

POWERING TORONTO'S FUTURE

2016 Annual Report





MESSAGE

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

POWERING TORONTO'S FUTURE. We're proud that Toronto Hydro is important to the fabric of life in Toronto. Throughout the year, Toronto Hydro worked tirelessly to maintain a safe, reliable electricity system to keep our city thriving. We're powering Toronto's future by making much-needed and prudent investments to ensure a strong, stable electrical infrastructure for this world-class city we call home.

EXCEEDING CUSTOMERS' EXPECTATIONS – In an effort to provide relief and help make electricity more affordable for our customers struggling to pay their bills, we worked hard to ensure that they were made aware of programs to assist them, such as the Low-Income Energy Assistance Program, the Home Assistance Program and the Ontario Electricity Support Program.

We continued to offer engagement and transaction options allowing customers 24/7 access to our services. We also made improvements to our call centre and outage communications, including the launch of our new Outage Notification program, providing customers with timely outage updates and restoration notices. Overall, electronic engagements increased by 16% and when customers do call, 86% of them have their issues resolved on the first call. Helping our customers save electricity and better manage their bills is a priority of ours. In 2016, we delivered the largest Conservation and Demand Management savings ever in Ontario – we achieved an estimated energy savings of 273.2 GWh (the equivalent of taking 36,720 homes off the grid).

Recognized as a Sustainable Electricity Company™ by the Canadian Electricity Association (CEA), we pursued strategic projects to eliminate waste and increase efficiency. Our efforts were recognized with the CEA's 2016 Integrated Approach to Sustainability Award.

STRONG FINANCIAL PERFORMANCE – Once again, Toronto Hydro had a highly successful year, exceeding all of its key performance indicators, resulting in a \$151.4 million net income. Toronto Hydro was able to perform strong financially, despite operating in a highly complicated, regulated industry.

INVESTING IN OUR GROWING CITY – We invested \$551.7 million to renew our aging infrastructure, address reliability and safeguard our system against extreme weather events. As a result, we're seeing improvements. Since 2010, the average number of service interruptions has improved by 21% and the average

POWERING TORONTO'S FUTURE

duration of interruptions is down by 26%. However, we recognize that sustained investments are needed and this will remain our focus.

We're also supporting many other transformational projects happening in the city, including the Metrolinx Eglinton Crosstown Light Rail Transit System, Toronto-York Spadina subway extension and Yorkdale Mall expansion.

BRINGING INNOVATIVE PROJECTS TO LIFE - We're focused on promoting innovation while driving toward a smart city through leading edge initiatives that add value to Toronto's economy and form an integrated, future-looking grid. As thought leaders, we're engaged in policy development and continue to research and introduce the latest concepts and technologies, while at the same time engaging others to join our efforts. We worked with the city to enable solar projects, specifically installing photovoltaic (PV) panels on municipal buildings, and are getting ready for the electrification of our city, by working diligently to help ensure the growing demand for electric vehicle charging is supported with a capable supply of electricity.

Our collaboration with the Centre for Urban Energy at Ryerson University continued and we unveiled a pole-top energy storage pilot project this year. We also made progress on the construction of the Clare R. Copeland Transformer Station, the second underground transformer station in Canada, by transporting two transformers across the city and installing them at this station. Copeland Station is expected to be completed in 2018 and is an example of when refurbishing aging assets, careful thought is given to integrating innovation for the future.

PRIORITIZING PUBLIC AND EMPLOYEE SAFETY - In 2016, we achieved five million hours without a lost-time injury and total recordable injuries were 74% lower than our benchmarked peers. We also had the lowest absenteeism rate in our history - 66% lower than the Canadian utilities benchmark. Toronto Hydro was also the proud recipient of a 2016 Electrical Safety Authority award for our public powerline safety campaign.

We're proud of the progress we've made and excited to share more details of our accomplishments, which you can find in the Progress section of this report.

On behalf of the Board of Directors and our management team, we want to thank our customers and stakeholders for their continued support. Most importantly, we'd like to thank all Toronto Hydro employees, who make up our hard-working and talented workforce. Toronto Hydro's achievements are a product of your hard work and unwavering dedication.



David McFadden
Chair



Anthony Haines
President and Chief Executive Officer

WE'D LIKE TO THANK
ALL TORONTO HYDRO
EMPLOYEES,
WHO MAKE UP OUR
HARD-WORKING AND
TALENTED WORKFORCE.



GOVERNANCE

CORPORATE GOVERNANCE

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

BOARD OF DIRECTORS

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

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

The members of the Corporation's Board of Directors as of December 31, 2016 are introduced here.

The description indicates committee and subsidiary Boards of Directors' participation. There was one vacancy on the Board of Directors as of December 31, 2016.

Effective May 4, 2016, the City, as the sole shareholder of the Corporation, appointed Michael Nobrega to the Board of Directors. The appointment is effective for a term ending on December 10, 2017, or until a successor is appointed. Effective December 10, 2016, Derek Cowbourne and David Williams ceased to be directors of the Corporation. Effective December 11, 2016, the City, as the sole shareholder of the Corporation, appointed Mary Ellen Richardson to the Board of Directors. The appointment is effective for a term ending on December 10, 2017, or until a successor is appointed.

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Effective November 7, 2016, David McFadden and Brian Chu were appointed Vice-Chairs of the Board of Directors. Effective December 10, 2016, David McFadden was appointed as Chair of the Board of Directors, replacing David Williams.

CODE OF BUSINESS CONDUCT AND WHISTLEBLOWER PROCEDURE

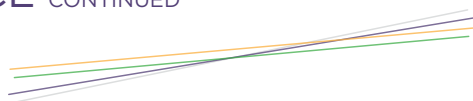
All employees, officers and directors of the Corporation and its subsidiaries are required to comply with the principles set out in the Code of Business Conduct and Whistleblower Procedure, which was implemented by the Corporation in 2003 and most recently amended and approved by the Board of Directors on May 11, 2016. The Code provides guidance to all employees in situations of perceived conflict of interest. All employees, officers and directors of the Corporation and its subsidiaries are required to complete training in respect of the Code and attest to compliance with the Code upon commencement of employment and every three years thereafter. The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. The Ethics Officer reports quarterly to the Human Resources and Environment Committee of the Board of Directors on the nature of complaints received and the Director, Internal Audit reports quarterly to the Audit Committee of the Board of Directors on matters related to audit and accounting. Where the complaint involves the conduct of a director or officer of the Corporation, the Ethics Officer is required to report it to the Chair of the Human Resources and Environment Committee, or, where such conduct relates to questionable auditing or accounting matters, to the Chair of the Audit Committee, who oversees the investigation of that complaint. A copy of the Corporation's Code of Business Conduct and Whistleblower Procedure is available on our website.

DISCLOSURE POLICY

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

COMMITTEES OF THE BOARD OF DIRECTORS

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



AUDIT COMMITTEE

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

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

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

As part of its governance function, the Corporate Governance and Nominating Committee reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's sole shareholder by the Board of Directors. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of Toronto Hydro-Electric System Limited for approval by the Corporation's Board of Directors. The Corporate Governance and Nominating Committee reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The Corporate Governance and Nominating Committee is responsible for periodically reviewing with management the Corporation's energy policy strategies and related stakeholder management.

HUMAN RESOURCES AND ENVIRONMENT COMMITTEE

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

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BOARD OF DIRECTORS



DAVID MCFADDEN, CHAIR

- Counsel, Gowling WLG
- Chair, 407 International Inc.
- Chair, PCI Geomatics Inc.
- Director, Ontario Energy Association
- Director, Cricket Energy Holdings Inc.
- Member, Smart Grid Forum, Independent Electricity System Operator
- Member, Advisory Board of the MaRS Advanced Energy Centre
- Member, Board of Governors, York University
- Member, Council for Clean and Reliable Electricity
- Former Member, Ontario Distribution Sector Review Panel
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force



BRIAN CHU, VICE-CHAIR

- Member of the Board of Directors, Toronto Hydro Energy Services Inc.
- Director, Technical Standards & Safety Authority
- Partner, Bogart Robertson & Chu LLP
- Trustee and Chair, Ontario Science Centre
- Former Chair, Audit Committee, Centennial College
- Former Member, Finance Committee, Ontario College of Art and Design
- Former Chair, Finance and Audit Committee, Laidlaw Foundation

Committee Memberships

- Human Resources and Environment Committee (Chair)
- Audit Committee



COUNCILLOR PAUL AINSLIE

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

Committee Membership

Corporate Governance and Nominating Committee



COUNCILLOR STEPHEN HOLYDAY, MAYOR'S DESIGNATE

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

Committee Membership

Human Resources and Environment Committee



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TAMARA KRONIS

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

Committee Membership

Human Resources and Environment Committee



DEPUTY MAYOR DENZIL MINNAN-WONG

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



MICHAEL NOBREGA



- Chair, Ontario Centres of Excellence
- Former President and CEO, Ontario Municipal Employees Retirement System (OMERS)
- Former Chief Investment Officer, OMERS
- Former President and CEO, Borealis (OMERS) Infrastructure
- Former Partner, Arthur Andersen, Chartered Accountants
- Former Member, Board of Directors, Global Risk Institute
- Recipient, University of Toronto Arbor Award
- Fellow, Institute of Chartered Accountants of Ontario

Committee Memberships

Audit Committee (Chair)

Human Resources and Environment Committee

MARY ELLEN RICHARDSON



- Member of the Board of Directors, Toronto Hydro Energy Services Inc.
- Member, Board of Directors, Finance and Audit Committee, and Chair, Government Relations Committee, Markham District Energy Inc.
- Former President, Canadian District Energy Association
- Former Vice-President, Corporate Affairs, Ontario Power Authority
- Former President, Association of Major Power Consumers in Ontario
- Former Member, Board of Directors and Human Resources Committee, Guelph Municipal Holdings Inc.
- Former Member, Management Board, Ontario Centres of Excellence in Energy
- Former Member, Board of Directors, ECO Canada
- Former Member, Ontario Government's Electricity Conservation and Supply Task Force
- Former Member, Executive of the Stakeholders' Alliance for Competition and Customer Choice
- Former Member, Customer Advisory Board, Hydro One

Committee Membership

Corporate Governance and Nominating Committee

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THE HONOURABLE HOWARD WETSTON, SENATOR

- Chair of the Board of Directors, Toronto Hydro-Electric System Limited
- Senator
- Counsel, Goodmans LLP
- Member, Advisory Board, Spark Power Corp.
- Member, Advisory Board, Program on Ethics in Law and Business, University of Toronto
- Member, Advisory Board, Shannon School of Business
- Former Chair and Chief Executive Officer, Ontario Securities Commission
- Former Vice-Chair, Ontario Securities Commission
- Former Chair and Chief Executive Officer, Ontario Energy Board
- Former Judge, Federal Court of Canada, Trial Division
- Former Ex-officio Judge of the Federal Court of Canada's Appeal Division
- Former Director, Investigations and Research, Bureau of Competition Policy (Commissioner of Competition)
- Trustee, International Valuations Standards Council
- Competition Policy Counsel, C.D. Howe Institute
- Member, Order of Canada

Committee Membership

Corporate Governance and Nominating Committee (Chair)



HEATHER ZORDEL

- Chair of the Board of Directors, Toronto Hydro Energy Services Inc.
- Partner, Securities Group, Gardiner Roberts LLP
- Co-Director, Osgoode Hall Law School's Master of Laws Programs in Securities Law
- Former Chair, Securities Advisory Committee, Ontario Securities Commission
- Former Partner, Cassels Brock and Blackwell LLP
- Former Member, Federal Expert Panel on Securities Regulation

Committee Membership

Audit Committee



DAVID D. HAY*

- Managing Director, Delgatie Incorporated
- Chair, SHAD Valley International
- Member, Council for Clean and Reliable Energy
- Former Vice-Chair and Managing Director, CIBC World Markets
- Former President and CEO, New Brunswick Power
- Former Director, Associated Electric & Gas Insurance Services AEGIS (USA)
- Former Co-Chair, New Brunswick Special Task Force “Electricity in New Brunswick and options for its future”
- Former Chair, Beaverbrook Art Gallery
- Former Senior Vice-President, Merrill Lynch Canada Inc.
- Former Managing Director, M&A, Merrill Lynch & Co., Inc. (London, England)
- Former Associate, Osler Hoskin & Harcourt
- Former Law Clerk to the Chief Justice of the High Court of the Supreme Court of Ontario
- Former Lecturer on Law and Finance, University of Toronto and University of New Brunswick
- Former Director, Star Choice Communications Inc.
- Former Director, EMR Microwave Technology Corporation

