \$4.9 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.74% [2014 - 3.84%].

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

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8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software	Contributions	Software in development	Contributions for work in progress	Total
	\$	\$	\$	\$	\$
Cost or deemed cost					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Additions	17.1	0.9	1.5	27.3	46.8
Balance as at December 31, 2014	86.7	19.9	13.2	98.5	218.3
Additions	14.9	1.8	(1.4)	5.8	21.1
Balance as at December 31, 2015	101.6	21.7	11.8	104.3	239.4
Accumulated amortization					
Balance as at January 1, 2014	—	—	—	—	—
Amortization	18.7	0.9	—	—	19.6
Balance as at December 31, 2014	18.7	0.9	—	—	19.6
Amortization	19.4	1.1	—	—	20.5
Balance as at December 31, 2015	38.1	2.0	—	—	40.1
Carrying amount					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Balance as at December 31, 2014	68.0	19.0	13.2	98.5	198.7
Balance as at December 31, 2015	63.5	19.7	11.8	104.3	199.3

For the year ended December 31, 2015, borrowing costs in the amount of \$3.8 million [2014 - \$3.2 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.74% [2014 - 3.84%].

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

Computer software is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 7 years, and from 13 to 24 years, respectively.

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9. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2015	Remaining recovery/ reversal period (months)
	\$	\$	\$	\$	\$	
Post-employment benefits	81.2	—	—	—	81.2	(1)
Foregone revenue	—	61.1	—	—	61.1	46 ⁽²⁾
IFRS transitional adjustments	24.2	4.7	—	—	28.9	46 ⁽²⁾
Settlement variances	51.7	(26.4)	—	—	25.3	(3)
Stranded meters	14.4	—	—	—	14.4	46 ⁽²⁾
Smart meters	20.9	—	(10.9)	—	10.0	16
LRAM	—	9.1	—	—	9.1	(4)
Named properties	—	5.8	—	—	5.8	46 ⁽²⁾
Capital contributions	—	1.9	—	—	1.9	46 ⁽²⁾
OPEB cash versus accrual	—	1.8	—	—	1.8	(5)
Other	4.7	2.0	(0.1)	(4.4)	2.2	10 ⁽²⁾
	197.1	60.0	(11.0)	(4.4)	241.7	

	January 1, 2014	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2014	Remaining recovery/ reversal period (months)
	\$	\$	\$	\$	\$	
Post-employment benefits	36.9	45.3	(1.0)	—	81.2	(1)
Settlement variances	5.8	45.9	—	—	51.7	(3)
IFRS transitional adjustments	0.9	23.3	—	—	24.2	48 ⁽⁶⁾
Smart meters	25.2	9.5	(13.8)	—	20.9	28
Stranded meters	16.9	—	(2.5)	—	14.4	60 ⁽⁶⁾
Other	2.6	2.5	(0.2)	(0.2)	4.7	12-60 ⁽⁶⁾
	88.3	126.5	(17.5)	(0.2)	197.1	

⁽¹⁾ LDC did not seek recovery from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction when recovery is sought.

⁽²⁾ Disposition period is based on the CIR decision and rate order [note 3[a]].

⁽³⁾ Disposition period of the low voltage variances of \$1.3 million over 10 months is based on the CIR decision and rate order [note 3[a]]. LDC intends to apply for disposition of remaining settlement variances in its next rate applications.

⁽⁴⁾ Disposition period of the 2011-2013 LRAM of \$3.6 million over 10 months is based on the CIR decision and rate order [note 3[a]]. LDC intends to apply for disposition of the LRAM balances for 2014 and 2015 at a later date, for which timing is currently unknown.

⁽⁵⁾ LDC intends to apply for disposition of the balance following the OEB consultation process on pension and OPEB, for which timing is currently unknown.

⁽⁶⁾ Disposition period was based on the CIR application pending as at December 31, 2014 [note 3[a]].

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Credit balances consist of the following:

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2015	Remaining recovery/ reversal period (months)
	\$	\$	\$	\$	\$	
Deferred taxes	143.4	(28.6)	—	—	114.8	(1)
Tax-related variances	25.3	1.2	—	—	26.5	10-34 ⁽²⁾
Derecognition	—	9.9	—	—	9.9	(3)
ICM	2.3	—	7.4	—	9.7	(3)
Gain on disposal	—	5.9	—	—	5.9	(4)
Capital-related revenue requirement	—	2.8	—	—	2.8	(3)
Other	2.0	—	—	—	2.0	10 ⁽⁵⁾
	173.0	(8.8)	7.4	—	171.6	

	January 1, 2014	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2014	Remaining recovery/ reversal period (months)
	\$	\$	\$	\$	\$	
Deferred taxes	132.0	11.4	—	—	143.4	(1)
Tax-related variances	25.2	2.9	(2.8)	—	25.3	12-36 ⁽⁶⁾
ICM	6.0	(25.1)	21.4	—	2.3	(3)
Other	1.8	0.2	0.2	(0.2)	2.0	12 ⁽⁶⁾
	165.0	(10.6)	18.8	(0.2)	173.0	

⁽¹⁾ LDC did not apply for disposition of the balance since it is being reversed through timing differences in the recognition of deferred tax assets.

⁽²⁾ Disposition period of the revision of prior year tax position account over 34 months and the income tax variance account over 10 months is based on the CIR decision and rate order [note 3[a]].

⁽³⁾ LDC intends to apply for disposition of the balance at a later date, for which timing is currently unknown.

⁽⁴⁾ Disposition period for forecasted net gains of 34 months is based on the CIR decision and rate order [note 3[a]]. LDC intends to apply for disposition of the variance account at a later date, for which timing is currently unknown.

⁽⁵⁾ Disposition period is based on the CIR decision and rate order [note 3[a]].

⁽⁶⁾ Disposition period was based on the CIR application pending as at December 31, 2014 [note 3[a]].

The “Balances arising in the period” column consists of new additions to regulatory balances (for both debits and credits). The “Recovery/reversal” column consists of amounts collected through rate riders or transactions reversing an existing regulatory balance. The “Other movements” column consists of impairment and reclassification between the regulatory debit and credit balances. For the year ended December 31, 2015, LDC recorded an impairment of \$4.4 million on regulatory debit balances within ‘Other’ as a result of the CIR decision and rate order. There was no impairment recorded for the year ended December 31, 2014.

Refer to Regulatory Developments and Electricity Consumption paragraphs in the Risk Management and Risk Factors section of the December 31, 2015 MD&A for a discussion of the risks and uncertainties that affect the future recovery of the regulatory balances.

