TORONTO HYDRO CORPORATION

REPORT TO THE SHAREHOLDER

FOR THE YEAR ENDED DECEMBER 31, 2025

This record contains the technical, commercial, financial, or labour relations information of Toronto Hydro and is provided solely for the use of its shareholder pursuant to requirements under the Amended and Restated Shareholder Direction Relating to Toronto Hydro Corporation, as adopted by the Council of the City of Toronto and as amended and/or restated from time to time. It is provided in confidence pursuant to s. 4.4 of the Shareholder Direction. The disclosure of this information may reasonably be expected to significantly prejudice Toronto Hydro's competitive position, interfere with its contractual negotiations, result in similar information no longer being supplied to the City of Toronto, result in undue loss to Toronto Hydro, and/or reveal information supplied during labour relations disputes. In addition, any such disclosure could give rise to a breach of law, including applicable securities laws. Any unauthorized disclosure is strictly prohibited.

Submitted to: Finance Department,
City of Toronto
February 25, 2026

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I. Results of Operations

A. Basis of Preparation

Toronto Hydro Corporation (the Corporation)'s audited consolidated financial statements for the year ended December 31, 2025 (Consolidated Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies are disclosed in the Corporation's Consolidated Financial Statements.

In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* (IFRS 14) as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous Generally Accepted Accounting Principles. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

B. Modified Income Statement

(in millions of Canadian dollars)	DECEMBER 31, 2025			
	Actual $	Budget $	*Fav (Unfav) $*	
Energy Sales and Purchases				
Energy sales	3,229.7	2,988.7	*241.0*	
Energy purchases	(3,165.6)	(3,068.7)	*(96.9)*	
Gross Energy Margin	64.1	(80.0)	*144.1*	
Energy price net regulatory balances	(64.1)	80.0	*(144.1)*	A
Net energy margin	—	—	—	
Distribution				
Electricity distribution revenue	959.4	928.4	*31.0*	B
Other revenue	140.6	120.1	*20.5*	C
Total distribution and other revenue	**1,100.0**	**1,048.5**	***51.5***	
Operating expenses	392.3	395.6	*3.3*	D
Depreciation and amortization	322.6	321.6	*(1.0)*	E
Finance costs	136.5	144.4	*7.9*	F
Income tax expense (recovery) (including regulatory balances)	9.7	(1.9)	*(11.6)*	G
Total operating costs	**861.1**	**859.7**	***(1.4)***	
Other gains	—	1.8	*(1.8)*	H
Remaining net movements in regulatory balances	(37.4)	(2.6)	*(34.8)*	I
Net income after net movements in regulatory balances	**201.5**	**188.0**	***13.5***	J
Effective tax rate	4.6 %	(1.0) %		

A. Energy purchases are a pass-through for local distribution companies in Ontario and are billed strictly on volume. The difference between energy purchases and energy sales is deferred as a regulatory balance and disposed through future electricity rates. Management continues to monitor these variances and engage in discussion with the Independent Electricity System Operator on options to limit the volatility.

B. Distribution revenue is derived based on a blend of energy sold, peak usage by large customers and fixed charges per customer, and is not on the same basis as energy sales. The favourable variance in distribution revenue was primarily driven by higher load demand.

C. Other revenue includes revenue from amortization of deferred revenue related to capital contributions, delivery of street lighting services, pole and duct rentals, services ancillary to electrical distribution, expansion deposits from unmet load, other regulatory service charges and street lighting contributed assets. The

favourable variance in other revenue was primarily due to higher than budgeted expansion deposits from unmet load, revenue from street lighting contributed assets and higher capital contribution amortization from customer connection projects.

The expansion deposits from unmet load are retained by Toronto Hydro-Electric System Limited (THESL) where the requested number of connections or electricity demand were not met by the connecting customer. These are recorded as a regulatory balance on the consolidated balance sheets (refer to development charges in note 8(h) to the Consolidated Financial Statements), with a corresponding offset in net movements in regulatory balances on the consolidated statements of income.

D. The favourable variance in operating expenses was primarily driven by lower than budgeted compensation, administrative and maintenance costs.

E. The unfavourable variance in depreciation and amortization was primarily due to timing of in-service asset additions.

F. The favourable variance in finance costs was primarily driven by lower interest rates compared to budget, which reduced interest on commercial paper, long-term debentures and expansion deposits.

G. The unfavourable variance in income tax (including regulatory balances) was primarily due to higher than budgeted net income and net movements in regulatory balances before income taxes ($6.7 million) and lower net deductions in permanent and temporary differences between accounting and tax treatments ($4.9 million).

H. The unfavourable variance in other gains was due to lower disposals than planned.

I. The unfavourable variance in net movements in regulatory accounts excluding energy price and deferred tax regulatory balances was primarily due to the recognition of the revenue variance account and higher than budgeted expansion deposits from unmet load.

J. The favourable variance in net income after net movements in regulatory balances was primarily driven by higher revenues from transfer of Metrolinx assets and increased load demand, lower finance costs and effective expense management, partially offset by higher income taxes.

C. Capital Expenditures

For the year ended December 31, 2025, spending related to property, plant and equipment (PP&E) and intangible assets was as follows:

(in millions of Canadian dollars)	DECEMBER 31, 2025		
	Actual $	**Budget $**	***Fav (Unfav) $***
Regulated capital expenditures			
Distribution system			
Planned [1]	779.0	694.1	*(84.9)*
Reactive [2]	68.8	62.1	*(6.7)*
Technology assets	50.5	50.9	*0.4*
Other [3]	33.3	35.3	*2.0*
Total regulated capital expenditures	**931.6**	**842.4**	***(89.2)***
Unregulated capital expenditures [4]	12.5	10.3	*(2.2)*
Total capital expenditures	**944.1**	**852.7**	***(91.4)***

(1) Includes, among other initiatives, delivery of customer connections, the replacement of overhead and underground infrastructures, customer-initiated plant relocations and expansions, metering, critical capital equipment and Downsview Station.
(2) Non-discretionary replacement of failed or failing assets across the distribution system.
(3) Includes fleet capital and building enhancements.
(4) Primarily relates to street lighting, behind-the-meter battery storage projects and generation equipment.

The variance of $89.2 million in capital expenditures for regulated activities was primarily due to higher than budgeted spending on customer connections ($74.6 million), critical capital equipment ($30.4 million), Downsview Station ($18.6 million), and replacement of overhead infrastructure ($9.5 million). These variances were partially offset by lower than budgeted spending on stations programs ($27.9 million) and replacement of underground infrastructure ($15.8 million).

D. Cash Flow Analysis

(in millions of Canadian dollars)	DECEMBER 31, 2025		
	Actual $	Budget $	*Fav (Unfav) $*
Cash provided by operating activities			
Net income after net movements in regulatory balances	201.5	188.0	*13.5*
Net movements in regulatory balances	101.5	(77.4)	*178.9*
Net movements in regulatory balances arising from deferred taxes	(53.8)	(15.0)	*(38.8)*
Changes in non-cash operating working capital balances	(22.9)	(61.8)	*38.9*
Depreciation and amortization	322.6	321.6	*1.0*
Non-cash contributed assets	(8.7)	—	*(8.7)*
Net change in other non-current assets and liabilities	3.3	2.1	*1.2*
Capital contributions received	188.2	203.1	*(14.9)*
Increase in customer deposits	113.9	13.6	*100.3*
Other gains	—	(1.8)	*1.8*
Post-employment benefits	2.0	2.7	*(0.7)*
Other operating activities	163.7	134.5	*29.2*
	1,011.3	**709.6**	***301.7***
Cash used in investing activities			
Purchase of PP&E and intangible assets	(895.8)	(825.3)	*(70.5)*
Proceeds from variable consideration	23.6	—	*23.6*
Proceeds on disposals of PP&E	1.0	1.8	*(0.8)*
	(871.2)	**(823.5)**	***(47.7)***
Interest paid	(137.9)	(151.8)	*13.9*
Cash requirement before dividends	**2.2**	**(265.7)**	***267.9***
Dividends paid	(60.0)	(60.0)	—
Cash requirement after dividends	**(57.8)**	**(325.7)**	***267.9***
Cash provided by financing activities			
Proceeds from issuance of debentures	397.3	298.8	*98.5*
Decrease in commercial paper, net of issuances	(365.0)	(48.1)	*(316.9)*
Common shares issued	25.0	75.0	*(50.0)*
	57.3	**325.7**	***(268.4)***
Net change in working capital facility during the year	**(0.5)**	—	***(0.5)***

The cash requirement after dividends was $267.9 million lower than budgeted primarily due to higher than budgeted cash provided by operating activities ($301.7 million) and lower than budgeted interest paid ($13.9 million), partially offset by higher than budgeted cash used in investing activities ($47.7 million).

The higher than budgeted cash provided by operating activities of $301.7 million was primarily due to favourable settlement variances on energy sales which were deferred as a regulatory balance to be refunded to customers in the future, an increase in customer deposits and favourable changes in non-cash operating working capital balances as a result of timing differences in the settlement of receivables and payables.

The cash provided by financing activities was lower than budgeted due to decrease in commercial paper issued and variance due to timing of equity contribution from the City of Toronto (the City) compared to budget, partially offset by higher proceeds from issuance of debentures.

II. Financing Activities and Short-Term Borrowings

A. Short-Term Borrowings

The Corporation is a party to an amended and restated credit agreement dated November 17, 2023 (as amended) with a syndicate of Canadian chartered banks which provides for a revolving credit facility in an amount up to $1.0 billion (Revolving Credit Facility), of which up to $210.0 million is available in the form of letters of credit. On September 18, 2025, the maturity date of the Revolving Credit Facility was extended from September 18, 2029 to September 18, 2030. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a commercial paper program allowing up to $1.0 billion of unsecured short-term promissory notes (Commercial Paper Program) to be issued in various maturities of no more than one year. The Commercial Paper Program is 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 amount available under the Revolving Credit Facility and the Commercial Paper Program are as follows:

(in millions of Canadian dollars)	Revolving Credit Facility Limit $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
Balance as at December 31, 2025	**1,000.0**	**115.0**	**885.0**
Balance as at December 31, 2024	1,000.0	480.0	520.0

As at December 31, 2025, there were no borrowings under the Revolving Credit Facility.

Additionally, the Corporation is a party to:

- a $100.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit; and
- a $20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management (Working Capital Facility).

For the year ended December 31, 2025, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $540.4 million with a weighted average interest rate of 2.90%.

As at December 31, 2025, $5.7 million had been drawn under the Working Capital Facility and letters of credit totalling $53.3 million had been issued.

B. Debentures

On July 18, 2025, the Corporation filed a base shelf prospectus with provincial securities regulators in Canada, allowing offerings of unsecured debentures in an aggregate amount of up to $1.5 billion over a 25-month period.

On September 24, 2025, the Corporation issued $400.0 million of senior unsecured debentures. The issuance consisted of $200.0 million of 3.65% senior unsecured debentures due on September 24, 2032 at a price of $999.88 per $1,000 principal amount (Series 23), and $200.0 million of 4.75% senior unsecured debentures due on September 24, 2055 at a price of $999.52 per $1,000 principal amount (Series 24). The Series 23 and Series 24 debentures bear interest payable semi-annually in arrears. The net proceeds from the issuance of the Series 23 and Series 24 debentures have been used to repay certain indebtedness under the Corporation's Commercial Paper Program, the proceeds of which were used for general corporate purposes. Debenture issuance costs of $2.6 million relating to both Series were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

As at December 31, 2025, the Corporation had debentures outstanding in the principal amount of $3.6 billion. These debentures will mature between 2026 and 2063.

C. Covenants

	Revolving Credit Facility		Senior Unsecured Debentures		Shareholder Direction	
	Requirement	Actual as at December 31, 2025	Requirement	Actual as at December 31, 2025	Requirement	Actual as at December 31, 2025
Total Debt: Total Capitalization	Not to exceed 0.75:1.00	0.61:1.00				
Consolidated Funded Indebtedness: Total Consolidated Capitalization			Not to exceed 0.75:1.00	0.62:1.00		
Financial Assistance	Not to exceed 15% of Consolidated Net Worth	0.00%			Up to $500 million	$53.3 million
Credit Rating					A- or better by two rating agencies	S&P: A+ (stable) DBRS: A (stable)

Debt-to-Capitalization Ratio

As at December 31, 2025, the debt-to-capitalization ratio stands at 61%, reflecting the impact of favourable settlement variances on energy sales, which will reverse in 2027 when amounts are refunded to customers. The Corporation is expected to move toward the 60% target over the 2025-2034 period through disciplined financial management and the implementation of the 10-year equity investment agreement with the City.

Revolving Credit Facility

As at December 31, 2025, the Corporation was in compliance with all applicable covenants under its Revolving Credit Facility.

Senior Unsecured Debentures

The covenants that the Corporation must comply with in regard to the senior unsecured debentures include the following: negative pledges, limitations on funded indebtedness, limitations on designated subsidiary indebtedness and restrictions on mergers and dispositions.

As at December 31, 2025, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures under the senior unsecured debentures.

Shareholder Direction

The Corporation continues to meet its current objectives for the shareholder, specifically, the credit rating requirement of A (minus) or better (or its equivalent rating, depending on the credit rating agency) on its senior debt securities, as rated by two accredited credit rating agencies in Ontario (S&P Global Ratings, DBRS Limited (DBRS) or Moody's), and to operate within the authorized financial assistance threshold.

Credit Rating

The City is providing equity contributions and reduced dividend targets to help restore the Corporation's leverage to the 60% debt target. The strong municipal support is necessary given the significant increase in approved capital spending under the current rate settlement period and the expectation of maintaining A category credit metrics.

On April 25, 2025, DBRS confirmed the Corporation's issuer rating and senior unsecured debentures rating at "A" and the Corporation's commercial paper rating at R-1 (low), each with stable trends.

On November 4, 2025, S&P Global Ratings announced its decision to maintain the Corporation's issuer rating and senior unsecured debentures rating at "A+" as well as the Corporation's issuer rating outlook as "stable"

As at December 31, 2025, the Corporation's senior unsecured debentures were rated "A+" by S&P Global Ratings and "A" by DBRS.

III. Electricity Distribution Rates

On November 12, 2024, the Ontario Energy Board (OEB) issued its 2025-2029 Custom Incentive Rate-setting (CIR) Decision, and on December 12, 2024, issued its CIR Final Rate Order (together, the 2025-2029 CIR Decision and Rate Order), both in relation to the rate application filed by THESL on November 17, 2023. The

2025-2029 CIR Decision and Rate Order approved the negotiated settlement proposal as filed, final electricity distribution rates for the first year of the five-year rate period effective January 1, 2025, a CIR index for the period commencing on January 1, 2026 and ending on December 31, 2029 and the final clearance of various deferral and variance account balances for the 2020-2024 period through rate riders. The 2025-2029 CIR Decision and Rate Order approved funding for capital and operating expenditures of approximately $5.1 billion for the 2025-2029 period. The approved rates for 2025 were implemented on January 1, 2025.

On August 12, 2025, THESL filed its 2026 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2026 and ending on December 31, 2026. On December 11, 2025, the OEB issued its decision and rate order approving THESL's 2026 rates, including the disposition of applicable deferral and variance accounts, in line with THESL's expectations.

APPENDIX

A

FINANCIAL REPORT TO THE ONTARIO SECURITIES COMMISSION (OSC)

FINANCIAL REPORT
DECEMBER 31, 2025

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

FOURTH QUARTER HIGHLIGHTS

Financial Performance

- Toronto Hydro Corporation (the Corporation) and its subsidiaries (collectively, Toronto Hydro) continued to deliver strong financial performance for the three months and year ended December 31, 2025, reporting net income after net movements in regulatory balances of $23.4 million and $201.5 million, respectively, compared to $9.0 million and $130.3 million for the comparative periods in 2024;
- Toronto Hydro remained focused on enhancing its capital investment strategy, with a primary emphasis on renewing the electricity distribution infrastructure of Toronto Hydro-Electric System Limited (THESL). Capital expenditures were $224.4 million and $944.1 million for the three months and year ended December 31, 2025, respectively, compared to $261.3 million and $882.4 million for the comparative periods in 2024;
- Key capital initiatives in 2025 included the delivery of customer connections throughout the city, replacement of overhead and underground infrastructure, customer-initiated asset relocations and expansions, and ongoing modernization and replacement of Toronto Hydro's metering program; and
- On February 25, 2026, the Board of Directors of the Corporation declared a dividend of $10.0 million, payable to the City of Toronto (the City) by March 31, 2026.

Financing and Liquidity

- On November 4, 2025, S&P Global Ratings announced its decision to maintain the Corporation's issuer rating and senior unsecured debentures rating at "A+" as well as the Corporation's issuer rating outlook as "stable"; and
- On January 2, 2026, the Corporation issued 13 common shares to the City for total proceeds of $25.0 million in relation to an equity contribution from the City to support Toronto Hydro's long-term financial stability and strengthen its ability to invest in the electric distribution grid.

Regulatory and Governance

- At its meeting held on November 12-14, 2025, Toronto City Council appointed Councillor Neethan Shan to the Corporation's Board of Directors as Mayor's designate for a term of office until November 14, 2026, and until a successor is appointed; and
- On December 11, 2025, the Ontario Energy Board (OEB) issued its decision and rate order approving THESL's 2026 rates, including the disposition of applicable deferral and variance accounts, in line with THESL's expectations.

INTRODUCTION

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes for the years ended December 31, 2025 and 2024 (the Consolidated Financial Statements), which were prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Additional information about Toronto Hydro, including the Corporation's Annual Information Form, is available on the System for Electronic Data Analysis and Retrieval+ (SEDAR+) website at sedarplus.ca and Toronto Hydro's website (torontohydro.com/corporate-reports).

BUSINESS OF TORONTO HYDRO CORPORATION

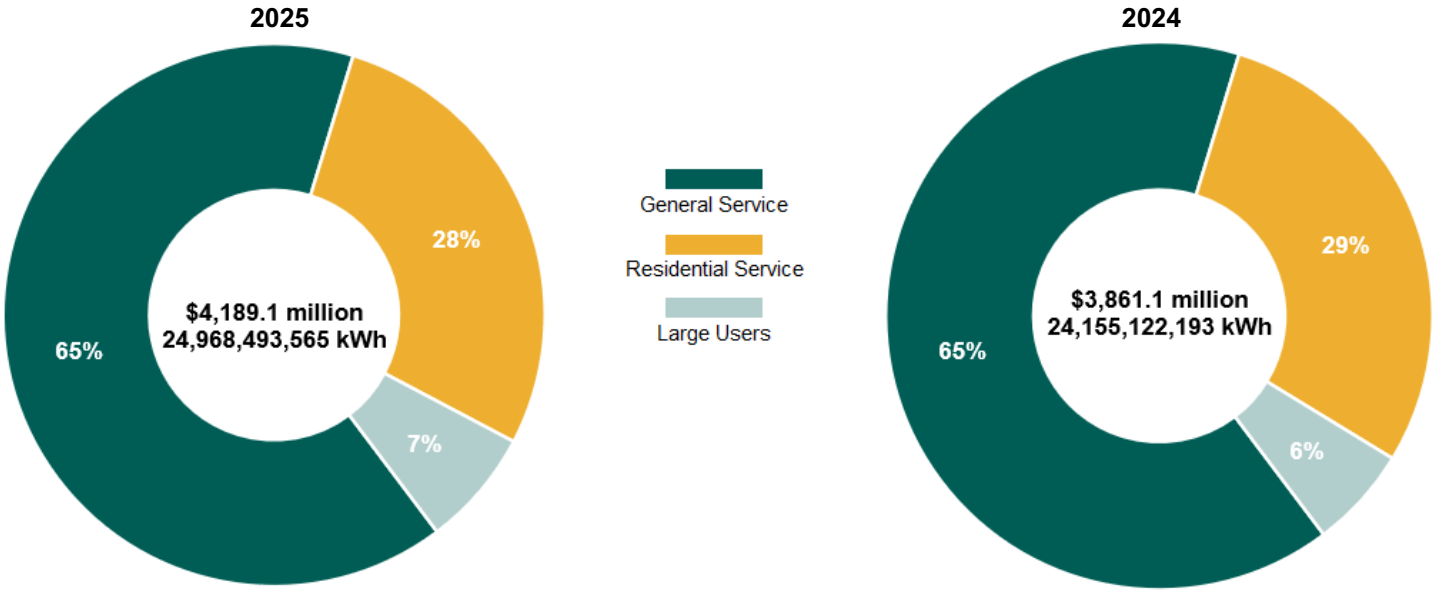
The Corporation is a holding company which wholly owns two subsidiaries:

- THESL – distributes electricity through approximately 29,713 circuit kilometres of overhead and underground wires; and
- Toronto Hydro Energy Services Inc. (TH Energy) – provides street lighting and expressway lighting services in the city of Toronto.

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

The principal business of Toronto Hydro is the distribution of electricity by THESL as a licensed Local Distribution Company. THESL owns and operates $7.7 billion of capital assets comprised primarily of an electricity distribution system that delivers electricity and related services to more than three million people and businesses across 797,000 metered connection points located within the city of Toronto. THESL serves the largest city in Canada and distributes approximately 18% of the electricity consumed in the province of Ontario. The business of THESL 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 electricity distributors in Ontario. For the year ended December 31, 2025, THESL recognized energy sales and distribution revenue of $4,189.1 million from General Service Users[1], Residential Service Users[2] and Large Users[3].

THESL Energy Sales and Distribution Revenue by Class
Year ended December 31, 2025 and 2024



[1] "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kilowatt (kW) averaged over a 12-month period.

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

[3] "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a 12-month period.

ELECTRICITY DISTRIBUTION – INDUSTRY OVERVIEW

Under provincial laws, THESL and other electricity distributors purchase electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs from customers in accordance with rate-setting procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The *Ontario Energy Board Act, 1998* (Ontario), as amended (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 set 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.

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

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

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are a pass-through to operators of transmission facilities.

- *Wholesale Market Service (WMS) Charges* – The WMS charges represent 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 a pass-through to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by THESL 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 THESL's customers and load.

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

The Corporation is exempt from tax under the *Income Tax Act, 1985* (Canada), as amended (ITA), if not less than 90% of its capital is owned by the City and not more than 10% of its income 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 *Taxation Act, 2007* (Ontario), as amended (TA).

The *Electricity Act, 1998* (Ontario), as amended (Electricity Act) provides that a municipal electricity utility in the Province of Ontario (MEU) that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a payments in lieu of corporate taxes (PILs) to the Ontario Electricity Financial Corporation (OEFC) in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The Corporation and each of its

subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act, and therefore, the Corporation is required to make PILs to the OEFC.

RESULTS OF OPERATIONS

Net Income after Net Movements in Regulatory Balances

CONSOLIDATED STATEMENTS OF INCOME

(in millions of Canadian dollars)

	Three months ended December 31,			
	2025 $	2024 $	Change $	Change %
Revenues				
Energy sales	**859.5**	719.1	140.4	19.5 %
Distribution revenue	**231.9**	232.5	(0.6)	(0.3)%
Other	**38.8**	30.1	8.7	28.9 %
	1,130.2	981.7	148.5	15.1 %
Expenses				
Energy purchases	**776.0**	719.8	56.2	7.8 %
Operating expenses	**114.2**	105.8	8.4	7.9 %
Depreciation and amortization	**90.3**	84.9	5.4	6.4 %
	980.5	910.5	70.0	7.7 %
Finance costs	**(35.5)**	(34.9)	(0.6)	1.7 %
Income before income taxes	**114.2**	36.3	77.9	>100%
Income tax (expense) recovery	**(34.9)**	4.7	(39.6)	>100%
Net income	**79.3**	41.0	38.3	93.4 %
Net movements in regulatory balances	**(91.0)**	(29.6)	(61.4)	>100%
Net movements in regulatory balances arising from deferred taxes	**35.1**	(2.4)	37.5	>100%
Net income after net movements in regulatory balances	**23.4**	9.0	14.4	>100%

For the three months ended December 31, 2025, net income after net movements in regulatory balances was higher by $14.4 million. The increase was primarily due to lower amounts deferred into regulatory accounts ($22.8 million) and increased other revenue ($8.7 million), partially offset by higher operating expenses ($8.4 million) and increased depreciation and amortization expense ($5.4 million).

The variances in energy sales and energy purchases do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances. The difference between energy sales and energy purchases is recorded as a settlement variance within regulatory balances on the Corporation's consolidated balance sheets (Consolidated Balance Sheets) and represents amounts to be recovered from or refunded to customers through future rates approved by the OEB.

CONSOLIDATED STATEMENTS OF INCOME

(in millions of Canadian dollars)

	Year ended December 31,			
	2025 $	2024 $	Change $	Change %
Revenues				
Energy sales	**3,229.7**	2,923.3	306.4	10.5 %
Distribution revenue	**959.4**	937.8	21.6	2.3 %
Other	**140.6**	118.9	21.7	18.3 %
	4,329.7	3,980.0	349.7	8.8 %
Expenses				
Energy purchases	**3,165.6**	3,005.6	160.0	5.3 %
Operating expenses	**392.3**	378.5	13.8	3.6 %
Depreciation and amortization	**322.6**	299.7	22.9	7.6 %
	3,880.5	3,683.8	196.7	5.3 %
Finance costs	**(136.5)**	(137.8)	1.3	(0.9)%
Income before income taxes	**312.7**	158.4	154.3	97.4 %
Income tax expense	**(63.5)**	(18.6)	(44.9)	>100%
Net income	**249.2**	139.8	109.4	78.3 %
Net movements in regulatory balances	**(101.5)**	(33.6)	(67.9)	>100%
Net movements in regulatory balances arising from deferred taxes	**53.8**	24.1	29.7	>100%
Net income after net movements in regulatory balances	**201.5**	130.3	71.2	54.6 %

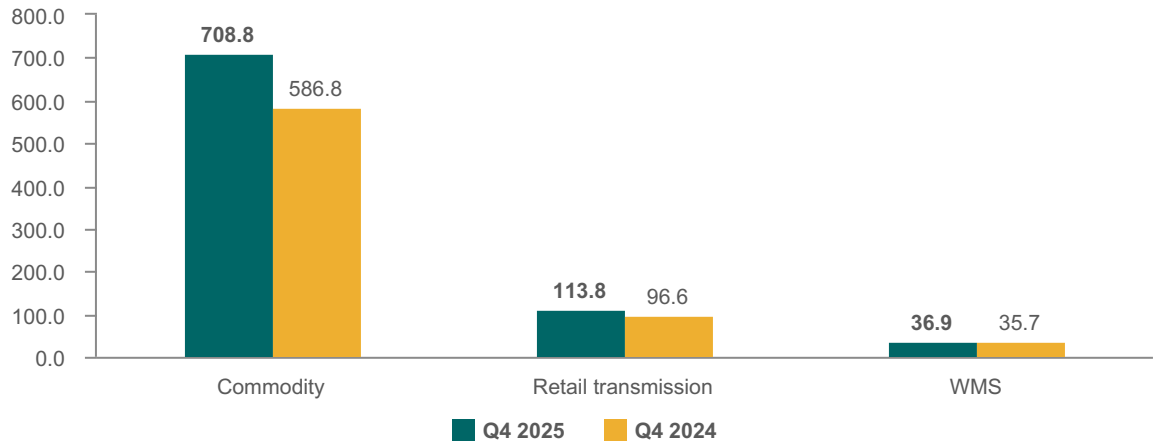
For the year ended December 31, 2025, net income after net movements in regulatory balances was higher by $71.2 million. The increase was primarily due to lower amounts deferred into regulatory accounts ($78.5 million), increased other revenue ($21.7 million) and higher distribution revenue ($21.6 million), partially offset by higher depreciation and amortization expense ($22.9 million), higher income taxes including regulatory balances arising from deferred taxes ($15.2 million) and increased operating expenses ($13.8 million).