CASE NOTES*

- Member of the Board of Governors, Seneca College
- Former Chair of Mayor Ford’s Transition Team
- Former Chair of Mayor Tory’s Transition Team
- Former Managing Director, Toronto Community Housing
- Former Deputy Mayor of the City of Toronto
- Former Chair of Labour Relations for the City of Toronto
- Former Chair, Toronto Financial Service Alliance
- Former Member, Toronto Police Services Board
- Former Member, Toronto Transit Commission
- Former Director, Municipal Property Assessment Corporation
- Former Director, GO Transit Board
- Former Director, Greater Toronto Marketing Alliance Board
- Former Director, Business Development Corp. Board
- Former Director, Toronto East General Hospital Board
- Former Director, Toronto Hydro Board
- Former Director, Toronto Region Conservation Board
- Former Seneca College Executive in Residence
- Former President of East York Kiwanis
- Former Corporate Credit Manager, Imperial Oil
- Former Manager of Accounting Service, Imperial Oil

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MARIO SILVA*

- Published Author and International Legal Scholar
- Distinguished Visiting Professor at Ryerson University
- Fellow, Montreal Institute for Genocide and Human Rights Studies at Concordia University
- Professional Fellow of the Privacy and Cyber Crime Institute at Ted Rogers School of Management at Ryerson University
- Professional Fellow at Institute for the Study of Corporate Social Responsibility at Ted Rogers School of Management at Ryerson University
- Chair, Corporate Social Responsibility Advisory Council – Superior Medical
- Former Visiting Scholar, Faculty of Law at McGill University
- Former Member of Parliament
- Former Toronto City Councillor
- Former Chair, International Holocaust Remembrance Alliance (IHRA)
- Former Director, Toronto Hydro
- Former Director, Toronto Transit Commission
- Former Director, Exhibition Place
- Former Director, Mount Sinai Hospital
- Former Director, Canadian Opera Company
- Commander of the Order of Merit, Portugal
- Commander of the Order of Rio Branco, Brazil
- Knight, Ordre national de la Légion d'honneur, France
- Recipient, Insignia of the Autonomous Region of the Azores
- Recipient, Bridge Builder Award by the Parliament of Canada All Party Interfaith Friendship Group

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



SENIOR MANAGEMENT TEAM



Anthony Haines

President and Chief Executive Officer ^{1,2}



Sean Bovingdon

Executive Vice-President and Chief Financial Officer ^{1,2}



Amanda Klein

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

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Ben LaPianta

Executive Vice-President and Chief Electric Operations and Procurement Officer ²



Ave Lethbridge

Executive Vice-President and Chief Human Resources and Safety Officer ²



Dino Priore

Executive Vice-President and Chief Engineering and Construction Officer ²



Chris Tyrrell

Executive Vice-President and Chief Customer Care and Conservation Officer ²



Robert Wong

Executive Vice-President and Chief Information Officer ²



Laura Foster

Vice-President, Audit and Corporate Compliance ²

¹Toronto Hydro Corporation

²Toronto Hydro-Electric System Limited



TORONTO HYDRO CORPORATION OVERVIEW

TORONTO HYDRO CORPORATION (THE CORPORATION) IS A HOLDING COMPANY WHICH WHOLLY-OWNS TWO SUBSIDIARIES:

Toronto Hydro-Electric System Limited – which distributes electricity and engages in conservation and demand management (CDM) activities

Toronto Hydro Energy Services Inc. – which provides street lighting and expressway lighting services in the city of Toronto

SERVICES

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

2016 ACHIEVEMENTS

- Invested \$551.7 million primarily in the renewal of aging infrastructure to address service reliability, safety and customer service requirements
- Raised \$800,000 through our partners and sponsors at the company's third annual golf tournament in support of the Ross Tilley Burn Centre at Sunnybrook Hospital
- Raised more than \$144,000 for United Way Toronto and York Region and was recognized with a United Way Spirit Award
- On June 14, 2016, the Corporation issued \$200.0 million of 2.52% senior unsecured debentures at a price of \$999.84 per \$1,000 principal amount due August 25, 2026
- As at December 31, 2016, the debentures issued under the Corporation's medium-term note program were rated "A" by DBRS Limited and "A" by Standard & Poor's. The commercial paper issued under the Corporation's commercial paper program was rated "R-1 (low)" by DBRS Limited

2017 OBJECTIVES

The Corporation aims to:

- Provide customers value for money
- Maintain an engaged, safe and healthy workforce that meets changing business requirements
- Improve reliability through optimal and sustainable system management
- Meet the financial objectives of its Shareholder



BALANCED SCORECARD

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

The performance objectives of the Corporation in 2016 were as follows:

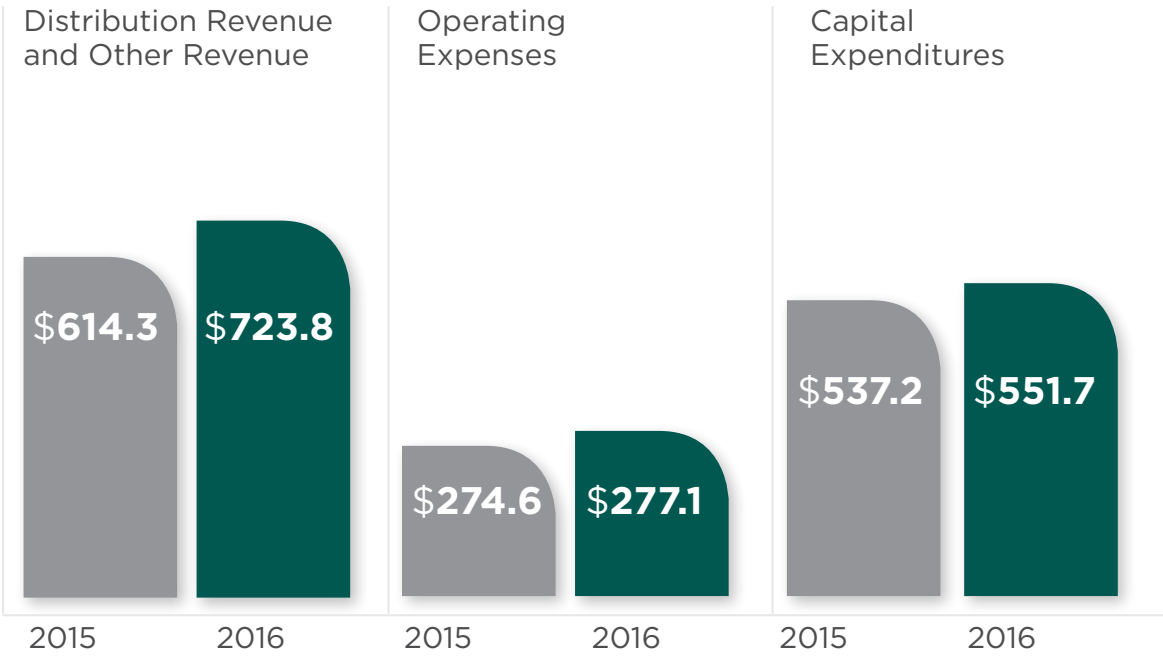
CORPORATE KEY PERFORMANCE INDICATORS	MEASURE	2016 TARGET
Net income after net movements in regulatory balances (\$ millions)	Net income after net movements in regulatory balances per the Corporation's Consolidated Financial Statements	\$120.1
Local Distribution Company (LDC) Regulated Capital (\$ millions) ¹	Achievement of LDC's capital work program	\$409.1
Key Account Worst Performing Feeders	Total number of feeders experiencing seven or more sustained outages affecting key account customers, excluding momentary interruptions, in a 12-month rolling time period	22
System Average Interruption Duration Index (SAIDI) (in minutes)	Measure of the annual system average interruption duration per customer served, not including Major Event Days (MED)	66.36
System Average Interruption Frequency Index (SAIFI) (number of interruptions)	Measure of the frequency of service interruptions per customer served, not including MED	1.47
Enhanced Online Customer Engagement (ECE)	Target to increase customer self-serve transactions/engagements using various self-serve options and media channels	295,000
First Call Resolution	Percentage of telephone enquiries resolved within one call, within a 21-day time period	80%
Safety	Number of recordable injuries x 200,000/exposure hours	1.6
Attendance and Employee Engagement	Average days absent per employee and other employee engagement metrics	4.3

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



FACTS & FIGURES

Toronto Hydro Corporation (in millions of Canadian dollars)



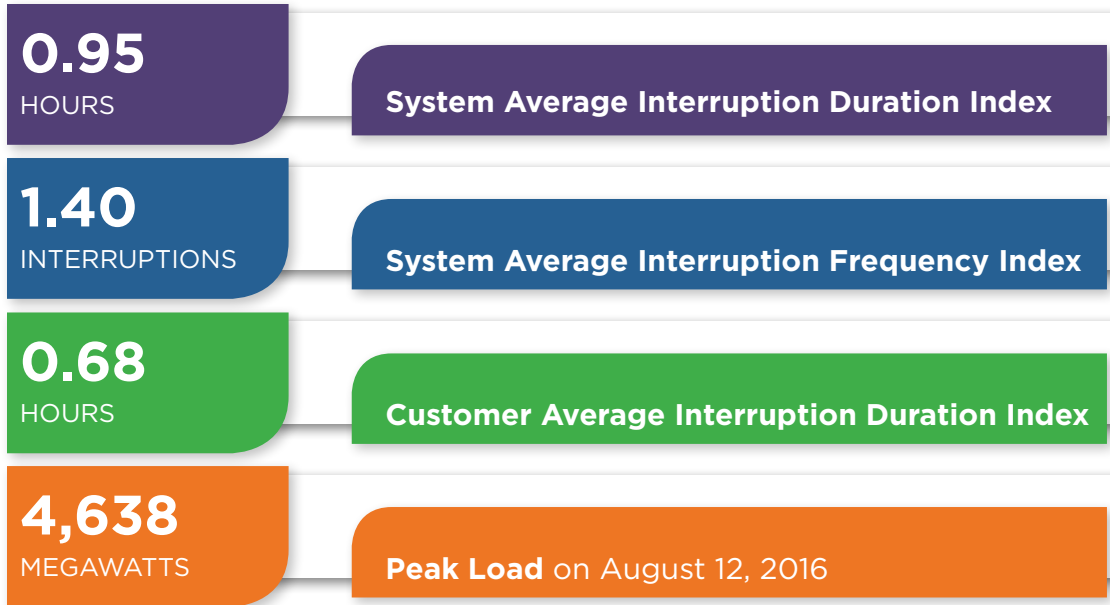
1,490
(APPROXIMATE)

Number of Employees

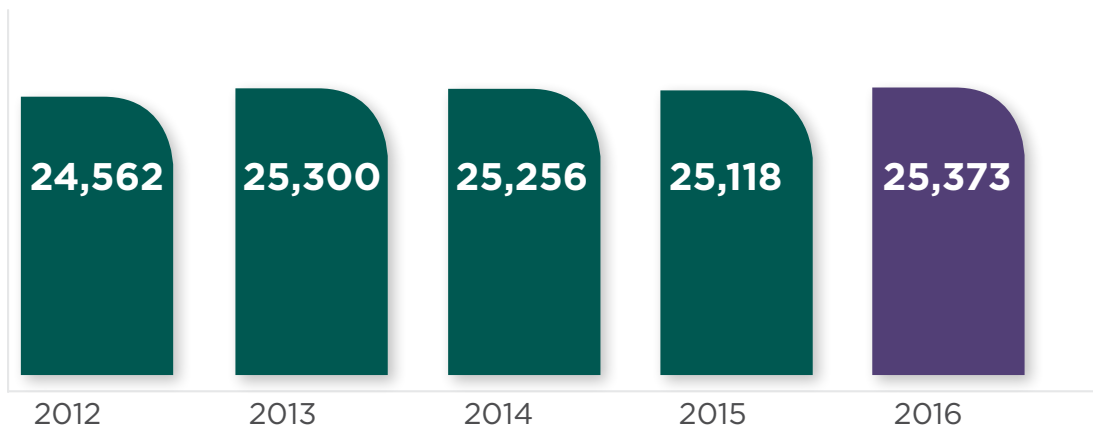
as at December 31, 2016

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Toronto Hydro-Electric System Limited



Electricity Delivered (GWh)



Number of Customers



761,000

(APPROXIMATE)

679,717

RESIDENTIAL SERVICE

81,321 GENERAL SERVICE
with monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

44 LARGE USERS
with monthly peak demand of more than 5,000 kW averaged over a twelve-month period.

Electricity Distribution by Class (GWh)



5,313

RESIDENTIAL SERVICE

17,836

GENERAL SERVICE

2,225

LARGE USERS

Electricity Distribution by Class (%)



21% RESIDENTIAL SERVICE

70% GENERAL SERVICE

9% LARGE USERS

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Toronto Hydro Corporation 2016 Capital Expenditures (in millions of Canadian dollars)

Regulated Local Distribution Company ¹

Distribution System	
Planned ²	\$365.3
Reactive	47.6
Copeland Station	22.6
Facilities Consolidation	50.6
Technology assets	49.1
Other ³	10.8
Regulated capital expenditures	\$546.0
Unregulated capital expenditures ⁴	5.7
TOTAL	\$551.7

¹Refers to Toronto Hydro-Electric System Limited

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

³Includes fleet capital and buildings

⁴Primarily relates to streetlighting and generation equipment

Electricity Distribution System is serviced from:

(approximate)

34	terminal stations
1	transmission system terminal station
16,500	primary switches
60,420	distribution transformers
157	in-service municipal substations
15,560	kilometres of overhead wires supported by
177,220	poles and approximately
13,040	kilometres of underground wires
1	Control Centre
5	Operations Centres



2016 ANNUAL REPORT GLOSSARY

Customer Average Interruption Duration Index (CAIDI)

A measure (in hours) of the average duration of interruptions experienced by customers, not including Major Event Days (MED). CAIDI represents the quotient obtained by dividing the System Average Interruption Duration Index (SAIDI) by the System Average Interruption Frequency Index (SAIFI).