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The regulatory balances of the Corporation consist of the following:

a) Post-Employment Benefits

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments. The balance arising during the years ended December 31, 2015 and December 31, 2014 primarily related to the actuarial gain and loss recorded for the year, respectively. As at December 31, 2015, the regulatory balance did not include carrying charges.

b) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 if new rates were implemented as of May 1, 2015. In the CIR decision and rate order, the OEB approved foregone revenue rate riders for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates [note 3[a]]. Based on that approval, a new regulatory balance of \$61.1 million was recorded as at December 31, 2015 to reflect the amount associated with the 2015 year to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the forecasted balance of \$25.8 million plus an additional \$4.7 million for the associated rate of return of 6.19% [note 3[a]]. Based on that approval, an additional \$4.7 million was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

d) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. The settlement variances relate primarily to non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of variances related to low voltage in 2013 of \$1.3 million inclusive of carrying charges over a 10-month period commencing on March 1, 2016 [note 3[a]].

e) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario. As at December 31, 2015, the regulatory balances did not include carrying charges.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. Depreciation expense on the stranded meters of \$2.5 million was recorded within net movements in regulatory balances, net of tax until the end of 2014. Included in the 2015-2019 rate application was recovery of the forecasted net book value of the stranded meters as at December 31, 2014. In

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the CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of \$15.8 million over a 46-month period commencing on March 1, 2016 [note 3[a]].

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances [note 3[a]]. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base. Accordingly, a new regulatory balance of \$25.2 million was recorded as at December 31, 2013 to reflect the future amount to be recovered through rates over a 36-month period commencing on May 1, 2014 and ending on April 30, 2017. LDC recognized \$9.5 million of smart meter incremental revenue within net movements in regulatory balances, net of tax during 2014. LDC recognized distribution revenue of \$10.9 million from the collection of OEB-approved rate riders for the year ended December 31, 2015 [2014 - \$13.8 million].

f) Lost Revenue Adjustment Mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set rates and the actual impact of authorized CDM activities achieved. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015. In the CIR decision and rate order, the OEB approved LDC's request for disposition of \$3.6 million inclusive of carrying charges related to this variance for the 2011-2013 period [note 3[a]]. Based on that approval, a new regulatory balance was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 10-month period commencing on March 1, 2016. As at December 31, 2015, LDC also recorded an amount of \$4.9 million and \$0.6 million inclusive of carrying charges related to the variance for 2014 and 2015, respectively.

g) Named Properties

This regulatory balance relates to the difference between the forecasted net gains on certain properties that LDC planned to sell and included as part of 2010 rates and the actual net gains realized upon the sale of the named properties between 2007 to 2011. In the CIR decision and rate order, the OEB approved LDC's request for disposition of \$5.8 million related to this variance [note 3[a]]. Based on that approval, a new regulatory balance was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

h) Capital Contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions in 2010 and 2011. In the CIR decision and rate order, the OEB approved LDC's request for disposition of \$1.9 million related to this variance [note 3[a]]. Based on that approval, a new regulatory balance was recorded as at December 31, 2015 to reflect the amount to be recovered through rates over a 46-month period commencing on March 1, 2016. As at December 31, 2015, the regulatory balance did not include carrying charges.

i) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs on an accrual basis and the cash payments made to the OPEB plans. In the CIR decision and rate order [note 3[a]], the OEB directed LDC to account for OPEB costs on a cash basis rather than accrual basis for rate-making purposes and approved a new variance account to record the difference. This is a temporary arrangement, pending the OEB's conclusion of the sector-wide policy consultation it initiated on rate-regulated utility OPEB costs. LDC does not consider the OEB's direction to constitute a change in the basis of its recovery of OPEB costs at this time considering the OEB's

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approval of the variance account, which LDC is expected to apply for disposition in the future. LDC recorded \$1.8 million to reflect the OPEB variance related to 2015. As at December 31, 2015, the regulatory balance did not include carrying charges.

j) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 [note 4[b]] and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at December 31, 2015, the regulatory balance did not include carrying charges.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of \$42.1 million as at December 31, 2015 [December 31, 2014 - \$32.7 million; January 1, 2014 - \$16.4 million] offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$26.2 million as at December 31, 2015 [December 31, 2014 - \$39.9 million; January 1, 2014 - \$41.7 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was \$98.9 million as at December 31, 2015 [December 31, 2014 - \$150.6 million; January 1, 2014 - \$157.3 million].

k) Tax-related Variance Accounts

This regulatory balance includes the revision of prior year tax positions based on reassessments received and in process and income tax variances resulting from legislative or regulatory changes.

The revision of prior year tax position regulatory balance related to changes to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers, in the amount of \$23.5 million as at December 31, 2015 [December 31, 2014 - \$22.3 million; January 1, 2014 - \$19.4 million]. An amount of \$1.2 million was recorded to reflect new additions to the regulatory balance for the year ended December 31, 2015 [2014 - \$2.9 million]. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 - December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of \$23.3 million inclusive of carrying charges over a 34-month period commencing on March 1, 2016 [note 3[a]].

The income tax variance regulatory balance related to differences resulting from a legislative or regulatory change to the tax rates or rules assumed in applications for electricity distribution rates in the amount of \$3.0 million as at December 31, 2015 [December 31, 2014 - \$3.0 million; January 1, 2014 - \$5.8 million]. These differences have been deferred by LDC in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 - December 31, 2014 - 1.47%]. In the CIR decision and rate order, the OEB approved disposition of \$3.0 million inclusive of carrying charges over a 10-month period commencing on March 1, 2016 [note 3[a]].

On April 2, 2013, the OEB approved the disposition of \$7.1 million of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014. For the year ended December 31, 2014, electricity distribution rates charged to customers were reduced by \$2.8 million.