Energy Sales, Energy Purchases and Settlement Variances

Energy Sales

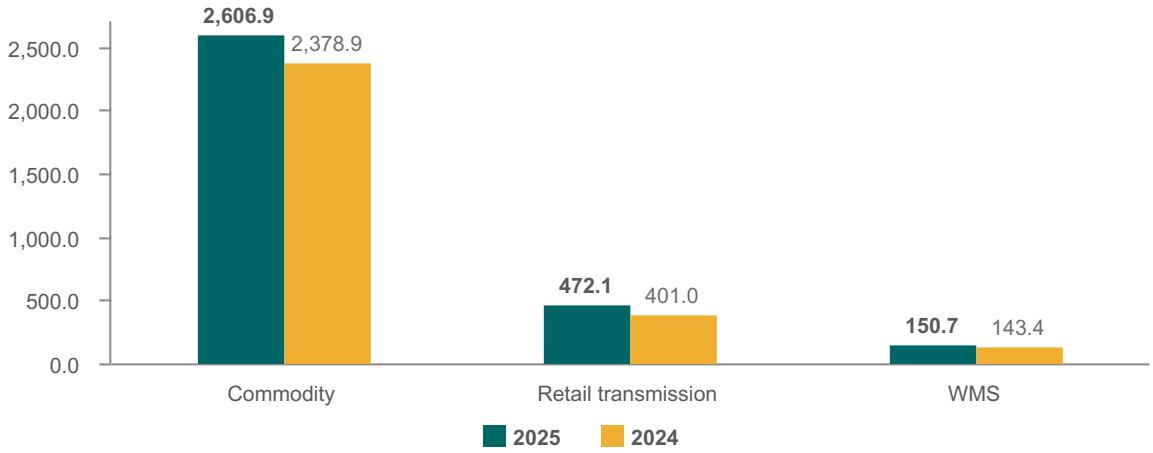
THESL's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by THESL.

Energy sales for the three months ended December 31, 2025 and 2024 (in millions of Canadian dollars) were comprised of:



Energy sales for the three months ended December 31, 2025 were $859.5 million, compared to $719.1 million for the comparative period in 2024. The increase was due to higher commodity charges ($122.0 million), higher retail transmission charges ($17.2 million) and higher WMS charges ($1.2 million).

Energy sales for the year ended December 31, 2025 and 2024 (in millions of Canadian dollars) were comprised of:

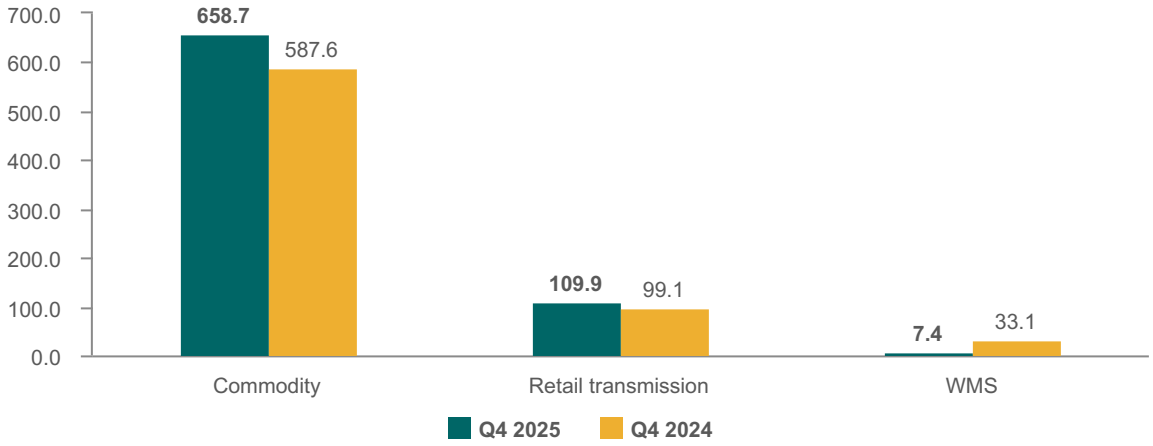


Energy sales for the year ended December 31, 2025 were $3,229.7 million, compared to $2,923.3 million for the comparative period in 2024. The increase was due to higher commodity charges ($228.0 million), higher retail transmission charges ($71.1 million) and higher WMS charges ($7.3 million).

Energy Purchases

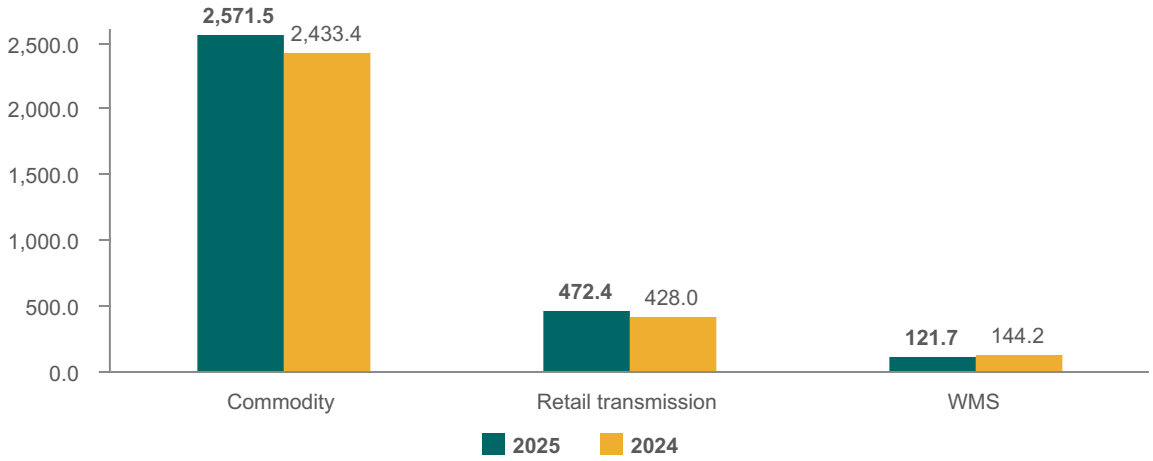
THESL's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

Energy purchases for the three months ended December 31, 2025 and 2024 (in millions of Canadian dollars) were comprised of:



Energy purchases for the three months ended December 31, 2025 were $776.0 million compared to $719.8 million for the comparative period in 2024. The increase was due to higher commodity charges ($71.1 million) and higher retail transmission charges ($10.8 million), partially offset by lower WMS charges ($25.7 million).

Energy purchases for the year ended December 31, 2025 and 2024 (in millions of Canadian dollars) were comprised of:



Energy purchases for the year ended December 31, 2025 were $3,165.6 million compared to $3,005.6 million for the comparative period in 2024. The increase was due to higher commodity charges ($138.1 million) and higher retail transmission charges ($44.4 million), partially offset by lower WMS charges ($22.5 million).

Settlement Variances

(in millions of Canadian dollars)	Three months ended December 31, 2025 $	Three months ended December 31, 2024 $	Year ended December 31, 2025 $	Year ended December 31, 2024 $
Commodity charges	**50.1**	(0.8)	**35.4**	(54.5)
Retail transmission charges	**3.9**	(2.5)	**(0.3)**	(27.0)
WMS charges	**29.5**	2.6	**29.0**	(0.8)
Total	**83.5**	(0.7)	**64.1**	(82.3)

Settlement variances arise when there is a difference between energy sales and energy purchases. For any given period, energy sales should be equal to the cost of energy purchased; however, a settlement variance arises when there is a timing difference between the amounts charged by THESL to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to THESL. These settlement variances represent amounts to be recovered from or refunded to customers through future rates approved by the OEB. In accordance with IFRS 14 *Regulatory Deferral Accounts* (IFRS 14), this settlement variance is presented within regulatory balances on the Consolidated Balance Sheets and within net movements in regulatory balances on the Corporation's consolidated statements of income (Consolidated Statements of Income).

For the three months ended December 31, 2025, THESL recognized $859.5 million in energy sales to customers and was billed $776.0 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $83.5 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance ($83.0 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets and presented within net movements in regulatory balances on the Consolidated Statements of Income.

For the year ended December 31, 2025, THESL recognized $3,229.7 million in energy sales to customers and was billed $3,165.6 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $64.1 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance ($61.3 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

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

Distribution revenue for the three months and year ended December 31, 2025 was $231.9 million and $959.4 million, respectively, compared to $232.5 million and $937.8 million for the comparative periods in 2024.

Distribution revenue for the three months ended December 31, 2025 was largely in line with the comparable period in 2024 driven by lower revenue collected through OEB-approved rate riders ($22.7 million), partially offset by higher 2025 distribution rates ($19.6 million) and higher electricity consumption ($2.5 million).

The increase of $21.6 million in distribution revenue for the year ended December 31, 2025 was driven by higher 2025 distribution rates ($75.7 million) and higher electricity consumption ($10.4 million), partially offset by lower revenue collected through OEB-approved rate riders ($64.5 million).

Other Revenue

Other revenue includes revenue from services ancillary to electricity distribution, expansion deposits from unmet load, delivery of street lighting services, pole and duct rentals, amortization of deferred revenue related to capital contributions and other regulatory service charges.

Other revenue for the three months and year ended December 31, 2025 was $38.8 million and $140.6 million, respectively, compared to $30.1 million and $118.9 million for the comparative periods in 2024.

The increase of $8.7 million in other revenue for the three months ended December 31, 2025 was primarily due to expansion deposits from unmet load, partially offset by lower revenue from street lighting contributed assets.

The increase of $21.7 million in other revenue for the year ended December 31, 2025 was primarily due to expansion deposits from unmet load, higher amortization of capital contributions and higher revenue from street lighting contributed assets.

The expansion deposits from unmet load are retained by THESL where the requested number of connections or electricity demand were not met by the connecting customer. These are recorded as a regulatory balance on the Consolidated Balance Sheets (refer to development charges in *note 8(h)* to the Consolidated Financial Statements), with a corresponding offset in net movements in regulatory balances on the Consolidated Statements of Income.

Operating Expenses

Operating expenses for the three months and year ended December 31, 2025 were $114.2 million and $392.3 million, respectively, compared to $105.8 million and $378.5 million for the comparative periods in 2024.

The increase of $8.4 million in operating expenses for the three months ended December 31, 2025 was primarily due to higher contractor and consulting costs, and increased system maintenance costs.

The increase of $13.8 million in operating expenses for the year ended December 31, 2025 was primarily due to higher contractor and consulting costs, and increased bad debt expense.

Depreciation and Amortization

Depreciation and amortization expense, which includes losses on the derecognition of assets removed from service, for the three months and year ended December 31, 2025 was $90.3 million and $322.6 million, respectively, compared to $84.9 million and $299.7 million for the comparative periods in 2024.

The increase of $5.4 million and $22.9 million in depreciation and amortization expense for the three months and year ended December 31, 2025, respectively, was primarily due to higher in-service asset additions and higher losses on assets derecognized from service, partially offset by fully depreciated assets.

Finance Costs

Finance costs for the three months and year ended December 31, 2025 were $35.5 million and $136.5 million, respectively, compared to $34.9 million and $137.8 million for the comparative periods in 2024.

Finance costs for the three months ended December 31, 2025 were largely in line with the comparable period in 2024 due to a higher average amount of outstanding debentures and lower interest income, partially offset by a lower weighted average interest rate of 2.48% (3.93% for the comparative period in 2024) for commercial paper.

The decrease of $1.3 million in finance costs for the year ended December 31, 2025 was primarily due to a lower weighted average interest rate of 2.90% (4.73% for the comparative period in 2024) for commercial paper, partially offset by a higher average amount of outstanding debentures and a decrease in interest income due to lower short-term interest rates.

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

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2025 was a recovery of $0.2 million and an expense of $9.7 million, respectively, compared to a recovery of $2.3 million and $5.5 million for the comparative periods in 2024.

The increase in income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2025 was primarily due to higher income before taxes, partially offset by higher net deductions in permanent and temporary differences between accounting and tax treatments.

Net Movements in Regulatory Balances

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

The decrease of $85.1 million in the regulatory debit and decrease of $29.9 million in the regulatory credit balances for the year ended December 31, 2025 equals the sum of $(55.2) million of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movements in regulatory balances related to other comprehensive income (OCI), net of tax for the period (refer to discussion under “Financial Position”). Energy purchases record the actual cost of power purchased, which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results and is part of the calculation of net income. However, under OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (refer to discussion on settlement variance under “Results of Operations”), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

The net movements in regulatory balances for the three months and year ended December 31, 2025 were $(91.0) million and $(101.5) million, respectively, compared to $(29.6) million and $(33.6) million for the comparative periods in 2024.

The net movements in regulatory balances of $(91.0) million for the three months ended December 31, 2025 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and THESL’s billing to customers, and expansion deposits from unmet load. The net movements in regulatory balances of $(29.6) million for the three months ended December 31, 2024 was primarily due to the changes to the useful lives of property, plant and equipment (PP&E) and amounts disposed of through OEB-approved rate riders, partially offset by the settlement variance between the electricity costs billed monthly by the IESO and THESL’s billing to customers.

The net movements in regulatory balances of $(101.5) million for the year ended December 31, 2025 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and THESL’s billing to customers, recognition of the revenue variance account, expansion deposits from unmet load and gain on disposals resulting from variable consideration in connection with the disposal of two properties in prior years. The net movements in regulatory balances of $(33.6) million for the year ended December 31, 2024 was primarily due to the changes to the useful lives of PP&E and amounts disposed of through OEB-approved rate riders, partially offset by the settlement variance between the electricity costs billed monthly by the IESO and THESL’s billing to customers.

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS

The table below presents a summary of Toronto Hydro's results of operations for eight quarters including and immediately preceding December 31, 2025.

(in millions of Canadian dollars)	December 31, 2025 $	September 30, 2025 $	June 30, 2025 $	March 31, 2025 $
Revenues				
Energy sales	**859.5**	843.9	684.3	842.0
Distribution revenue	**231.9**	250.9	236.4	240.2
Other	**38.8**	33.9	39.9	28.0
	1,130.2	1,128.7	960.6	1,110.2
Net income after net movements in regulatory balances	**23.4**	67.5	57.4	53.2

(in millions of Canadian dollars)	December 31, 2024 $	September 30, 2024 $	June 30, 2024 $	March 31, 2024 $
Revenues				
Energy sales	719.1	794.0	671.1	739.1
Distribution revenue	232.5	246.4	233.7	225.2
Other	30.1	30.7	30.4	27.7
	981.7	1,071.1	935.2	992.0
Net income after net movements in regulatory balances	9.0	45.0	42.4	33.9

Toronto Hydro's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions, including increased frequency of extreme weather events, such as heat waves, intense rain events, snowstorms and higher average temperatures. Generally, revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. Toronto Hydro's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions.

FINANCIAL POSITION

The following table outlines the significant changes in the Consolidated Balance Sheets as at December 31, 2025 compared to December 31, 2024.

Balance Sheet Account (in millions of Canadian dollars)	Increase (Decrease) $	Explanation of Significant Change
Assets		
PP&E and intangible assets	**619.4**	The increase was due to capital expenditures (refer to "Investing Activities"), partially offset by depreciation and amortization during the period.
Liabilities and Equity		
Commercial paper	**(365.0)**	The decrease was due to repayment from the proceeds of debenture issuances, partially offset by issuances required for general corporate purpose (refer to "Liquidity and Capital Resources" and "Financing Activities").
Accounts payable and accrued liabilities	**35.8**	The increase was primarily due to timing differences in payments and higher capital activity.
Customer deposits	**113.9**	The increase was primarily due to higher expansion deposits received, net of refunds and transfers to the corresponding regulatory liability account.
Deferred revenue	**163.0**	The increase was mainly due to capital contributions received, partially offset by amortization during the period.
Debentures	**398.5**	The increase was related to the issuance of debentures (refer to "Financing Activities").
Deferred tax liabilities	**54.4**	The increase was primarily driven by lower tax values as compared to accounting values of PP&E and intangible assets, and the impact of the actuarial gain on post-employment benefits.
Share capital	**25.0**	The increase was related to an equity contribution from the City (refer to "New Equity Investment from the City").
Retained earnings	**141.5**	The increase was due to net income after net movements in regulatory balances ($201.5 million), net of dividends paid ($60.0 million).
Regulatory Balances		
Regulatory debit balances	**(85.1)**	The decrease was primarily related to amounts recovered through OEB-approved rate riders and the settlement variances between the electricity costs billed monthly by the IESO and THESL's billing to customers, partially offset by an increase in deferred taxes.
Regulatory credit balances	**(29.9)**	The decrease was primarily due to amounts disposed through OEB-approved rate riders, partially offset by recognition of the revenue variance account, deferral of development charges, gain on disposals and actuarial gains resulting from the remeasurement of post-employment benefit obligations to reflect the change in discount rate.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation is a party to an amended and restated credit agreement dated November 17, 2023 (as amended) with a syndicate of Canadian chartered banks which provides for a revolving credit facility in an amount up to $1.0 billion (Revolving Credit Facility), of which up to $210.0 million is available in the form of letters of credit. On September 18, 2025, the maturity date of the Revolving Credit Facility was extended from September 18, 2029 to September 18, 2030. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a commercial paper program allowing unsecured short-term promissory notes (Commercial Paper Program) to be issued in various maturities of no more than one year. The Commercial Paper Program is 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 $100.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit. As at December 31, 2025, letters of credit totalling $53.3 million had been issued under this facility (December 31, 2024 – $54.3 million).

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, 2025, $5.7 million had been drawn under the Working Capital Facility (December 31, 2024 – $5.2 million). Cash and cash equivalents (working capital balances) presented on the Corporation's consolidated statements of cash flows (Consolidated Statements of Cash Flows) includes bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

Current assets and current liabilities amounted to $614.9 million and $978.3 million, respectively, as at December 31, 2025, resulting in a working capital deficit of $363.4 million. The deficit was primarily attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility, and the reclassification of Series 12 debentures due on August 25, 2026 to current liabilities. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance 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 THESL, for energy purchases and to refinance debt obligations at maturity.

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

(in millions of Canadian dollars)	Revolving Credit Facility Limit $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
Balance as at December 31, 2025	**1,000.0**	**115.0**	**885.0**
Balance as at December 31, 2024	1,000.0	480.0	520.0

As at December 31, 2025 and December 31, 2024, there were no borrowings under the Revolving Credit Facility.

The table below represents Consolidated Statements of Cash Flows data for the periods indicated:

(in millions of Canadian dollars)	Three months ended December 31, 2025 $	Three months ended December 31, 2024 $	Year ended December 31, 2025 $	Year ended December 31, 2024 $
Working capital facility, beginning of period	**(9.0)**	—	**(5.2)**	(7.3)
Net cash provided by operating activities	**375.7**	235.1	**1,011.3**	716.4
Net cash used in investing activities	**(217.8)**	(201.0)	**(871.2)**	(844.1)
Net cash provided by (used in) financing activities	**(154.6)**	(39.3)	**(140.6)**	129.8
Working capital facility, end of period	**(5.7)**	(5.2)	**(5.7)**	(5.2)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2025 was $375.7 million and $1,011.3 million, respectively, compared to $235.1 million and $716.4 million for the comparative periods in 2024.

The increase in net cash provided by operating activities for the three months ended December 31, 2025 was primarily due to higher net income before net movements in regulatory balances, increased customer deposits in relation to expansion deposits and higher capital contributions received, partially offset by timing differences in the settlement of receivables and payables.

The increase in net cash provided by operating activities for the year ended December 31, 2025 was primarily due to higher net income before net movements in regulatory balances, increased customer deposits in relation to expansion deposits and higher capital contributions received.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2025 was $217.8 million and $871.2 million, respectively, compared to $201.0 million and $844.1 million for the comparative periods in 2024.

Electricity distribution is a capital-intensive business. As THESL is the municipal electricity distribution company serving the largest city in Canada, it continues to invest in expanding, modernizing and sustaining the grid and its operations to meet the current and future needs of its customers, and to prepare the grid and its operations to serve the city's growth and net-zero objectives.

The following table summarizes Toronto Hydro's capital expenditures (on an accrual basis) for the periods indicated.

(in millions of Canadian dollars)	Three months ended December 31, 2025 $	2024 $	Year ended December 31, 2025 $	2024 $
Regulated THESL				
Distribution system				
Planned [1]	**185.1**	219.1	**779.0**	721.8
Reactive [2]	**15.5**	16.5	**68.8**	64.1
Technology assets	**7.3**	9.8	**50.5**	54.6
Other [3]	**12.7**	11.0	**33.3**	30.3
Regulated capital expenditures	**220.6**	256.4	**931.6**	870.8
Unregulated capital expenditures [4]	**3.8**	4.9	**12.5**	11.6
Total capital expenditures	**224.4**	261.3	**944.1**	882.4

[1] Includes, among other initiatives, delivery of customer connections, the replacement of overhead and underground infrastructures, customer-initiated plant relocations and expansions, metering, critical capital equipment and Downsview Station.
[2] Non-discretionary replacement of failed or failing assets across the distribution system.
[3] Includes fleet capital and building enhancements.
[4] Primarily relates to street lighting, behind-the-meter battery storage projects and generation equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2025 were $220.6 million and $931.6 million, respectively, compared to $256.4 million and $870.8 million for the comparative periods in 2024.

For the three months ended December 31, 2025, the decrease of $35.8 million in regulated capital expenditures was primarily due to lower spending on customer-initiated plant relocations and expansions ($26.9 million), replacement of underground infrastructure ($15.1 million), replacement of overhead infrastructure ($11.3 million), stations programs ($9.8 million) and network infrastructure ($7.6 million). These variances were partially offset by higher spending on Downsview Station ($21.4 million) and customer connections ($15.8 million).

For the year ended December 31, 2025, the increase of $60.8 million in regulated capital expenditures was primarily due to higher spending on customer connections ($87.3 million), critical capital equipment ($36.4 million), metering ($22.3 million), Downsview Station ($21.9 million) and facilities management and security ($10.4 million). These variances were partially offset by lower spending on replacement of underground infrastructure ($36.5 million), customer-initiated plant relocations and expansions ($29.6 million), network infrastructure ($26.5 million) and stations programs ($24.7 million).

Downsview Station will be a new transformer station in the Downsview area of Toronto. Additional capacity is required to support the forecasted growth and development of the area, while relieving the highly loaded Bathurst and Finch Stations. In 2025, property acquisition was completed and site preparation for the next phase of construction was initiated. As at December 31, 2025, capital expenditures on the Downsview Station project amounted to $21.9 million, inclusive of capitalized borrowing costs.

The largest capital initiatives in 2025 include the delivery of customer connections, replacement of overhead and underground infrastructures, reactive capital, customer-initiated plant relocations and expansions as well as metering program.

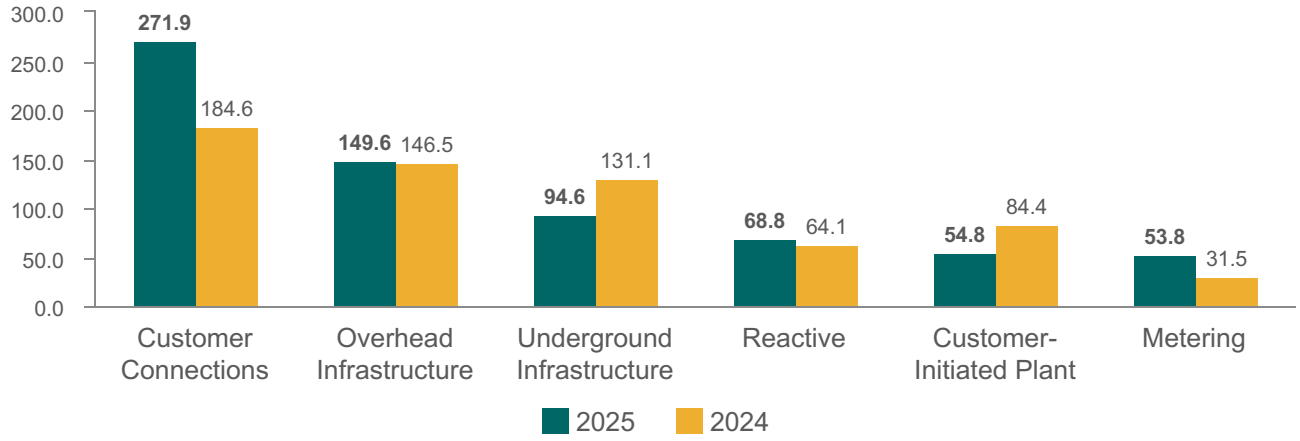
The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial, industrial and residential customers. For the year ended December 31, 2025, capital expenditures for the delivery of customer connections were $271.9 million.