Gigawatt-Hour (GWh)

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

Kilowatt (kW)

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

Kilowatt-Hour (kWh)

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

Major Event Days (MED)

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

Megawatt (MW)

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

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Peak Load

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

System Average Interruption Duration Index (SAIDI)

A measure (in hours) of the annual system average interruption duration for customers served, not including MED. SAIDI represents the quotient obtained by dividing the total customer hours of interruptions longer than one minute by the number of customers served.

System Average Interruption Frequency Index (SAIFI)

A measure of the frequency of service interruptions for customers served, not including MED. SAIFI represents the quotient obtained by dividing the total number of customer interruptions longer than one minute by the number of customers served.

Watt

A common measure of electrical power. One watt equals the power used when one ampere of current flows through an electrical circuit with a potential of one volt.

Watt-Hour

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



TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Toronto Hydro-Electric System Limited owns and operates \$4.1 billion of capital assets comprised primarily of an electricity distribution system that delivers electricity to approximately 761,000 customers located in the city of Toronto. It serves the largest city in Canada and distributes approximately 19% of the electricity consumed in the province of Ontario.

SERVICES

- Delivers safe, reliable and cost-effective electrical power to approximately 761,000 residential, commercial and industrial customers in the City of Toronto, which has a population base of approximately 2.8 million
- Plans, maintains and operates its electricity distribution infrastructure efficiently and in an environmentally responsible manner
- Provides consistent, high-quality customer service
- Designs and delivers CDM programs

2016 ACHIEVEMENTS

- Among the leading local distribution companies in the delivery of CDM programs to help customers conserve energy, save money and help the environment
- Recognized as a Sustainable Electricity Company™, a designation by the Canadian Electricity Association
- Reached another project milestone with the successful installation of two 155-tonne transformers at Clare R. Copeland Station, the second underground transformer station in Canada

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- Arranged \$5 million in incentive funding to help Campbell Company of Canada install a Combined Heat and Power (CHP) system, the first project to be completed in Toronto using the saveONenergy incentive program
- Continued to improve digital communication channels with more enhancements to online tools, including the launch of the Outage Notification program
- Supported construction initiatives, including the Metrolinx Eglinton Crosstown Light Rail Transit (LRT) System, Yorkdale Mall expansion and Toronto-York Spadina subway extension
- Achieved over five million hours without a lost-time injury
- Continued annual safety campaign to remind the public of electrical safety hazards on the street and at home
- Received an Electrical Safety Authority (ESA) award in the category of Powerline Safety
- Recognized with the 2016 Integrated Approach to Sustainability Award from the Canadian Electricity Association (CEA) for having sustainability integrated into its corporate culture and business strategy
- Awarded with Canada's Safest Employers Silver Safety Award for its commitment to safety in the workplace, which focuses on the continued improvement of controls for recognized occupational hazards and risks
- Supported Georgian College's engineering facility to help train future electrical utility workers and fund curriculum development
- Participated in the Centre for Urban Energy at Ryerson University, an academic-industry collaboration that explores and develops sustainable solutions to urban energy challenges



PROGRESS

Powering a world-class city into the future depends on the work being done today. In 2016, we continued to make improvements to our grid, customer service, emergency preparedness, sustainability initiatives and community outreach.

As always, we worked hard to create an electricity distribution system that's safer, more reliable and increasingly innovative in order to provide the highest quality of service to our customers. We continued to provide our customers with enhanced online tools, more community events and important safety tips. Internally, we took steps to better prepare for emergencies while educating the public on how they can prepare too.

The work we accomplished in 2016 will help pave the way for a brighter Toronto. We're proud of our progress and we'll continue to build on our efforts to support the homes, businesses and communities that rely on our grid every day.



Grid Investment and Reliability

Day or night, Toronto Hydro's electricity distribution system provides the strong foundation for the connected lifestyle we all enjoy, enabling transportation, communications and growth.

As Canada's financial and business capital, our city is expected to continue to experience unprecedented growth, and with that, an increased demand on electricity infrastructure. We're committed to meeting the needs of all Toronto residents and businesses. That's why we're investing heavily in renewing our aging infrastructure to address reliability and safety, and to safeguard our system against extreme weather events.

We have a long-term plan to invest in the grid gradually, spreading out costs and easing rate pressures. These investments, along with our innovative projects and strategic planning, will help power Toronto's future.

HOW WE'RE IMPROVING THE GRID:

- In 2016, we invested \$551.7 million to address safety, reliability and customer service requirements – a \$14.5 million increase from last year
- Since 2010, the average number of service interruptions improved by approximately 21% and the average duration of interruptions improved by approximately 26%
- We continued work on Clare R. Copeland Transformer Station, only the second underground transformer station of its kind in Canada. This year, we reached another major milestone, installing two 155-tonne transformers in the station. Once complete, Copeland Station will add the electricity capacity of approximately 70 condos to the grid, while preserving public green space with its unique design



COPELAND



- We arranged incentive funding to help Campbell Company of Canada (Campbell Canada) install a Combined Heat and Power (CHP) project. The CHP technology provides an on-site source of energy independent from the electrical grid and helps Campbell Canada save on electricity costs as well as provides it with a reliable emergency backup power



- We continued to streamline the process of connecting solar projects to our electricity grid to help customers complete their projects more quickly and easily. As a result, Toronto Hydro received the 2016 Game Changer Solar Service Excellence award from the Canadian Solar Industries Association. In 2016, we interconnected 250 solar projects representing approximately 14.6 MW, the equivalent to removing 1,600 homes off the grid. With an aging infrastructure, renewable generation like solar can help increase our asset lifespan and meet peak capacity needs in the summer

POWERING TORONTO'S FUTURE

- With Hydrostor, we continue to monitor the world's first underwater compressed air energy storage system located in Lake Ontario. Part of a pilot project, this technology works by running electricity through a compressor and converting it into compressed air. The compressed air is sent underwater where it's stored in large balloon-like structures, made out of the same type of material used in marine lift bags to raise shipwrecks. When electricity is needed again, the weight of the water pushes the air to the surface through a large pipe and an expander converts the air back into electricity. Currently, the "underwater battery" is undergoing upgrades and its performance will be evaluated through 2017



- With Ryerson University, eCamion and the Government of Ontario, we're testing a new form of energy storage on a pole-top battery, which stores electricity during off-peak hours and releases power to help improve reliability through an automatic response to incoming data from smart meters. This technology acts as a temporary backup source during outages and detects when the transformer is overloaded so the equipment isn't strained, extending its lifespan. Since the unit has been installed, we've been monitoring how it responds to real-time data from smart meters
- We're a member of the Independent Electricity System Operator (IESO) Central Toronto Working Group for its Integrated Regional Resource Plan (IRRP), which looks at where the demand for electricity is growing and how this can be managed over the next 25 years. As a member, we regularly participate in IRRP meetings and provide advice on the development of plan options, including innovative solutions to address Toronto's future electricity needs

[Learn more about our grid.](#)



Customer Service

As an electric utility, our job doesn't end at keeping the lights on. Excellent customer care goes beyond providing reliable service to understanding and responding to the evolving needs and expectations of our customers.

That's why we're constantly making improvements — managing our services from the customer's point of view, and making sure that it's simple, easy and convenient to do business with us. We continue to offer a variety of engagement and transaction options, providing customers with 24/7 access to our services. Recognizing that some families struggle with paying their electricity bills, we promote awareness and help them register for various electricity assistance programs.

As well, we continue to remind customers about the importance of safety around electrical equipment through our annual electrical safety campaign. Customer-focused service quality is considered in every decision we make.

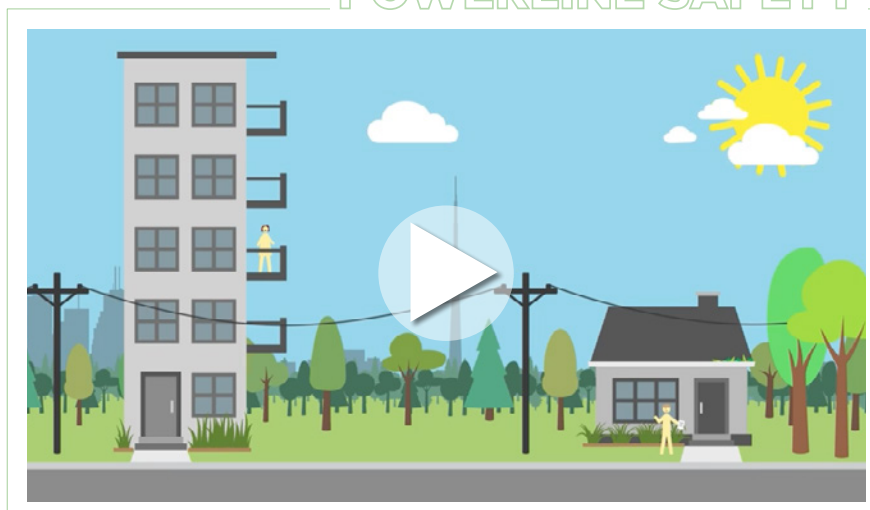
- We introduced monthly billing, as required by the Ontario Energy Board (OEB), making it easier for customers to manage their household budget and offering a more current view of how their electricity habits impact their bills
- To lower costs and positively impact sustainability, we focused on increasing the number of customers on eBills, with a 47% increase in 2016, resulting in 25% of our customers now on paperless billing
- We implemented new and enhanced online self-serve options. As a result, customers are choosing to use our digital channels more frequently, leading to a 16% increase in usage between 2015 and 2016
- We launched a new residential outage notification program, which provides customers with outage updates and restoration timelines
- In 2016, our call centre was able to resolve customers' concerns in the first call 86% of the time, a 2% improvement from the previous year
- We exceeded our regulator's bill accuracy threshold of 98%
- Through community outreach events, we promote awareness and help our vulnerable customers to register for a variety of programs to assist them with their electricity bills, including the Ontario Electricity Support Program (OESP), Low-Income Energy Assistance Program (LEAP) and Home Assistance Program (HAP)