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l) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition amounts for PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the CIR decision and rate order [note 3[a]]. A new regulatory balance was recorded as at December 31, 2015 to reflect the derecognition variance related to 2015 of \$9.9 million. Carrying charges were added to the regulatory balance at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015.

m) Incremental Capital Module

This regulatory balance relates to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013 [note 3[a]]. This account included the amount collected through the ICM rate riders of \$7.4 million for the year ended December 31, 2015 [2014 - \$21.4 million], offset by the revenue recorded within net movements in regulatory balances, net of tax as it related to the eligible in-service capital expenditures of \$nil million for the year ended December 31, 2015 [2014 - \$25.1 million]. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015 [January 1, 2014 – December 31, 2014 - 1.47%].

n) Gain on Disposal

This regulatory balance relates to the realized gain in connection with the disposal of certain properties by LDC under the facilities consolidation program. This balance is expected to reduce future electricity distribution rates for customers. In the CIR decision and rate order, the OEB approved disposition of the forecasted net gains on the sale of certain properties, including the future tax savings, over a 34-month period commencing on March 1, 2016 [note 3[a]]. The OEB also approved a variance account for LDC to record the difference between the total forecasted net gains and future tax savings and the actual net gains and tax savings. The new regulatory balance recorded as at December 31, 2015 reflected the forecasted net gains and future tax savings fully offset by the variance account. The net amount of \$5.9 million related to the realized gain in connection with the disposal of a surplus property by LDC in the first quarter of 2015. Carrying charges were added to the regulatory balance at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015.

o) Capital-related Revenue Requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital in-service additions related revenue requirement over the same period. This account was approved by the OEB in the CIR decision and rate order [note 3[a]]. A new regulatory balance was recorded as at December 31, 2015 to reflect the capital-related revenue requirement variance related to 2015 of \$2.8 million. Carrying charges were added to the regulatory balance at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to December 31, 2015.

10. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2020 ["Revolving Credit Facility"], pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by \$100.0 million from \$700.0 million to \$800.0 million and the expiry date extended by one year from October 10, 2019 to October 10, 2020.

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Borrowings under the Revolving Credit Facility bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Corporation's credit rating.

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

Additionally, the Corporation is a party to:

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

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

	Revolving Credit Facility Limit \$	Revolving Credit Facility Borrowings \$	Commercial Paper Outstanding \$	Revolving Credit Facility Availability \$
December 31, 2015	800.0	—	324.0	476.0
December 31, 2014	700.0	—	308.0	392.0
January 1, 2014	600.0	—	150.0	450.0

For the year ended December 31, 2015, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$289.1 million [2014 - \$250.3 million] with a weighted average interest rate of 0.91% [2014 - 1.18%].

As at December 31, 2015, \$14.2 million had been drawn under the Working Capital Facility [December 31, 2014 - \$6.1 million; January 1, 2014 - \$19.1 million] and \$32.4 million of letters of credit had been issued against the Prudential Facility [December 31, 2014 - \$29.7 million; January 1, 2014 - \$50.1 million].

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11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Trade payables	316.3	325.7	275.0
Accrued liabilities	104.3	131.5	104.7
Due to related parties [note 23]	36.6	41.7	38.6
Accrued interest	14.9	11.5	9.1
Other	2.2	2.3	0.1
	474.3	512.7	427.5

12. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which have not yet been recognized into other revenue, and revenue not yet recognized from demand billable activities.

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Capital contributions	103.0	72.6	45.7
Other	2.1	1.7	—
Total deferred revenue	105.1	74.3	45.7
Less: Current portion of deferred revenue relating to:			
Capital contributions	2.7	1.2	—
Other	2.1	1.7	—
Non-current portion of deferred revenue	100.3	71.4	45.7

Reconciliation between the opening and closing capital contribution balances is as follows:

	2015 \$	2014 \$
Balance, beginning of year	72.6	45.7
Receipt of capital contributions	33.0	28.2
Amortization	(2.2)	(0.7)
Other	(0.4)	(0.6)
Balance, end of year	103.0	72.6

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13. DEBENTURES

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

Debentures consist of the following:

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Senior unsecured debentures			
Series 2 – 5.15% due November 14, 2017	250.0	250.0	250.0
Series 3 – 4.49% due November 12, 2019	250.0	250.0	250.0
Series 6 – 5.54% due May 21, 2040	200.0	200.0	200.0
Series 7 – 3.54% due November 18, 2021	300.0	300.0	300.0
Series 8 – 2.91% due April 10, 2023	250.0	250.0	250.0
Series 9 – 3.96% due April 9, 2063	245.0	200.0	200.0
Series 10 – 4.08% due September 16, 2044	200.0	200.0	—
Series 11 – 3.55% due July 28, 2045	200.0	—	—
Total debentures	1,895.0	1,650.0	1,450.0
Less: Unamortized debt issuance costs	9.1	8.0	6.9
Unamortized discount/premium	0.8	0.7	0.7
Long-term portion of debentures	1,885.1	1,641.3	1,442.4

All debentures of the Corporation rank equally.

On September 16, 2014, the Corporation issued \$200.0 million of 4.08% senior unsecured debentures at a price of \$999.48 per \$1,000 principal amount due September 16, 2044 [“Series 10”]. The Series 10 debentures bear interest payable semi-annually in arrears. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.6 million relating to the Series 10 debentures were recorded against the carrying amount of the debentures in the third quarter of 2014 and are amortized to finance costs using the effective interest method.

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 [“Series 11”]. The Series 11 debentures bear interest payable semi-annually in arrears. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 11 debentures were recorded against the carrying amount of the debentures in the first quarter of 2015 and are amortized to finance costs using the effective interest method.

On September 2, 2015, the Corporation re-opened its Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures at a price of \$1,004.68 per \$1,000 principal amount due April 9, 2063, carrying the same terms and conditions as the original issuance. The Series 9 debentures bear interest payable semi-annually in arrears. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$0.5 million relating to the re-opening of the Series 9 debentures were recorded against the carrying amount of the debentures in the third quarter of 2015 and are amortized to finance costs using the effective interest method.

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

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

14. EMPLOYEE FUTURE BENEFITS

Pension

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2015, the OMERS plan was 91.5% funded [December 31, 2014 - 90.8%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2015, the total contributions of all participating employers and employees were approximately \$3.8 billion [2014 - \$3.7 billion], of which the Corporation's contributions were \$17.6 million [2014 - \$18.2 million], representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately \$18.3 million to the OMERS plan in 2016.

Post-employment benefits other than pension

a) Benefit obligation

	2015 \$	2014 \$
Balance, beginning of year	287.4	236.0
Current service cost	6.0	5.3
Interest cost	11.5	11.3
Benefits paid	(9.3)	(11.2)
Experience loss ⁽¹⁾	0.9	4.9
Actuarial loss arising from changes in demographic assumptions ⁽¹⁾	—	8.5
Actuarial loss arising from changes in financial assumptions ⁽¹⁾	—	32.6
Balance, end of year	296.5	287.4

⁽¹⁾ Total experience loss and actuarial loss is \$0.9 million [2014 - \$46.0 million]. Actuarial loss on accumulated sick leave credits of \$0.9 million [2014 - \$0.1 million actuarial gain] is recognized in benefit cost [note 14[c]] and \$nil [2014 - \$46.1 million] of actuarial loss on medical, dental and insurance benefits is recognized in OCI [note 14[d]].