The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches, and other aging overhead infrastructure and equipment. The replacement of underground infrastructure includes replacing direct buried cables, transformers, switches and other aging underground infrastructure. Both initiatives will allow THESL to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2025, capital expenditures for overhead and underground infrastructure were $149.6 million and $94.6 million, respectively.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the year ended December 31, 2025, capital expenditures for customer-initiated plant relocations and expansions were $54.8 million.

Metering includes investments in the utility's metering technology to ensure the reliable measurement of electricity acquired by the utility through the provincial transmission system and distributed to its customers. For the year ended December 31, 2025, capital expenditures for metering were $53.8 million.

Expenditures on Most Significant Regulated Capital Initiatives
Year ended December 31, 2025 and 2024
(in millions of Canadian dollars)



Financing Activities

Net cash provided by (used in) financing activities for the three months and year ended December 31, 2025 was $(154.6) million and $(140.6) million, respectively, compared to $(39.3) million and $129.8 million for the comparative periods in 2024.

The increase in net cash used in financing activities for the three months ended December 31, 2025 was primarily due to higher net commercial paper repayments and lower issuance of common shares of the Corporation.

The increase in net cash used in financing activities for the year ended December 31, 2025 was primarily due to higher net commercial paper repayments and lower issuance of common shares of the Corporation, partially offset by higher issuance of debentures and lower dividends paid in 2025.

For the three months and year ended December 31, 2025, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $348.9 million and $540.4 million, respectively, with a weighted average interest rate of 2.48% and 2.90% (compared to $581.2 million and $642.7 million, respectively, with a weighted average interest rate of 3.93% and 4.73% for the comparative periods in 2024).

On July 18, 2025, the Corporation filed a base shelf prospectus with provincial securities regulators in Canada, allowing offerings of unsecured debentures in an aggregate amount of up to $1.5 billion over a 25-month period.

On September 24, 2025, the Corporation issued $400.0 million of senior unsecured debentures. The issuance consisted of $200.0 million of 3.65% senior unsecured debentures due on September 24, 2032 at a price of $999.88 per $1,000 principal amount (Series 23), and $200.0 million of 4.75% senior unsecured debentures due on September 24, 2055 at a price of $999.52 per $1,000 principal amount (Series 24). The Series 23 and Series 24 debentures bear interest payable semi-annually in arrears. The net proceeds from the issuance of the Series 23 and Series 24 debentures have been used to repay certain indebtedness under the Corporation's Commercial Paper Program, the proceeds of which were used for general corporate purposes. Debenture issuance costs of $2.6 million relating to both Series were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

As at December 31, 2025, the Corporation had debentures outstanding in the principal amount of $3.6 billion. These debentures will mature between 2026 and 2063. As at December 31, 2025, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

The following table sets out the current credit ratings.

	DBRS Limited (DBRS)		S&P Global Ratings	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A+	Stable
Senior unsecured debentures	A	Stable	A+	—
Commercial paper	R-1 (low)	Stable	—	—

On April 25, 2025, DBRS confirmed the Corporation's issuer rating and senior unsecured debentures rating at "A" and the Corporation's commercial paper rating at R-1 (low), each with stable trends.

On November 4, 2025, S&P Global Ratings announced its decision to maintain the Corporation's issuer rating and senior unsecured debentures rating at "A+" as well as the Corporation's issuer rating outlook as "stable".

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next 12 months.

Dividends

During the year ended December 31, 2025, the Board of Directors of the Corporation declared and paid dividends to the City totalling $60.0 million (2024 - $83.9 million).

On February 25, 2026, the Board of Directors of the Corporation declared a dividend in the amount of $10.0 million, payable to the City by March 31, 2026.

Summary of Contractual Obligations and Other Commitments

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

(in millions of Canadian dollars)	Total $	2026 [1] $	2027 / 2028 $	2029 / 2030 $	After 2030 $
Commercial paper [2]	**115.0**	115.0	—	—	—
Debentures - principal repayment	**3,595.0**	200.0	200.0	400.0	2,795.0
Debentures - interest payments	**2,297.7**	135.5	261.0	235.7	1,665.5
Other commitments [3]	**5.7**	1.0	1.2	0.9	2.6
Total contractual obligations and other commitments	**6,013.4**	451.5	462.2	636.6	4,463.1

[1] Due over the period from January 1, 2026 to December 31, 2026.
[2] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[3] Primarily relates to commitments for asset management and information technology service contracts.

CORPORATE DEVELOPMENTS

Changes to the Corporation's Board of Directors and Executive Appointments

Effective March 19, 2025, James Hinds resigned from the Board of Directors of the Corporation and as a member of the Audit Committee for personal reasons.

On April 8, 2025, Baoqin Guo was named CFO effective May 12, 2025. Ms. Guo replaces Federico Zeni, who served as Interim CFO since November 2024.

Effective April 29, 2025, as a result of her election to the Parliament of Canada, Councillor Jennifer McKelvie resigned from the Board of Directors of the Corporation.

On June 26, 2025, Nicole Martin's term as a member of the Corporation's Board of Directors concluded.

On June 26, 2025, City Council appointed Lisa DeMarco and Paul Doyle to the Corporation's Board of Directors for three-year terms.

At its meeting held on November 12-14, 2025, Toronto City Council appointed Councillor Neethan Shan to the Corporation's Board of Directors as Mayor's designate for a term of office until November 14, 2026, and until a successor is appointed.

New Equity Investment from the City

On June 28, 2024, the City and the Corporation agreed on the City making new equity investments in the Corporation totalling $300.0 million, including a one-time upfront special equity investment of $50.0 million and multi-tranche annual equity contributions of $25.0 million over 10 years beginning in 2025.

On January 2, 2025, the Corporation issued 14 common shares to the City for total proceeds of $25.0 million in relation to an equity contribution from the City.

On January 2, 2026, the Corporation issued 13 common shares to the City for total proceeds of $25.0 million in relation to an equity contribution from the City to support Toronto Hydro's long-term financial stability and strengthen its ability to invest in the electric distribution grid.

In addition to the equity investments, City Council approved amendments to the Corporation's Shareholder Direction, which set out targets for reduced dividends from the Corporation to the City for the period between 2025 and 2034.

Subject to restriction, duties and obligations under law, targeted dividends payable by the Corporation to the City for each fiscal year stated below will be as follows:

Fiscal Year (in millions of Canadian dollars)	2025 [1] $	2026 $	2027 $	2028 $	2029 $	2030 $	2031 $	2032 $	2033 $	2034 $
Targeted dividends	60.0	40.0	20.0	—	75.0	—	—	—	75.0	75.0

[1] Dividends totalling $60.0 million were declared and paid to the City in 2025.

TH Energy Business Operations

In February 2026, Toronto City Council approved the City's 2026 budget, which includes a proposed $577 million investment over 10 years to modernize the City's street lighting system. The investment is intended to support ongoing servicing requirements, renewal of aging infrastructure, and full conversion to LED technology. Implementation is contingent on the City and TH Energy entering into an amended service agreement.

Toronto Hydro Climate Action Plan

In April 2021, City Council requested that Toronto Hydro develop an action plan to enhance its support for the City's TransformTO Net Zero Strategy, which targets net-zero emissions by 2040. Toronto Hydro submitted its Climate Action Plan in September 2021, followed by its first Status Report in June 2022. In July 2022, City Council adopted the reports' recommendations, including the establishment of a new Climate Advisory Services business. City Council also directed Toronto Hydro and the City to formalize coordination of Climate Advisory Services' climate mitigation efforts through a memorandum of understanding, which was signed in April 2023 and presented to City Council in May 2023.

Climate Advisory Services aims to reduce greenhouse gas (GHG) emissions through electrification by addressing barriers that hinder customer participation in the energy transition. The Climate Action Plan outlines services such as: identifying tailored opportunities; advising on climate actions and implementation timing; recommending clean tech solutions; supporting access to funding (grants or loans); removing barriers for low-income customers; as well as assisting with implementation monitoring and evaluation. Toronto Hydro staff leverage their expertise to facilitate and support customers through the energy transition.

Electricity Distribution Rates

On December 19, 2019, the OEB issued its 2020-2024 Custom Incentive Rate-setting (CIR) Decision, and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 (together, the 2020-2024 CIR Decision and Rate Order). The 2020-2024 CIR Decision and Rate Order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 25, 2023, THESL filed the 2024 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2024 and ending on December 31, 2024. On December 14, 2023, the OEB issued a decision and rate order approving THESL's 2024 rates and providing for other deferral and variance account dispositions.

On November 17, 2023, THESL filed a CIR application seeking the OEB's approval of electricity distribution rates and charges effective January 1, 2025, and subsequent annual rate adjustments based on a custom index specific to THESL for the period commencing on January 1, 2026 and ending on December 31, 2029 (2025-2029 CIR Application).

On November 12, 2024, the OEB issued its 2025-2029 CIR Decision, and on December 12, 2024, issued its CIR Final Rate Order (together, the 2025-2029 CIR Decision and Rate Order), both in relation to the 2025-2029 CIR Application. The 2025-2029 CIR Decision and Rate Order approved the negotiated settlement proposal as filed, final electricity distribution rates for the first year of the five-year rate period effective January 1, 2025, a CIR index for the period commencing on January 1, 2026 and ending on December 31, 2029 and the final clearance of various deferral and variance account balances for the 2020-2024 period through rate riders. The 2025-2029 CIR Decision and Rate Order approved funding for capital and operating expenditures of approximately $5.1 billion for the 2025-2029 period. The approved rates for 2025 were implemented on January 1, 2025. The financial considerations of the OEB's 2025-2029 CIR Decision and Rate Order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders (refer to *note 8)*.

On August 12, 2025, THESL filed its 2026 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2026 and ending on December 31, 2026. On December 11, 2025, the OEB issued its decision and rate order approving THESL's 2026 rates, including the disposition of applicable deferral and variance accounts, in line with THESL's expectations.

LEGAL PROCEEDINGS

In the ordinary course of business, Toronto Hydro is subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and could materially adversely affect Toronto Hydro. As at the date hereof, Toronto Hydro believes that none of these legal proceedings, actions and claims from customers, suppliers, regulators and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on Toronto Hydro. On an ongoing basis, Toronto Hydro assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, Toronto Hydro would make a claim under any liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers.

ENVIRONMENTAL MATTERS

During the second quarter of 2024, an unknown third-party trespasser illegally broke into a transformer owned by THESL, causing oil to be released into a nearby catch basin and, potentially, a waterway. THESL worked cooperatively with the applicable regulators to review and assess the matter, and to address any potential impacts to the environment arising from this event. To date, the applicable regulators, including the Ontario Ministry of the Environment, Conservation and Parks (the MECP), have not requested additional information or action and THESL has not received any indication that the MECP intends to investigate the matter or otherwise take any enforcement action. Environment and Climate Change Canada has closed its investigation and has informed THESL that it will not be seeking any fines or penalties from THESL regarding this matter. As with any release to the natural environment, potential liabilities could result, and at this time, it is not possible to accurately or reasonably assess or estimate the potential extent of any applicable costs, liabilities or other implications, if any, on THESL or on the Corporation.

SHARE CAPITAL

Share capital consists of the following:

As at December 31 (in millions of Canadian dollars, except share amounts)	2025 Number of Shares	2025 $	2024 Number of Shares	2024 $
Issued and outstanding [1]				
Beginning of the year	**1,228**	**867.8**	1,200	817.8
Common shares issued	**14**	**25.0**	28	50.0
End of the year	**1,242**	**892.8**	1,228	867.8

[1] The authorized share capital of the Corporation consists of an unlimited number of common shares with no par value. All shares issued were fully paid.

RELATED PARTY TRANSACTIONS

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

Transactions with Related Parties

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Revenues	**335.0**	285.6
Operating expenses and capital expenditures	**15.8**	9.7
Dividends declared and paid	**60.0**	83.9

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

Amounts Due to/from Related Parties

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Accounts receivable and unbilled revenue	**38.1**	41.7
Accounts payable and accrued liabilities	**10.8**	8.9
Customer deposits	**15.7**	16.5

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity, street lighting and ancillary services including amounts 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.

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*. The President and Chief Executive Officer (CEO) and Executive Vice President and Chief Financial Officer (CFO) have reviewed the Consolidated Financial Statements and the MD&A for the three months and year ended December 31, 2025 and 2024. 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

Safety Risk

Toronto Hydro faces the risk of critical/fatal injuries and illnesses to its employees, contractors, or members of the public arising from or in connection with its activities. The primary factors driving Toronto Hydro's safety risk relate to occupational health and safety, and public safety.

Toronto Hydro's work environment, due to the nature of operations, can be hazardous and there is a risk to the health and safety of both the public and employees, as well as possible resultant operational, financial and reputational impacts. Utility infrastructure is vulnerable to natural disasters such as storms, flooding, fires, and other unexpected occurrences. These events can damage or destroy infrastructure, disrupting essential services and compromising public safety. As utility infrastructure ages, it may deteriorate, leading to potential hazards. Aging poles, wires, substations, underground cables, or equipment may be more prone to breaks, or malfunctions, posing risks to public safety.

Potential and existing health and safety risks related to worksites and tasks being performed by Toronto Hydro are regularly assessed and where identified, hazards are addressed through the implementation of appropriate controls and mitigation measures to continually improve health and safety for Toronto Hydro employees, contractors, customers and members of the public. The most serious workplace incidents arising from workplace hazards have the potential to result in critical injuries, fatal injuries and occupational illnesses, and affect compliance with provincial health and safety legislation.

The nature of the work performed in electrical utilities operations requires that employees and contractors receive extensive health and safety training, including the use of personal protective equipment and the implementation of workplace safety procedures and protocols. This is due to the hazards inherent to electrical utilities work, which, depending on the required task, can include electrical contact, arc flash, working in confined spaces, fires or explosions, slips, trips and falls, motor vehicle incidents, occupational illnesses, and biological hazards such as infectious diseases. Work complexity, environmental conditions, and human factors may also influence safety outcomes.

Toronto Hydro is subject to compliance with provincial health and safety legislation. Findings of a failure to comply with these requirements could result in penalties and reputational risk. Toronto Hydro's management approach to occupational health and safety is to seek to meet, and where practicable exceed legal compliance requirements and identify and manage known occupational hazards and risks. However, there can be no assurance that safety incidents will not occur that could cause disruptions or delays to operations and activities and have a material adverse effect on Toronto Hydro.

Operations Risk

Risk that Toronto Hydro is not able to effectively meet the needs of its customers and a growing city, and maintain the security and reliability of the distribution grid at acceptable levels. The primary factors driving Toronto Hydro's operations risk relate to grid operations, contractors oversight and delivery, business interruption, supply chain, physical security, and construction, delivery and maintenance.

Supply Chain Risk

Toronto Hydro's ability to operate effectively is in part dependent upon timely access to equipment, materials and service suppliers. There is a risk that Toronto Hydro is unable to acquire critical equipment and material from its suppliers, or that it is unable to acquire the same at a reasonable or budgeted cost, impeding the Corporation's ability to operate at acceptable levels and meet the needs of its customers. Loss or delay of key equipment, material and service suppliers and the reputational and financial risk exposures of key vendors could affect Toronto Hydro's operations and execution of capital projects.

Disruptions to Toronto Hydro's supply chain, including those driven by the geopolitical environment, changes in domestic and international trade policies (including application of tariffs and similar measures), terrorist attacks, inflationary pressures, shifts in demand, and labour shortages, may result in increased lead times, increased costs, and more variability in on-time and in-full deliveries for key assets like transformers, cables, and switchgear. These capacity concerns may affect grid reliability, emergency management and recovery, or lead to delays or cancellation of electrification projects. Delays or shortages in obtaining necessary hardware components can impact the maintenance and expansion of IT infrastructure leading to delays in key modernization initiatives and projects.

Contractors Oversight and Delivery

Toronto Hydro relies on third-party contractors for various critical services, including construction, maintenance, and repair of infrastructure, as well as specialized services in areas such as IT, engineering, and consulting. Contract management includes areas such as financial stability, resource capacity and capabilities, quality and safety, and reputational standing. Effective contractor oversight is essential to ensure that services are delivered on time, within budget, and in compliance with the Corporation's quality, safety, and regulatory standards. There is a risk that Toronto Hydro is unable to develop stable relationships and maintain effective contract management of its key contractors leading to performance and execution challenges.

Contractors may fail to meet agreed-upon timelines, quality standards, or performance metrics. Delays in the completion of projects or failure to meet service level agreements can result in increased costs, extended project timelines, and disruptions to grid operations, potentially leading to service outages or delayed infrastructure upgrades. Contractors are responsible for ensuring that their work meets Toronto Hydro's rigorous quality and safety standards. Failure to adhere to these standards can lead to defective work, unsafe modifications, and increased risks of accidents or system failures. Non-compliance with safety regulations may also result in legal and financial liabilities. Budget overruns or cost mismanagement by contractors can result in higher-than-expected project costs, reducing profitability and potentially straining financial resources. Contractors must also comply with a wide range of regulatory requirements, including those related to environmental protection, safety, and labour laws. Failure by contractors to meet these regulatory obligations could result in penalties, legal actions, and reputational harm to Toronto Hydro. Contractors must maintain safe and orderly work sites for public safety including public property. Contractors often engage subcontractors to fulfill specific tasks or provide specialized services. If subcontractors fail to meet the required standards or experience delays, this can impact the overall performance of a project.

Failure by Toronto Hydro to implement mitigation strategies to ensure that contractors have adequate financial stability can result in a disruption to Toronto Hydro's operations and cause delays in project completion.

Toronto Hydro's ability to develop its work processes and systems to meet changing requirements upon grid modernization and address electrification, also depends on its ability to access adequate resources and its external contractor community with advanced deployed skills. Toronto Hydro's ability to successfully access and benefit from that pool of resources, whether permanent or minimizing any disruption in availability, may result in a material adverse effect on Toronto Hydro's operations and developments.

Toronto Hydro may rely on a limited number of specialized contractors for critical services. Over-dependence on a few key contractors increases the risk of service disruptions if those contractors face operational or financial difficulties. This can also lead to less competitive pricing and limited flexibility in procurement.

Grid Operations

Toronto Hydro's ability to distribute electricity reliably depends on the effective operation, management, and modernization of its grid infrastructure. As the energy landscape evolves due to technological advancements and the transition to a low-carbon economy, the Corporation's grid operations face increasing complexity and challenges. These challenges include the integration of renewable energy sources, the rise of Distributed Energy Resources (DERs), and the shift toward electrification of sectors such as transportation and heating. There is a risk that Toronto Hydro is unable to develop future technical and/or operational capabilities to effectively monitor and control real-time operations to address energy transition.

The increasing deployment of renewable energy sources (such as solar and wind), electric vehicles, and energy storage systems is expected to require the grid to adapt to a more decentralized and dynamic model. Without proper integration and management, DERs could strain grid operations, lead to system imbalances, or cause outages. The ongoing energy transition, driven by the adoption of renewable energy and the electrification of various sectors (e.g., electric vehicles, electrified heating, data centres), and the increase in housing availability requirements, increases electricity demand and alters load patterns. The grid must be capable of handling these new demands, especially during peak periods, and managing the variability introduced by renewable generation. Failure to adapt grid operations to these changes could lead to overloading, reduced reliability, and increased operational costs. As the grid becomes more decentralized and integrated with various energy sources and technologies, the operational complexity increases. The challenge of real-time management, including forecasting energy demand, balancing supply and demand, and ensuring grid reliability, requires advanced tools, systems, and skilled personnel. Any failure in coordination could lead to inefficiencies, outages, or safety hazards.

Construction, Delivery, and Maintenance

Toronto Hydro may be subject to the risk that internal resources may be challenged in their ability to plan, execute, and sustain its construction and maintenance programs. These programs are essential to maintaining the reliability of the distribution system, supporting electrification, and renewing aging infrastructure across the city. As the scale and complexity of Toronto Hydro's capital and maintenance portfolio continue to increase, it places heightened pressure on internal workforce capacity, technical capability, and multi-disciplinary coordination. A failure to adequately resource and execute these programs may impact system performance, customer reliability, and regulatory outcomes.

Toronto Hydro relies heavily on specialized internal crews, engineers, and project managers to execute its work programs. Increased demand for skilled trades, a competitive labour market, retirements, and the need for specialized expertise in areas such as underground networks and station construction may strain available internal capacity. If staffing levels or skill sets do not keep pace with program requirements, work execution may be delayed or reprioritized.

Urban densification, electrification growth, and the integration of modern grid technologies have increased the technical and logistical complexity of Toronto Hydro's projects. Internal teams must navigate constrained work sites, intricate system configurations, customer coordination, and evolving engineering standards. Insufficient internal capacity to manage these complexities may result in slower delivery or increased risk during execution.

Business Interruption Risk

Toronto Hydro may be unable to maintain continuous and sustainable business operations, or to recover fully and in a timely manner from any business interruption, after the impact of a major or critical incident. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences, including, but not limited to, extreme storms and other severe weather conditions, natural disasters, labour disruptions, loss of the supply of electricity from the provincial and local generation and transmission system, supply-chain disruptions as well as terrorism and pandemics. Toronto Hydro is also exposed to risks that information and operational technology systems may fail to operate as anticipated, including as a result of a cybersecurity incident, which could disrupt operational control systems, affect the availability or integrity of data, or result in sustained interruptions to key business systems that would have a substantial impact on continuing normal business operations. In addition, Toronto Hydro relies on third-party service providers, vendors,

contractors, telecommunications providers, cloud and other technology providers, and mutual assistance arrangements, and the failure or unavailability of such parties could adversely affect Toronto Hydro's ability to respond to and recover from business interruption events. Costs and operational challenges associated with such business interruption events may have a material adverse effect on Toronto Hydro's business and operations in both the short and longer term. These impacts may include limiting Toronto Hydro's ability to build, repair and maintain capital infrastructure, constraints on workforce availability, and delays in restoration and recovery efforts.

Although Toronto Hydro's facilities and operations are constructed, operated and maintained with such occurrences in mind, there can be no assurance that they will successfully withstand such occurrences in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has maintained insurance which it considers to be consistent with industry practice, there is no assurance that insurance will continue to be available on acceptable terms for certain types of coverage and policy limits. If THESL sustained a large uninsured loss caused by natural or other unexpected occurrences, THESL may apply to the OEB for the recovery of losses related to the electricity distribution system. There can be no assurance that the OEB would approve such an application in whole or in part, or within a timeframe sufficient to mitigate financial impacts. Failure to obtain insurance coverage or recovery for significant damages or losses could result in a material adverse effect on Toronto Hydro's operations and financial performance.

Physical Security Risk

Toronto Hydro faces external threats to its physical and perimeter security at both Toronto Hydro's office buildings and station buildings. While Toronto Hydro maintains continuous site monitoring with analytics and policies/procedures/ emergency preparedness measures to safeguard assets and personnel, evolving security threats—including those driven by geopolitical instability, civil unrest, and economic strains—may heighten risk. Any breaches in physical security could result in disruptions to Toronto Hydro's operations through cyber security, asset tampering, theft of material or equipment and risk to public safety resulting in an adverse effect on the Corporation.

Customer Operations Risk

Risk that Toronto Hydro is unable to effectively meet the needs of its customers and a growing city through effective customer interactions, delivery on connection requests and distribution services, and high-quality customer experience. The primary factors driving Toronto Hydro's customer operations risk relate to customer connections, customer management, and internally and externally initiated customer and community relations.

Customer Connections Risk

Toronto Hydro may be unable to provide an effective customer experience (on-time, on-budget, responsive communication) when managing traditional connections, DERs connections and legacy-equipment-related connections.

Significant urban growth and intensification in Toronto are driving increased demand for new and upgraded electricity connections. The complexity of managing these requirements may lead to delays, cost overruns, and challenges in maintaining effective communication with customers, potentially impacting Toronto Hydro's ability to deliver a high-quality customer experience.

Aging infrastructure within Toronto Hydro's service area poses risks of the provision of reliable and timely connections. Failures stemming from aging infrastructure increase the risk of connection delays, extensive expansion work and prolonged restoration times, potentially escalating cost and eroding customer trust. The rapid adoption of DERs, including solar panels and battery storage, electrification and electric vehicles presents additional challenges. Effectively integrating these connections requires sustained grid investment, as the grid was not originally designed for such supply and demand dynamics. Additionally, Toronto Hydro faces risk related to its ability to innovate and meet evolving customer needs. Failure to respond to technological trends at a pace that meets or exceeds customer expectations or to effectively educate customers on how to utilize new technologies could lead to operational inefficiencies and customer dissatisfaction.

Internally and Externally Initiated Customer and Community Relations Risk

Risk that Toronto Hydro may be unable to effectively manage internally initiated interactions such as planned construction work and grid maintenance work (inspections and repairs), as conducted by Toronto Hydro employees, its contractors, and service providers, which impact community daily life. Additionally, Toronto Hydro may be unable to effectively manage externally initiated interactions such as easement relocations, third-party attachments, and customer work access, as conducted by Toronto Hydro employees, its contractors, and service providers, related to access to customer property or work execution in the right of way, also impacting community daily life.

Toronto Hydro relies on a skilled and dedicated workforce, including dispatchers operating a 24/7 control center to enable power restoration during unplanned events, and field responders performing critical inspections and repairs, as well as engineers optimizing grid performance, and customer service professionals delivering a positive customer experience. However, internally initiated activities such as planned outages, inspections, and repairs, and construction work, may result in temporary service disruptions to customers and communities. These disruptions may lead to customer dissatisfaction, including delays, miscommunication, or inadequate coordination, which could lead to increased customer complaints, erosion of public trust, and reputational harm.

Externally initiated actions often require collaboration with municipalities, developers, and third-party service providers. Such activities include relocating infrastructure for municipal projects, granting access to customer vaults, and facilitating third-party attachments to utility poles, often involving work on private property or public right-of-way. Challenges surrounding negotiations and coordination with external stakeholders, including obtaining approvals, can generate public opposition and negatively impact Toronto Hydro's reputation. These challenges, coupled with broader impacts on communities and delays in project schedules, may lead to heightened media scrutiny and reputational risk. Ineffective management of these interactions could lead to delays, stakeholder concerns, and increased operational costs. Ineffective management of site instructions could lead to delays, miscommunication or disputes, disrupting daily community life and potentially exposing Toronto Hydro to reputational damage or financial penalties.