POWERING TORONTO'S FUTURE

- To promote our residential programs and services, an Embedded Community Outreach Coordinator has been located at various social housing agencies throughout the city, specifically priority neighbourhoods since March 2016. There, we provide customers on modest incomes or in arrears with information on OESP, LEAP and HAP
- In 2016, we launched the Joint Home Assistance Program/Home Winterization Pilot in collaboration with Enbridge Gas Distribution Inc. Through this pilot, customers are screened for both programs and benefit from a single audit visit, instead of two separate ones
- We continued to offer targeted programs to help our customers save energy. In 2016, we launched our Smart Thermostat Program in collaboration with Enbridge Gas Distribution Inc., and also worked with Enersource, Hydro One Brampton and Oakville Hydro to deliver instant discounts on LED light bulbs
- Our key account team managed the relationships with our largest business customers across all sectors to provide customized energy saving opportunities and offer specific solutions to meet their business needs
- We introduced live streaming through Periscope and Facebook Live as another way to reach our customers. In February, we broadcasted our electrical safety media event online. During the summer, we live streamed a demonstration on how to put together an emergency preparedness kit, and also gave customers a behind-the-scenes look at our control room to show how we manage electricity at peak times
- We launched a new electrical safety campaign to educate residents on how to stay safe around electrical equipment. The campaign focused on five key areas: overhead wires, underground cables, transformer boxes, downed powerlines and powerlines on cars
- We received an Ontario Electrical Safety Authority award for Powerline Safety, in recognition of our live demonstration on how to safely react if powerlines land on your vehicle. For the demonstration, we worked with Toronto Fire Services to re-create a collision scene involving a car hitting a hydro pole
- We continued to offer electrical safety tips online, in our newsletters and at events to increase the electrical safety knowledge of our customers. For Powerline Safety Week in May, we created an animated video to remind customers about the potential dangers of electrical equipment around their home



POWERLINE SAFETY



[Learn more about our customer care initiatives.](#)



Emergency Preparedness

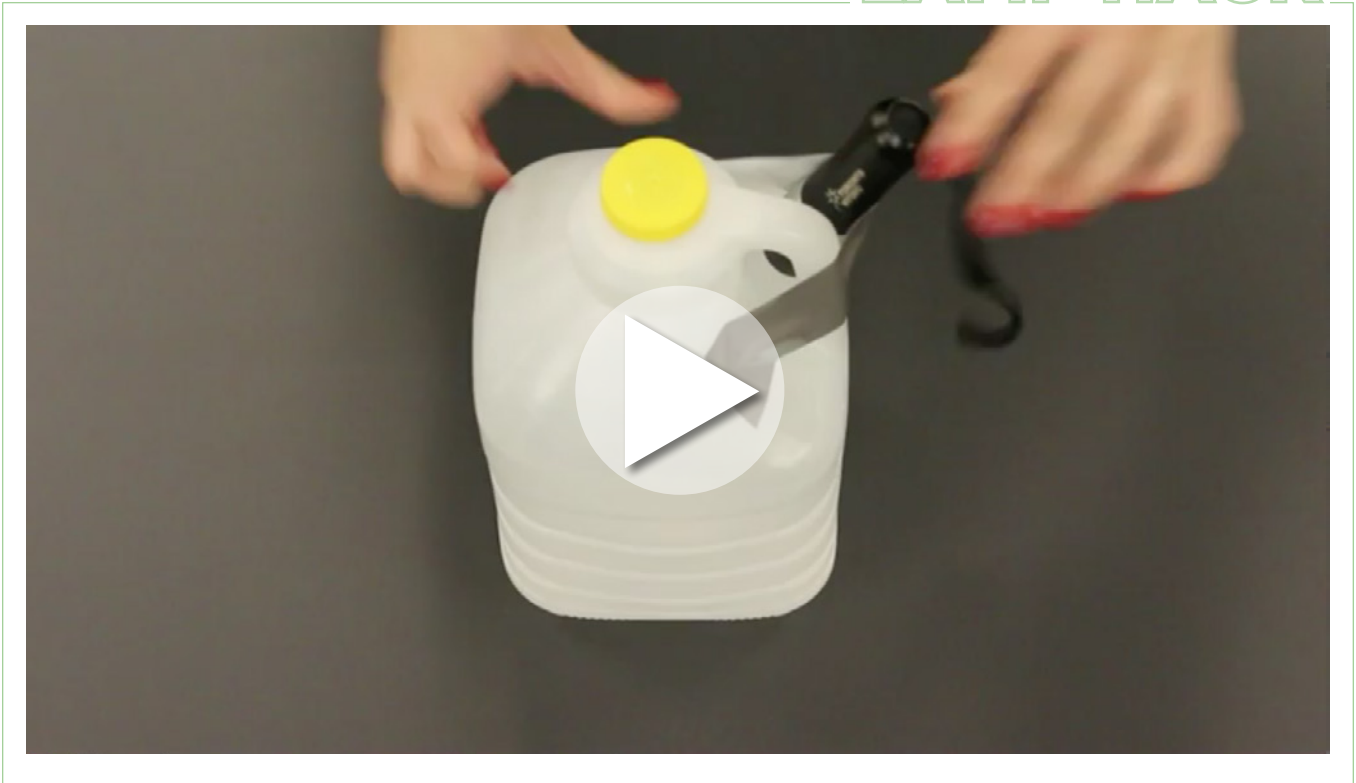
We can't control the weather, but we can control how we respond to it. That's why we continue to implement our Grid Emergency Management (GEM) project and work with various utilities and stakeholders across Canada and the U.S. to better prepare for any major storms. We also know it's important for Torontonians to be prepared, so we continue to educate our customers on emergency preparedness to help them stay safe and comfortable in the case of an emergency.

- We implemented Phase 2 of our GEM project, developed in 2014 to improve our emergency readiness and response, which included publishing our new emergency management plans, developing a roster for key emergency roles, and training senior management and front line staff on new emergency plans and processes
- In September, we hosted the third annual Canadian Mutual Assistance Group (CANMAG) meeting, with the goal of enhancing planning for sharing resources with other utilities during emergencies
- We continue to maintain a strong, proactive role as a member of the North Atlantic Mutual Assistance Group (NAMAG). In October, we attended the fall NAMAG Conference, which brought together utilities in provinces and states along the north-east that have formally agreed to assist each other during emergencies
- We encouraged Torontonians to create or check their 72-hour emergency kit throughout the year, through tips we shared at community events, in our newsletters and on social media
- As part of an awareness campaign for Emergency Preparedness Week in May, we published a series of emergency “hack” videos, using common items found around the home, to help our customers stay safe and comfortable during emergencies. The videos generated almost 80,000 views online in the first week and received media coverage from several mainstream news outlets. A survey showed that residents who recalled our emergency preparedness campaign were almost four times as likely to have a complete emergency preparedness kit at home



POWERING TORONTO'S FUTURE

LAMP HACK



- We meet on a regular basis with stakeholders such as the City of Toronto's Office of Emergency Management, the provincial Office of the Fire Marshall, Emergency Management Ontario and the Independent Electricity System Operator's Emergency Preparedness Task Force. Fostering these relationships helps us build a strong local network of support for responding to emergencies
- We supplied more than 700 vulnerable residents at over 140 community events with emergency kits, which included flashlights, compact radios, checklists and additional resources to help them prepare for emergencies

[Learn more about our emergency preparedness initiatives.](#)



Sustainability Initiatives

Sustainability is part of our corporate culture, business strategy and daily operations. It's managing our triple bottom line – financial, social and environmental risks – while fulfilling our obligations and leveraging opportunities. Recognized as a Sustainable Electricity Company™ by the Canadian Electricity Association (CEA), we made sure to pursue strategic projects to eliminate waste. In fact, our efforts were recognized with the CEA's 2016 Integrated Approach to Sustainability Award. Although we're proud to be recognized with these prestigious honours, we operate a sustainable business because we strongly believe that it is the right thing to do.

In addition to having an integrated strategy, we also aim to constantly build upon our sustainability initiatives. This year – for the first time – we're sharing an annual comparison of our sustainability results to demonstrate the progress we've made. Whether it's through paper savings or conservation programs, we're committed to sustainability to help improve the lives of Torontonians and the health of our planet.

- This year, we continued to help our residential, small business, industrial and commercial customers become more energy-efficient through our Conservation and Demand Management (CDM) programs. These programs led to an estimated energy savings of 273,200 MWh¹ (the equivalent of taking 36,720 homes off the grid) and reduced summer peak demand by 32.5 MW. They also helped reduce greenhouse gas (GHG) emissions in the city by 11,200 tCO₂e



**Sustainable
Electricity
Company™**

**Canadian
Electricity
Association**

¹2016 CDM energy and peak demand savings have not yet been verified by the Independent Electricity System Operator (IESO). Final results will be available in July 2017 following an IESO evaluation

POWERING TORONTO'S FUTURE

- Since last year, 50% more customers signed up for paperless billing. In 2016, we had 96,220 customer sign-ups and saved approximately 865,980 sheets of paper as a result
- To raise awareness and participation about our conservation programs and online services, we met directly with our customers at over 280 events including business tradeshows, Earth Week celebrations, the City's Environment Days, community festivals and in-store activities with The Home Depot, Canadian Tire and Lowe's, generating 57,000 interactions in total
- Our total GHG emissions were 40,318 tCO₂e, a decrease of 37% compared to 2015
- Over 2,500 tonnes of concrete and 400 tonnes of steel were salvaged, reused and diverted from landfill in the construction of our new operating facility, the David M. Williams Centre. We also diverted 62% of waste furniture from landfill
- In December 2015, Toronto Hydro underwent and passed its first re-certification audit for the International Organization for Standardization's Environmental Management Systems Standard (ISO 14001:2004) and the Occupational Health and Safety Assessment Series Standard for Occupational Health and Safety Management Systems (OHSAS 18001:2007) certificates. This marks the fourth consecutive year that Toronto Hydro has been certified to these stringent internationally recognized standards for environmental and occupational management systems
- We continued to automate and use electronic forms instead of paper, and set duplex printing as default for most of our printers. One automation initiative was the implementation of "MyTime", a platform allowing electronic submission of employee time sheets and leave requests. These initiatives reduced paper consumption in 2016 by approximately 2,415,480 sheets of paper and led to a reduction in life-cycle GHGs of approximately 8 tCO₂e





- We implemented a waste reduction program entitled “Waste No More” to increase the amount of waste generated at our work centres that’s diverted from landfill through effective source separation and reduction of materials entering waste streams. We increased the amount of waste diverted from landfill from 49% in 2013 to 64% in 2016
- We continued to install the Governor to Reduce Idle and Pollution (GRIP) Idle Management System on our vehicles and downsized our fleet by 17 vehicles. The cumulative 2016 savings, relative to 2013, associated with these initiatives are: 30% reduction in total fuel consumed; 28% reduction in GHG emissions; 26% reduction in kilometres travelled; and 29% reduction in total non-PTO idling hours²
- In addition to recycling solid non-hazardous waste from our facilities, we’ve been recycling wood poles removed from service, fluorescent lights, batteries and electronic waste. We diverted 490 metric tonnes of wood poles from landfill



²Some of Toronto Hydro’s vehicles (e.g. bucket trucks) require engines to be kept on (idling) in order to charge and operate the vehicle hydraulics. This is referred to as Power Take Off (“PTO”) idling time

POWERING TORONTO'S FUTURE

We'd like to share our performance for some of our sustainability initiatives by highlighting results from the past two years:

CATEGORY	METRIC	RESULTS		OUR PERFORMANCE
		2016	2015	
Conservation and Demand Management (CDM)	Energy saved through CDM programs	273.2 GWh	214.5 GWh	27% increase
Paper Purchased	Annual amount of paper purchased, including all paper sizes, but excluding speciality paper (e.g. plotter paper, business cards, etc.)	4,723,500 sheets of paper	5,996,750 sheets of paper	21% decrease
Kilometres (km) Travelled	Based on GPS data obtained from Fleet Assets & Maintenance Department	3,407,236 km	3,723,723 km	8% decrease
Fuel Usage (consumption)	Annual fuel consumption ³ – This includes all types of fuel used by Toronto Hydro vehicles	1,119,575 litres	1,297,039 litres	14% decrease
Non-PTO Idling Time	Calculations are based on data gathered through vehicles' GPS system	74,342 hours	81,461 hours	9% decrease

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

³Approximately 90% of our fuel vendors are able to code fuel types, but some smaller vendors cannot distinguish fuel purchases from other purchases



Community Outreach

We're part of the fabric of life in Toronto and take great pride in giving back to our community.

That's why we continue to fundraise for important causes, sponsor local groups and events, and pursue programming that enhances community safety. In 2016, we helped make Toronto's communities safer and more energy-efficient through our Brighter Nights™ program and proudly raised money for United Way and Sunnybrook's Ross Tilley Burn Centre. These initiatives help connect us to the work being done across the city to brighten Toronto's future.