The weighted average duration of the benefit obligation as at December 31, 2015 is 17.1 years [2014 - 17.7 years].

b) Amounts recognized in regulatory balances

As at December 31, 2015, the amount recognized in regulatory balances related to net actuarial loss and IFRS transitional adjustments was \$81.2 million [December 31, 2014 - \$81.2 million; January 1, 2014 - \$36.9 million] [note 9[a]].

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c) *Benefit cost recognized*

	2015 \$	2014 \$
Current service cost	6.0	5.3
Interest cost	11.5	11.3
Actuarial loss (gain) on other employee benefits [note 14[a]]	0.9	(0.1)
Benefit cost	18.4	16.5
Capitalized to PP&E and intangible assets	7.7	6.3
Charged to operating expenses	10.7	10.2

d) *Amounts recognized in OCI (before income taxes)*

	2015 \$	2014 \$
Actuarial loss [note 14[a]]	—	46.1
Net movements in regulatory balances related to OCI	—	(46.1)
	—	—

e) *Significant assumptions*

	2015	2014
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	4.00	4.00
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	4.00	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	5.00	5.00
For other retirements	6.00	6.50
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	5.00	5.00
For other retirements	5.00	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	2015	2015
For other retirements	2018	2018

f) *Sensitivity analysis*

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This

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analysis may not be representative of the actual change since it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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

Change in assumption		2015 \$	2014 \$
As reported		296.5	287.4
Discount rate	1%	(45.5)	(44.1)
	1%	54.1	52.4
Medical and dental cost trend rate	1%	38.6	37.4
	1%	(34.7)	(33.6)

15. CAPITAL MANAGEMENT

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

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

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses capital markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2015, the Corporation's definition of capital included borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2014 and as at January 1, 2014. As at December 31, 2015, equity amounted to \$1,340.9 million [December 31, 2014 - \$1,270.5 million; January 1, 2014 - \$1,219.4 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, amounted to \$2,231.3 million [December 31, 2014 - \$1,964.8 million; January 1, 2014 - \$1,621.8 million].

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

The Corporation's debt agreements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2015, December 31, 2014 and January 1, 2014, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

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16. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2015, December 31, 2014 and January 1, 2014, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments [note 4[k]]. The fair values of customer deposits approximate their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

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

	December 31 2015 \$		December 31 2014 \$		January 1 2014 \$	
	Carrying amount	Fair value ⁽¹⁾	Carrying amount	Fair value ⁽¹⁾	Carrying amount	Fair value ⁽¹⁾
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	249.6	267.2	249.4	273.5	249.2	275.1
Series 3 – 4.49% due November 12, 2019	249.3	276.8	249.1	276.4	249.0	270.6
Series 6 – 5.54% due May 21, 2040	198.7	248.4	198.6	255.7	198.6	226.8
Series 7 – 3.54% due November 18, 2021	298.8	326.2	298.6	321.1	298.4	302.8
Series 8 – 2.91% due April 10, 2023	248.9	259.4	248.8	254.1	248.7	232.9
Series 9 – 3.96% due April 9, 2063 ⁽²⁾	243.2	237.9	198.5	201.9	198.5	172.6
Series 10 – 4.08% due September 16, 2044	198.3	203.4	198.3	209.3	—	—
Series 11 – 3.55% due July 28, 2045	198.3	185.1	—	—	—	—
	1,885.1	2,004.4	1,641.3	1,792.0	1,442.4	1,480.8

⁽¹⁾ The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [note 4[k]].

⁽²⁾ Re-opened on September 2, 2015 for an additional issuance of \$45.0 million [note 13].

b) Financial risks

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

Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. As at December 31, 2015, LDC had approximately 756,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2015, LDC held security deposits in the amount of \$47.4 million [December 31, 2014 - \$43.2 million; January 1, 2014 - \$44.7 million], of which \$25.1 million [December 31, 2014 - \$19.8 million; January 1, 2014 - \$22.2 million] was

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related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. As at December 31, 2015, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2015 and December 31, 2014.

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

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Accounts receivable (net of allowance for doubtful accounts)			
Outstanding for not more than 30 days	171.7	180.7	176.6
Outstanding for more than 30 days and not more than 120 days	16.5	21.4	22.5
Outstanding for more than 120 days	3.5	4.8	3.5
Total accounts receivable	191.7	206.9	202.6
Unbilled revenue	320.4	307.5	326.9
Total accounts receivable and unbilled revenue	512.1	514.4	529.5

The Corporation has a broad base of customers. As at December 31, 2015, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

Reconciliation between the opening and closing allowance for doubtful accounts balances is as follows:

	2015 \$	2014 \$
Balance, beginning of year	(11.9)	(10.9)
Provision for doubtful accounts	(7.1)	(7.4)
Write-offs	7.7	7.1
Recoveries	(0.2)	(0.7)
Balance, end of year	(11.5)	(11.9)

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2015, December 31, 2014 and January 1, 2014.

Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations [note 14[f)]. The Corporation is also exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program [note 10] and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

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As at December 31, 2015, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$3.9 million to annual finance costs.

Liquidity risk

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

Liquidity risks associated with financial commitments are as follows:

December 31, 2015						
	Due within 1 year \$	Due within 2 years \$	Due within 3 years \$	Due within 4 years \$	Due within 5 years \$	Due after 5 years \$
Working Capital Facility	14.2	—	—	—	—	—
Commercial paper ⁽¹⁾	324.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	459.4	—	—	—	—	—
Obligations under finance leases	3.5	3.3	1.7	—	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	250.0	—	—	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	250.0	—	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	245.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Interest payments on debentures	78.0	78.0	65.2	65.2	53.9	1,030.6
	879.1	331.3	66.9	315.2	53.9	2,425.6

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

⁽²⁾ Accounts payable and accrued liabilities exclude \$14.9 million of accrued interest on debentures included within "Interest payments on debentures".

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December 31, 2014						
	Due within 1 year \$	Due within 2 years \$	Due within 3 years \$	Due within 4 years \$	Due within 5 years \$	Due after 5 years \$
Working Capital Facility	6.1	—	—	—	—	—
Commercial paper ⁽¹⁾	308.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	501.2	—	—	—	—	—
Obligations under finance leases	3.0	3.0	2.8	1.4	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	250.0	—	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	250.0	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	200.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Interest payments on debentures	69.2	69.2	69.2	56.2	56.2	822.4
	887.5	72.2	322.0	57.6	306.2	1,972.4

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

⁽²⁾ Accounts payable and accrued liabilities exclude \$11.5 million of accrued interest on debentures included within “Interest payments on debentures”.