Customer Management Risk

Toronto Hydro may be unable to accurately measure customer consumption, respond to and address customer service issues or correctly bill customers and collect revenues on time. Service interruptions, such as those caused by extreme weather, aging infrastructure, or external labour disruptions, may impact Toronto Hydro's ability to effectively manage customers. As a result of net zero GHG emissions policies, Toronto Hydro may need to accelerate capital investments to accommodate increasing electrification. These system enhancements may lead to material customer bill increases and a more challenging customer relationship environment for Toronto Hydro, as well as customer backlash against the energy transition and related expenditures by Toronto Hydro. Any of these consequences could have a material adverse effect on Toronto Hydro.

Indigenous Relations & Reconciliation Risk

Risk that Toronto Hydro is not able to effectively engage with Indigenous communities and respect their rights.

Toronto Hydro is exposed to the risk arising from failure to effectively engage with Indigenous communities. The Corporation may be exposed to reputational harm or a reduction in social license, and such an event could result in adverse effects on the Corporation's reputation, operational ability or financial performance.

Oversight Risk

Risk that provincial government or regulator activity (laws, frameworks or policies) impedes Toronto Hydro's effective performance, and its ability to meet its objectives and serve its customers. The primary factors driving Toronto Hydro's oversight risk relate to regulatory applications and proceedings, changes in Ministerial direction, emerging government policy, OEB policy, IESO policy and regulatory framework.

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

Ontario's electricity industry regulator, the OEB, and other energy policy developments may affect the electricity distribution rates charged by THESL, the costs THESL is permitted to recover and the activities THESL and others, including those parties offering alternative or additional services to the electricity distribution grid, may undertake and how such activities are supported. This may in turn have a material adverse effect on the financial performance of Toronto Hydro and/or THESL's ability to deliver effective and efficient operations and reliable service to its customers, as well as create barriers to THESL achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve THESL's electricity distribution rates at levels that will permit THESL to maintain safe and reliable service to its customers and earn a commercially reasonable rate of return on the investment in the business;
- the OEB will approve and permit recovery through rates of past and future expenditures incurred by THESL in providing distribution services to customers, including costs arising from an increased inflationary environment and pass-through costs, including those relating to the electricity commodity, fully as expected and in a timely manner or at all;
- governmental authorities will pursue net zero GHG policies that optimally utilize electrification or adequately support local distribution companies in facilitating electrification;
- the OEB will approve and permit recovery through rates of past and future expenditures incurred by THESL in preparing for or expanding electricity distribution service to meet increased electricity demand or other requirements resulting from net zero GHG emission policies and growth in the City;
- the OEB will adopt other rate-setting principles, formulae, inputs and cost recovery methodologies in a manner consistent with well-established regulatory principles that result in rates that properly support THESL's activities;
- the regulatory instruments that are made available to THESL will be sufficient to address THESL's operations, needs and circumstances in respect of future applications for electricity distribution rates; and
- the OEB, IESO or other governmental authority will not permit, enable or facilitate other parties in providing distribution services in THESL's licensed area, or permit loads within THESL's service area to become served by a means other than through THESL's electricity distribution system.

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

Additionally, the policy priorities of provincial and federal governments and regulatory bodies beyond those specifically applicable to the climate change and energy space, including policies of more general application, and the implementation of policies and reporting requirements by such bodies, may impact Toronto Hydro's ability to deliver effective and efficient operations, meet business objectives, report on its activities and capitalize upon new opportunities. Developments and changes in any of the laws, rules, regulations, policies, permits, or directives applicable to the businesses carried on by Toronto Hydro, and the manner of implementation and application of the same, could materially adversely affect Toronto Hydro. This may include developments with respect to labour and employment laws, changes to accounting standards and financial reporting requirements, environmental obligations, public safety rules and trade and product supply restrictions and tariffs, among others.

Information Technology Risk

Risk that the Corporation is unable to adequately safeguard digital information assets, connections to digital infrastructure, physical assets and people from threats or vulnerabilities. The primary factors driving Toronto Hydro's IT risk relate to cybersecurity, IT infrastructure, and IT application.

Cybersecurity Risk

Toronto Hydro's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyberattacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. The cybersecurity threat landscape is continually evolving and actors are using increasingly sophisticated methods and strategies to penetrate information technology systems, including through the use of various forms of malware, phishing, denial of services, credential stuffing, zero-day exploits, social engineering and brute force attacks. In particular, the utilities sector, as operator of critical infrastructure and providers of essential services with large customer bases, is a target for cybersecurity activity.

Toronto Hydro has implemented security controls such as annual cybersecurity assessments, vulnerability and penetration testing, patch management programs, network segmentation, and threat hunting tools (i.e., endpoint detection and response); that substantially align with industry best practices and standards, including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not be recognized once a cyber incident has initiated, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures on a timely basis. Cyberattacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers. Improper damage, data corruption, and/or loss of confidential employee, supplier, counterparty or customer information in a significant breach could have a material adverse effect on the financial performance of Toronto Hydro or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims.

Toronto Hydro must also comply with legislative and license requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity incident or other unauthorized access which could have a material adverse effect on Toronto Hydro and could also result in third party claims against Toronto Hydro.

IT Infrastructure Risk

As Toronto Hydro focuses on modernizing its distribution system and increasing its automation and interactivity, the incorporation of a greater level of technology and information systems into its infrastructure may make the distribution system inherently more prone to cyberattacks. As such, there can be no assurance that mitigative measures taken will be effective in protecting Toronto Hydro's electricity distribution infrastructure or assets, or the personal information of its customers or employees, from a cyberattack or the effects therefrom.

Toronto Hydro relies on complex IT systems to support critical business functions, including operational control, customer billing, outage management, regulatory reporting, and cybersecurity. Any disruption, failure, or security breach affecting these systems which may result in insufficient availability, reliability, performance, scalability, responsiveness or supportability could adversely impact the Corporation's ability to deliver reliable electricity service, manage customer and other third-party interactions, and meet regulatory compliance and financial reporting obligations.

Legacy systems may become difficult to maintain or incompatible with emerging technologies, leading to increased costs and operational risks. The inability to adequately support or upgrade these systems may impede the Corporation's ability

to adapt to changing business needs. Without continued investment and maintenance efforts, Toronto Hydro's IT infrastructure's availability, reliability and security parameters may deteriorate resulting in more frequent IT system outages and business disruptions, especially during peak demand or critical events which may include cybersecurity threats, extreme weather events, and infrastructure outages. Aging IT infrastructure, software bugs, or hardware malfunctions could result in prolonged outages or operational complexity and disruptions. This may lead to customer dissatisfaction, financial losses, or regulatory penalties.

Toronto Hydro relies on external vendors for IT solutions, including cloud services, software updates, and cybersecurity tools. While Toronto Hydro attempts to conduct appropriate due diligence on these external vendors, there is no guarantee that there will not be a breach of security impacting the Corporation. Failures, supply chain disruptions, or breaches involving external vendors could have cascading effects on the Corporation's operations.

Toronto Hydro relies on various IT infrastructure components to manage electricity services and reliable power delivery, including telecom, radio, networks, storage, server, backup and database systems and business processes. Together these enable operations and intelligence of the distribution grid as well as support all key business processes. Failures in these components could have cascading effects on the Corporation's operations. Rapid changes in technology may lead to outdated infrastructure that could become unreliable and more prone to failures, breaches and other emerging risks.

IT Applications Risk

Toronto Hydro depends on a variety of IT applications to manage critical business functions, including customer billing, outage management, regulatory reporting, financial systems, and operational interactions. There is a risk that information technology operational technology systems and applications may become obsolete or inefficient in meeting current and changing business needs due to hardware degradation and aging, software obsolescence and compatibility issues. Inadequate system upgrades or delayed updates can lead to operational strain. Any deficiencies, failures, or vulnerabilities in these applications could significantly disrupt operations, impact service reliability, and harm customer trust.

Rapid changes in technology (e.g., impact of artificial intelligence on IT systems and applications), customer expectations, and regulatory requirements necessitate continuous updates to IT applications. An inability to keep up to these changes may result in operational inefficiencies and increased vulnerability to cyber threats.

Toronto Hydro's business processes increasingly depend on cloud-computing applications that are hosted and maintained by third-party vendors. This reliance introduces risks such as vendor performance issues or service outages affecting vendor-managed systems.

The growing adoption of emerging technologies, such as Generative AI (GenAI), introduces new risks related to responsible AI usage, data privacy, and cybersecurity. In addition, improper use of AI generated content could lead to biased decision making and create negative perceptions among customers, which could adversely affect Toronto Hydro's performance and reputation.

Furthermore, as business decisions are becoming more data-driven, requiring high-quality and timely information, there is increased risk when data is inaccurate, incomplete, or difficult to access, which can adversely affect Toronto Hydro's ability to operate effectively or in a timely manner.

Compliance Risk

Risk that Toronto Hydro does not meet its material compliance obligations under legal and regulatory instruments.

Toronto Hydro is exposed to the risk of non-compliance with applicable and future laws, rules, and regulations governing its operations, including standards related to the provision of services and equipment to customers and obligations to its employees, contractors, and agents. Factors contributing to non-compliance may include the rapid pace of regulatory

change, evolving and complex requirements, resource constraints, regulatory ambiguities, operational limitations, human error, insufficient training, technological challenges, inadequate monitoring, external disruptions, integration challenges from mergers or acquisitions, data management issues, conflicting regulatory requirements, and financial constraints.

Non-compliance with certain material obligations could result in civil or regulatory proceedings, losses, additional costs, and liabilities for damages, fines and/or penalties that may materially adversely affect Toronto Hydro. The OEB may also determine that costs incurred to achieve or maintain compliance are not recoverable in rates. Toronto Hydro has established policies, training, and monitoring processes to manage compliance risk; however, these measures may not fully mitigate the risk.

People and Culture Risk

Risk that Toronto Hydro is unable to attract and maintain necessary resource talent and access skilled resources. The primary factors driving Toronto Hydro's people and culture risk relate to attraction and retention, and labour relations.

Toronto Hydro is subject to the risk that human resources with the necessary knowledge, skills and education may not be available to support Toronto Hydro's future talent requirements. This risk could be heightened in economic conditions where inflation rates and cost of living are elevated as this may result in pressure on wages and salaries, and where employee expectations with respect to work-life balance and flexibility may shift.

Toronto Hydro expects that labour force availability for certain positions may be restricted, resulting in increased competition and turnover for certain skilled employees, which may negatively impact knowledge management and business continuity at Toronto Hydro.

A maturing workforce and ongoing retirements pose challenges to sustaining institutional knowledge and operational continuity. If knowledge transfer, training, and succession planning are not robust, internal capability gaps may emerge in critical functions which may adversely affect Toronto Hydro's ability to execute complex projects.

Development and retention of talent to meet the evolving needs of the business, particularly those related to the adoption of new technologies central to a modernized distribution grid requires Toronto Hydro to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, diversity and inclusiveness awareness and training, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

Constraints on executive compensation may hinder Toronto Hydro's ability to attract and retain executive level talent. Failure to attract and retain executive level talent that have the skills and experience necessary to help Toronto Hydro achieve its strategic goals could have a material adverse effect on Toronto Hydro's business and operations.

There is a risk that Toronto Hydro is unable to achieve an effective balance between its internal workforce and external contractors to ensure operational flexibility, cost-effectiveness and service continuity. Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances, including limitations and restrictions placed on human resources as a result of external environment factors such as infectious diseases or erosion of social cohesion. Toronto Hydro's ability to make such changes or adapt, in turn, will continue to depend in part on its relationship with its labour unions, including engaging in collaborative dialogue with the bargaining units and successfully negotiating mutually advantageous collective bargaining agreements with the Society of United Professionals and Power Workers Union.

Asset Management Risk

Risk that Toronto Hydro is unable to maintain reasonable levels of reliability for its customers due to failure of existing distribution infrastructure and assets and the inability to replace or expand infrastructure in an optimal timeframe. The primary factors driving Toronto Hydro's asset management risk relate to system capacity, system health, and system resilience.

Toronto Hydro relies on upstream transmission networks and local generation sources to supply power to their distribution system. Any issues with transmission supply points, such as capacity constraints, outages, or operational failures, can disrupt the supply of electricity to Toronto Hydro's service area, even if its infrastructure remains intact.

Nature-Related System Resilience Risk

Toronto Hydro's operations are increasingly affected by changing natural systems, including local climate patterns, hydrology, biodiversity, tree canopy conditions, and soil and terrain stability. There is a risk that changes in these natural systems may adversely impact Toronto Hydro's ability to design, operate, and maintain long-term reliability and resilience of the electricity distribution system. For example, increased frequency and severity of extreme weather events, such as high-windstorms, extreme heat, heavy precipitation, and urban flooding, may damage distribution assets, disrupt service, and increase restoration costs. Changes in the health and distribution of Toronto's urban tree canopy driven by age, pests, disease, or climate-related stress may also elevate the likelihood of vegetation-related outages and accelerate the need for system hardening or vegetation management. In addition, altered groundwater levels, erosion, and soil destabilization could affect underground assets, cable chambers, and station sites.

Nature-related risks may also influence capital planning, infrastructure siting, and long-term asset performance, potentially increasing costs or causing deviations from planned project schedules. Regulatory requirements and evolving expectations related to climate and nature disclosures, environmental protection, and resilience planning may further affect operations, reporting processes, and compliance obligations. If these risks are not effectively identified, assessed, and mitigated, they could have a material adverse impact on Toronto Hydro's financial performance, service reliability, asset management strategies, and overall corporate objectives. The Corporation continues to monitor nature-related risks within its enterprise risk management framework and to integrate emerging information into planning, operations and decision-making.

System Capacity Risk

Toronto Hydro's ability to reliably distribute electricity depends on the capacity of its physical and operational systems to meet current and future demands. There is a risk that Toronto Hydro is unable to optimize near-term system capacity through load transfers, bus balancing, cable upgrades and the use of non-wires solutions (i.e., demand response and energy efficiency). Significant and unforeseen increases in electricity demand, driven by factors such as urban densification, changing load profiles, the adoption of electric vehicles or artificial intelligence, may exceed the capacity of the Corporation's existing infrastructure in localized areas. The transition to a low-carbon economy, including electrification of transportation and heating, will likely place additional demands on the distribution system, requiring significant enhancement to capacity. Uncertainty in demand forecasts or delays in implementing capacity upgrades could result in service disruptions or inability to meet future needs.

Toronto Hydro on its own may not be able to expand stations capacity to alleviate future load constraints. Constraints on substation capacity, feeder lines, or transformers, are also dependent on transmission system constraints that require collaboration with the provincial transmitter, Hydro One, and limit the Corporation's ability to deliver electricity reliably during periods of high demand or system stress. This also applies to Toronto Hydro's ability to alleviate constraints on restricted feeders to accommodate the proliferation of DER connections. The proliferation of renewable energy sources, such as rooftop solar panels and energy storage systems, can create bidirectional power flows and add complexity to managing system capacity effectively.

System Health Risk

Toronto Hydro's ability to deliver safe, reliable, and efficient electricity service depends on the overall health of its distribution system, including the condition of its physical assets, technology, and operational processes. There is a risk that Toronto Hydro is unable to manage asset failure risk profiles. Risks to system health can lead to service disruptions, increased maintenance costs, regulatory non-compliance, and safety hazards.

A portion of Toronto Hydro's assets, including, but not limited to, transformers, switches, substations, civil infrastructure, and distribution lines, may be nearing or exceeding their designed lifespan. Aging equipment is more prone to failure, resulting in increased outages and maintenance requirements. Budget constraints or limited resources can result in deferred maintenance, heightening the risk of asset deterioration and failure, which in turn may cause significant operational inefficiencies. Inadequate condition assessments or delays in implementing necessary upgrades can compound these vulnerabilities, amplifying both performance and reliability risks. Additionally, availability and quality of materials for asset replacement or repair can impact Toronto Hydro's ability to maintain system health. Shortages of spare parts or delays in procuring critical materials can lead to extended outages and increased costs. Failure to maintain the health of the distribution system could result in penalties or reputational damage.

Governance Risk

Risk that municipal activity (laws, policies, or intervention) impedes Toronto Hydro's effective performance, and ability to meet its objectives and serve its customers. The primary factors driving Toronto Hydro's governance risk relate to municipal policy, the City's role as shareholder, City accountability and operations oversight and the City's community representative function.

Toronto Hydro is a government-controlled enterprise whose sole shareholder is the City. The operations of Toronto Hydro are influenced by the broad by-law enactment and enforcement powers of the City. The City is also responsible for developing policies and municipal initiatives of general application and there is no guarantee that such policies, including climate change and energy policies, will align with Toronto Hydro's strategic objectives or long-term financial health. The City may also implement additional requirements relating to reduction in GHG emissions and adaptation to climate change as part of initiatives such as the City's TransformTO. In this respect, City Council passed resolutions to support the implementation of Toronto Hydro's climate action plan to assist the City in meeting its 2040 net zero GHG emission objective and the City and the Corporation have entered into a Memorandum of Understanding concerning these matters. The City, as sole shareholder, may require Toronto Hydro to make additional investments in infrastructure and/or undertake activities which necessitate additional time, money and effort to be expended related to compliance with the City's TransformTO that are inconsistent with Toronto Hydro's proposed climate action plan. Additionally, due to its authority to put in place oversight bodies which may have or be given jurisdiction over Toronto Hydro as a government-controlled enterprise, the City may also empower certain of its agencies to investigate or audit Toronto Hydro, which could lead to significant reputational, operational or financial harm. As further discussed in section "New Equity Investment from the City", in 2024, the City of Toronto agreed to make new equity investments in the Corporation and approved amendments to the Shareholder Direction, which set out targets for reduced dividends from the Corporation to the City for the period between 2025 and 2034. These equity investments and amendments to the Shareholder Direction support Toronto Hydro's long-term financial stability and optimize the returns on equity to the City, strengthen the Corporation's ability to invest in the electric distribution grid in line with its regulated capital structure, and help deliver on Toronto Hydro's climate action plan.

The City also plays a role as a municipal asset manager and construction entity and could substantially impact Toronto Hydro's operations and impose material costs through its infrastructure work plans and policies (e.g., asset relocation costs, work restrictions, climate change adaptation). The City may also impact Toronto Hydro when elected officials take actions as community representatives whereby such actions are contrary to the strategic objectives or necessary operational functions of Toronto Hydro.

As the Corporation's sole shareholder, the City has set out the governing objectives and principles, including financial objectives, for the Corporation through the Shareholder Direction. Under the Shareholder Direction, the City has the

power to direct Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time, subject to applicable law. Certain conflicts may arise where the City's goals and objectives in implementing such rules, policies, directives or objectives differ from or amend the Shareholder Direction principles, create new governing objectives and principles, or restrict the ability of the Board to oversee the operations of the Corporation and management's ability to take strategic or functional action, and therefore could materially adversely affect Toronto Hydro's business, operations, financial condition or prospects. The City may not always provide or support equity investment or net income reinvestment in the Corporation, including in accordance with the equity investment and dividend arrangement agreed with the City, to enable Toronto Hydro to maintain the financial objectives under the Shareholder Direction as it undertakes its strategic plan and implements OEB-approved rate decisions and orders.

Toronto Hydro engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of Toronto Hydro and its customers.

Marketplace Risk

Risk that Toronto Hydro is not able to proactively identify and effectively meet evolving needs of its customers and a growing city or not able to respond to emerging competitive pressures. The primary factors driving Toronto Hydro's Marketplace risk relate to customer strategic relationships and competition.

Customer Strategic Relationships Risk

The ability of Toronto Hydro to meet evolving customer needs and expectations is influenced by its capacity to effectively manage strategic relationships. There is risk that Toronto Hydro is unable to effectively manage strategic relationships with customers or potential customers, proactively identify and meet unique expectations, develop new offerings for demanded services, and influence perceptions around evolving needs on electrification and decarbonization, all of which may impact Toronto Hydro's brand and lessen customer reliance on the distribution grid or the opportunity for growth. In addition, events and/or external factors that draw negative media attention to Toronto Hydro could cause reputational damage and impact Toronto Hydro's business and relationship with its stakeholders. These factors could lead consumers, governments and regulators to look more favourably to alternative services and service providers as compared to utility-based electricity distribution.

Competitive Risk

Other regulated and unregulated entities have and continue to compete with Toronto Hydro and new parties continue to emerge to provide customers with other sources of energy, including electricity and energy services. Toronto Hydro is exposed to the risk of customer attrition due to services and infrastructure provided by transmission companies, energy utilities, technology solutions providers, sub-metering firms and other unregulated entities generating energy behind the meter. Additionally, customers have made choices to provide their own electricity or other sources of energy for their use and/or sale back into the distribution grid. These competitive dynamics could reduce Toronto Hydro's customer or load base and limit Toronto Hydro's ability to pursue growth opportunities.

The pervasiveness of this competition and the presence of alternatives to Toronto Hydro's distribution services, and the resultant effects on Toronto Hydro's distribution business, have varied over time and continue to vary based on many factors. These factors may include the relative price and net relevant costs of energy source (e.g., natural gas, solar photovoltaic, grid-supplied electricity, geothermal, behind-the-meter generation, district energy), climate change policy, technology development (e.g., energy storage, energy efficiency, demand response), ability of customers to access transmission-direct connections, economic trends, real estate prices, government-based incentives, regulatory frameworks and compliance frameworks especially for non-utility entities, load development, and the state of the marketplace and economy in general. Toronto Hydro's performance also depends on the cost, quality, and timeliness of the services it provides, particularly in relation to new or expanded connection requests.

There can be no assurance that the future nature, prevalence, or effects of these forms of competition, arising from the transition to net zero GHG emissions or otherwise, will be comparable to current or historic experience. Failure to effectively review and understand our external and internal environment and take appropriate action could lead to missed business opportunities and loss of competitive advantage. In particular, the clean energy transition to net zero GHG emitting energy sources may create both risks and opportunities and there can be no guarantee that Toronto Hydro has the correct strategic direction to capitalize on the associated policy changes or technological advancements or that it will be able to effectively mitigate losses from these developments.

Financial Risk

Risk that Toronto Hydro is unable to maintain its financial health and performance at acceptable levels. The primary factors driving Toronto Hydro's Financial risk relate to market economic risks, capital structure, counter-party default and financial management.

Capital Structure

Toronto Hydro strives to target an optimal capital structure and cash to debt ratio range to access capital markets at the lowest rates. This is necessary for Toronto Hydro to finance its capital plans, including those related to meeting increased electricity demand resulting from net zero GHG emission policies (such as the City's TransformTO). Toronto Hydro relies on debt financing through the Corporation's Medium Term Note Program (MTN Program), Commercial Paper Program and existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of domestic and local factors, including financial market conditions, inflationary pressure, Bank of Canada policy decisions, regulatory processes that affect the timeliness for the approval and clearance of variance accounts, and macroeconomic concerns around the health of the economy and the customer's ability to pay. In addition, any of the above factors are also affected by financial and geopolitical events in the global economy. Toronto Hydro's business, operations, financial condition or prospects, or compliance with its contractual debt covenants, in each case could be materially adversely affected by the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the Commercial Paper Program by a credit rating agency, and the Corporation's access to and availability of the debt capital and commercial paper markets. In the event the Corporation is unable to maintain a sufficient credit rating for its Commercial Paper Program, the Corporation's ability to access short-term capital and pay its obligations as they become due could be materially adversely affected. In addition, if the Corporation cannot maintain attractive credit ratings for its MTN Program, debt capital under such program may become too costly or availability may be restricted, which could materially adversely affect the Corporation's financial health and performance. There can be no assurance that debt or equity financing will be available or sufficient to meet Toronto Hydro's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to Toronto Hydro. As the City is the sole shareholder of the Corporation, it is dependent on the City for new equity, including the ten-year (2025-2034) equity investment and dividend reduction arrangement agreed in 2024, which is meant to bring the Corporation's debt to equity capital structure in alignment with the OEB's deemed capital structure for rate making purposes (60% debt : 40% equity) as further indebtedness is incurred to finance Toronto Hydro's capital program and climate action plan.

Market Economic Risk

Toronto Hydro is directly and indirectly subject to various macroeconomic and local market forces, which could have material adverse impacts. As a consequence of uncertainties in economic and market conditions, Toronto Hydro remains exposed to potential inflationary pressures, an elevated interest rate cost environment, indeterminate levels of customer consumption, credit risk with respect to customer non-payment of electricity bills, and related challenging operating and infrastructure development costs. The current, and potential future, uncertain economic climate is affected by factors including but not limited to macroeconomic conditions like a global recession and trade disputes which may lead to material adverse changes in cash flows, working capital levels and/or debt balances, and which may also have a negative impact on Toronto Hydro's operating results and financial position.

Credit and Liquidity Risk

Toronto Hydro is exposed to credit risk with respect to customer non-payment of electricity bills. Actions by the provincial government or regulatory authorities may impede Toronto Hydro's ability to mitigate the risk of customer non-payment using means normally permitted by law at certain times of the year, 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, prepayment, pre-authorized payment, load limiters or disconnection. Toronto Hydro may have no option in certain cases but to assume the amount of any default, whether in whole or in part, and Toronto Hydro's security interest or other measures, if any, may not provide sufficient protection. Increases in outstanding receivables due to reduced or delayed customer payments as a result of economic conditions could also contribute to liquidity risk for Toronto Hydro as it continues to be charged for electricity commodity, transmission and other charges, which are intended to be flow-through items to customers. The global economic situation continues to be dynamic and uncertain, and the ultimate duration and impact on Toronto Hydro's business cannot be determined with certainty at this time.

Demand Risk

Toronto Hydro's financial health and performance may also be adversely affected by events or measures, as well as changes in economic policy, customer preference or technological conditions, that reduce the consumption of electricity. Such events or measures may include, but are not limited to, closures of businesses and other institutions, actions by schools and government operations as a result of extreme weather conditions and other weather conditions, natural disasters, pandemics, and other developments that impact electricity consumption patterns and customer payment measures. Additionally, the adoption by customers of new technologies in the electricity industry, including those related to self-generation, could reduce demand for grid-supplied electricity distribution. Toronto Hydro is focused on investing in its infrastructure to expand its grid to support customer electrification and modernize and sustain its infrastructure to drive resiliency, reliability, customer effectiveness and efficiency.