- For the third year in a row, we hosted our annual charity golf tournament, raising \$800,000 through our partners and sponsors in support of Sunnybrook's Ross Tilley Burn Centre – the largest state-of-the-art burn treatment centre in Canada – for a total of \$1.8 million raised in three years



POWERING TORONTO'S FUTURE

- Our employees raised more than \$144,000 for United Way Toronto and York Region, and we received a 2016 United Way Spirit Award in recognition of our employee campaign
- In September, a group of Toronto Hydro employees from United Way's GenNext group participated in ACCES Employment's Speed Mentoring event with newcomers to Canada
- For the first time, Toronto Fire Services joined us at two Brighter Nights™ community events, promoting neighbourhood safety, and fire awareness and prevention. We replaced nearly 500 old, burned out or inefficient porch lights with more energy-efficient bulbs, which cost very little to keep on overnight, helping make the community safer. The Brighter Nights™ program is a joint effort with the City of Toronto's Community Crisis Response Program, Toronto Community Housing, Toronto Police Service, Toronto Fire and local volunteers
- We attended over 40 councillor-hosted events promoting a cleaner, greener and more livable Toronto, where we distributed coupons for energy-efficient products, conservation tips, information on programs for families on modest incomes, and emergency preparedness brochures
- We continued to sponsor several community groups and events including: Cavalcade of Lights, the Kids' World of Energy Festival, Live Green, and LEAF's Backyard Tree Planting Program
- In Bayview Village Park, Toronto Hydro employees, along with their friends and families, planted over 350 trees and shrubs for our Annual Tree Planting Event. Since 2004, we've planted more than 3,900 trees across the city



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



FINANCIAL REPORT
DECEMBER 31, 2016

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management	IRM – Incentive Regulation Mechanism
CGU – Cash generating unit	ITA – <i>Income Tax Act</i> (Canada)
CIR – Custom Incentive Rate-setting	kW – Kilowatt
City – City of Toronto	LDC – Toronto Hydro-Electric System Limited
Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”.	LRAM – Lost revenue adjustment mechanism
Corporation – Toronto Hydro Corporation	MD&A – Management's Discussion and Analysis
Electricity Act – <i>Electricity Act, 1998</i> (Ontario)	MEU – Municipal electricity utility
ERM – Enterprise risk management	OCI – Other comprehensive income
ERP – Enterprise resource planning	OEB – Ontario Energy Board
GAAP – Generally Accepted Accounting Principles	OEB Act – <i>Ontario Energy Board Act, 1998</i> (Ontario)
GWh – Gigawatt hour	OMERS – Ontario Municipal Employees Retirement System
Green Energy Act – <i>Green Energy Act, 2009</i> (Ontario)	OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.
HONI – Hydro One Network Inc.	OPEB – Other post-employment benefits
IAS – International Accounting Standard	PILs – Payments in lieu of corporate taxes
IASB – International Accounting Standards Board	PP&E – Property, plant and equipment
ICM – Incremental Capital Module	ROC – Risk Oversight Committee
IESO – Independent Electricity System Operator. The IESO and the Ontario Power Authority were merged under the name Independent Electricity System Operator on January 1, 2015.	TA – <i>Taxation Act, 2007</i> (Ontario)
IFRIC – International Financial Reporting Interpretations Committee	TH Energy – Toronto Hydro Energy Services Inc.
IFRS – International Financial Reporting Standards	US GAAP – United States Generally Accepted Accounting Principles
	WMS – Wholesale Market Service



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2016 was \$23.4 million and \$151.4 million compared to \$74.3 million and \$126.7 million for the comparable periods in 2015;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$149.2 million and \$551.7 million for the three months and year ended December 31, 2016 compared to \$134.6 million and \$537.2 million for the comparable periods in 2015;
- the OEB issued its CIR decision regarding the 2015-2019 rate application on December 29, 2015 and its CIR rate order on March 1, 2016, approving a rate base of \$3,232.0 million and revenue requirement of \$633.1 million for 2015, and future rates calculated on that basis;
- the distribution rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively;
- on June 14, 2016, the Corporation issued \$200.0 million of 2.52% senior unsecured debentures due August 25, 2026;
- on July 28, 2016, the OEB approved a settlement proposal by LDC and intervenors to the ICM rate application (2012-2014), providing that there would be no change to the 2015-2019 rate base previously approved; and
- on December 21, 2016, the OEB issued a decision finalizing LDC's 2017 rates and providing for other deferral and variance account dispositions.

Introduction

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2016 and 2015, which were prepared in accordance with IFRS (the "Consolidated Financial Statements").

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

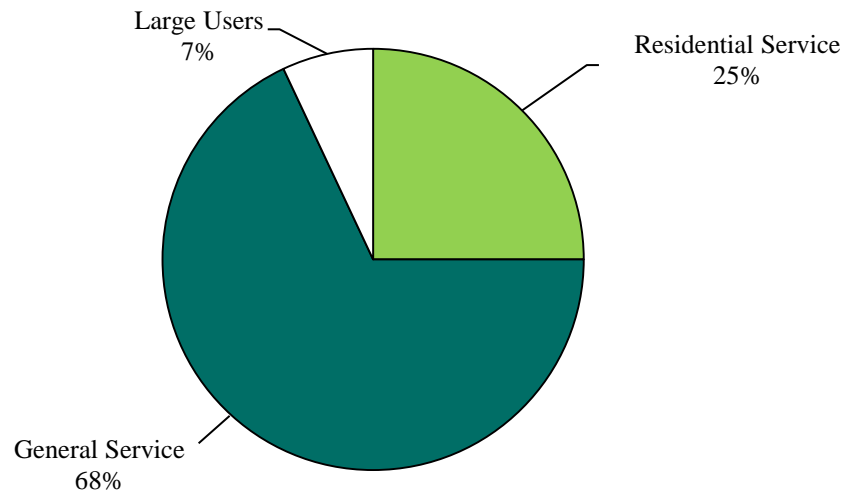
Business of Toronto Hydro Corporation

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 761,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the year ended December 31, 2016, LDC earned energy sales and distribution revenues of \$3,954.1 million from general service users¹, residential service users² and large users³.

LDC Energy Sales and Distribution Revenues by Class
Year ended December 31, 2016



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

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

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

Electricity Distribution – Industry Overview

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

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

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

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

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

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

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

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

Results of Operations

Net Income after Net Movements in Regulatory Balances

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

	2016 \$	2015 \$	Change \$
Revenues			
Energy sales	813.3	708.7	104.6
Distribution revenue	159.0	131.3	27.7
Other	22.0	15.3	6.7
	994.3	855.3	139.0
Expenses			
Energy purchases	782.6	708.4	(74.2)
Operating expenses	78.6	71.6	(7.0)
Depreciation and amortization	59.6	59.7	0.1
	920.8	839.7	(81.1)
Finance costs	19.5	17.7	(1.8)
Gain on disposals of PP&E	2.1	3.7	(1.6)
Income before income taxes	56.1	1.6	54.5
Income tax expense	28.0	15.5	(12.5)
Net income (loss)	28.1	(13.9)	42.0
Net movements in regulatory balances	(30.6)	67.5	(98.1)
Net movements in regulatory balances arising from deferred tax assets	25.9	20.7	5.2
Net income after net movements in regulatory balances	23.4	74.3	(50.9)

The decrease in net income after net movements in regulatory balances for the three months ended December 31, 2016 was primarily due to the timing of the OEB's CIR decision and rate order in the fourth quarter of 2015 which resulted in a one-time recognition of previously foregone revenue and related tax impact (\$43.3 million), and higher operating expenses (\$7.0 million) as a result of increased system maintenance and ancillary services.

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

	2016 \$	2015 \$	Change \$
Revenues			
Energy sales	3,306.2	2,925.6	380.6
Distribution revenue	647.9	555.4	92.5
Other	75.9	58.9	17.0
	4,030.0	3,539.9	490.1
Expenses			
Energy purchases	3,216.9	2,898.5	(318.4)
Operating expenses	277.1	274.6	(2.5)
Depreciation and amortization	212.2	194.3	(17.9)
	3,706.2	3,367.4	(338.8)
Finance costs	74.2	70.4	(3.8)
Gain on disposals of PP&E	2.1	10.1	(8.0)
Income before income taxes	251.7	112.2	139.5
Income tax expense	67.1	31.5	(35.6)
Net income	184.6	80.7	103.9
Net movements in regulatory balances	(77.2)	17.4	(94.6)
Net movements in regulatory balances arising from deferred tax assets	44.0	28.6	15.4
Net income after net movements in regulatory balances	151.4	126.7	24.7

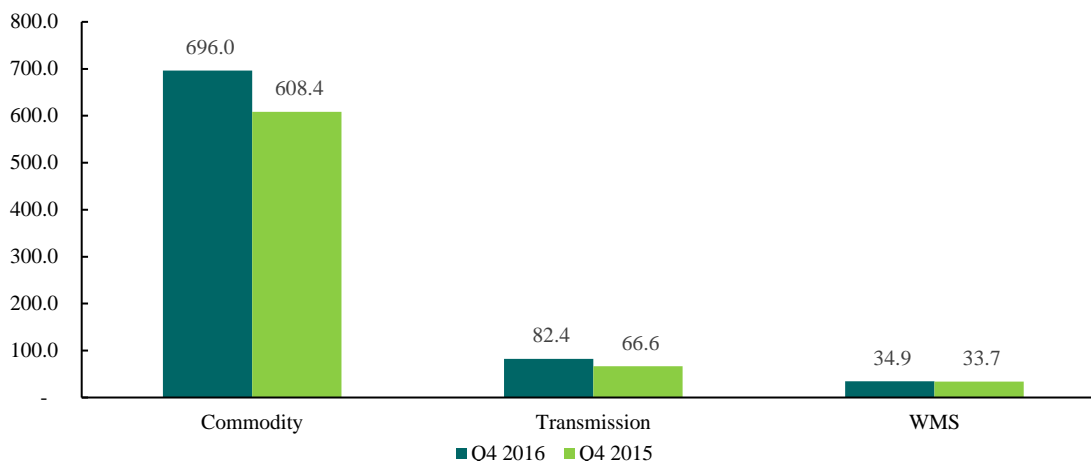
The increase in net income after net movements in regulatory balances for the year ended December 31, 2016 was primarily due to application of the new electricity distribution rates per the OEB's CIR decision and rate order to the twelve months of 2016 versus eight months of 2015 and related tax impact (\$43.1 million), partially offset by higher depreciation and amortization mainly due to new in-service asset additions (\$17.9 million).

Energy Sales

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

LDC Energy Sales
Three months ended December 31, 2016
(in millions of Canadian dollars)



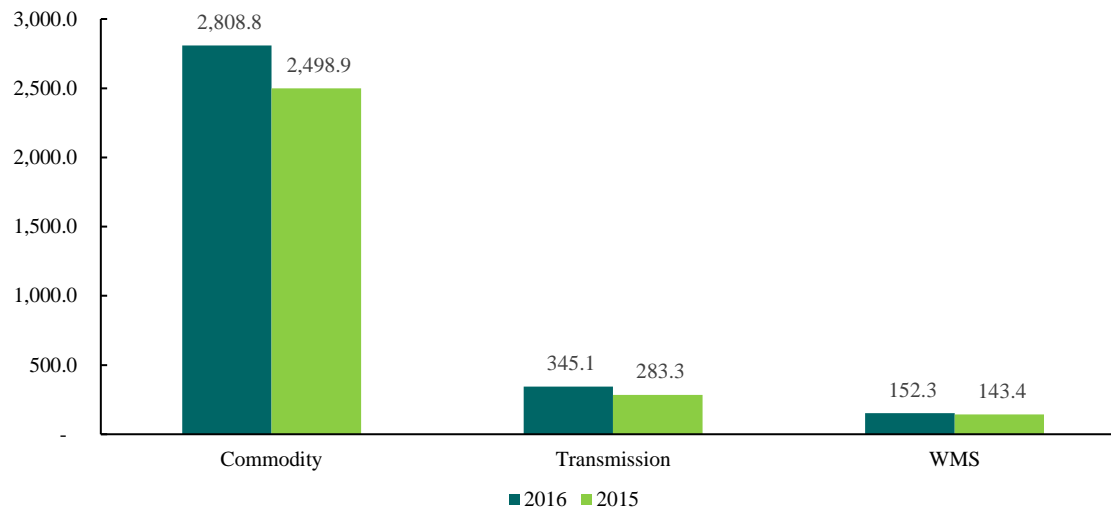
Energy sales for the three months ended December 31, 2016 were \$813.3 million compared to \$708.7 million for the comparable period in 2015. The increase was primarily due to higher commodity charges (\$87.6 million) and higher retail transmission charges (\$15.8 million).