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January 1, 2014						
	Due within 1 year \$	Due within 2 years \$	Due within 3 years \$	Due within 4 years \$	Due within 5 years \$	Due after 5 years \$
Working Capital Facility	19.1	—	—	—	—	—
Commercial paper ⁽¹⁾	150.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	418.4	—	—	—	—	—
Obligations under finance leases	2.5	2.5	2.5	2.5	1.4	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	—	250.0	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	—	250.0
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	200.0
Interest payments on debentures	61.0	61.0	61.0	61.0	48.1	666.5
	651.0	63.5	63.5	313.5	49.5	1,866.5

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

⁽²⁾ Accounts payable and accrued liabilities exclude \$9.1 million of accrued interest on debentures included within “Interest payments on debentures”.

Foreign exchange risk

As at December 31, 2015, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the Consolidated Financial Statements.

17. SHARE CAPITAL

Share capital consists of the following:

	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Authorized The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.			
Issued and outstanding 1,000 common shares, of which all were fully paid.	567.8	567.8	567.8

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Dividends

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

Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of \$25.0 million or 50% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year. The dividends are not cumulative and are payable as follows:

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

For the year ended December 31, 2015, the Board of Directors of the Corporation declared and paid dividends to the City totalling \$56.25 million [2014 - \$60.62 million].

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

18. OTHER REVENUE

Other revenue consists of the following:

	2015 \$	2014 \$
City street lighting service fee	16.3	16.0
Other regulatory service charges	13.5	13.2
Ancillary services revenue	11.2	9.8
Pole and duct rentals	10.5	8.7
Amortization of deferred revenue	2.2	0.7
Miscellaneous	5.2	14.3
	58.9	62.7

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19. OPERATING EXPENSES

Operating expenses consist of the following:

	2015 \$	2014 \$
Salaries and benefits	231.0	228.1
External services	102.3	92.8
Materials and supplies	15.2	16.7
Other support costs ⁽¹⁾	37.9	36.4
Less: Capitalized costs	(111.8)	(106.1)
	274.6	267.9

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

For the year ended December 31, 2015, the Corporation recognized operating expenses of \$6.6 million related to materials and supplies used to service electrical distribution assets [2014 - \$5.8 million].

20. FINANCE COSTS

Finance costs consist of the following:

	2015 \$	2014 \$
Interest income	(0.2)	(0.1)
Interest expense		
Interest on long-term debt ⁽¹⁾	76.1	63.9
Interest on short-term debt	4.2	4.2
Other interest	1.1	1.4
Capitalized borrowing costs	(10.8)	(8.1)
	70.4	61.3

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

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21. INCOME TAXES

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

	2015 \$	2014 \$
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	112.2	59.8
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected income tax expense	29.7	15.8
Change in unrecognized tax benefits	—	0.1
Other	1.8	(0.9)
Income tax expense	31.5	15.0
Effective tax rate	28.1%	25.1%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax ⁽¹⁾	129.6	125.9
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected income tax expense	34.3	33.4
Temporary differences recoverable in future rates	(31.7)	(18.0)
Change in unrecognized tax benefits	—	0.1
Other	0.3	(1.3)
Income tax expense and income tax recorded in net movements in regulatory balances	2.9	14.2
Effective tax rate	2.2%	11.3%

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

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

	2015 \$	2014 \$
Income tax expense	31.5	15.0
Income tax recorded in net movements in regulatory balances	(28.6)	(0.8)
Income tax expense and income tax recorded in net movements in regulatory balances	2.9	14.2
Income tax recovery in OCI	—	(12.2)
Income tax expense in OCI recorded in net movements in regulatory balances	—	12.2
Income tax expense in OCI	—	—

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

	2015 \$	2014 \$
Current tax expense		
Current year	2.5	13.8
Adjustment for tax positions taken in prior periods	(0.3)	(1.1)
	2.2	12.7
Deferred tax expense		
Origination and reversal of temporary differences	0.7	1.5
Income tax expense and income tax recorded in net movements in regulatory balances	2.9	14.2

Deferred tax assets consist of the following:

	Net balance, January 1 2015 \$	Recognized in net income \$	Recognized in OCI \$	Net balance, December 31 2015 \$
PP&E and intangible assets	55.0	(20.5)	—	34.5
Post-employment benefits	76.2	2.4	—	78.6
Other taxable temporary differences	12.5	(11.3)	—	1.2
	143.7	(29.4)	—	114.3

	Net balance, January 1 2014 \$	Recognized in net income \$	Recognized in OCI \$	Net balance, December 31 2014 \$
PP&E and intangible assets	70.4	(15.4)	—	55.0
Post-employment benefits	62.6	1.4	12.2	76.2
Other taxable temporary differences	0.1	12.4	—	12.5
Non-capital loss carryforwards	0.7	(0.7)	—	—
	133.8	(2.3)	12.2	143.7

As at December 31, 2015, the Corporation had \$2.1 million accumulated non-capital losses for income tax purposes [December 31, 2014 - \$nil; January 1, 2014 - \$2.8 million], which are available to offset net income for twenty years before expiring. As at December 31, 2015, the Corporation had accumulated net capital losses of \$18.7 million [December 31, 2014 - \$18.7 million; January 1, 2014 - \$18.9 million], which are available to offset capital gains in future years.

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Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom. These items do not expire, except for the non-capital losses which can be carried forward to 2035.

	2015 \$	2014 \$
Deductible temporary differences	8.3	8.6
Net capital losses	5.0	5.0
Non-capital losses	0.5	—
	13.8	13.6

22. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2015 \$	2014 \$
Accounts receivable	15.2	(4.4)
Unbilled revenue	(12.9)	19.4
Income tax receivable	(9.1)	(0.3)
Materials and supplies	(1.2)	—
Other current assets	—	(1.0)
Accounts payable and accrued liabilities	11.6	42.0
Deferred revenue	1.9	2.9
Deferred conservation credit	17.9	(20.7)
Other current liabilities	0.6	0.2
	24.0	38.1

Reconciliation between the amount presented on the consolidated statements of cash flows after factoring in the non-cash additions and total additions to PP&E and intangible assets is as follows:

	2015 \$	2014 \$
Purchase of PP&E, cash basis	550.7	525.7
Net change in accruals related to PP&E	(36.3)	48.4
Other	1.7	5.1
Total additions to PP&E	516.1	579.2
Purchase of intangible assets, cash basis	21.1	46.8
Total additions to PP&E and intangible assets	537.2	626.0

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23. RELATED PARTY TRANSACTIONS

Since the Corporation is a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties.