Interest Rate Risk

Toronto Hydro is exposed to short-term interest rate risk on the short-term borrowings under its Commercial Paper Program and Working Capital Facility, as well as customer deposits. Most of Toronto Hydro's remaining obligations for the recently completed financial year were either non-interest bearing or bear fixed interest rates, and its financial assets for the recently completed financial year were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro seeks to further manage interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance as established under its treasury policies. Toronto Hydro estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $0.9 million to annual finance costs.

Toronto Hydro is also exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. Toronto Hydro estimates that a 100 basis point increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of Toronto Hydro, as at December 31, 2025, by $27.1 million, and a 100 basis point decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2025, by $33.2 million.

Foreign Exchange Rate Risk

As at December 31, 2025, Toronto Hydro had limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in United States dollars, and purchases United States currency to meet the related commitments when required, the value of such purchases is not significant to Toronto Hydro, and as such, the impact of foreign exchange fluctuations would not be expected to have a material effect on the consolidated financial statements.

USE OF JUDGMENTS AND ESTIMATES

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

The accounting policies applied in 2025 were consistent with those applied in 2024, unless otherwise stated. Toronto Hydro's material accounting policies, estimates and judgments are identified in this section or disclosed throughout the respective notes to the Consolidated Financial Statements.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes to the Consolidated Financial Statements:

- *Note 8* – Recognition of regulatory balances;
- *Note 18* – Principal versus agent determination for recording revenue on a gross or net basis; and
- *Note 21* – Interpretation of changes in tax legislation, regulations and interpretations.

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

- *Notes 6 and 7* – Determination of components and useful lives of depreciable assets;
- *Note 8* – Recognition and measurement of regulatory balances;
- *Note 13* – Measurement of post-employment benefits – key actuarial assumptions;
- *Note 15* – Recognition and measurement of expected credit loss allowance for accounts receivable and unbilled revenue;
- *Note 18* – Revenue recognition – measurement of unbilled revenue;
- *Note 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.

MATERIAL ACCOUNTING POLICIES

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS Accounting Standards with respect to the preparation of financial information. The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency. The material accounting policies of the Corporation are disclosed in the Consolidated Financial Statements.

NEW STANDARDS AND AMENDMENTS NOT YET ADOPTED

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. Toronto Hydro has determined that the following standard and amendments could have an impact on the Corporation's consolidated financial statements when adopted.

Classification and Measurement of Financial Instruments (Amendments to IFRS 9 Financial Instruments (IFRS 9) and IFRS 7 Financial Instruments: Disclosures (IFRS 7))

In May 2024, the IASB issued targeted amendments to IFRS 9 and IFRS 7 relating to the classification and measurement of financial instruments. The amendments clarify that a financial liability is derecognized on the 'settlement date' and introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date, if specified criteria are met. Other clarifications include the classification of financial assets with environmental, social, and governance linked features and other similar contingent features, financial assets with non-recourse features, and contractually linked instruments. The amendments also introduce additional disclosures for financial instruments with contingent features and equity instruments designated at fair value through OCI. The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with early adoption permitted. The amendments are to be applied retrospectively.

Toronto Hydro will adopt the amendments to IFRS 9 and IFRS 7 effective January 1, 2026. Toronto Hydro has completed its assessment of the key financial assets and liabilities and does not expect these amendments to have a material impact on the accounting for these financial instruments.

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18)

In April 2024, the IASB issued IFRS 18, which replaces International Accounting Standard (IAS) 1 *Presentation of Financial Statements* and introduces limited amendments to IAS 7 *Statement of Cash Flows*. IFRS 18 aims to improve communication of financial information in the financial statements, with a focus on information about financial performance in the statement of profit or loss. To meet this objective, IFRS 18 introduces additional defined subtotals in the statement of profit or loss, disclosures about management-defined performance measures, and enhanced requirements for grouping (aggregation and disaggregation) of information. The standard is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The standard is to be applied retrospectively.

Toronto Hydro is currently assessing the impact of adopting the above standard on the Corporation's consolidated financial statements.

FORWARD-LOOKING INFORMATION

Certain information included in this MD&A constitutes "forward-looking information" within the meaning of applicable securities legislation. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "as a result", "beginning", "believes", "budgets", "can", "committed", "continues", "continual", "could", "estimates", "expects", "focus", "forecasts", "further notice", "future", "impact", "increasingly", "if", "intends", "may", "meet", "might", "objective", "ongoing", "once", "outlook" ,"over time", "plans", "prepare", "propose", "projects", "schedule", "seek", "should", "tend to", "trend", "will", "would", or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The purpose of the forward-looking information (including any financial outlook) contained herein is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and readers are cautioned that such information may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation.

Specific forward-looking information in this MD&A includes, but is not limited to, the statements regarding: the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the effect of changes in weather conditions and energy consumption on future revenue as described in the section entitled "Summary of Quarterly Results of Operations"; the Corporation's plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled "Liquidity and Capital Resources"; the planned capital expenditures, including the delivery of customer connections, replacement of overhead and underground infrastructures, critical capital equipment, metering and customer-initiated plant relocations as described in the section entitled "Investing Activities"; the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the section entitled "Financing Activities"; expectations with respect to increase in demand for electricity; the completion of the deferrals and rate setting as described in the section entitled "Electricity Distribution Rates"; receipt of the equity investment from the City and payment of dividends to the City as shareholder; THESL's ability to address any potential impacts arising from the trespassing event and assess the potential liabilities resulting from the incident described in the section entitled "Environmental Matters"; any judgments, assumptions and estimates that management had to make in the preparation of the consolidated financial statements as described in the section entitled "Use of Judgments and Estimates"; the Corporation's assessment of the impact on adoption of IFRS 18 and the amendments to IFRS 7 and IFRS 9, if any, as described in the section entitled "New Standards and Amendments Not Yet Adopted"; the impact on Toronto Hydro's operating results and financial position in the future due to uncertain economic factors and indeterminate levels of customer consumption; the Corporation's reliance on debt financing through its MTN Program, Commercial Paper Program, Revolving Credit Facility or existing credit facilities to finance Toronto Hydro's daily operations, repayment of existing indebtedness, and funding of capital expenditures; the continued ability of the Corporation to arrange sufficient and cost-effective debt financing in order to meet its short-term and long-term obligations; the impact on Toronto Hydro's financial health and performance due to changes in economic policy, customer preference or technological conditions that reduce the demand for electricity; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively; risk that aging infrastructure may lead to potential hazards; and the expectation that none of the outstanding or pending legal actions and claims are expected to have a material adverse effect on the Corporation as described in the section entitled "Legal Proceedings".

The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation. The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation's capital projects, no unforeseen changes to project plans, no significant changes to the seasonal weather patterns in accordance with historical seasonal trends because of climate change, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the ability of the Corporation to obtain and retain qualified staff, materials, equipment and

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

Forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of THESL's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements, including to deliver a modernized grid and meet electrification requirements to achieve government net-zero GHG emissions targets; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes including factors relating to THESL's distribution activities and to climate change, energy transition, and economic development; risks associated with increased competition from regulated and unregulated entities; risk of external threats to THESL's facilities and operations posed by unexpected weather conditions caused by climate change and other factors; risks of changing government policy and regulatory requirements, including in respect of climate change and energy transition; risks associated with changing weather patterns and resultant impacts to electricity consumption based on historical seasonal trends, risks associated with terrorism and pandemics, and THESL's limited insurance coverage for losses resulting from these events; risk of municipal government activity, including the risk that the City could introduce rules, policies or directives, including those relating to net-zero GHG emissions targets, that can potentially limit Toronto Hydro's ability to meet its business objectives as laid out in the Shareholder Direction; risks of being unable to retain necessary qualified external contracting forces and procure materials relating to its capital, maintenance and reactive infrastructure program; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that Toronto Hydro is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet Toronto Hydro's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discount rates and their effect on future revenue requirements and future post-employment benefit obligations; risks arising from inflation, the course of the economy and other general macroeconomic factors; risk associated with the impairment to Toronto Hydro's image in the community, public confidence or brand; risk associated with Toronto Hydro failing to meet its material compliance obligations under legal and regulatory instruments; and risks associated with market expectations with respect to increase in demand for electricity.

The Corporation cautions the reader that the above list of factors is not exhaustive, and there may be other risks and uncertainties that are not presently known, or that are not currently believed to be material, that may adversely affect the Corporation's future performance or financial condition.

All forward-looking information in this document is qualified in its entirety by the above cautionary statements. Furthermore, unless otherwise stated, all forward-looking information contained herein is made as of the date hereof and the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise, except as required by law.

SELECTED ANNUAL INFORMATION

The following table sets forth selected annual financial information for the three years ended December 31, 2025, 2024 and 2023. This information has been derived from the Consolidated Financial Statements.

Selected Annual Consolidated Financial Information

(in millions of Canadian dollars)

	2025 **$**	2024 $	2023 $
Year Ended December 31			
Total revenues [1]	**4,329.7**	3,980.0	3,645.5
Net income after net movements in regulatory balances [1]	**201.5**	130.3	139.9
As at December 31			
Total assets and regulatory balances [2]	**8,664.7**	8,134.8	7,594.5
Total debentures [2], [3]	**3,575.1**	3,176.6	2,927.2
Other non-current financial liabilities [4]	**145.0**	63.3	55.4
Total equity [2]	**2,366.5**	2,200.0	2,103.6
Dividends [5]	**60.0**	83.9	98.3

[1] See “Results of Operations” for further details on distribution revenue, other revenue, and net income after net movements in regulatory balances.
[2] See “Financial Position” for further details of significant changes in assets, debentures and shareholder’s equity.
[3] Total debentures include current and long-term debentures.
[4] Other non-current financial liabilities include primarily non-current obligations under finance lease and non-current customer deposits. Under IFRS Accounting Standards, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.
[5] See “Liquidity and Capital Resources” for further details on dividends.

ADDITIONAL INFORMATION

Additional information about Toronto Hydro, including the Corporation’s Annual Information Form, is available on the SEDAR+ website (sedarplus.ca) and Toronto Hydro’s website (torontohydro.com/corporate-reports).

Toronto, Canada

February 25, 2026

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024

MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements have been prepared by management of Toronto Hydro Corporation (the Corporation), who is responsible for the integrity, consistency and reliability of the information presented. The Consolidated Financial Statements have been prepared in accordance with IFRS Accounting 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. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, with critical analysis of the material accounting policies followed by the Corporation as described in the notes 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 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 considering information available up to February 25, 2026.

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.

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 auditor 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 auditor. The external auditor has direct and full access to the Audit Committee, with and without the presence of management, to discuss its audit and 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 its recommendation, were approved by the Board of Directors. The Consolidated Financial Statements have been examined by KPMG LLP, the independent external auditor appointed by the Corporation's shareholder. The external auditor's responsibility is to express its opinion on whether the Consolidated Financial Statements are fairly presented in accordance with IFRS Accounting Standards. The attached Independent Auditor's Report outlines the scope of its examination and its opinion.

On behalf of Toronto Hydro Corporation's management:

"Jana Mosley"
Jana Mosley
President and Chief Executive Officer

"Baoqin Guo"
Baoqin Guo
Executive Vice-President and Chief Financial Officer

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
Canada
Tel 416 777 8500
Fax 416 777 8818

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Toronto Hydro Corporation

Opinion

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

- the consolidated balance sheets as at December 31, 2025 and December 31, 2024
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2025 and December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

Other Information

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

- the information included in Management's Discussion and Analysis.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report".

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

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

We obtained the information included in Management's Discussion and Analysis as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and

other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is David Denis Kerrigan Brownridge.

Toronto, Canada
February 25, 2026

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)

As at December 31	Note	2025 $	2024 $
ASSETS			
Current			
Accounts receivable and unbilled revenue	*4, 15*	**584.2**	583.5
Income tax receivable		**—**	2.3
Materials and supplies		**8.9**	9.0
Other assets	*5*	**21.8**	21.6
Total current assets		**614.9**	616.4
Property, plant and equipment	*6*	**7,382.0**	6,757.8
Intangible assets	*7*	**416.3**	421.1
Deferred tax assets	*21*	**0.7**	0.9
Other assets	*5*	**13.4**	16.1
Total assets		**8,427.3**	7,812.3
Regulatory balances	*8*	**237.4**	322.5
Total assets and regulatory balances		**8,664.7**	8,134.8
LIABILITIES AND EQUITY			
Current			
Working capital facility	*9*	**5.7**	5.2
Commercial paper	*9*	**115.0**	480.0
Accounts payable and accrued liabilities	*10*	**535.7**	499.9
Income tax payable		**0.6**	—
Customer deposits		**89.7**	57.7
Deferred revenue	*11*	**31.7**	32.4
Debentures	*12, 15*	**199.9**	—
Total current liabilities		**978.3**	1,075.2
Debentures	*12, 15*	**3,375.2**	3,176.6
Customer deposits		**141.6**	59.7
Deferred revenue	*11*	**1,182.9**	1,019.2
Post-employment benefits	*13*	**239.5**	247.7
Deferred tax liabilities	*21*	**183.1**	128.7
Other liabilities		**3.4**	3.6
Total liabilities		**6,104.0**	5,710.7
Equity			
Share capital	*16*	**892.8**	867.8
Retained earnings		**1,473.7**	1,332.2
Total equity		**2,366.5**	2,200.0
Total liabilities and equity		**8,470.5**	7,910.7
Regulatory balances	*8*	**194.2**	224.1
Total liabilities, equity and regulatory balances		**8,664.7**	8,134.8

Commitments, contingencies and subsequent events *24, 25, 26*

ON BEHALF OF THE BOARD:

"Brian Topp"
Brian Topp, Director

"Paul Doyle"
Paul Doyle, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in millions of Canadian dollars)

Year ended December 31	Note	2025 $	2024 $
Revenues			
Energy sales	*18*	**3,229.7**	2,923.3
Distribution revenue	*18*	**959.4**	937.8
Other	*18*	**140.6**	118.9
		4,329.7	3,980.0
Expenses			
Energy purchases		**3,165.6**	3,005.6
Operating expenses	*19*	**392.3**	378.5
Depreciation and amortization	*6, 7*	**322.6**	299.7
		3,880.5	3,683.8
Finance costs	*20*	**(136.5)**	(137.8)
Income before income taxes		**312.7**	158.4
Income tax expense	*21*	**(63.5)**	(18.6)
Net income		**249.2**	139.8
Net movements in regulatory balances	*8*	**(101.5)**	(33.6)
Net movements in regulatory balances arising from deferred taxes	*8, 21*	**53.8**	24.1
Net income after net movements in regulatory balances		**201.5**	130.3

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)

Year ended December 31	Note	2025 $	2024 $
Net income after net movements in regulatory balances		**201.5**	130.3
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax (2025 - ($2.7), 2024 - ($2.7))	*13*	**7.5**	7.4
Net movements in regulatory balances related to OCI, net of tax (2025 - $2.7, 2024 - $2.7)	*8, 13*	**(7.5)**	(7.4)
Other comprehensive income, net of tax		**—**	—
Total comprehensive income		**201.5**	130.3

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)

Year ended December 31	Note	2025 $	2024 $
Share capital, beginning of year		**867.8**	817.8
Common shares issued	*16*	**25.0**	50.0
Share capital, end of year		**892.8**	867.8
Retained earnings, beginning of year		**1,332.2**	1,285.8
Net income after net movements in regulatory balances		**201.5**	130.3
Dividends	*17, 23*	**(60.0)**	(83.9)
Retained earnings, end of year		**1,473.7**	1,332.2
Total equity		**2,366.5**	2,200.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)

Year ended December 31	Note	2025 $	2024 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**201.5**	130.3
Net movements in regulatory balances	*8*	**101.5**	33.6
Net movements in regulatory balances arising from deferred taxes	*8, 21*	**(53.8)**	(24.1)
Adjustments			
Depreciation and amortization	*6, 7*	**322.6**	299.7
Non-cash contributed assets		**(8.7)**	(3.0)
Amortization of deferred revenue	*11*	**(26.2)**	(19.6)
Finance costs	*20*	**136.5**	137.8
Income tax expense	*21*	**63.5**	18.6
Post-employment benefits		**2.0**	5.6
Other		**(4.4)**	(6.6)
Capital contributions received	*11*	**188.2**	152.4
Net change in other non-current assets and liabilities		**3.3**	(3.6)
Increase in customer deposits		**113.9**	6.7
Changes in non-cash operating working capital balances	*22(a)*	**(22.9)**	(7.7)
Income tax paid		**(5.7)**	(3.7)
Net cash provided by operating activities		**1,011.3**	716.4
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*22(b)*	**(853.5)**	(752.1)
Purchase of intangible assets	*22(b)*	**(42.3)**	(93.2)
Proceeds from variable consideration	*8*	**23.6**	—
Proceeds on disposals of property, plant and equipment		**1.0**	1.2
Net cash used in investing activities		**(871.2)**	(844.1)
FINANCING ACTIVITIES			
Increase (decrease) in commercial paper, net	*9, 22(c)*	**(365.0)**	59.0
Common shares issued	*16*	**25.0**	50.0
Dividends paid	*17, 22(c)*	**(60.0)**	(83.9)
Proceeds from issuance of debentures	*12, 22(c)*	**399.9**	249.8
Debt issuance costs paid	*12, 22(c)*	**(2.6)**	(1.6)
Interest paid	*22(c)*	**(137.9)**	(143.5)
Net cash provided by (used in) financing activities		**(140.6)**	129.8
Net change in cash and cash equivalents during the year		**(0.5)**	2.1
Working capital facility, beginning of year		**(5.2)**	(7.3)
Working capital facility, end of year		**(5.7)**	(5.2)

See accompanying notes to the consolidated financial statements.

1. NATURE OF BUSINESS

Toronto Hydro Corporation (the Corporation) was incorporated on June 23, 1999 under the *Business Corporations Act* (Ontario) in accordance with the *Electricity Act, 1998* (Ontario), as amended (Electricity Act). The Corporation is wholly owned by the City of Toronto (the City) incorporated under the *City of Toronto Act, 2006*, as amended 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):

- Toronto Hydro-Electric System Limited (THESL) – distributes electricity to customers located in the city of Toronto and is subject to rate regulation.
- Toronto Hydro Energy Services Inc. (TH Energy) – provides street lighting and expressway lighting services in the city of Toronto.

2. MATERIAL ACCOUNTING POLICIES

a) Basis of preparation

Statement of compliance

The Corporation's audited consolidated financial statements for the years ended December 31, 2025 and 2024 (Consolidated Financial Statements) have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for post-employment benefits which are measured at the present value of the post-employment benefit obligation.

Functional and presentation currency

The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation and its subsidiaries' (Toronto Hydro) functional and presentation currency.

b) 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.

c) Additional material accounting policies, judgments and estimates

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

Board (OEB), the Independent Electricity System Operator (IESO), the Ontario Ministry of Energy, or the Ontario Ministry of Finance.

The accounting policies applied in 2025 were consistent with those applied in 2024, unless otherwise stated. Toronto Hydro's material accounting policies, estimates and judgments are identified in this note or disclosed throughout the respective notes.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following:

- *Note 8* – Recognition of regulatory balances;
- *Note 18* – Principal versus agent determination for recording revenue on a gross or net basis; and
- *Note 21* – Interpretation of changes in tax legislation, regulations and interpretations.

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

- *Notes 6 and 7* – Determination of components and useful lives of depreciable assets;
- *Note 8* – Recognition and measurement of regulatory balances;
- *Note 13* – Measurement of post-employment benefits – key actuarial assumptions;
- *Note 15* – Recognition and measurement of expected credit loss allowance for accounts receivable and unbilled revenue;
- *Note 18* – Revenue recognition – measurement of unbilled revenue;
- *Note 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.

d) New standards and amendments not yet adopted

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. Toronto Hydro has determined that the following standard and amendments could have an impact on the Corporation's consolidated financial statements when adopted.

Classification and Measurement of Financial Instruments (Amendments to IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 7 *Financial Instruments: Disclosures* (IFRS 7))

In May 2024, the IASB issued targeted amendments to IFRS 9 and IFRS 7 relating to the classification and measurement of financial instruments. The amendments clarify that a financial liability is derecognized on the 'settlement date' and introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date, if specified criteria are met. Other clarifications include the classification of financial assets with environmental, social, and governance linked features and other similar contingent features, financial assets with non-recourse features, and contractually linked instruments. The amendments also introduce additional disclosures for financial instruments with contingent features and equity instruments designated at fair value through other

comprehensive income (OCI). The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with early adoption permitted. The amendments are to be applied retrospectively.

Toronto Hydro will adopt the amendments to IFRS 9 and IFRS 7 effective January 1, 2026. Toronto Hydro has completed its assessment of the key financial assets and liabilities and does not expect these amendments to have a material impact on the accounting for these financial instruments.

IFRS 18 *Presentation and Disclosure in Financial Statements* (IFRS 18)

In April 2024, the IASB issued IFRS 18, which replaces International Accounting Standard (IAS) 1 *Presentation of Financial Statements* and introduces limited amendments to IAS 7 *Statement of Cash Flows*. IFRS 18 aims to improve communication of financial information in the financial statements, with a focus on information about financial performance in the statement of profit or loss. To meet this objective, IFRS 18 introduces additional defined subtotals in the statement of profit or loss, disclosures about management-defined performance measures, and enhanced requirements for grouping (aggregation and disaggregation) of information. The standard is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The standard is to be applied retrospectively.

Toronto Hydro is currently assessing the impact of adopting the above standard on the Corporation's consolidated financial statements.

3. REGULATION

Rate regulation

The OEB has regulatory oversight of electricity matters in Ontario. The OEB's authority and responsibilities include the power to approve and set 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.

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

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

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are a pass-through to operators of transmission facilities.

- *Wholesale Market Service* (*WMS) Charges* – The WMS charges represent 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 a pass-through to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by THESL 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 THESL's customers and load.

Electricity distribution rates

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

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and custom index adjustments similar to the incentive regulation mechanism. 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. Custom index adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

On December 19, 2019, the OEB issued its 2020-2024 Custom Incentive Rate-setting (CIR) Decision, and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 (together, the 2020-2024 CIR Decision and Rate Order). The 2020-2024 CIR Decision and Rate Order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 25, 2023, THESL filed the 2024 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2024 and ending on December 31, 2024. On December 14, 2023, the OEB issued a decision and rate order approving THESL's 2024 rates and providing for other deferral and variance account dispositions.

On November 17, 2023, THESL filed a CIR application seeking the OEB's approval of electricity distribution rates and charges effective January 1, 2025, and subsequent annual rate adjustments based on a custom index specific to THESL for the period commencing on January 1, 2026 and ending on December 31, 2029 (2025-2029 CIR Application).

On November 12, 2024, the OEB issued its 2025-2029 CIR Decision, and on December 12, 2024, issued its CIR Final Rate Order (together, the 2025-2029 CIR Decision and Rate Order), both in relation to the 2025-2029 CIR Application. The 2025-2029 CIR Decision and Rate Order approved the negotiated settlement proposal as filed, final electricity distribution rates for the first year of the five-year rate period effective January 1, 2025, a CIR index for the period commencing on January 1, 2026 and ending on December 31, 2029 and the final clearance of various deferral and variance account balances for the 2020-2024 period through rate riders. The approved rates for 2025 were implemented on January 1, 2025. The financial considerations of the OEB's 2025-2029 CIR Decision and Rate Order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders *(note 8)*.

On August 12, 2025, THESL filed its 2026 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2026 and ending on December 31, 2026. On December 11, 2025, the OEB issued its decision and rate order approving THESL's 2026 rates, including the disposition of applicable deferral and variance accounts, in line with THESL's expectations.

4. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

Accounting policy

Accounts receivable are recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings, with adjustments mainly for assumptions related to seasonality. The carrying amount of accounts receivable and unbilled revenue is reduced by a loss allowance, if applicable, and the amount of the related impairment loss is recognized in the consolidated statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When Toronto Hydro 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 Toronto Hydro considers historical trends on the timing of recoveries and the amount of loss incurred, adjusted for forward-looking factors specific to the current economic and credit conditions.

Accounts receivable and unbilled revenue by type

Accounts receivable and unbilled revenue consist of the following:

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Unbilled revenue	**325.1**	292.4
Trade receivables	**220.8**	222.9
Due from related parties *(note 23)*	**38.1**	41.7
Other	**0.2**	26.5
Total accounts receivable and unbilled revenue	**584.2**	583.5

5. OTHER ASSETS

Other assets consist of the following:

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Prepaid expenses and other assets	**33.6**	36.1
Deferred financing costs	**1.6**	1.6
Total other assets	**35.2**	37.7
Less: Current portion of other assets relating to:		
Prepaid expenses and other assets	**21.4**	21.2
Deferred financing costs	**0.4**	0.4
Current portion of other assets	**21.8**	21.6
Non-current portion of other assets	**13.4**	16.1

6. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

Recognition and measurement, including depreciation

Upon initial recognition, Toronto Hydro measures property, plant and equipment (PP&E) at cost. 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 Toronto Hydro 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. Depreciation begins when an asset becomes available for use. Subsequently, PP&E is carried at cost less accumulated depreciation and any accumulated impairment losses, if applicable. 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 Toronto Hydro from its continued use. Any gain or loss arising on derecognition is recorded in the consolidated statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

Non-cash compensation from third parties for items of PP&E that were impaired or given up is measured at fair value and recognized when it becomes receivable and is recorded in accordance with IAS 16 *Property, plant and equipment* (IAS 16).

Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution assets:	
Distribution lines	1.5% to 5.0%
Transformers	2.9% to 4.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings and fixtures	1.5% to 20.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Other capital assets	4.0% to 25.0%

Construction in progress relates to assets not currently available for use and therefore is not depreciated. There are no residual values for items of PP&E.