Energy Sales, Settlement Variances and Energy Purchases
Three months ended December 31, 2016
(in millions of Canadian dollars)

	Energy Sales \$	Settlement Variances \$	Energy Purchases \$
Commodity Charges	696.0	(3.6)	692.4
Retail Transmission Charges	82.4	(15.0)	67.4
WMS Charges	34.9	(12.1)	22.8
Total	813.3	(30.7)	782.6

For the three months ended December 31, 2016, LDC recognized \$813.3 million in energy sales to customers and was billed \$782.6 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$30.7 million settlement variance for the period. As such, the settlement variance was recorded as an increase to the regulatory credit balance on the consolidated balance sheets, and presented within net movements in regulatory balances on the consolidated statements of income.

LDC Energy Sales
Year ended December 31, 2016
(in millions of Canadian dollars)



Energy sales for the year ended December 31, 2016 were \$3,306.2 million compared to \$2,925.6 million for the comparable period in 2015. The increase was primarily due to higher commodity charges (\$309.9 million) and higher retail transmission charges (\$61.8 million).

Energy Sales, Settlement Variances and Energy Purchases
Year ended December 31, 2016
(in millions of Canadian dollars)

	Energy Sales \$	Settlement Variances \$	Energy Purchases \$
Commodity Charges	2,808.8	(17.9)	2,790.9
Retail Transmission Charges	345.1	(46.4)	298.7
WMS Charges	152.3	(25.0)	127.3
Total	3,306.2	(89.3)	3,216.9

For the year ended December 31, 2016, LDC recognized \$3,306.2 million in energy sales to customers and was billed \$3,216.9 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents an \$89.3 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory credit 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 LDC 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, 2016 was \$159.0 million and \$647.9 million compared to \$131.3 million and \$555.4 million for the comparable periods in 2015. The increase was primarily due to implementation of electricity distribution rates per the OEB's CIR decision and rate order.

Other Revenue

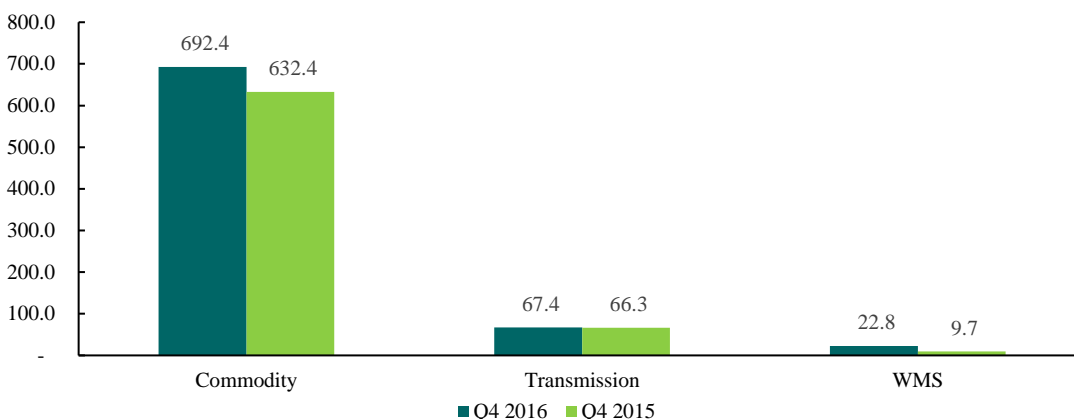
Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, amortization of deferred revenue related to capital contributions from customers on capital projects, and CDM cost efficiency incentives.

Other revenue for the three months and year ended December 31, 2016 was \$22.0 million and \$75.9 million compared to \$15.3 million and \$58.9 million for the comparable periods in 2015. The increase was primarily due to higher revenue in connection with ancillary services.

Energy Purchases

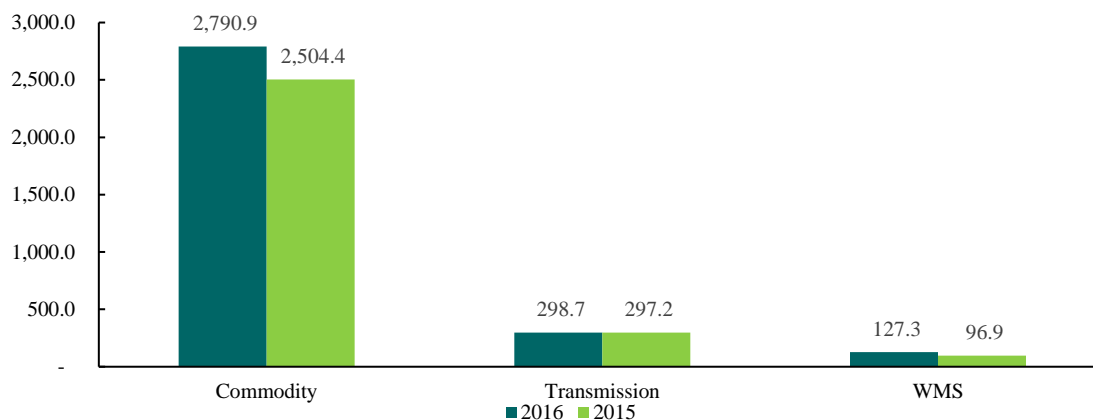
LDC’s energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
Three months ended December 31, 2016
 (in millions of Canadian dollars)



Energy purchases for the three months ended December 31, 2016 were \$782.6 million compared to \$708.4 million for the comparable period in 2015. The increase was primarily due to higher commodity charges (\$60.0 million) and higher WMS charges (\$13.1 million).

LDC Energy Purchases
Year ended December 31, 2016
(in millions of Canadian dollars)



Energy purchases for the year ended December 31, 2016 were \$3,216.9 million compared to \$2,898.5 million for the comparable period in 2015. The increase was primarily due to higher commodity charges (\$286.5 million) and higher WMS charges (\$30.4 million).

Operating Expenses

Operating expenses for the three months and year ended December 31, 2016 were \$78.6 million and \$277.1 million compared to \$71.6 million and \$274.6 million for the comparable periods in 2015.

The increase in operating expenses for the three months ended December 31, 2016 was primarily due to higher system maintenance program costs (\$2.5 million), higher ancillary service costs (\$1.6 million), and higher street lighting maintenance costs (\$1.4 million).

Operating expenses year over year were relatively flat. The variance was primarily due to higher ancillary service costs (\$6.3 million) and higher system maintenance program costs (\$2.5 million), partially offset by lower street lighting maintenance costs (\$3.2 million) and lower administrative spending (\$1.6 million).

Depreciation and Amortization

Depreciation and amortization expense for the three months and year ended December 31, 2016 was \$59.6 million and \$212.2 million compared to \$59.7 million and \$194.3 million for the comparable periods in 2015.

The depreciation and amortization expense for the three months ended December 31, 2016 was consistent with the comparable period in 2015. Depreciation and amortization in the fourth quarter of 2016 included amounts attributable to new in-service asset additions and was in line with depreciation and amortization in the same period of 2015 which included higher derecognition.

The increase in depreciation and amortization expense for the year ended December 31, 2016 was primarily due to new in-service asset additions in 2016, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three months and year ended December 31, 2016 were \$19.5 million and \$74.2 million compared to \$17.7 million and \$70.4 million for the comparable periods in 2015. The increase was primarily due to higher average amount of long-term debt outstanding during 2016 compared with the same period in 2015 (see “Liquidity and Capital Resources” below).

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2016 was \$2.1 million compared to \$3.7 million and \$10.1 million for the comparable periods in 2015. The decrease was primarily due to lower gain realized in connection with the disposals of surplus properties by LDC in 2016.

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

Income tax expense (recovery) and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2016 were \$2.1 million and \$23.1 million compared to \$(5.2) million and \$2.9 million for the comparable periods in 2015.

The unfavourable variance in income tax expense (recovery) and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2016 was primarily due to lower net deductions for permanent and temporary differences between accounting and tax treatments, offset by lower income before taxes (including net movements in regulatory balances).

The unfavourable variance in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2016 was due to higher income before taxes (including net movements in regulatory balances), and lower net deductions for 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 consolidated statements of income.

The changes in the regulatory debit (\$50.9 million) and credit (\$2.2 million) balances for the year ended December 31, 2016 equal the sum (\$48.7 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets, and net movements in regulatory balances related to OCI, net of tax for the period (see "Financial Position" below).

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 to the Corporation usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are removed from net income and deferred within balance sheet 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 (see "settlement variance" under "Results of Operations" above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a period.

Net movements in regulatory balances for the three months ended December 31, 2016 were a charge of \$30.6 million compared to a recovery of \$67.5 million for the comparable period in 2015. The charge of \$30.6 million was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC's billing to customers. The recovery of \$67.5 million was primarily due to the one-time recognition of previously foregone revenue in the fourth quarter of 2015 as a result of the timing and impact of the OEB's CIR decision and rate order.

Net movements in regulatory balances for the year ended December 31, 2016 were a charge of \$77.2 million compared to a recovery of \$17.4 million for the comparable period in 2015. The charge of \$77.2 million was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by the 2016 approved foregone revenue per the OEB's CIR decision and rate order. The recovery of \$17.4 million was primarily due to the one-time recognition of previously foregone revenue in the fourth quarter of 2015 as a result of the timing and impact of the OEB's CIR decision and rate order, partially offset by the timing difference between the electricity costs billed monthly by the IESO and LDC's billing to customers.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding December 31, 2016. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

Summary of Quarterly Results of Operations ¹ (in millions of Canadian dollars)

	December 31 2016 \$	September 30 2016 \$	June 30 2016 \$	March 31 2016 \$
Energy sales	813.3	899.9	801.1	791.9
Distribution revenue	159.0	183.3	158.8	146.8
Other	22.0	21.2	16.8	15.9
Revenues	994.3	1,104.4	976.7	954.6
Net income after net movements in regulatory balances	23.4	52.5	31.2	44.3
	December 31 2015 \$	September 30 2015 \$	June 30 2015 \$	March 31 2015 \$
Energy sales	708.7	818.1	695.2	703.6
Distribution revenue	131.3	144.4	132.7	147.0
Other	15.3	15.1	15.0	13.5
Revenues	855.3	977.6	842.9	864.1
Net income after net movements in regulatory balances	74.3	20.0	15.9	16.5

¹ Quarterly financial information for 2016 and 2015 has been derived from the annual Consolidated Financial Statements and interim financial statements of the Corporation, which have been prepared in accordance with IFRS.

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. The warmer summer of 2016 compared to 2015 is evident in the September energy sales line above.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets as at December 31, 2016 as compared to the consolidated balance sheets as at December 31, 2015.

Consolidated Balance Sheet Data (in millions of Canadian dollars)		
Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	38.2	The increase was primarily due to higher pass-through electricity costs as a result of implementation of electricity rates per the OEB's CIR decision and rate order, partially offset by lower electricity consumption in December 2016 compared to December 2015.
Income tax receivable	(9.9)	The decrease was primarily related to income tax changing to a net payable position during the year. See discussion of income tax payable below.
PP&E and intangible assets	337.0	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition during the year.
Deferred tax assets	(50.5)	The decrease was primarily due to lower net deductible temporary differences between tax and accounting values of regulatory balances, and PP&E and intangible assets.
Liabilities and Equity		
Commercial paper	(63.0)	The decrease was primarily due to repayment using proceeds from issuance of senior unsecured debentures in the second quarter of 2016, offset primarily by funds used for general corporate purposes (see "Liquidity and Capital Resources" below).
Debentures	199.5	The increase was primarily due to issuance of the \$200.0 million senior unsecured debentures in the second quarter of 2016 (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	30.1	The increase was primarily due to higher electricity costs payable to the IESO and timing differences in payments.
Income tax payable	8.1	The increase was primarily due to the tax provision exceeding the value of installments paid to date.
Deferred revenue	40.3	The increase was primarily due to capital contributions received in 2016.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Deferred conservation credit	(12.4)	The decrease was primarily due to spending related to CDM activities, partially offset by funding received for the CDM program (see “Corporate Developments” below).
Post-employment benefits	(16.0)	The decrease was primarily due to the recognized actuarial gain driven by updated actuarial valuation.
Retained earnings	88.0	The increase was due to net income after net movements in regulatory balances (\$151.4 million) offset by dividends paid (\$63.4 million).
Regulatory Balances		
Regulatory debit balances ¹	(50.9)	The decrease was primarily due to collection of amounts previously recognized through various rate riders primarily related to foregone revenue and OPEB actuarial gain.
Regulatory credit balances ¹	(2.2)	The increase was primarily due to net changes in settlement variances, partially offset by arising deferred tax balance and residual ICM balance recorded as an increase in equity.