Summary of Transactions with Related Parties	2015 \$	2014 \$
Revenues	239.3	238.6
Operating expenses and capital expenditures	19.7	20.8
Dividends	56.3	60.6

Summary of Amounts Due to/from Related Parties	December 31 2015 \$	December 31 2014 \$	January 1 2014 \$
Accounts receivable	5.1	9.4	5.6
Unbilled revenue	20.8	22.3	19.4
Accounts payable and accrued liabilities	36.6	41.7	38.6
Customer deposits	11.7	8.2	8.8
Deferred revenue	1.0	1.5	6.8

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City [note 17].

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

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

	2015 \$	2014 \$
Short-term employee benefits	4.5	4.6
Post-employment benefits	1.0	0.8
Termination benefits	1.0	1.0
	6.5	6.4

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24. COMMITMENTS

Operating leases and capital projects

As at December 31, 2015, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases \$	Capital projects ⁽²⁾ and other \$
Less than one year	6.2	37.3
Between one and five years	5.1	20.5
More than five years	—	—
Total amount of future minimum payments ⁽¹⁾	11.3	57.8

⁽¹⁾ Refer to note 16 for future cash outflows excluded from the table above.

⁽²⁾ Reflects capital project commitments for construction services and estimated capital contributions.

The Corporation has the option to renew its two major property operating leases at the end of the current lease term for an additional five years at the then fair rental value.

Operating lease expense for the year ended December 31, 2015 was \$6.3 million [2014 - \$6.2 million].

Finance leases

As at December 31, 2015, December 31, 2014 and January 1, 2014, reconciliation between the future minimum lease payments and their present value was as follows:

	December 31 2015 \$			December 31 2014 \$			January 1 2014 \$		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	3.5	0.3	3.2	3.0	0.4	2.6	2.5	0.4	2.1
Between one and five years	5.0	0.2	4.8	7.2	0.4	6.8	8.9	0.7	8.2
More than five years	—	—	—	—	—	—	—	—	—
	8.5	0.5	8.0	10.2	0.8	9.4	11.4	1.1	10.3
Current portion included in Other liabilities			3.2			2.6			2.1
Non-current portion included in Other liabilities			4.8			6.8			8.2

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25. CONTINGENCIES

Legal Proceedings

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

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act* which sought damages in the amount of \$30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. On June 16, 2014, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice pursuant to which LDC paid the amount of \$6.5 million, including all taxes and legal fees in settlement of the action of the class plaintiffs. LDC's liability insurance covered the settlement payment.

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

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

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

2369 Lakeshore Boulevard West

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

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of \$2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status

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of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation.

26. IFRS TRANSITION

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. As described in note 2, these are the Corporation's first consolidated financial statements prepared in accordance with IFRS. IFRS 1 sets out the transitional requirements that the Corporation must apply in preparing its first IFRS financial statements.

The accounting policies set out in notes 2 and 4 have been applied in preparing the consolidated financial statements as at and for the year ended December 31, 2015, the comparative information as at and for the year ended December 31, 2014 and the opening IFRS consolidated balance sheet as at January 1, 2014 (the Corporation's date of transition to IFRS). All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant transitional adjustments as a result of the transition from US GAAP to IFRS on the Corporation's financial position, financial performance and cash flows is set out in the following tables and accompanying notes.

IFRS 1 requires retrospective application of IFRS in place as at the reporting date. However, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application. The Corporation applied the following mandatory exceptions and optional exemptions in the preparation of the opening IFRS consolidated balance sheet:

Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under previous GAAP. Accordingly, estimates previously made under US GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

Optional exemptions

a) Rate-regulated deemed cost

Entities with operations subject to rate regulation may hold items of PP&E or intangible assets where the carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalization under IFRS. In such cases, a first-time adopter may deem the previous GAAP carrying amount of such items at the date of transition as the new IFRS cost basis. Under US GAAP, the carrying amount of the Corporation's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS.

The Corporation qualifies for the IFRS 1 exemption as LDC is subject to rate regulation. Accordingly, the Corporation elected to use the deemed cost exemption for LDC's PP&E and intangible assets, except for construction in progress items for which capital contributions were received. The accumulated depreciation recognized under US GAAP prior to the transition date was included as part of the deemed cost such that the carrying amounts were not affected. The impact of this change was a decrease to both the cost and accumulated depreciation of PP&E by \$2,424.0 million and to both the cost and accumulated amortization of intangible assets by \$201.9 million, as at January 1, 2014.

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The Corporation tested for asset impairment under this exemption and no impairment was recorded.

b) Borrowing costs

IAS 23 *Borrowing Costs* ["IAS 23"] specifies detailed methodology for capitalizing borrowing costs. Under US GAAP, an allowance for funds used during construction was applied and capitalized as part of the cost of PP&E and intangible assets, where applicable. Under an optional exemption in IFRS 1, an entity would be exempted from determining the applicable borrowing costs under IFRS for items reconstructed under IFRS. The Corporation elected this exemption and used the borrowing costs determined under US GAAP at the date of transition and applied IAS 23 prospectively to borrowing costs for qualifying assets capitalized after the transition date.

c) Decommissioning costs included in PP&E

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be adjusted retrospectively from the cost of the asset to which it relates, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. The Corporation elected the exemption available in IFRS 1 which allows a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date. The effect of electing the exemption was an increase to regulatory balances and a decrease to PP&E of \$0.9 million as at January 1, 2014.

d) Leases

IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ["IFRIC 4"] requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. Under an optional exemption in IFRS 1, an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, does not have to reassess that determination when it adopts IFRS. As the Corporation made the same determination of whether an arrangement contained a lease under US GAAP as that required by IFRIC 4, the Corporation elected this exemption and did not reassess its arrangements at the date of transition.

e) Business combinations

IFRS 1 provides an optional exemption for a first-time adopter to elect not to apply IFRS 3 *Business Combinations* ["IFRS 3"] retrospectively to past business combinations that occurred before the date of transition to IFRS, or to elect to restate all business combinations to comply with IFRS 3 prospectively from any date before the date of transition. The Corporation elected not to apply IFRS 3 to past business combinations that occurred prior to the date of transition.

f) Transfer of Assets from Customers (Capital Contributions)

IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 prospectively to transfers of assets from customers received on or after the date of transition. The Corporation did not elect this exemption and instead applied IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above resulted in no adjustment to the capital contributions included in the PP&E deemed cost.