Impairment of non-financial assets

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

Capitalized borrowing costs

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

Significant judgment and estimation uncertainty

Depreciation rates are developed based on the useful lives derived from past experience, current facts and formal depreciation studies, taking into account future expected usage and potential for technological obsolescence. Toronto Hydro applies judgment in assessing the appropriate level of componentization where an asset is made up of individual components for which different depreciation methods and useful lives are appropriate. The depreciation method and useful lives are reviewed at each financial year-end and adjusted prospectively if appropriate.

Details of PP&E

PP&E consists of the following:

(in millions of Canadian dollars)	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at December 31, 2023	6,411.1	533.1	529.9	588.8	8,062.9
Additions	—	—	—	809.5	809.5
Transfers into service	616.1	23.1	41.3	(680.5)	—
Disposals, retirements and other	(51.8)	(0.1)	(4.4)	—	(56.3)
Balance as at December 31, 2024	6,975.4	556.1	566.8	717.8	8,816.1
Additions	**—**	**—**	**—**	**898.7**	**898.7**
Transfers into service	**678.4**	**17.4**	**43.0**	**(738.8)**	**—**
Disposals, retirements and other	**(65.5)**	**—**	**(7.0)**	**—**	**(72.5)**
Balance as at December 31, 2025	**7,588.3**	**573.5**	**602.8**	**877.7**	**9,642.3**
Accumulated depreciation					
Balance as at December 31, 2023	1,433.1	139.0	289.8	—	1,861.9
Depreciation	162.2	22.6	36.9	—	221.7
Disposals, retirements and other	(22.3)	—	(3.0)	—	(25.3)
Balance as at December 31, 2024	1,573.0	161.6	323.7	—	2,058.3
Depreciation	**177.8**	**23.4**	**38.0**	**—**	**239.2**
Disposals, retirements and other	**(31.8)**	**—**	**(5.4)**	**—**	**(37.2)**
Balance as at December 31, 2025	**1,719.0**	**185.0**	**356.3**	**—**	**2,260.3**
Carrying amount					
Balance as at December 31, 2024	5,402.4	394.5	243.1	717.8	6,757.8
Balance as at December 31, 2025	**5,869.3**	**388.5**	**246.5**	**877.7**	**7,382.0**

As at December 31, 2025, “Land and buildings” included right-of-use assets related to leases of land and office space with cost of $7.6 million (2024 - $7.6 million), accumulated depreciation of $1.4 million (2024 - $1.2 million) and carrying amount of $6.2 million (2024 - $6.4 million).

For the year ended December 31, 2025, borrowing costs in the amount of $3.8 million (2024 - $3.6 million) were capitalized to PP&E with an average interest rate of 3.71% (2024 - 3.98%).

7. INTANGIBLE ASSETS

Accounting policy

Recognition and measurement, including amortization

Upon initial recognition, Toronto Hydro measures intangible assets at cost. Amortization begins when an asset becomes available for use. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses, if applicable.

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 Hydro One Networks Inc. (HONI) for dedicated infrastructure in order to receive connections to transmission facilities.

Impairment of non-financial assets

See impairment of non-financial assets in note 6 for Toronto Hydro's policies that are also applicable to intangible assets.

Capitalized borrowing costs

See capitalized borrowing costs in note 6 for Toronto Hydro's policies that are also applicable to intangible assets.

Significant judgment and estimation uncertainty

Useful lives of intangible assets are developed based on past experience and current facts, taking into account future expected usage and potential for technological obsolescence. The amortization method and useful lives are reviewed at each financial year-end and adjusted prospectively if appropriate.

Details of intangible assets

Intangible assets consist of the following:

(in millions of Canadian dollars)	Computer software $	Contributions [1] $	Software in development $	Contributions for work in progress [1] $	Total $
Cost					
Balance as at December 31, 2023	351.9	268.0	61.8	15.0	696.7
Additions	—	—	48.2	24.7	72.9
Transfers into service	72.6	4.5	(72.6)	(4.5)	—
Balance as at December 31, 2024	424.5	272.5	37.4	35.2	769.6
Additions	**—**	**—**	**43.5**	**1.9**	**45.4**
Transfers into service	**37.0**	**0.1**	**(37.0)**	**(0.1)**	**—**
Balance as at December 31, 2025	**461.5**	**272.6**	**43.9**	**37.0**	**815.0**
Accumulated amortization					
Balance as at December 31, 2023	247.0	53.5	—	—	300.5
Amortization	36.9	11.1	—	—	48.0
Balance as at December 31, 2024	283.9	64.6	—	—	348.5
Amortization	**39.0**	**11.2**	**—**	**—**	**50.2**
Balance as at December 31, 2025	**322.9**	**75.8**	**—**	**—**	**398.7**
Carrying amount					
Balance as at December 31, 2024	140.6	207.9	37.4	35.2	421.1
Balance as at December 31, 2025	**138.6**	**196.8**	**43.9**	**37.0**	**416.3**

[1] Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities.

For the year ended December 31, 2025, borrowing costs in the amount of $1.4 million (2024 - $2.2 million) were capitalized to intangible assets with an average interest rate of 3.71% (2024 - 3.98%).

The remaining amortization period for computer software ranges from less than one year to nine years. The remaining amortization period for contributions ranges from three to 24 years.

8. REGULATORY BALANCES

Accounting policy

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS Accounting Standards 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 Generally Accepted Accounting Principles. Regulatory balances provide useful information about Toronto Hydro's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS Accounting Standards and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

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

Significant judgment and estimation uncertainty

The timing of recognition of regulatory balances is subject to significant judgments. 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.

Details of regulatory balances

Debit balances consist of the following:

As at December 31 (in millions of Canadian dollars)	2024 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	2025 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	139.1	**56.5**	**—**	**—**	**195.6**	note 8(a)	—
Settlement variances	160.8	**(61.3)**	**(77.9)**	**—**	**21.6**	note 8(b)	(1)
Externally driven capital	8.5	**0.3**	**—**	**—**	**8.8**	note 8(c)	(1)
Wireline pole attachment	4.3	**0.1**	**(0.8)**	**—**	**3.6**	note 8(d)	(1)
Getting Ontario Connected Act (GOCA)	2.2	**0.1**	**—**	**—**	**2.3**	note 8(e)	(1)
Other	7.6	**2.2**	**0.2**	**(4.5)**	**5.5**	—	(1)
Total	322.5	**(2.1)**	**(78.5)**	**(4.5)**	**237.4**		

As at December 31 (in millions of Canadian dollars)	2023 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	2024 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Settlement variances	177.2	90.2	(106.6)	—	160.8	note 8(b)	(1)
Deferred taxes	112.3	26.8	—	—	139.1	note 8(a)	—
Externally driven capital	5.0	3.5	—	—	8.5	note 8(c)	(1)
Wireline pole attachment	2.8	1.5	—	—	4.3	note 8(d)	(1)
GOCA	—	2.2	—	—	2.2	note 8(e)	(1)
Other	7.8	4.5	—	(4.7)	7.6	—	(1)
Total	305.1	128.7	(106.6)	(4.7)	322.5		

(1) Carrying charges were added to the regulatory balances in accordance with the OEB's direction, at a rate of 3.64% for January 1, 2025 to March 31, 2025, 3.16% for April 1, 2025 to June 30, 2025 and 2.91% for July 1, 2025 to December 31, 2025 (January 1, 2024 to June 30, 2024 - 5.49%; July 1, 2024 to September 30, 2024 - 5.20% and October 1, 2024 to December 31, 2024 - 4.40%).

Credit balances consist of the following:

As at December 31 (in millions of Canadian dollars)	2024 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	2025 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Useful life changes	135.2	**3.7**	**(32.3)**	**—**	**106.6**	note 8(f)	[1]
Other post-employment benefits (OPEB) net actuarial gain	19.5	**10.2**	**—**	**—**	**29.7**	note 8(g)	—
Development charges	11.8	**12.4**	**(1.9)**	**—**	**22.3**	note 8(h)	[1]
Revenue variance	—	**21.1**	**—**	**—**	**21.1**	note 8(i)	[1]
Gain on disposals	36.1	**12.0**	**(43.1)**	**—**	**5.0**	note 8(j)	[1]
Wireless attachment	3.3	**(0.3)**	**(0.6)**	**—**	**2.4**	note 8(k)	[1]
Capital-related revenue requirement variance account (CRRRVA)	5.2	**(0.1)**	**(2.8)**	**—**	**2.3**	note 8(l)	[1]
Renewable enabling investments (REI)	6.1	**0.9**	**(6.2)**	**—**	**0.8**	note 8(m)	—
Other	6.9	**3.0**	**(1.8)**	**(4.1)**	**4.0**	—	[1]
Total	224.1	**62.9**	**(88.7)**	**(4.1)**	**194.2**		

As at December 31 (in millions of Canadian dollars)	2023 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	2024 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Useful life changes	62.7	72.5	—	—	135.2	note 8(f)	[1]
Gain on disposals	34.4	1.7	—	—	36.1	note 8(j)	[1]
OPEB net actuarial gain	9.4	10.1	—	—	19.5	note 8(g)	—
Development charges	12.2	2.2	(2.6)	—	11.8	note 8(h)	[1]
REI	4.7	1.4	—	—	6.1	note 8(m)	—
CRRRVA	47.7	0.9	(40.6)	(2.8)	5.2	note 8(l)	[1]
Wireless attachment	2.8	0.7	(0.2)	—	3.3	note 8(k)	[1]
Other	15.9	1.6	(9.1)	(1.5)	6.9	0 - 12	[1]
Total	189.8	91.1	(52.5)	(4.3)	224.1		

[1] Carrying charges were added to the regulatory balances in accordance with the OEB's direction, at a rate of 3.64% for January 1, 2025 to March 31, 2025, 3.16% for April 1, 2025 to June 30, 2025 and 2.91% for July 1, 2025 to December 31, 2025 (January 1, 2024 to June 30, 2024 - 5.49%; July 1, 2024 to September 30, 2024 - 5.20% and October 1, 2024 to December 31, 2024 - 4.40%).

The “Balances arising in the period” column consists of new additions to regulatory balances. The “Recovery/reversal” column consists of amounts disposed through OEB-approved rate riders. The “Other movements” column consists of impairment and reclassification between the regulatory balances and other regulatory deferral accounts considered to be insignificant. There was no material impairment recorded for the years ended December 31, 2025 and 2024.

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

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Total movements in regulatory debit balances	**(85.1)**	17.4
Total movements in regulatory credit balances	**29.9**	(34.3)
Total net movements	**(55.2)**	(16.9)
Net movements per financial statements:		
Net movements in regulatory balances	**(101.5)**	(33.6)
Net movements in regulatory balances arising from deferred taxes	**53.8**	24.1
Net movements in regulatory balances related to OCI, net of tax	**(7.5)**	(7.4)
Total net movements per financial statements	**(55.2)**	(16.9)

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

The regulatory balances consist of the following:

a) Deferred taxes

This regulatory balance relates to both deferred tax amounts recorded under IFRS 14 and the expected future electricity distribution rate impact to customers arising from timing differences in the recognition of deferred tax assets and liabilities. THESL does not apply for disposition of the balance since it is reversed through timing differences in the recognition of deferred tax assets and liabilities.

b) Settlement variances

This account includes the variances between amounts charged by THESL to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by THESL. THESL has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria prescribed by the OEB.

As part of the OEB’s decision and rate order approving THESL's 2024 rates, the OEB approved recovery of $110.5 million related to 2022 settlement variances over a 12-month period commencing on January 1, 2024. In the 2025-2029 CIR Decision and Rate Order, the OEB approved recovery of $70.5 million, including carrying charges, related to 2023 settlement variances over a 12-month period commencing on January 1, 2025. As part of the OEB’s decision and rate order approving THESL’s 2026 rates, the OEB approved recovery of $76.0 million, including carrying charges, related to 2024 settlement variances over a 12-month period commencing on January 1, 2026 *(note 3)*.

c) Externally driven capital

This account captures the differences between the forecasted revenue requirement amounts included in rates related to capital expenditure and resulting derecognition for third party-initiated relocation and expansion projects, and the actual revenue requirement associated with these types of projects.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved recovery of $9.5 million, including carrying charges, related to the 2024 balance over a 36-month period commencing on January 1, 2027 *(note 3).*

d) Wireline pole attachment

This account records the variance between the OEB-approved wireline pole attachment charge and the charge embedded in THESL's rates.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved recovery of $4.3 million, including carrying charges, related to the 2024 balance over a 60-month period commencing on January 1, 2025 *(note 3).*

e) Getting Ontario Connected Act (GOCA)

On October 31, 2023, the OEB established a generic, sector-wide variance account, the GOCA variance account to capture the incremental costs of locates arising from the implementation of provincial Bill 93 (*Getting Ontario Connected Act, 2022* (Ontario)) effective April 1, 2023.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved recovery of $3.0 million, including carrying charges, related to the 2024 balance over a 12-month period commencing on January 1, 2029. THESL was directed by the OEB to use the existing GOCA variance account to capture the variances between the revenue associated with underground locates funded in the 2025-2029 rates and incremental costs to enable locates activities driven by the *Getting Ontario Connected Act, 2022* and the *Ontario Underground Infrastructure Notification System Act, 2012* and related legislative and regulatory amendments *(note 3)*.

f) Useful life changes

This account captures the cumulative revenue requirement impact for the benefit of customers as directed by the OEB for 2023 and 2024 relating to the change in estimate of the useful lives of certain items of PP&E. The regulatory balance relates to the difference between the revenue requirement included in rates charged to customers and the actual revenue requirement based on the updated useful lives.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved disposition of $138.5 million, including carrying charges, related to the 2024 balance over a 48-month period commencing on January 1, 2025 *(note 3).*

g) OPEB net actuarial gain

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2025 of $10.2 million is the actuarial gain recorded for the year (2024 - $10.1 million actuarial gain) *(note 13(d))*. The net position is an actuarial gain to be disposed in future rates. In the 2020-2024 CIR Decision and Rate Order, the OEB approved partial recovery of the balance amounting to $6.4 million. The timing of disposition of the balance is expected to be determined in a future rate application.

h) Development charges

This regulatory balance relates to excess expansion deposits retained by THESL where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, THESL may collect expansion deposits from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, THESL has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the connection horizon, THESL retains the excess expansion deposit not otherwise returned to the connecting customer. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $11.1 million related to the 2019 balance over a 48-month period commencing on January 1, 2021.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved disposition of $8.7 million, including carrying charges, related to the 2024 balance over a 60-month period commencing on January 1, 2025 *(note 3).*

i) Revenue variance

This account was approved by the OEB in the 2025-2029 CIR Decision and Rate Order *(note 3)* to capture the annual distribution revenue variances arising from the actual weather normalized distribution revenue exceeding the OEB-approved forecasted distribution revenue. On an annual basis, this regulatory balance is filed with the OEB for interim disposition.

j) Gain on disposals

This regulatory balance consists of the amounts disposed through the OEB-approved rate riders, net of the related tax savings (credits), and offset by the after-tax gain realized on the sale of three significant THESL properties between 2015 and 2018.

This account includes amounts recognized in connection with the variable consideration for the disposition of properties in prior years upon achievement of conditions, net of tax and selling costs, and inclusive of carrying charges. The variable consideration of $23.6 million was received in 2025 and is presented in "Proceeds from variable consideration" on the consolidated statements of cash flows.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved disposition of $42.7 million, including carrying charges, related to the 2024 balance over a 60-month period commencing on January 1, 2025 *(note 3).*

k) Wireless attachment

This account tracks revenues and costs associated with wireless pole attachments. Revenues recorded in this account are the actual revenues received through the negotiated contracts with wireless carriers, as well as the revenues collected directly to cover the one-time costs incurred.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved disposition of $3.6 million, including carrying charges,

related to the 2024 balance over a 60-month period commencing on January 1, 2025. Effective January 1, 2025, the wireless attachment account was converted from a deferral account to a variance account, to capture the variances between the forecast of relevant revenues and costs associated with wireless pole attachments and the actual revenues and costs associated with these types of attachments *(note 3).*

l) Capital-related revenue requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. The cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeded the actual capital-related revenue requirement over the same rate period. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $81.8 million related to the 2019 balance over a 24-month period commencing on January 1, 2023. The timing of disposition of the balance is expected to be determined in a future rate application.

m) Renewable enabling investments

This account captures the variance between THESL's revenue requirement required to support the portion of the investments that are eligible for the provincial rate protection, and the actual provincial rate protection amounts collected monthly from the IESO.

In the 2025-2029 CIR Decision and Rate Order, the OEB approved disposition of $6.2 million related to the 2024 balance, which was settled through the IESO *(note 3)* in 2025.

9. SHORT-TERM BORROWINGS

The Corporation is a party to an amended and restated credit agreement dated November 17, 2023 (as amended) with a syndicate of Canadian chartered banks which provides for a revolving credit facility in an amount up to $1.0 billion (Revolving Credit Facility), of which up to $210.0 million is available in the form of letters of credit. On September 18, 2024, the maturity date of the Revolving Credit Facility was extended from September 18, 2028 to September 18, 2029, and on September 18, 2025, the maturity date was further extended to September 18, 2030. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a commercial paper program allowing up to $1.0 billion of unsecured short-term promissory notes (Commercial Paper Program) to be issued in various maturities of no more than one year. The Commercial Paper Program is 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 $100.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit.

The Corporation is a party to a $20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management (Working Capital Facility).

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

Balance as at December 31, 2024	

As at December 31, 2025 and December 31, 2024, there were no borrowings under the Revolving Credit Facility.

For the year ended December 31, 2025, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $540.4 million (2024 - $642.7 million) with a weighted average interest rate of 2.90% (2024 - 4.73%).

As at December 31, 2025, $5.7 million had been drawn under the Working Capital Facility (2024 – $5.2 million) and letters of credit totalling $53.3 million had been issued (2024 – $54.3 million).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Trade payables	**289.2**	289.2
Accrued liabilities and other	**205.9**	176.5
Accrued interest	**29.8**	25.3
Due to related parties *(note 23)*	**10.8**	8.9
Total accounts payable and accrued liabilities	**535.7**	499.9

11. DEFERRED REVENUE

Accounting policy

See note 18 for Toronto Hydro's accounting policies relating to deferred revenue.

Details of deferred revenue

Deferred revenue consists of the following:

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Capital contributions, beginning of year	**1,044.9**	890.7
Capital contributions received [1]	**189.1**	173.8
Amortization	**(26.2)**	(19.6)
Capital contributions, end of year	**1,207.8**	1,044.9
Other deferred revenue, beginning of year	**6.7**	6.2
Other deferred revenue	**12.7**	13.9
Revenue recognized	**(12.6)**	(13.4)
Other deferred revenue, end of year	**6.8**	6.7
Total deferred revenue	**1,214.6**	1,051.6
Less: Current portion of deferred revenue relating to:		
Capital contributions	**25.7**	26.7
Other deferred revenue	**6.0**	5.7
Current portion of deferred revenue	**31.7**	32.4
Non-current portion of deferred revenue	**1,182.9**	1,019.2

[1] Includes non-cash contributions of $0.9 million (2024 – $21.4 million).

12. DEBENTURES

Debentures consist of the following:

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Senior unsecured debentures		
Series 6 – 5.54% due May 21, 2040	**200.0**	200.0
Series 9 – 3.96% due April 9, 2063	**245.0**	245.0
Series 10 – 4.08% due September 16, 2044	**200.0**	200.0
Series 11 – 3.55% due July 28, 2045	**200.0**	200.0
Series 12 – 2.52% due August 25, 2026	**200.0**	200.0
Series 13 – 3.485% due February 28, 2048	**200.0**	200.0
Series 14 – 2.43% due December 11, 2029	**200.0**	200.0
Series 15 – 2.99% due December 10, 2049	**200.0**	200.0
Series 16 – 1.50% due October 15, 2030	**200.0**	200.0
Series 17 – 2.47% due October 20, 2031	**150.0**	150.0
Series 18 – 3.27% due October 18, 2051	**200.0**	200.0
Series 19 – 4.95% due October 13, 2052	**300.0**	300.0
Series 20 – 4.61% due June 14, 2033	**250.0**	250.0
Series 21 – 5.13% due October 12, 2028	**200.0**	200.0
Series 22 – 3.99% due September 26, 2034	**250.0**	250.0
Series 23 – 3.65% due September 24, 2032	**200.0**	—
Series 24 – 4.75% due September 24, 2055	**200.0**	—
Total debentures	**3,595.0**	3,195.0
Less: Unamortized debt issuance costs	**18.3**	16.9
Unamortized discount/premium	**1.6**	1.5
Current portion of debentures	**199.9**	—
Long-term portion of debentures	**3,375.2**	3,176.6

All debentures of the Corporation rank equally.

On September 26, 2024, the Corporation issued $250.0 million of 3.99% senior unsecured debentures due on September 26, 2034 at a price of $999.02 per $1,000 principal amount (Series 22). The Series 22 debentures bear interest payable semi-annually in arrears. Debenture issuance costs of $1.6 million relating to the Series 22 debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

On July 18, 2025, the Corporation filed a base shelf prospectus with provincial securities regulators in Canada, allowing offerings of unsecured debentures in an aggregate amount of up to $1.5 billion over a 25-month period.

On September 24, 2025, the Corporation issued $400.0 million of senior unsecured debentures. The issuance consisted of $200.0 million of 3.65% senior unsecured debentures due on September 24, 2032 at a price of $999.88 per $1,000 principal amount (Series 23), and $200.0 million of 4.75% senior unsecured debentures due on September 24, 2055 at a price of $999.52 per $1,000 principal amount (Series 24). The Series 23 and Series 24 debentures bear interest payable semi-annually in arrears. Debenture issuance costs of $2.6 million relating to both Series were recorded against the carrying amount of the debentures 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 THESL to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

13. EMPLOYEE FUTURE BENEFITS

Accounting policy

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 Toronto Hydro 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.

Multi-employer pension plan

Toronto Hydro's full-time employees participate in a pension plan through Ontario Municipal Employees Retirement System (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, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario. 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 Toronto Hydro's portion of pension obligations or of the fair value of plan assets.

Post-employment benefits

Toronto Hydro has a number of unfunded benefit plans providing post-employment benefits to its employees, including certain retirement, medical, dental and life insurance benefits. Toronto Hydro 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 based on assumptions that reflect management's best estimates. Past service cost is recognized when a plan amendment or curtailment occurs. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on post-employment benefits other than sick leave credits and certain benefits are recognized in OCI as they arise, and are subsequently reclassified from OCI to a regulatory balance on the consolidated balance sheets. Actuarial gains and losses on accumulated sick leave credits and other benefits are recognized in the consolidated statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2024.

Significant judgment and estimation uncertainty

Significant assumptions and estimates are used in accounting for post-employment benefits. Toronto Hydro consults with actuarial specialists when setting the key assumptions used to determine the post-employment benefit obligation and the costs of providing benefits under the plan provisions. The significant actuarial assumptions were as follows:

As at December 31	2025 %	2024 %
Discount rate used in the calculation of:		
Benefit obligation	**5.0**	4.7
Assumed medical and dental cost trend rates:		
Dental care cost trend rate assumed for next year	**5.0**	5.0
Health care cost trend rate assumed for next year	**6.0**	6.0

Multi-employer pension plan

Toronto Hydro's eligible employees participate in a defined benefit pension plan through OMERS. For the year ended December 31, 2025, Toronto Hydro's contributions were $22.2 million (2024 - $20.8 million), representing less than five percent of total contributions to the OMERS plan. Toronto Hydro expects to contribute approximately $25.4 million to the OMERS plan in 2026.

OMERS annually reviews the current and projected funded ratios, risk metrics and other relevant information to assess the health and long-term viability of the plan. OMERS will consider changes to benefit design, contribution rates and reserves if doing so would improve the health and long-term viability of the plan. Toronto Hydro is not able to assess the implications, if any, of OMERS' strategy to address any funding shortfall or of the withdrawal of other participating entities from the OMERS plan on its future contributions.

Post-employment benefits

a) Benefit obligation

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Balance, beginning of year	**247.7**	252.2
Current service cost	**2.1**	2.1
Interest cost	**11.4**	11.5
Benefits paid	**(12.1)**	(10.7)
Experience gain [1]	**(0.4)**	(6.0)
Actuarial gain arising from changes in demographic assumptions [1]	**—**	(0.1)
Actuarial gain arising from changes in financial assumptions [1] [2]	**(9.2)**	(1.3)
Balance, end of year	**239.5**	247.7

[1] Actuarial loss on accumulated sick leave credits and other benefits of $0.6 million (2024 - $2.7 million loss) is recognized in benefit cost *(note 13(c))* and actuarial gain on medical, dental and life insurance benefits of $10.2 million (2024 - $10.1 million gain) is recognized in OCI *(note 13(d))*.

[2] Reflects the impact of the changes in actuarial assumptions.

b) Amounts recognized in regulatory balances

As at December 31, 2025, the amount recognized in regulatory balances related to accumulated actuarial gains and losses was $29.7 million (credits) (2024 - $19.5 million (credits)) *(note 8(g))*.

c) Benefit cost recognized

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Current service cost		
Interest cost		
Actuarial loss on other employee benefits *(note 13(a))*		
Benefit cost		
Capitalized to PP&E and intangible assets	**6.2**	7.1
Charged to operating expenses	**7.9**	9.2

d) Amounts recognized in OCI

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Actuarial gain *(note 13(a))*		
Income tax expense in OCI *(note 21)*		
Remeasurements of post-employment benefits, net of tax		
Net movements in regulatory balances related to OCI, net of tax	**(7.5)**	(7.4)
OCI, net of tax		

e) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2025 was 12.1 (2024 - 13.0). The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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

	Increase by 1%		Decrease by 1%	
As at December 31 (in millions of Canadian dollars)	2025 $	2024 $	2025 $	2024 $
Discount rate	**(27.1)**	(29.1)	**33.2**	35.9
Medical and dental cost trend rates	**29.6**	29.0	**(24.2)**	(23.7)

14. CAPITAL MANAGEMENT

Toronto Hydro's main objectives when managing capital are to:

- safeguard its ability to continue as a going concern, so that it can continue to provide returns for its shareholder and benefits for other stakeholders;
- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system of THESL;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- maintain an optimal capital structure to 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.