¹ The total of changes in the regulatory debit and credit balances reflects net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets (see “Results of Operations” above), and net movements in regulatory balances related to OCI, net of tax.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$573.5 million and \$1,083.2 million, respectively, as at December 31, 2016, resulting in a working capital deficit of \$509.7 million. The deficit is attributable to the series 2 debentures due November 14, 2017 for \$249.8 million being classified as a current liability (see note 12 to the Consolidated Financial Statements), and the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, to purchase power, and to meet financing obligations. See “Liquidity Risk” under note 15 to the Consolidated Financial Statements.

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

	Three months		Year	
	ended December 31		ended December 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash and cash equivalents (working capital facility), beginning of period	(9.1)	2.8	(14.2)	(6.1)
Net cash provided by operating activities	191.7	123.0	571.3	426.7
Net cash used in investing activities	(138.2)	(133.5)	(549.4)	(557.4)
Net cash provided by (used in) financing activities	(51.5)	(6.5)	(14.8)	122.6
Working capital facility, end of period	(7.1)	(14.2)	(7.1)	(14.2)

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, 2016, \$7.1 million had been drawn under the Working Capital Facility compared to \$14.2 million as at December 31, 2015.

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2016 was \$191.7 million and \$571.3 million compared to \$123.0 million and \$426.7 million for the comparable periods in 2015.

The increase in net cash provided by operating activities for the three months ended December 31, 2016 was primarily due to collection from energy sales in excess of energy costs paid, which were deferred as a retail settlement variance, and changes in working capital balances mainly related to timing differences in settlement of receivable and payables. These variances were partially offset by lower net income after net movements in regulatory balances, and net movements in regulatory balances arising from deferred tax assets.

The increase in net cash provided by operating activities for the year ended December 31, 2016 was primarily due to collection from energy sales in excess of energy costs paid, which were deferred as a retail settlement variance, higher net income after net movements in regulatory balances, and capital contributions received. These variances were partially offset by changes in working capital balances mainly related to timing differences in settlement of receivable and payables (see note 21 to the Consolidated Financial Statements), and net movements in regulatory balances arising from deferred tax assets.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2016 was \$138.2 million and \$549.4 million compared to \$133.5 million and \$557.4 million for the comparable periods in 2015.

The increase in net cash used in investing activities for the three months ended December 31, 2016 was due to higher cash spending on capital projects, and lower proceeds on disposal of surplus properties in the fourth quarter of 2016.

The decrease in net cash used in investing activities for the year ended December 31, 2016 was due to lower cash spending on capital projects, partially offset by lower proceeds on disposal of surplus properties in 2016.

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

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

Capital Expenditures
(in millions of Canadian dollars)

	Three months		Year	
	ended December 31		ended December 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Regulated LDC				
Distribution system				
Planned ¹	85.1	88.9	365.3	392.8
Reactive	16.9	12.1	47.6	35.8
Copeland Station	7.8	5.2	22.6	23.7
Facilities consolidation	16.1	8.2	50.6	31.3
Technology assets	17.0	11.2	49.1	28.9
Other ²	3.8	7.4	10.8	20.1
Regulated capital expenditures	146.7	133.0	546.0	532.6
Unregulated capital expenditures ³	2.5	1.6	5.7	4.6
Total capital expenditures	149.2	134.6	551.7	537.2

¹ Includes, among other initiatives, the replacement of underground and overhead infrastructures, and the delivery of customer connections.

² Includes fleet capital and buildings.

³ Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three months and year ended December 31, 2016 were \$146.7 million and \$546.0 million compared to \$133.0 million and \$532.6 million for the comparable periods in 2015.

For the three months ended December 31, 2016, the increase in regulated capital expenditures was primarily related to higher spending on the facilities consolidation program (\$7.9 million), technology assets (\$5.8 million), reactive spending (\$4.8 million), and station programs (\$3.5 million) related to the renewal of aging station infrastructure. These variances were partially offset by lower spending on overhead infrastructure (\$8.1 million).

For the year ended December 31, 2016, the increase in regulated capital expenditures was primarily related to higher spending on technology assets (\$20.2 million) mainly for the radio project and the implementation of an SAP ERP project, the facilities consolidation program (\$19.3 million), station programs (\$16.8 million) related to the renewal of aging station infrastructure, and reactive spending (\$11.6 million). These variances were partially offset by lower spending on overhead infrastructure (\$31.4 million), and underground infrastructure (\$25.9 million).

The largest capital initiatives in 2016 include the replacement of underground and overhead infrastructures, delivery of customer connections, the facilities consolidation program, construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City, and the radio project.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2016, capital expenditures for the underground and overhead infrastructures were \$96.8 million and \$85.7 million, respectively.

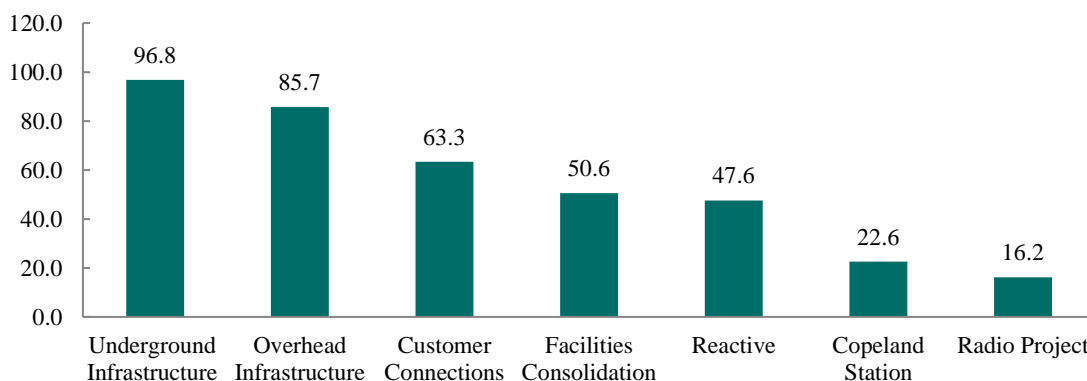
The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the year ended December 31, 2016, capital expenditures for the delivery of customer connections were \$63.3 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In 2016, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of \$50.6 million for the year ended December 31, 2016.

The radio project relates to the implementation of a new digital voice radio system. The Corporation provides radio communication services to its own internal subscribers and contractors. The current analog radio technology has reached the end of its lifecycle and manufacturer’s support. The new radio infrastructure will allow for expanded radio coverage and enhanced dispatching capabilities. For the year ended December 31, 2016, capital expenditures for the radio project were \$16.2 million.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960’s and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During the 2016, the structural work for Copeland Station was largely completed and installation of major electrical equipment was commenced. Installation of power transformers and medium voltage switchgears commenced and one of the two transformers, and both medium voltage tie switch lineups were successfully tested and commissioned. In addition, work on the machine shop continued with the rebar and concrete work nearing completion and the initiation of the reassembly of the heritage brick. As at December 31, 2016, the cumulative capital expenditures on the Copeland Station project amounted to \$176.1 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the most complex projects ever undertaken by the Corporation and unforeseen delays have extended the expected completion date from 2017 to 2018. The delays are attributable to a variety of factors, including the effect of inclement weather, challenging site conditions and contractor performance. Due to the delays, the total capital expenditures required to complete the project have increased from \$195.0 million to approximately \$200.0 million, plus capitalized borrowing costs. There may be additional unforeseen delays and expenditures as the project progresses. See “Risk Management and Risk Factors” below for further information on the Copeland Station project.

Expenditures on Most Significant Regulated Capital Initiatives
Year ended December 31, 2016
 (in millions of Canadian dollars)



Financing Activities

Net cash provided by (used in) financing activities for the three months and year ended December 31, 2016 was \$(51.5) million and \$(14.8) million compared to \$(6.5) million and \$122.6 million for the comparable periods in 2015.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2021 (“Revolving Credit Facility”), pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On August 19, 2016, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2020 to October 10, 2021. As at December 31, 2016, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing up to \$600.0 million of unsecured short-term promissory notes (“Commercial Paper Program”) to be issued in various maturities of no more than one year. Proceeds from the Commercial Paper Program are used for general corporate purposes.

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

(in millions of Canadian dollars)	Revolving Credit Facility Limit \$	Revolving Credit Facility Borrowings \$	Commercial Paper Outstanding \$	Revolving Credit Facility Availability \$
December 31, 2016	800.0	-	261.0	539.0
December 31, 2015	800.0	-	324.0	476.0

For the three months and year ended December 31, 2016, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$253.2 million and \$348.7 million with weighted average interest rates of 0.83% and 0.89%.

Additionally, the Corporation is a party to a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at December 31, 2016, \$33.4 million of letters of credit had been issued against the Prudential Facility.

On June 14, 2016, the Corporation issued \$200.0 million of 2.52% senior unsecured debentures at a price of \$999.84 per \$1,000 principal amount due August 25, 2026. Net proceeds from the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes.

As at December 31, 2016, the Corporation had long-term debentures outstanding in the principal amount of \$2.1 billion. These debentures will mature between 2017 and 2063. As at December 31, 2016, 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 of the Corporation:

Credit Ratings As at December 31, 2016				
	DBRS		Standard & Poor's	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Negative
Senior unsecured debentures	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

On April 25, 2016, Standard & Poor's announced its decision to maintain the credit rating on the Corporation as "A" and revised their outlook from stable to negative.

On April 27, 2016, DBRS announced its decision to maintain the credit rating on the Corporation as "A" with a stable trend.

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

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

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

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

On November 13, 2016, the Board of Directors of the Corporation passed a resolution providing that the cumulative annual payment of dividends by the Corporation to the City be reduced to \$25.0 million per year, effective as and from that date, which reduction shall continue in effect until otherwise determined by the Board of Directors of the Corporation. This reduction of dividend payments arose out of the Corporation's need, in the context of its current capital structure, to use its cash resources for the purpose of making infrastructure investments necessary to maintain the safety and reliability of the electricity grid, and to help the company keep pace with unprecedented growth in the City.

For the year ended December 31, 2016, the Board of Directors of the Corporation declared and paid dividends to the City totalling \$63.35 million.

On March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of \$6.25 million, payable to the City on March 31, 2017.

In December 2016, City Council approved making an equity contribution to the Corporation of approximately \$250.0 million, the details of which are to be the subject of a Deputy City Manager and Chief Financial Officer report to Executive Committee of City Council in the first quarter of 2017. There is no assurance that such equity contribution from the City will be completed on terms acceptable to the Corporation or in the amount specified, in a timely fashion, or at all. See "Risk Management and Risk Factors" below.

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at December 31, 2016
(in millions of Canadian dollars)

	Total	2017	2018/2019	2020/2021	After 2021
	\$	\$	\$	\$	\$
Working Capital Facility	7.1	7.1	-	-	-
Commercial paper ¹	261.0	261.0	-	-	-
Debentures – principal repayment	2,095.0	250.0	250.0	300.0	1,295.0
Debentures – interest payments	1,343.2	83.0	140.4	118.0	1,001.8
Operating leases	5.6	2.6	1.3	1.3	0.4
Capital projects ² and other	22.7	20.2	1.3	1.2	-
Capital leases	4.8	3.2	1.6	-	-
Total contractual obligations and other commitments	3,739.4	627.1	394.6	420.5	2,297.2

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

² Mainly commitments for construction services.

Corporate Developments

Changes to the Corporation's Board of Directors and Audit Committee

Effective May 4, 2016, the City, as the sole shareholder of the Corporation, appointed Michael Nobrega to the Board of Directors. The appointment is effective for a term ending on December 10, 2017, or until a successor is appointed. Effective December 10, 2016, Derek Cowbourne and David Williams ceased to be directors of the Corporation. Effective December 11, 2016, the City, as the sole shareholder of the Corporation, appointed Mary Ellen Richardson

to the Board of Directors. The appointment is effective for a term ending on December 10, 2017, or until a successor is appointed.

Effective November 7, 2016, David McFadden and Brian Chu were appointed Vice-Chairs of the Board of Directors. Effective December 10, 2016, David McFadden was appointed as Chair of the Board of Directors, replacing David Williams.