The reconciliation of the January 1, 2014 and December 31, 2014 consolidated balance sheets from US GAAP to IFRS is as follows:

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CONSOLIDATED BALANCE SHEET				
As at January 1, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
ASSETS				
Current				
Accounts receivable		202.6	—	202.6
Unbilled revenue		326.9	—	326.9
Income tax receivable		0.5	—	0.5
Materials and supplies		8.6	—	8.6
Other assets	B, C	9.6	(0.7)	8.9
Regulatory assets	A	7.1	(7.1)	—
Total current assets		555.3	(7.8)	547.5
Property, plant and equipment	A, C, D	2,664.4	180.7	2,845.1
Intangible assets		171.5	—	171.5
Deferred tax assets	A	157.6	(23.8)	133.8
Other assets	B, C	14.3	(13.4)	0.9
Regulatory assets	A	234.4	(234.4)	—
Total assets		3,797.5	(98.7)	3,698.8
Regulatory balances	A, E	—	88.3	88.3
Total assets and regulatory balances		3,797.5	(10.4)	3,787.1
LIABILITIES AND EQUITY				
Current				
Working capital facility		19.1	—	19.1
Commercial paper		150.0	—	150.0
Accounts payable and accrued liabilities	D	456.7	(29.2)	427.5
Customer deposits		37.3	—	37.3
Deferred conservation credit		20.7	—	20.7
Post-employment benefits	E	8.0	(8.0)	—
Other liabilities		2.1	—	2.1
Regulatory liabilities	A	2.5	(2.5)	—
Total current liabilities		696.4	(39.7)	656.7
Debentures	B	1,449.3	(6.9)	1,442.4
Customer deposits		7.4	—	7.4
Deferred revenue	D	—	45.7	45.7
Post-employment benefits	E	230.8	5.2	236.0
Other liabilities		14.5	—	14.5
Regulatory liabilities	A	180.6	(180.6)	—
Total liabilities		2,579.0	(176.3)	2,402.7
Equity				
Share capital		567.8	—	567.8
Retained earnings	E	650.7	0.9	651.6
Total equity		1,218.5	0.9	1,219.4
Total liabilities and equity		3,797.5	(175.4)	3,622.1
Regulatory balances	A	—	165.0	165.0
Total liabilities, equity and regulatory balances		3,797.5	(10.4)	3,787.1

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CONSOLIDATED BALANCE SHEET				
As at December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
ASSETS				
Current				
Accounts receivable		206.9	—	206.9
Unbilled revenue		307.5	—	307.5
Income tax receivable		0.8	—	0.8
Materials and supplies		8.6	—	8.6
Other assets	B, C	10.7	(0.8)	9.9
Regulatory assets	A	11.8	(11.8)	—
Assets held for sale		4.0	—	4.0
Total current assets		550.3	(12.6)	537.7
Property, plant and equipment	A, C, D, E, F, G	2,817.9	432.0	3,249.9
Intangible assets	F	197.9	0.8	198.7
Deferred tax assets	A	130.4	13.3	143.7
Other assets	B, C	15.4	(14.2)	1.2
Regulatory assets	A	564.4	(564.4)	—
Total assets		4,276.3	(145.1)	4,131.2
Regulatory balances	A, E, F, G	—	197.1	197.1
Total assets and regulatory balances		4,276.3	52.0	4,328.3
LIABILITIES AND EQUITY				
Current				
Working capital facility		6.1	—	6.1
Commercial paper		308.0	—	308.0
Accounts payable and accrued liabilities	D	536.1	(23.4)	512.7
Customer deposits		38.5	—	38.5
Deferred revenue	D	1.7	1.2	2.9
Post-employment benefits	E	8.0	(8.0)	—
Other liabilities		2.6	—	2.6
Regulatory liabilities	A	1.6	(1.6)	—
Total current liabilities		902.6	(31.8)	870.8
Debentures	B	1,649.3	(8.0)	1,641.3
Customer deposits		4.7	—	4.7
Deferred revenue	D	—	71.4	71.4
Post-employment benefits	E	285.6	1.8	287.4
Other liabilities		7.5	1.7	9.2
Regulatory liabilities	A	156.2	(156.2)	—
Total liabilities		3,005.9	(121.1)	2,884.8
Equity				
Share capital		567.8	—	567.8
Retained earnings	A, E	702.6	0.1	702.7
Total equity		1,270.4	0.1	1,270.5
Total liabilities and equity		4,276.3	(121.0)	4,155.3
Regulatory balances	A	—	173.0	173.0
Total liabilities, equity and regulatory balances		4,276.3	52.0	4,328.3

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The reconciliations of the consolidated statement of income and the consolidated statement of comprehensive income from US GAAP to IFRS for the year ended December 31, 2014 are as follows:

CONSOLIDATED STATEMENT OF INCOME				
Year ended December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Revenues				
Energy sales	A	2,700.4	(45.4)	2,655.0
Distribution revenue	A	554.2	0.9	555.1
Other	D	61.6	1.1	62.7
		3,316.2	(43.4)	3,272.8
Expenses				
Energy purchases		2,700.4	—	2,700.4
Operating expenses	A, E	267.6	0.3	267.9
Depreciation and amortization	A, D, G	160.8	24.1	184.9
		3,128.8	24.4	3,153.2
Finance costs	A, F	63.8	(2.5)	61.3
Gain on disposals of property, plant and equipment		1.5	—	1.5
Income before income taxes		125.1	(65.3)	59.8
Income tax expense	A	12.6	2.4	15.0
Net income		112.5	(67.7)	44.8
Net movements in regulatory balances, net of tax	A, E, F, G	—	66.9	66.9
Net income after net movements in regulatory balances		112.5	(0.8)	111.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Year ended December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Net income after net movements in regulatory balances		112.5	(0.8)	111.7
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax of \$12.2	A, E	—	(33.9)	(33.9)
Net movements in regulatory balances related to OCI, net of tax of \$12.2	A, E	—	33.9	33.9
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		112.5	(0.8)	111.7

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The reconciliation of the consolidated statement of changes in equity from US GAAP to IFRS for the year ended December 31, 2014 is as follows:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY				
Year ended December 31, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Share capital		567.8	—	567.8
Retained earnings, beginning of year	E	650.7	0.9	651.6
Net income after net movements in regulatory balances		112.5	(0.8)	111.7
Dividends		(60.6)	—	(60.6)
Retained earnings, end of year		702.6	0.1	702.7
Total equity		1,270.4	0.1	1,270.5

Notes to the transitional adjustments

A. Regulatory balances

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the consolidated balance sheet. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the consolidated statement of income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual regulatory balances.