Toronto Hydro monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. Toronto Hydro manages capital by preparing short-term and long-term cash flow forecasts. In addition, Toronto Hydro accesses debt 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 Toronto Hydro's approach to capital management during the year. As at December 31, 2025, Toronto Hydro's definition of capital included equity, borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2024. As at December 31, 2025, equity amounted to $2,366.5 million (2024 - $2,200.0 million), and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, amounted to $3,695.8 million (2024 - $3,661.9 million).

Debt covenants

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 its trust indenture. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt arrangements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2025 and December 31, 2024, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

15. FINANCIAL INSTRUMENTS

Accounting policy

Recognition, classification and measurement

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

Financial assets and liabilities are not offset unless they are with a counterparty for which Toronto Hydro has a legally enforceable right to settle the financial instruments on a net basis and Toronto Hydro intends to settle on a net basis.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or it transfers the financial instrument in a manner that qualifies for derecognition through transfer of substantially all risks and rewards or transfer of control.

Financial liabilities are derecognized upon extinguishment. A modification of a financial liability with an existing lender is evaluated to determine whether the amendment results in substantially different terms, in which case it is accounted for as an extinguishment.

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

- Cash and cash equivalents are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method, less expected credit loss allowance. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Working Capital Facility, Revolving Credit Facility and commercial paper are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation's revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.

- Accounts payable are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Customer deposits are classified as "Amortized cost" and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Debentures are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for

similar debt instruments. 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.

Fair value measurements

Toronto Hydro 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 Toronto Hydro's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

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 balances) include bank overdrafts that are repayable on demand and form an integral part of Toronto Hydro's cash management.

Customer deposits

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

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

Expected credit loss allowance

Toronto Hydro measures the expected credit loss allowance at an amount equal to the lifetime expected credit losses for all trade receivables that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by Toronto Hydro to measure the lifetime expected credit losses of accounts receivable from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures based on customer account status. Toronto Hydro also adjusts the expected credit loss allowance to account for current economic conditions and events (including forward-looking macroeconomic data) and historical information (including credit agency reports, if available). Toronto Hydro considers the reasons for the accounts being past due, the characteristics of existing accounts, reasonable and supportable forecasts and other considerations that may affect the collectability of the reported amounts.

Significant judgment and estimation uncertainty

The expected credit loss allowance is based on assumptions about risk of default and expected loss rates, which reflects the amounts of accounts receivable and unbilled revenue that are ultimately expected to be non-collectible. Toronto Hydro applies judgments in making these assumptions and selecting the inputs to the impairment provision for accounts receivable and unbilled revenue, based on Toronto Hydro's past experience, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Fair values of financial instruments

As at December 31, 2025 and December 31, 2024, the fair values of accounts receivable and 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. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. Debentures are measured 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.

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

As at December 31	2025		2024	
	Carrying amount	Fair value [1]	Carrying amount	Fair value [1]
(in millions of Canadian dollars)	$	$	$	$
Senior unsecured debentures				
Series 6 – 5.54% due May 21, 2040	**199.0**	**218.2**	199.0	221.4
Series 9 – 3.96% due April 9, 2063	**243.5**	**206.4**	243.5	217.1
Series 10 – 4.08% due September 16, 2044	**198.7**	**183.2**	198.6	188.0
Series 11 – 3.55% due July 28, 2045	**198.7**	**169.1**	198.7	173.6
Series 12 – 2.52% due August 25, 2026	**199.9**	**199.9**	199.8	197.5
Series 13 – 3.485% due February 28, 2048	**198.7**	**163.8**	198.7	169.9
Series 14 – 2.43% due December 11, 2029	**199.4**	**195.1**	199.3	190.3
Series 15 – 2.99% due December 10, 2049	**198.8**	**148.1**	198.7	153.9
Series 16 – 1.50% due October 15, 2030	**199.2**	**184.7**	199.0	177.6
Series 17 – 2.47% due October 20, 2031	**149.4**	**143.0**	149.4	138.4
Series 18 – 3.27% due October 18, 2051	**198.6**	**154.0**	198.6	160.7
Series 19 – 4.95% due October 13, 2052	**297.7**	**304.3**	297.7	318.9
Series 20 – 4.61% due June 14, 2033	**248.7**	**261.5**	248.5	260.6
Series 21 – 5.13% due October 12, 2028	**199.3**	**210.9**	199.0	211.6
Series 22 – 3.99% due September 26, 2034	**248.3**	**249.1**	248.1	247.8
Series 23 – 3.65% due September 24, 2032	**198.8**	**198.3**	—	—
Series 24 – 4.75% due September 24, 2055	**198.4**	**196.8**	—	—
Total	**3,575.1**	**3,386.4**	3,176.6	3,027.3

[1] The fair value measurement of financial instruments is included in Level 2 of the fair value hierarchy.

Financial risks

The following is a discussion of certain financial risks identified by Toronto Hydro for its financial instruments and related mitigation strategies. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

a) Credit risk

Toronto Hydro is exposed to the risk of counterparties defaulting on their obligations. Toronto Hydro monitors and limits its exposure to credit risk on a continuous basis. The credit risk related to cash and cash equivalents is mitigated by Toronto Hydro in assessing and monitoring the credit exposures of counterparties. Toronto Hydro's maximum exposure to credit risk is approximately equal to the carrying value of its financial assets.

Toronto Hydro's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. Toronto Hydro is exposed to credit risk with respect to customer non-payment of electricity bills. Toronto Hydro considers the current economic and credit conditions to determine the expected credit loss allowance of its accounts receivable and unbilled revenue. Due to the changing economic environment, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to estimation uncertainty. Toronto Hydro determines the expected credit loss allowance based on current estimates and assumptions, including, but not limited to, recent trends for customer collections and current and forecasted economic conditions. Toronto Hydro continues to actively monitor its exposure to credit risk. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable.

THESL obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2025, THESL held security deposits in the amount of $231.3 million (2024 - $117.4 million), of which $185.3 million (2024 - $82.6 million) was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. Toronto Hydro's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2025, there were no significant concentrations of credit risk with respect to any customer.

Toronto Hydro did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2025 and December 31, 2024.

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

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**204.1**	210.8
Outstanding for more than 30 days and not more than 120 days	**26.1**	36.3
Outstanding for more than 120 days	**16.0**	39.2
Total accounts receivable, gross	**246.2**	286.3
Unbilled revenue, gross	**356.2**	317.4
Expected credit loss allowance	**(18.2)**	(20.2)
Total accounts receivable and unbilled revenue	**584.2**	583.5

Unbilled revenue represents amounts for which Toronto Hydro has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered in conjunction with accounts receivable and is included in the expected credit loss allowance as at December 31, 2025 and December 31, 2024.

Toronto Hydro has a broad base of customers. As at December 31, 2025 and December 31, 2024, Toronto Hydro's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk.

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

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Expected credit loss allowance, beginning of year	**(20.2)**	(29.2)
Increase in expected credit loss allowance	**(6.3)**	(0.8)
Write-offs, net of recoveries	**8.3**	9.8
Expected credit loss allowance, end of year	**(18.2)**	(20.2)

b) Liquidity risk

Toronto Hydro is exposed to liquidity risk related to its ability to fund its obligations as they become due. Toronto Hydro monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. Toronto Hydro has access to credit facilities and debt capital markets and monitors cash balances daily. Toronto Hydro's objective is to ensure that sufficient liquidity is on hand to meet obligations as they become due while minimizing finance costs. Toronto Hydro relies on debt financing through the debt capital markets and existing credit facilities to finance its daily operations, repay existing indebtedness and fund capital expenditures. A changing economic environment created by factors, including, but not limited to, uncertain macroeconomic conditions may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on Toronto Hydro's operating results and financial position in the future. Accordingly, Toronto Hydro continues to monitor liquidity risk and adapt its plans as the economic climate evolves.

Liquidity risks associated with financial commitments as at December 31, 2025 are as follows:

(in millions of Canadian dollars)	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	**5.7**	—	—	—	—	—
Commercial paper [1]	**115.0**	—	—	—	—	—
Accounts payable and accrued liabilities [2]	**505.9**	—	—	—	—	—
Senior unsecured debentures						
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	**200.0**
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	**245.0**
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	**200.0**
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	**200.0**
Series 12 – 2.52% due August 25, 2026	**200.0**	—	—	—	—	—
Series 13 – 3.485% due February 28, 2048	—	—	—	—	—	**200.0**
Series 14 – 2.43% due December 11, 2029	—	—	—	**200.0**	—	—
Series 15 – 2.99% due December 10, 2049	—	—	—	—	—	**200.0**
Series 16 – 1.50% due October 15, 2030	—	—	—	—	**200.0**	—
Series 17 – 2.47% due October 20, 2031	—	—	—	—	—	**150.0**
Series 18 – 3.27% due October 18, 2051	—	—	—	—	—	**200.0**
Series 19 – 4.95% due October 13, 2052	—	—	—	—	—	**300.0**
Series 20 – 4.61% due June 14, 2033	—	—	—	—	—	**250.0**
Series 21 – 5.13% due October 12, 2028	—	—	**200.0**	—	—	—
Series 22 – 3.99% due September 26, 2034	—	—	—	—	—	**250.0**
Series 23 – 3.65% due September 24, 2032	—	—	—	—	—	**200.0**
Series 24 – 4.75% due September 24, 2055	—	—	—	—	—	**200.0**
Interest payments on debentures	**135.5**	**130.5**	**130.5**	**120.3**	**115.4**	**1,665.5**
Total	**962.1**	**130.5**	**330.5**	**320.3**	**315.4**	**4,460.5**

[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 $29.8 million of accrued interest on debentures included within “Interest payments on debentures”.

c) Market risks

Interest rate risk

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

As at December 31, 2025, aside from the post-employment benefit obligations, most of Toronto Hydro's remaining obligations were either non-interest bearing or bear fixed interest rates. Its financial assets were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $0.9 million to annual finance costs.

Foreign exchange risk

As at December 31, 2025, Toronto Hydro had limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in United States dollars, and purchases United States currency to meet the related commitments when required, the value of such purchases is not significant to Toronto Hydro and as such the impact of foreign exchange fluctuations would not be expected to have a material effect on the consolidated financial statements.

16. SHARE CAPITAL

Share capital consists of the following:

As at December 31	2025		2024	
(in millions of Canadian dollars, except share amounts)	Number of Shares	$	Number of Shares	$
Issued and outstanding [1]				
Beginning of the year	**1,228**	**867.8**	1,200	817.8
Common shares issued	**14**	**25.0**	28	50.0
End of the year	**1,242**	**892.8**	1,228	867.8

[1] The authorized share capital of the Corporation consists of an unlimited number of common shares with no par value. All shares issued were fully paid.

17. 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 in accordance with the targets set out for the period 2025 to 2034. The dividend is declared quarterly, subject to the discretion of the Board of Directors, and is payable to the City by the last business day of each fiscal quarter.

During the year ended December 31, 2025, the Board of Directors of the Corporation declared and paid dividends to the City totalling $60.0 million (2024 - $83.9 million).

18. REVENUES

Accounting policy

Toronto Hydro assesses each contract with the customer to identify the performance obligation. The transaction price and the payment terms are agreed upon in the contract between Toronto Hydro and the customer. Revenue is recognized to the extent it is probable that Toronto Hydro will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

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

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

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by THESL in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders. Toronto Hydro's agreement to provide distribution services to the customer is a performance obligation that is satisfied over time as the customer simultaneously consumes the electricity distributed to the customer's location.

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

Revenues from services ancillary to electricity distribution relate to customer requests for work performed, which may include plant relocations or extensions, service connections, temporary service and pole support. Customers benefit from

the services performed as requested in each contract and/or job quotation. This performance obligation is satisfied over time when Toronto Hydro transfers a promised good or service to a customer.

Revenues from the delivery of street lighting and expressway lighting services are recognized as the services are rendered. Toronto Hydro's agreement to design, install, operate and maintain the street lighting system at the service level agreed with the City is a performance obligation that is satisfied over time as the City simultaneously receives and consumes the benefit. Revenue from the delivery of street lighting and expressway lighting services is recorded on a gross basis as Toronto Hydro is acting as the principal. Toronto Hydro has the primary responsibility for the delivery of street lighting and expressway lighting services to the City even though it may engage other parties to perform some of the services on its behalf. Toronto Hydro bills a fixed annual fee on a monthly basis. Periodically, Toronto Hydro may be entitled to additional consideration for its delivery of street lighting and expressway lighting services, which is accounted for as variable consideration.

Revenues from pole and duct rentals relate to customers' request for a permit to attach their equipment on Toronto Hydro's owned poles and the contract defines the fees chargeable and the payment terms. Toronto Hydro has performance obligations to provide the site inspection, reviews and processes the application prior to any make-ready work so the pole or duct meets the condition for the asset attachment, and to provide ongoing access thereafter for attaching customer assets to the pole or duct. Toronto Hydro recognizes the non-refundable administration fee upon completion of its review and processing of the customer application. Toronto Hydro recognizes the fees from make-ready work at the point in time when the work is complete and recognizes the rental fees over the rental period as the customer simultaneously receives and consumes the benefit of usage.

Revenues from other regulatory service charges include items such as one-time setup fees for a new account or transfer of an existing account to a different address, fees related to overdue customer accounts, collection charges and reconnection charges which are based on OEB-approved rates. Toronto Hydro recognizes these regulatory service charges when the service is complete.

Capital contributions received in advance from electricity customers and developers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15 *Revenue from Contracts with Customers*. Contributions received from customers to construct or acquire PP&E to deliver services other than those related to delivery of electricity are recorded as deferred revenue and amortized into other revenue over the term of the contract with the customer. The rendering of these contracts includes a performance obligation to either construct or acquire PP&E, connect to and/or expand the main distribution system and provide ongoing service, which is satisfied over time as benefits flow to the customers.

Non-cash compensation from third parties for items of PP&E that were impaired or given up is measured at fair value and recognized when it becomes receivable and is recorded in accordance with IAS 16.

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

Toronto Hydro has not incurred any additional costs to obtain or fulfill contracts with its customers from the above-mentioned revenue generating activities. Variable consideration under a contract is recorded only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty is subsequently resolved.

Significant judgment and estimation uncertainty

Toronto Hydro makes judgments with respect to evaluating whether Toronto Hydro acts as principal or agent for recording revenue on a gross or net basis on certain flow-through charges to customers or where it engages other parties to perform some of the services on its behalf.

An estimate of electricity usage not yet billed is included in energy sales and distribution revenue. The estimate is derived from historical consumption patterns with adjustments mainly for assumptions related to seasonality. Toronto Hydro applies judgment to the measurement of the estimated consumption.

Details of revenues

Revenues consist of the following:

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Revenue from contracts with customers		
Energy sales	**3,229.7**	2,923.3
Distribution revenue	**959.4**	937.8
Street lighting services	**21.3**	
Pole and duct rentals	**18.8**	
Ancillary services revenue		
Other regulatory service charges	**10.2**	
Miscellaneous	**25.5**	
Revenue from other sources		
Capital contributions - developers and other	**24.6**	18.3
Street lighting contributed assets	**9.0**	
Other	**13.4**	9.5
Total revenues	**4,329.7**	3,980.0

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

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Residential service [1]	**1,190.4**	1,130.0
General service [2]	**2,727.7**	2,485.5
Large users [3]	**271.0**	245.6
Total energy sales and distribution revenue	**4,189.1**	3,861.1

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

[2] "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kilowatt (kW) averaged over a 12-month period.

[3] "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a 12-month period.

19. OPERATING EXPENSES

Operating expenses consist of the following:

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 [2] $
Salaries and benefits		
External services		
Other support costs [1]		
Materials and supplies		
Less: Capitalized costs		
Total operating expenses		

[1] Includes general and administrative expenses, expected credit loss allowance, taxes other than income taxes, insurance, communication and utilities.
[2] Includes reclassification from amounts previously reported.

For the year ended December 31, 2025, Toronto Hydro recognized operating expenses of $11.5 million related to materials and supplies used to service electricity distribution assets (2024 - $18.4 million).

20. FINANCE COSTS

Finance costs consist of the following:

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Interest income	**4.0**	7.0
Interest expense		
Interest on long-term debt	**(124.6)**	(112.8)
Interest on short-term debt	**(17.5)**	(32.5)
Other interest	**(3.6)**	(5.3)
Capitalized borrowing costs	**5.2**	5.8
Total finance costs	**(136.5)**	(137.8)

21. INCOME TAXES

Accounting policy

The Corporation is exempt from tax under the *Income Tax Act, 1985* (Canada), as amended (ITA) and the *Taxation Act, 2007* (Ontario), as amended (TA), if not less than 90% of its capital is owned by the City and not more than 10% of its income 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 and the TA 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.

The Corporation and each of its subsidiaries are municipal electricity utilities in the Province of Ontario (MEUs) for purposes of the payments in lieu of corporate taxes (PILs) regime contained in the Electricity Act. The Electricity Act provides that an MEU that is exempt from tax under the ITA and the TA 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 and each of its subsidiaries paying income taxes equivalent to what would be imposed under the ITA and the TA.

Toronto Hydro uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Toronto Hydro 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.

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 or liabilities associated with the revenue impact resulting from the realization of deferred taxes is recorded within regulatory 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 investment tax credits are credited against the related expense in the consolidated statements of income.

Significant judgment and estimation uncertainty

Toronto Hydro applies judgments with respect to the calculation of current and deferred taxes, changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax benefits are realizable. When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax returns and records provisions where appropriate.

Income tax expense

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:

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes		
Statutory Canadian federal and provincial income tax rate		
Expected income tax expense		
Non-taxable amounts	**23.2**	
Other	**(3.8)**	
Income tax expense	**(63.5)**	
Effective tax rate	**20.3 %**	11.7 %
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [(1)]		
Statutory Canadian federal and provincial income tax rate		
Expected income tax expense		
Temporary differences recoverable in future rates	**49.6**	
Other	**(3.3)**	
Income tax (expense) recovery and income tax recorded in net movements in regulatory balances	**(9.7)**	5.5
Effective tax rate	**4.6 %**	(4.4)%

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

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

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Income tax expense	**(63.5)**	(18.6)
Income tax recorded in net movements in regulatory balances	**53.8**	24.1
Income tax (expense) recovery and income tax recorded in net movements in regulatory balances	**(9.7)**	5.5
Income tax expense in OCI *(note 13(d))*	**(2.7)**	(2.7)
Income tax recovery in OCI recorded in net movements in regulatory balances	**2.7**	2.7
Income tax in OCI	**—**	—

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

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Current tax expense		
Current year	**(11.6)**	(3.2)
Deferred tax recovery		
Recognition of previously unrecognized deductible temporary differences	**—**	0.9
Origination and reversal of temporary differences	**1.9**	7.8
Income tax (expense) recovery and income tax recorded in net movements in regulatory balances	**(9.7)**	5.5

Deferred tax assets and liabilities

Deferred tax assets (liabilities) consist of the following:

As at December 31 (in millions of Canadian dollars)	2024 $	Recognized in net income $	Recognized in OCI $	2025 $	2025 Deferred tax assets $	2025 Deferred tax liabilities $
PP&E and intangible assets	(264.4)	**(39.6)**	**—**	**(304.0)**	**0.7**	**(304.7)**
Post-employment benefits	65.6	**0.6**	**(2.7)**	**63.5**	**—**	**63.5**
Tax credit carryforward	10.3	**1.2**	**—**	**11.5**	**—**	**11.5**
Other taxable temporary differences	60.7	**(14.1)**	**—**	**46.6**	**—**	**46.6**
Total	(127.8)	**(51.9)**	**(2.7)**	**(182.4)**	**0.7**	**(183.1)**

As at December 31 (in millions of Canadian dollars)	2023 $	Recognized in net income $	Recognized in OCI $	2024 $	2024 Deferred tax assets $	2024 Deferred tax liabilities $
PP&E and intangible assets	(218.0)	(46.4)	—	(264.4)	0.9	(265.3)
Post-employment benefits	66.8	1.5	(2.7)	65.6	—	65.6
Tax credit carryforward	6.0	4.3	—	10.3	—	10.3
Other taxable temporary differences	35.5	25.2	—	60.7	—	60.7
Total	(109.7)	(15.4)	(2.7)	(127.8)	0.9	(128.7)

As at December 31, 2025, Toronto Hydro had accumulated net capital losses of $18.7 million (2024 - $18.7 million), which are available to offset capital gains in future years. As at December 31, 2025, Toronto Hydro had accumulated non-capital losses of $58.6 million for income tax purposes (2024 - $43.8 million), which are available to offset net income in future years before expiring ($0.6 million expires in 2042, $20.5 million expires in 2043, $22.7 million expires in 2044 and $14.8 million expires in 2045).

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 Toronto Hydro can utilize the benefits therefrom:

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Deductible temporary differences		
Net capital losses		
Non-capital losses		
Total		

22. CONSOLIDATED STATEMENTS OF CASH FLOWS

a) Changes in non-cash operating working capital

Changes in non-cash operating working capital consist of the following:

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Accounts receivable and unbilled revenue	**(30.4)**	(23.4)
Income tax receivable	**2.3**	(2.3)
Materials and supplies	**0.1**	(0.5)
Other current assets	**(0.2)**	85.0
Accounts payable and accrued liabilities	**5.4**	(57.8)
Income tax payable	**0.6**	(1.4)
Deferred revenue	**(0.7)**	3.6
Deferred conservation credit	**—**	(10.9)
Total changes in non-cash operating working capital	**(22.9)**	(7.7)

b) Reconciliation of additions to PP&E and intangible assets

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

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Purchase of PP&E, cash basis	**853.5**	752.1
Net change in accounts payable and accruals related to PP&E	**18.2**	24.4
Non-cash contributed assets	**24.9**	31.5
Other	**2.1**	1.5
Additions to PP&E	**898.7**	809.5
Purchase of intangible assets, cash basis	**42.3**	93.2
Net change in accounts payable and accruals related to intangible assets	**3.1**	(20.3)
Additions to intangible assets	**45.4**	72.9

c) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

As at December 31 (in millions of Canadian dollars)	2024 $	Cash flows [1] $	Non cash changes $	2025 $
Commercial paper *(note 9)*	480.0	**(365.0)**	**—**	**115.0**
Dividends payable *(note 17)*	—	**(60.0)**	**60.0**	**—**
Debentures *(note 12)*	3,176.6	**397.3**	**1.2**	**3,575.1**
Accrued interest and other [2]	25.4	**(137.9)**	**142.4**	**29.9**
Total	3,682.0	**(165.6)**	**203.6**	**3,720.0**

As at December 31 (in millions of Canadian dollars)	2023 $	Cash flows [1] $	Non cash changes $	2024 $
Commercial paper *(note 9)*	421.0	59.0	—	480.0
Dividends payable *(note 17)*	—	(83.9)	83.9	—
Debentures *(note 12)*	2,927.2	248.2	1.2	3,176.6
Accrued interest and other [2]	22.6	(143.5)	146.3	25.4
Total	3,370.8	79.8	231.4	3,682.0

[1] Cash inflows and cash outflows arising from commercial paper borrowings and debentures are presented on a net basis.
[2] Accrued interest is included within accounts payable and accrued liabilities *(note 10)*.

23. RELATED PARTY TRANSACTIONS

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

a) Transactions with related parties

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Revenues		
Operating expenses and capital expenditures		
Dividends declared and paid *(note 17)*		

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 road cut repairs, property taxes and other services. Dividends are paid to the City *(note 17)*.

b) Amounts due to/from related parties

As at December 31 (in millions of Canadian dollars)	2025 $	2024 $
Accounts receivable and unbilled revenue *(note 4)*		
Accounts payable and accrued liabilities *(note 10)*		
Customer deposits		

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity, street lighting and ancillary services including amounts 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.

c) Key management personnel compensation

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

Year ended December 31 (in millions of Canadian dollars)	2025 $	2024 $
Short-term employee benefits	**4.7**	6.7
Post-employment benefits	**0.6**	2.5
Other long-term benefits	**0.3**	0.4
Termination benefits	**—**	0.6
Total	**5.6**	10.2

24. COMMITMENTS

As at December 31, 2025, the future minimum payments for commitments were as follows:

As at December 31 (in millions of Canadian dollars)	2025 $
Less than one year	**1.0**
Between one and five years	**2.1**
More than five years	**2.6**
Total amount of future minimum payments [1]	**5.7**

[1] Refer to note 15 for financial commitments excluded from the table above.

25. CONTINGENCIES

Legal proceedings

In the ordinary course of business, Toronto Hydro is subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and could materially adversely affect Toronto Hydro. As at the date hereof, Toronto Hydro believes that none of these legal proceedings, actions and claims from customers, suppliers, regulators and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on Toronto Hydro. On an ongoing basis, Toronto Hydro assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, Toronto Hydro would make a claim under any liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers.

26. SUBSEQUENT EVENTS

Toronto Hydro has evaluated the events and transactions occurring after the consolidated balance sheet date through to February 25, 2026 when the Corporation's Consolidated Financial Statements were authorized for issuance by the Corporation's Board of Directors, and has identified the following events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in the notes to the Consolidated Financial Statements.

a) New equity investment from the City

On January 2, 2026, the Corporation issued 13 common shares to the City for total proceeds of $25.0 million in relation to an equity contribution from the City.

b) Dividends

On February 25, 2026, the Board of Directors of the Corporation declared a dividend in the amount of $10.0 million, payable to the City by March 31, 2026.