For the Corporation, the impact of IFRS 14 at January 1, 2014 was to transfer the ICM eligible in-service capital expenditures [note 9[m]] to PP&E, to transfer the deferred tax asset gross-up and deferred tax liabilities on regulatory balances to regulatory balances, and to transfer all other regulatory debit and credit balances to separate lines below what was formerly known as “Total assets” and “Total liabilities and equity”, respectively. The impact of this change as at January 1, 2014 was to reduce current regulatory assets by \$7.1 million, non-current regulatory assets by \$234.4 million, deferred tax assets by \$23.8 million, current regulatory liabilities by \$2.5 million and non-current regulatory liabilities by \$180.6 million, and increase PP&E by \$157.0 million, regulatory debit balances by \$90.2 million and regulatory credit balances by \$165.0 million.

As at December 31, 2014, the impact was to reduce current regulatory assets by \$11.8 million, non-current regulatory assets by \$564.4 million, current regulatory liabilities by \$1.6 million and non-current regulatory liabilities by \$156.2 million, and increase PP&E by \$399.0 million, deferred tax assets by \$13.3 million, regulatory debit balances by \$179.0 million and regulatory credit balances by \$173.0 million. For the year ended December 31, 2014, the impact was to increase distribution revenue by \$0.9 million, operating expenses by \$2.6 million, income tax expense by \$0.8 million, finance costs by \$0.1 million, net movements in regulatory balances, net of tax by \$45.4 million and net movements in regulatory balances related to OCI, net of tax by \$33.9 million, and to decrease energy sales by \$45.4 million, depreciation and amortization expense by \$2.5 million, and remeasurements of post-employment benefits, net of tax within OCI by \$33.9 million.

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B. Debt issuance costs

Under US GAAP, debt issuance costs were recognized as deferred charges in other assets. Under IFRS, debt issuance costs are netted against the principal balance of the related debenture. As at January 1, 2014 and December 31, 2014, this presentation difference resulted in a decrease to current other assets of \$0.6 million and \$0.7 million, respectively, a decrease to non-current other assets of \$6.3 million and \$7.3 million, respectively, and a corresponding decrease to debentures of \$6.9 million and \$8.0 million, respectively.

C. Prepaid lease

Under US GAAP, prepaid land lease was included in other assets. Under IFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to the Corporation. The impact as at January 1, 2014 and December 31, 2014 was a decrease to current other assets of \$0.1 million, a decrease to non-current other assets of \$7.1 million and \$7.0 million, respectively, and an increase to PP&E of \$7.2 million and \$7.1 million, respectively.

D. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E. The Corporation applied IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items for which the deemed cost exemption was applied. As at January 1, 2014, the impact was to increase PP&E by \$16.5 million, decrease accounts payable and accrued liabilities by \$29.2 million and increase deferred revenue by \$45.7 million. As at December 31, 2014, the impact was to increase PP&E by \$50.5 million, current deferred revenue by \$1.2 million and non-current deferred revenue by \$71.4 million, and reduce accounts payable and accrued liabilities by \$22.1 million. For the year ended December 31, 2014, \$0.7 million was reclassified from depreciation and amortization expense to other revenue.

E. Employee benefits

The attribution methods and attribution periods are different between IFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under IFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise, and amounts related to rate regulation are subsequently reclassified to a regulatory balance on the consolidated balance sheets. The impact of these recognition and measurement differences as at January 1, 2014 was an overall decrease to the post-employment benefits liability by \$2.8 million and regulatory debit balances of \$1.9 million, and an increase to retained earnings of \$0.9 million.

As at December 31, 2014, the impact of these recognition and measurement differences was a decrease to PP&E of \$0.4 million, regulatory debit balances of \$5.7 million (of which \$6.1 million related to post-employment benefits, offset by \$0.4 million related to IFRS transitional adjustments), post-employment benefit liability of \$6.2 million, and an increase to opening retained earnings of \$0.9 million. For the year ended December 31, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of \$0.6 million, net movements in regulatory balances, net of tax of \$1.4 million, and remeasurements of post-employment benefits within pre-tax OCI of \$46.1 million, and an increase to net movements in regulatory balances related to pre-tax OCI of \$46.1 million.

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Under US GAAP, the amount of the actuarial present value of benefits expected to be paid in the next twelve months was presented as a current liability. Under IFRS, it is a policy choice whether or not to separately present a component as current as it relates to post-employment benefits. However, IFRS does specify that short-term employee benefits, such as sick leave benefits, are classified as current if they are expected to be settled wholly within twelve months after the end of the reporting period. The Corporation elected to present post-employment benefit obligation as non-current since it is not expected to be settled wholly within twelve months. As the Corporation does not expect to settle all of its sick leave benefits within twelve months, sick leave benefits have been included in the non-current liability as well. This presentation difference resulted in a decrease to current post-employment benefits and an increase to non-current post-employment benefits as at January 1, 2014 and December 31, 2014 in the amount of \$8.0 million.

F. Borrowing costs

Under US GAAP, an allowance for funds used during construction was applied based on OEB-prescribed rates on a simple interest basis and capitalized as part of the cost of PP&E and intangible assets where applicable. Under IFRS, the applicable borrowing costs are determined by applying the methodology in IAS 23 to qualifying assets. The capitalization rate under IFRS is based on the weighted average interest rate of the Corporation's external general borrowings using the effective interest rate method which is applied to the carrying amount of the asset including borrowing costs previously capitalized. In addition, under IFRS, capitalization commences immediately as the expenditure on a qualifying asset is incurred. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to increase PP&E by \$2.1 million and intangible assets by \$0.5 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by \$2.6 million.

G. PP&E derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by \$26.5 million.

Impact on the consolidated statements of cash flows

The changes in classifications of cash flows from US GAAP to IFRS were mainly due to:

- Reclassification of capital contributions received to finance additions to PP&E from investing activities to operating activities, and inclusion of amortization of deferred revenue related to capital contributions in operating activities. Under US GAAP, capital contributions were treated as a reduction of PP&E and associated cash flows were classified as investing activities. Under IFRS, the Corporation treats capital contributions as deferred revenue and classifies the associated cash flows as operating activities;
- Presentation of short-term bank overdrafts as part of cash and cash equivalents (working capital facility) under IFRS; whereas movements in short-term bank overdrafts were presented as cash flows from financing activities under US GAAP;

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- Presentation of income taxes paid and interest paid within the body of the consolidated statements of cash flows as part of operating and financing activities, respectively, whereas they were previously disclosed as supplementary information; and
- Reclassification of adjustments relating to regulatory balances within operating activities to “Net movements in regulatory balances” in the application of IFRS 14.