APPENDIX

B

OSC CERTIFICATES FROM

CEO AND CFO

TORONTO HYDRO CORPORATION

FORM 52-109FV1
CERTIFICATION OF ANNUAL FILINGS
VENTURE ISSUER BASIC CERTIFICATE

I, Jana Mosley, President and Chief Executive Officer of Toronto Hydro Corporation, certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Toronto Hydro Corporation (the "issuer") for the financial year ended December 31, 2025.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Date: February 25, 2026

"Jana Mosley"
Jana Mosley
President and Chief Executive Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

TORONTO HYDRO CORPORATION

FORM 52-109FV1
CERTIFICATION OF ANNUAL FILINGS
VENTURE ISSUER BASIC CERTIFICATE

I, Baoqin Guo, Executive Vice-President and Chief Financial Officer of Toronto Hydro Corporation, certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Toronto Hydro Corporation (the "issuer") for the financial year ended December 31, 2025.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Date: February 25, 2026

"Baoqin Guo"
Baoqin Guo
Executive Vice-President and Chief Financial Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

APPENDIX

C

CONSOLIDATED AND ENTITY LEVEL FINANCIAL STATEMENTS

Consolidated Financial Statements

Toronto Hydro Corporation

DECEMBER 31, 2025

Toronto Hydro Corporation

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)

	As at December 31,			As at December 31,
	2025 Actual $	2025 Budget $	2025 Variance $	2024 Actual $
ASSETS				
Current				
Accounts receivable and unbilled revenue	**584.2**	**555.1**	**29.1**	583.5
Income tax receivable	**—**	**1.1**	**(1.1)**	2.3
Materials and supplies	**8.9**	**16.1**	**(7.2)**	9.0
Other assets	**21.8**	**18.8**	**3.0**	21.6
Total current assets	**614.9**	**591.1**	**23.8**	616.4
Property, plant and equipment	**7,382.0**	**7,247.7**	**134.3**	6,757.8
Intangible assets	**416.3**	**423.9**	**(7.6)**	421.1
Deferred tax assets	**0.7**	**0.9**	**(0.2)**	0.9
Other assets	**13.4**	**12.8**	**0.6**	16.1
Total assets	**8,427.3**	**8,276.4**	**150.9**	7,812.3
Regulatory balances	**237.4**	**363.5**	**(126.1)**	322.5
Total assets and regulatory balances	**8,664.7**	**8,639.9**	**24.8**	8,134.8
LIABILITIES AND EQUITY				
Current				
Working capital facility	**5.7**	**—**	**5.7**	5.2
Commercial paper	**115.0**	**417.0**	**(302.0)**	480.0
Accounts payable and accrued liabilities	**535.7**	**533.0**	**2.7**	499.9
Income tax payable	**0.6**	**—**	**0.6**	—
Customer deposits	**89.7**	**82.7**	**7.0**	57.7
Deferred revenue	**31.7**	**31.4**	**0.3**	32.4
Debentures	**199.9**	**199.9**	**—**	—
Total current liabilities	**978.3**	**1,264.0**	**(285.7)**	1,075.2
Debentures	**3,375.2**	**3,276.1**	**99.1**	3,176.6
Customer deposits	**141.6**	**36.0**	**105.6**	59.7
Deferred revenue	**1,182.9**	**1,142.8**	**40.1**	1,019.2
Post-employment benefits	**239.5**	**257.6**	**(18.1)**	247.7
Deferred tax liabilities	**183.1**	**146.6**	**36.5**	128.7
Other liabilities	**3.4**	**4.0**	**(0.6)**	3.6
Total liabilities	**6,104.0**	**6,127.1**	**(23.1)**	5,710.7
Equity				
Share capital	**892.8**	**892.8**	**—**	867.8
Retained earnings	**1,473.7**	**1,464.9**	**8.8**	1,332.2
Total equity	**2,366.5**	**2,357.7**	**8.8**	2,200.0
Total liabilities and equity	**8,470.5**	**8,484.8**	**(14.3)**	7,910.7
Regulatory balances	**194.2**	**155.1**	**39.1**	224.1
Total liabilities, equity and regulatory balances	**8,664.7**	**8,639.9**	**24.8**	8,134.8

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF INCOME

(in millions of Canadian dollars)

	2025 Actual $			2024 Actual $
Revenues				
Energy sales	**3,229.7**		**241.0**	2,923.3
Distribution revenue	**959.4**		**31.0**	937.8
Other	**140.6**		**20.5**	118.9
	4,329.7		**292.5**	3,980.0
Expenses				
Energy purchases	**3,165.6**			3,005.6
Operating expenses	**392.3**		**3.3**	378.5
Depreciation and amortization	**322.6**		**(1.0)**	299.7
	3,880.5		**(94.6)**	3,683.8
Finance costs	**(136.5)**		**7.9**	(137.8)
Other gains	**—**		**(1.8)**	—
Income before income taxes	**312.7**	**108.7**	**204.0**	158.4
Income tax expense	**(63.5)**	**(13.1)**	**(50.4)**	(18.6)
Net income	**249.2**	**95.6**	**153.6**	139.8
Net movements in regulatory balances	**(101.5)**	**77.4**	**(178.9)**	(33.6)
Net movements in regulatory balances arising from deferred taxes	**53.8**	**15.0**	**38.8**	24.1
Net income after net movements in regulatory balances	**201.5**	**188.0**	**13.5**	130.3

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)

			Year ended December 31,	Year ended December 31,
	Actual $			2024 Actual $
Net income after net movements in regulatory balances			**13.5**	130.3
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax (2025 - ($2.7), 2024 - ($2.7))			**7.5**	7.4
Net movements in regulatory balances related to OCI, net of tax (2025 - $2.7, 2024 - $2.7)	**(7.5)**		**(7.5)**	(7.4)
Other comprehensive income, net of tax			**—**	—
Total comprehensive income	**201.5**	**188.0**	**13.5**	130.3

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
Share capital, beginning of year	**867.8**	**817.8**	**50.0**	817.8
Common shares issued	**25.0**	**75.0**	**(50.0)**	50.0
Share capital, end of year	**892.8**	**892.8**	**—**	867.8
Retained earnings, beginning of year	**1,332.2**	**1,336.9**	**(4.7)**	1,285.8
Net income after net movements in regulatory balances	**201.5**	**188.0**	**13.5**	130.3
Dividends	**(60.0)**	**(60.0)**	**—**	(83.9)
Retained earnings, end of year	**1,473.7**	**1,464.9**	**8.8**	1,332.2
Total equity	**2,366.5**	**2,357.7**	**8.8**	2,200.0

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	**201.5**	**188.0**	**13.5**	130.3
Net movements in regulatory balances	**101.5**	**(77.4)**	**178.9**	33.6
Net movements in regulatory balances arising from deferred taxes	**(53.8)**	**(15.0)**	**(38.8)**	(24.1)
Adjustments				
Depreciation and amortization	**322.6**	**321.6**	**1.0**	299.7
Non-cash contributed assets	**(8.7)**	**—**	**(8.7)**	(3.0)
Amortization of deferred revenue	**(26.2)**	**(24.9)**	**(1.3)**	(19.6)
Finance costs	**136.5**	**144.4**	**(7.9)**	137.8
Income tax expense	**63.5**	**13.1**	**50.4**	18.6
Post-employment benefits	**2.0**	**2.7**	**(0.7)**	5.6
Other gains	**—**	**(1.8)**	**1.8**	—
Other	**(4.4)**	**—**	**(4.4)**	(6.6)
Capital contributions received	**188.2**	**203.1**	**(14.9)**	152.4
Net change in other non-current assets and liabilities	**3.3**	**2.1**	**1.2**	(3.6)
Increase in customer deposits	**113.9**	**13.6**	**100.3**	6.7
Changes in non-cash operating working capital balances	**(22.9)**	**(61.8)**	**38.9**	(7.7)
Income tax recovered (paid)	**(5.7)**	**1.9**	**(7.6)**	(3.7)
Net cash provided by operating activities	**1,011.3**	**709.6**	**301.7**	716.4
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(853.5)**	**(770.0)**	**(83.5)**	(752.1)
Purchase of intangible assets	**(42.3)**	**(55.3)**	**13.0**	(93.2)
Proceeds from variable consideration	**23.6**	**—**	**23.6**	—
Proceeds on disposals of property, plant and equipment	**1.0**	**1.8**	**(0.8)**	1.2
Net cash used in investing activities	**(871.2)**	**(823.5)**	**(47.7)**	(844.1)
FINANCING ACTIVITIES				
Increase (decrease) in commercial paper, net	**(365.0)**	**(48.1)**	**(316.9)**	59.0
Common shares issued	**25.0**	**75.0**	**(50.0)**	50.0
Dividends paid	**(60.0)**	**(60.0)**	**—**	(83.9)
Proceeds from issuance of debentures	**399.9**	**300.0**	**99.9**	249.8
Debt issuance costs paid	**(2.6)**	**(1.2)**	**(1.4)**	(1.6)
Interest paid	**(137.9)**	**(151.8)**	**13.9**	(143.5)
Net cash provided by (used in) financing activities	**(140.6)**	**113.9**	**(254.5)**	129.8
Net change in cash and cash equivalents during the year	**(0.5)**	**—**	**(0.5)**	2.1
Working capital facility, beginning of year	**(5.2)**	**—**	**(5.2)**	(7.3)
Working capital facility, end of year	**(5.7)**	**—**	**(5.7)**	(5.2)

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2025

Toronto Hydro-Electric System Limited

BALANCE SHEETS

(in millions of Canadian dollars)

	As at December 31,			As at December 31,
	2025 Actual $	2025 Budget $	2025 Variance $	2024 Actual $
ASSETS				
Current				
Cash and cash equivalents	**364.7**	**67.5**	**297.2**	33.0
Accounts receivable and unbilled revenue	**580.2**	**550.8**	**29.4**	581.3
Income tax receivable	**—**	**1.1**	**(1.1)**	2.4
Materials and supplies	**8.9**	**16.1**	**(7.2)**	9.0
Other assets	**21.8**	**18.6**	**3.2**	21.4
Total current assets	**975.6**	**654.1**	**321.5**	647.1
Property, plant and equipment	**7,306.3**	**7,175.4**	**130.9**	6,688.3
Intangible assets	**416.3**	**423.9**	**(7.6)**	421.1
Other assets	**13.4**	**12.8**	**0.6**	16.1
Total assets	**8,711.6**	**8,266.2**	**445.4**	7,772.6
Regulatory balances	**237.4**	**363.5**	**(126.1)**	322.5
Total assets and regulatory balances	**8,949.0**	**8,629.7**	**319.3**	8,095.1
LIABILITIES AND EQUITY				
Current				
Accounts payable and accrued liabilities	**535.0**	**535.4**	**(0.4)**	497.3
Income tax payable	**0.7**	**—**	**0.7**	—
Customer deposits	**89.7**	**82.7**	**7.0**	57.7
Deferred revenue	**30.1**	**30.9**	**(0.8)**	31.5
Notes payable to related party	**244.9**	**244.9**	**—**	45.0
Total current liabilities	**900.4**	**893.9**	**6.5**	631.5
Notes payable to related party	**3,376.8**	**3,277.8**	**99.0**	3,178.2
Customer deposits	**141.6**	**36.0**	**105.6**	59.7
Deferred revenue	**1,182.4**	**1,141.8**	**40.6**	1,018.2
Post-employment benefits	**239.5**	**257.6**	**(18.1)**	247.7
Deferred tax liabilities	**183.1**	**146.6**	**36.5**	128.7
Other liabilities	**3.4**	**4.0**	**(0.6)**	3.6
Total liabilities	**6,027.2**	**5,757.7**	**269.5**	5,267.6
Equity				
Share capital	**556.3**	**556.3**	**—**	556.3
Retained earnings	**2,158.5**	**2,147.8**	**10.7**	2,034.3
Contributed surplus	**12.8**	**12.8**	**—**	12.8
Total equity	**2,727.6**	**2,716.9**	**10.7**	2,603.4
Total liabilities and equity	**8,754.8**	**8,474.6**	**280.2**	7,871.0
Regulatory balances	**194.2**	**155.1**	**39.1**	224.1
Total liabilities, equity and regulatory balances	**8,949.0**	**8,629.7**	**319.3**	8,095.1

Toronto Hydro-Electric System Limited

STATEMENTS OF INCOME

(in millions of Canadian dollars)

	2025 Actual $	2025	2025	2024 Actual $
Revenues				
Energy sales	**3,229.7**		**241.0**	2,923.3
Distribution revenue	**959.4**		**31.0**	937.8
Other	**121.9**		**19.3**	101.0
	4,311.0		**291.3**	3,962.1
Expenses				
Energy purchases	**3,165.6**	**3,068.7**	**(96.9)**	3,005.6
Operating expenses	**374.1**	**381.2**	**7.1**	364.1
Depreciation and amortization	**317.4**	**316.9**	**(0.5)**	294.7
	3,857.1	**3,766.8**	**(90.3)**	3,664.4
Finance costs	**(127.4)**	**(128.2)**	**0.8**	(116.3)
Other gains	**—**	**1.8**	**(1.8)**	—
Income before income taxes	**326.5**	**126.5**	**200.0**	181.4
Income tax expense	**(63.0)**	**(12.9)**	**(50.1)**	(19.2)
Net income	**263.5**	**113.6**	**149.9**	162.2
Net movements in regulatory balances	**(101.5)**	**77.4**	**(178.9)**	(33.6)
Net movements in regulatory balances arising from deferred taxes	**53.8**	**15.0**	**38.8**	24.1
Net income after net movements in regulatory balances	**215.8**	**206.0**	**9.8**	152.7

Toronto Hydro-Electric System Limited

STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual	**2025**	**2025**	2024 Actual
	$	**$**	**$**	$
Net income after net movements in regulatory balances			**9.8**	152.7
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax (2025 - ($2.7), 2024 - ($2.7))			**7.5**	7.4
Net movements in regulatory balances related to OCI, net of tax (2025 - $2.7, 2024 - $2.7)	**(7.5)**		**(7.5)**	(7.4)
Other comprehensive income, net of tax			**—**	—
Total comprehensive income	**215.8**	**206.0**	**9.8**	152.7

Toronto Hydro-Electric System Limited

STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
Share capital	**556.3**	**556.3**	**—**	556.3
Retained earnings, beginning of year	**2,034.3**	**2,033.5**	**0.8**	1,977.4
Net income after net movements in regulatory balances	**215.8**	**206.0**	**9.8**	152.7
Dividends	**(91.6)**	**(91.7)**	**0.1**	(95.8)
Retained earnings, end of year	**2,158.5**	**2,147.8**	**10.7**	2,034.3
Contributed surplus	**12.8**	**12.8**	**—**	12.8
Total equity	**2,727.6**	**2,716.9**	**10.7**	2,603.4

Toronto Hydro-Electric System Limited

STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	2025 Budget $	2025 Variance $	2024 Actual $
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	**215.8**	**206.0**	**9.8**	152.7
Net movements in regulatory balances	**101.5**	**(77.4)**	**178.9**	33.6
Net movements in regulatory balances arising from deferred taxes	**(53.8)**	**(15.0)**	**(38.8)**	(24.1)
Adjustments				
Depreciation and amortization	**317.4**	**316.9**	**0.5**	294.7
Non-cash contributed assets	**(8.1)**	**—**	**(8.1)**	(2.8)
Amortization of deferred revenue	**(26.2)**	**(24.9)**	**(1.3)**	(19.6)
Finance costs	**127.4**	**128.2**	**(0.8)**	116.3
Income tax expense	**63.0**	**12.9**	**50.1**	19.2
Post-employment benefits	**2.0**	**2.7**	**(0.7)**	5.6
Other gains	**—**	**(1.8)**	**1.8**	—
Other	**(4.5)**	**(1.3)**	**(3.2)**	(6.7)
Capital contributions received	**188.2**	**203.1**	**(14.9)**	152.4
Net change in other non-current assets and liabilities	**3.8**	**1.2**	**2.6**	(4.0)
Increase in customer deposits	**113.9**	**13.6**	**100.3**	6.7
Changes in non-cash operating working capital balances	**(22.5)**	**(64.3)**	**41.8**	(15.2)
Income tax recovered (paid)	**(5.3)**	**2.1**	**(7.4)**	(3.5)
Net cash provided by operating activities	**1,012.6**	**702.0**	**310.6**	705.3
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(843.6)**	**(760.0)**	**(83.6)**	(740.9)
Purchase of intangible assets	**(42.3)**	**(55.3)**	**13.0**	(93.2)
Proceeds from variable consideration	**23.6**	**—**	**23.6**	—
Proceeds on disposals of property, plant and equipment	**1.0**	**1.8**	**(0.8)**	1.2
Net cash used in investing activities	**(861.3)**	**(813.5)**	**(47.8)**	(832.9)
FINANCING ACTIVITIES				
Issuance of notes payable to related party	**397.4**	**298.8**	**98.6**	248.4
Dividends paid	**(91.6)**	**(91.7)**	**0.1**	(95.8)
Interest received	**2.8**	**4.8**	**(2.0)**	4.3
Interest paid	**(128.2)**	**(133.0)**	**4.8**	(119.2)
Net cash provided by financing activities	**180.4**	**78.9**	**101.5**	37.7
Net change in cash and cash equivalents during the year	**331.7**	**(32.6)**	**364.3**	(89.9)
Cash and cash equivalents, beginning of year	**33.0**	**100.1**	**(67.1)**	122.9
Cash and cash equivalents, end of year	**364.7**	**67.5**	**297.2**	33.0

Financial Statements

Toronto Hydro Energy Services Inc.

DECEMBER 31, 2025

Toronto Hydro Energy Services Inc.

BALANCE SHEETS

(in thousands of Canadian dollars)

	As at December 31,			As at December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
ASSETS				
Current				
Accounts receivable and unbilled revenue	**4,458**	**4,273**	**185**	3,659
Income tax receivable	**109**	**—**	**109**	—
Total current assets	**4,567**	**4,273**	**294**	3,659
Property, plant and equipment	**75,743**	**72,295**	**3,448**	69,511
Deferred tax assets	**721**	**855**	**(134)**	947
Total assets	**81,031**	**77,423**	**3,608**	74,117
LIABILITIES AND EQUITY				
Current				
Bank indebtedness	**34,958**	**29,845**	**5,113**	28,054
Accounts payable and accrued liabilities	**5,094**	**5,517**	**(423)**	5,608
Income tax payable	**—**	**—**	**—**	54
Deferred revenue	**1,601**	**565**	**1,036**	856
Total current liabilities	**41,653**	**35,927**	**5,726**	34,572
Deferred revenue	**514**	**1,004**	**(490)**	960
Total liabilities	**42,167**	**36,931**	**5,236**	35,532
Equity				
Share capital	**20,001**	**20,001**	**—**	20,001
Retained earnings	**18,863**	**20,491**	**(1,628)**	18,584
Total equity	**38,864**	**40,492**	**(1,628)**	38,585
Total liabilities and equity	**81,031**	**77,423**	**3,608**	74,117

Toronto Hydro Energy Services Inc.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
Revenues	**26,468**	**24,496**	**1,972**	26,362
Expenses				
Operating expenses	**19,566**	**17,915**	**(1,651)**	19,498
Depreciation	**5,180**	**4,706**	**(474)**	4,960
	24,746	**22,621**	**(2,125)**	24,458
Finance costs	**(988)**	**(1,578)**	**590**	(1,255)
Income before income taxes	**734**	**297**	**437**	649
Income tax (expense) recovery	**(455)**	**(264)**	**(191)**	628
Net income	**279**	**33**	**246**	1,277
Other comprehensive income	**—**	**—**	**—**	—
Total comprehensive income	**279**	**33**	**246**	1,277

Toronto Hydro Energy Services Inc.

STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
Share capital	**20,001**	**20,001**	**—**	20,001
Retained earnings, beginning of year	**18,584**	**20,458**	**(1,874)**	17,307
Net income	**279**	**33**	**246**	1,277
Retained earnings, end of year	**18,863**	**20,491**	**(1,628)**	18,584
Total equity	**38,864**	**40,492**	**(1,628)**	38,585

Toronto Hydro Energy Services Inc.

STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
OPERATING ACTIVITIES				
Net income	**279**	**33**	**246**	1,277
Adjustments				
Depreciation	**5,180**	**4,706**	**474**	4,960
Non-cash contributed assets	**(626)**	**—**	**(626)**	(235)
Finance costs	**988**	**1,578**	**(590)**	1,255
Income tax expense (recovery)	**455**	**264**	**191**	(628)
Amortization of deferred revenue	**(15)**	**(15)**	**—**	(15)
Change in other non-current liabilities	**(431)**	**833**	**(1,264)**	423
Changes in non-cash operating working capital balances	**(1,454)**	**1,415**	**(2,869)**	540
Income tax paid	**(392)**	**—**	**(392)**	(151)
Net cash provided by operating activities	**3,984**	**8,814**	**(4,830)**	7,426
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(9,891)**	**(9,984)**	**93**	(11,131)
Net cash used in investing activities	**(9,891)**	**(9,984)**	**93**	(11,131)
FINANCING ACTIVITIES				
Interest received	**—**	**—**	**—**	14
Interest paid	**(997)**	**(1,578)**	**581**	(1,295)
Net cash used in financing activities	**(997)**	**(1,578)**	**581**	(1,281)
Net change in cash and cash equivalents during the year	**(6,904)**	**(2,748)**	**(4,156)**	(4,986)
Bank indebtedness, beginning of year	**(28,054)**	**(27,097)**	**(957)**	(23,068)
Bank indebtedness, end of year	**(34,958)**	**(29,845)**	**(5,113)**	(28,054)

Non-consolidated Financial Statements

Toronto Hydro Corporation

DECEMBER 31, 2025

Toronto Hydro Corporation

NON-CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars, unaudited)

	As at December 31,			As at December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
ASSETS				
Current				
Interest and other receivables	**35.6**	**35.2**	**0.4**	29.3
Other assets	**—**	**0.1**	**(0.1)**	0.2
Notes receivable from related party	**244.9**	**244.9**	**—**	45.0
Total current assets	**280.5**	**280.2**	**0.3**	74.5
Long-term investments				
Investment in Toronto Hydro-Electric System Limited	**2,714.7**	**2,709.2**	**5.5**	2,590.6
Investment in Toronto Hydro Energy Services Inc.	**42.7**	**39.4**	**3.3**	42.4
Total long-term investments	**2,757.4**	**2,748.6**	**8.8**	2,633.0
Notes receivable from related party	**3,376.8**	**3,277.8**	**99.0**	3,178.2
Total assets	**6,414.7**	**6,306.6**	**108.1**	5,885.7
LIABILITIES AND EQUITY				
Current				
Bank indebtedness	**335.4**	**37.6**	**297.8**	10.1
Commercial paper	**115.0**	**417.0**	**(302.0)**	480.0
Interest and other payables	**31.4**	**27.0**	**4.4**	27.7
Debentures	**199.9**	**199.9**	**—**	—
Total current liabilities	**681.7**	**681.5**	**0.2**	517.8
Debentures	**3,375.2**	**3,276.1**	**99.1**	3,176.6
Total liabilities	**4,056.9**	**3,957.6**	**99.3**	3,694.4
Equity				
Share capital	**892.8**	**892.8**	**—**	867.8
Retained earnings	**1,465.0**	**1,456.2**	**8.8**	1,323.5
Total equity	**2,357.8**	**2,349.0**	**8.8**	2,191.3
Total liabilities and equity	**6,414.7**	**6,306.6**	**108.1**	5,885.7

Toronto Hydro Corporation

NON-CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in millions of Canadian dollars, unaudited)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
Revenues				
Investment income from subsidiaries	**216.0**	**206.0**	**10.0**	153.9
	216.0	**206.0**	**10.0**	153.9
Operating expenses	**6.4**	**3.4**	**(3.0)**	3.5
Finance income	**134.3**	**132.1**	**2.2**	125.9
Finance costs	**(142.4)**	**(146.7)**	**4.3**	(146.1)
Income before income taxes	**201.5**	**188.0**	**13.5**	130.2
Income tax expense	**—**		**—**	—
Net income	**201.5**	**188.0**	**13.5**	130.2
Other comprehensive income	**—**		**—**	—
Total comprehensive income	**201.5**	**188.0**	**13.5**	130.2

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars, unaudited)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
Share capital, beginning of year	**867.8**	**817.8**	**50.0**	817.8
Common shares issued	**25.0**	**75.0**	**(50.0)**	50.0
Share capital, end of year	**892.8**	**892.8**	**—**	867.8
Retained earnings, beginning of year	**1,323.5**	**1,328.2**	**(4.7)**	1,277.2
Net income	**201.5**	**188.0**	**13.5**	130.2
Dividends	**(60.0)**	**(60.0)**	**—**	(83.9)
Retained earnings, end of year	**1,465.0**	**1,456.2**	**8.8**	1,323.5
Total equity	**2,357.8**	**2,349.0**	**8.8**	2,191.3

Toronto Hydro Corporation

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars, unaudited)

	Year ended December 31,			Year ended December 31,
	2025 Actual $	**2025 Budget $**	**2025 Variance $**	2024 Actual $
OPERATING ACTIVITIES				
Net income	**201.5**	**188.0**	**13.5**	130.2
Adjustments				
Investment income from subsidiaries	**(216.0)**	**(206.0)**	**(10.0)**	(153.9)
Finance income	**(134.3)**	**(132.1)**	**(2.2)**	(125.9)
Finance costs	**142.4**	**146.7**	**(4.3)**	146.1
Dividends from subsidiary	**91.6**	**91.7**	**(0.1)**	95.8
Changes in non-cash operating working capital balances	**(5.6)**	**(5.2)**	**(0.4)**	(6.0)
Net cash provided by operating activities	**79.6**	**83.1**	**(3.5)**	86.3
INVESTING ACTIVITIES				
Issuance of notes receivable from related party	**(397.4)**	**(298.8)**	**(98.6)**	(248.4)
Net cash used in investing activities	**(397.4)**	**(298.8)**	**(98.6)**	(248.4)
FINANCING ACTIVITIES				
Increase (decrease) in commercial paper, net	**(365.0)**	**(48.1)**	**(316.9)**	59.0
Common shares issued	**25.0**	**75.0**	**(50.0)**	50.0
Dividends paid	**(60.0)**	**(60.0)**	**—**	(83.9)
Proceeds from issuance of debentures	**399.9**	**300.0**	**99.9**	249.8
Debt issuance costs paid	**(2.6)**	**(1.2)**	**(1.4)**	(1.6)
Interest received	**131.3**	**132.1**	**(0.8)**	126.6
Interest paid	**(136.1)**	**(146.7)**	**10.6**	(140.8)
Net cash provided by (used in) financing activities	**(7.5)**	**251.1**	**(258.6)**	259.1
Net change in cash and cash equivalents during the year	**(325.3)**	**35.4**	**(360.7)**	97.0
Bank indebtedness, beginning of year	**(10.1)**	**(73.0)**	**62.9**	(107.1)
Bank indebtedness, end of year	**(335.4)**	**(37.6)**	**(297.8)**	(10.1)