Effective May 11, 2016, Michael Nobrega was appointed as Chair of the Audit Committee, replacing Heather Zordel who remains an Audit Committee member. On May 11, 2016, Brian Chu resigned from the Audit Committee. He was re-appointed to the Audit Committee effective December 11, 2016. Effective December 11, 2016 Tamara Kronis resigned from the Audit Committee.

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 IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the 2015-2019 rate application filed on July 31, 2014 (the "CIR decision and rate order"). The CIR decision and rate order approved a rate base of \$3,232.0 million and revenue requirement of \$633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved, on an interim basis, subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively. On August 22, 2016, LDC filed its 2017 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2017 and ending on December 31, 2017. On December 21, 2016, the OEB issued a decision finalizing LDC's 2017 rates and providing for other deferral and variance account dispositions.

On July 28, 2016, the OEB approved a settlement proposal submitted by LDC and intervenors to the ICM rate application, which provided that there would be no change to the 2015-2019 rate base previously approved in the CIR decision and the 2012-2014 ICM process would be closed with no future disposition to or from ratepayers. Further to this approval, \$9.8 million previously recorded as an ICM regulatory credit balance was recorded as an increase in equity through net movements in regulatory balances in 2016.

CDM Activities

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provides combined funding of approximately \$425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. The programs for Oakville Hydro Electricity Distribution Inc. under the joint CDM plan started on January 1, 2016. LDC received \$17.2 million as at December 31, 2015 and \$27.7 million in the year ended December 31, 2016 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in

settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurers. There have been no material changes in legal proceedings as disclosed in note 24 to the Consolidated Financial Statements.

Share Capital

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

Transactions with Related Parties

As a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. The Corporation provides electricity, street lighting and ancillary services to the City. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

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

	Year ended December 31	
	2016 \$	2015 \$
Revenues	275.3	239.3
Operating expenses and capital expenditures	26.9	19.7
Dividends	63.4	56.3

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

	As at December 31	
	2016 \$	2015 \$
Accounts receivable	12.7	5.1
Unbilled revenue	23.2	20.8
Accounts payable and accrued liabilities	41.0	36.6
Customer deposits	14.1	11.7
Deferred revenue	3.5	1.0

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

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

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a “Venture Issuer”. As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the year ended December 31, 2016 and 2015. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

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

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

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

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

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

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

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

Capital Expenditures and Condition of Distribution Assets

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure (such as the Copeland Station project) to address safety, reliability and customer service requirements.

LDC estimates that approximately one-third of its electricity distribution assets have already exceeded or will reach the end of their expected useful lives within the next 5-year period. At the same time, Toronto is a growing city, and LDC must make system upgrades to expand its capacity to keep pace with urban intensification and electrification. In addition, as Ontario implements policies and programs to respond to climate change, the pressures on the Corporation’s system will only increase. Widespread adoption of electric vehicles, fuel switching and changing emissions standards make electricity the comparatively clean energy choice. This drives the need for significant

capital expenditures for system upgrades so that the grid can handle such increased load. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of the Corporation to fund additional infrastructure, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

To be recoverable, capital expenditures must be approved by the OEB as additions to rate base, which is used to calculate the utility's revenue requirements for the purpose of setting distribution rates. There can be no assurance that all capital expenditures incurred by LDC will be approved by the OEB. In particular, capital cost overruns due to project delays or increased costs may not be recoverable in distribution rates. Projects may have delays or increased costs due to many factors, including: necessary modifications to project plans; the availability, scheduling and cost of materials, equipment and qualified personnel; LDC's ability to obtain necessary environmental and other regulatory approvals; and the impact of weather conditions, site conditions and contractor performance.

As described in the section "Liquidity and Capital Resources" above, one of LDC's largest capital initiatives currently in progress is the construction of Copeland Station, which is also one of the most complex projects ever undertaken by the Corporation. Due to unforeseen delays, the expected completion date for the Copeland Station project has been extended from 2017 to 2018 and it is currently anticipated that the total expenditure required to complete the project have increased from \$195.0 million to approximately \$200.0 million, plus capitalized borrowing costs as applicable. There may be additional unforeseen delays and expenditures as the project progresses.

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

Energy Policies and Regulatory Developments

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

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

Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation could also have a significant impact on the Corporation. There can be no assurance that the Corporation will be able

to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that may have a material adverse effect on the Corporation. The OEB may not allow recovery for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

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

Information Technology and Cyber Security

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

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

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

Business Disruption

The Corporation's operations are exposed to the effects of natural and other unexpected occurrences, such as severe or unexpected weather conditions caused by climate change and other factors, terrorism and pandemics. Although the Corporation's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to Corporation's facilities or interruption of Corporation's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC would apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Ownership by the City and Conflicts of Interest

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

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

Work Force Renewal

Over the next decade, a significant portion of the Corporation's employees will become eligible for retirement, including potential retirements occurring in supervisory, trades and technical positions. Accordingly, the Corporation will be required to attract, train and retain skilled employees. Furthermore, all retirements pose risks for knowledge management and business continuity. LDC relies on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program. However, there can be no assurance that LDC will be able to attract and retain the required workforce.

Labour Relations

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

Additional Debt and Equity Financing and Credit Rating

Cash generated from operations, after the payment of dividends, is not expected to be sufficient to repay existing indebtedness, fund capital expenditures and meet other liquidity requirements over the next 12 months. The Corporation relies on debt financing through its medium-term note program, Commercial Paper Program or existing credit facilities to finance Corporation's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's medium-term note program by credit rating agencies, the rating assigned to short-term borrowings under the Corporation's Commercial Paper Program by a credit rating agency, and the availability of the commercial paper market. See notes 9 and 12 to the Consolidated Financial Statements.

In December 2016, City Council approved making an equity contribution to the Corporation of approximately \$250.0 million, the details of which are to be the subject of a Deputy City Manager and Chief Financial Officer report to the Executive Committee of City Council in the first quarter of 2017. If such equity contribution is not completed, the Corporation's financial metrics may deteriorate, and the Corporation's credit rating may be downgraded, adversely affecting the Corporation's ability to arrange sufficient and cost-effective debt financing. See "Liquidity and Capital Resources" above.

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

Market and Credit Risk

LDC is subject to credit risk with respect to customer non-payment of electricity bills. LDC is permitted to mitigate the risk of customer non-payment using any means permitted by law, including security deposits (i.e., letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. While LDC would be liable for the full amount

of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of the Corporation, as at December 31, 2016, by \$42.0 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2016, by \$54.0 million.

As at December 31, 2016, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to short-term interest rate risk on the short-term borrowings under its Commercial Paper Program and Working Capital Facility, and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$3.2 million to annual finance costs.

The Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2016 was not material.

LDC Competition

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

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

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the 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 following critical accounting estimates involve significant estimates and judgments used in the preparation of the Consolidated Financial Statements:

Revenue Recognition

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

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

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

Regulatory Balances

Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances are assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statements of income in the period when the assessment is made. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

Post-employment Benefits Other than Pension

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

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. These Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. In preparing the Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. The significant accounting policies of the Corporation are summarized in notes 2 and 25 to the Consolidated Financial Statements.

Changes in Accounting Policies

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments were adopted effective January 1, 2016. The adoption of these amendments has no material impact on the Corporation's consolidated financial statements.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016, and have not yet been applied in preparing these Consolidated Financial Statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its consolidated financial statements.

Revenue from Contracts with Customers

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

In April 2016, the IASB issued amendments to IFRS 15, which was originally issued in May 2014. These amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments also include two additional transitional reliefs. The amendments are effective for annual periods beginning on or after January 1, 2018, consistent with the effective date of the standard.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach with practical expedients. The Corporation has completed its initial assessment of the key revenue streams and continues to evaluate the impact of the new standard.

Financial Instruments

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

Leases

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

The Corporation will elect to early adopt IFRS 16 on January 1, 2018 using the full retrospective approach for lessee’s measurement of leases with practical expedients, and apply the practical expedient on lease definition. The Corporation has completed its initial assessment of its existing operating leases and anticipates that IFRS 16 will not have a significant impact on the Corporation’s consolidated financial statements.

Disclosure Initiative

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB’s Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash

changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments are expected to increase disclosures relating to changes in liabilities arising from financing activities with no impact to the Corporation's financial position or results of operations.

Forward-Looking Information

Certain information included in this MD&A constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "budgets", "committed", "can", "could", "estimates", "expects", "focus", "forecasts", "intends", "may", "might", "plans", "propose", "projects", "schedule", "should", "will", "would", "objective", "outlook" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the 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 energy consumption on future revenue as described in the sections entitled "Summary of Quarterly Results of Operations"; the Corporation's plans to finance the investment in LDC's infrastructure and the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled "Liquidity and Capital Resources"; the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled "Liquidity and Capital Resources"; the anticipated capacity to be provided by Copeland Station, the expected capital expenditures required to complete Copeland Station, and the anticipated completion date for Copeland Station as described in the section entitled "Liquidity and Capital Resources" and "Risk Management and Risk Factors"; the expected capital expenditures required to complete ERP system, and the anticipated completion date for ERP system as described in the section entitled "Liquidity and Capital Resources"; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled "Liquidity and Capital Resources"; the payment of dividends as described in the section entitled "Liquidity and Capital Resources"; plans to meet CDM targets as described in the section entitled "Corporate Developments"; the Corporation's expectation that cash generated from operations, after the payment of dividends, is not expected to be sufficient to repay existing indebtedness, fund capital expenditures and meet other liquidity requirements over the next 12 months as described in the section entitled "Risk Management and Risk Factors"; the Corporation's reliance on debt financing through its medium-term note program, Commercial Paper Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures as described in the section entitled "Risk Management and Risk Factors"; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the section entitled "Risk Management and Risk Factors"; the Corporation's plans to attract, train and retain skilled employees and mitigate risks from retiring employees as described in the section entitled "Risk Management and Risk Factors"; the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled "Legal Proceedings"; and the adoption and impact of new standards, amendments and interpretations on the Corporation's consolidated financial statements in the section entitled "Future Accounting Pronouncements".

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation's capital projects (including Copeland Station), no unforeseen changes in the legislative and operating framework for Ontario's electricity market, 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, equipment and services in a timely and cost efficient manner, the receipt of favourable judgments, no unforeseen changes in rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the level of interest rates and the Corporation's ability to borrow, and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of the Corporation's capital and maintenance programs necessary to maintain the performance of our aging distribution assets and make required infrastructure improvements; risks associated with capital projects, including Copeland Station; risks associated with electricity industry regulatory developments and other governmental policy changes; risks associated with the timing and results of regulatory decisions regarding the Corporation's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risk to the Corporation's facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and the Corporation's limited insurance coverage for losses resulting from these events; risks associated with being controlled by the City, including potential conflicts of interest that may arise between the Corporation and the City; risks related to the Corporation's work force demographic and its potential inability to attract, train and retain skilled employees; risks associated with possible labour disputes and the Corporation's ability to negotiate appropriate collective agreements; risk that the Corporation is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk of downgrades to the Corporation's credit rating; risk that the equity contribution from the City will not be completed on terms acceptable to the Corporation or in the amount specified, in a timely fashion, or at all; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of the Corporation's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in this MD&A. Please review this section – "Risk Management and Risk Factors" in detail. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section of this MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2016, 2015 and 2014. This information has been derived from the Corporation's consolidated financial statements.

Selected Annual Consolidated Financial Information (in millions of Canadian dollars)			
	2016	2015	2014
	\$	\$	\$
Year Ended December 31			
Total Revenues ¹	4,030.0	3,539.9	3,272.8
Net income after net movements in regulatory balances ¹	151.4	126.7	111.7
As at December 31			
Total assets and regulatory balances ²	4,954.4	4,686.9	4,328.3
Total debentures ^{2,3}	2,084.6	1,885.1	1,641.3
Other non-current financial liabilities ⁴	17.3	16.6	13.9
Total equity ²	1,428.9	1,340.9	1,270.5
Dividends ⁵	63.4	56.3	60.6

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 capital lease and non-current customer deposits. Under IFRS, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

⁵ See "Liquidity and Capital Resources" for further details on dividends.

Additional Information

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

Toronto, Canada

March 2, 2017



CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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



MANAGEMENT'S REPORT

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

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 25 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 2, 2017.

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

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

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

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"

Anthony Haines
President and Chief Executive Officer

"Laura Foster"

Laura Foster
Interim, Chief Financial Officer



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro Corporation

We have audited the accompanying consolidated financial statements of Toronto Hydro Corporation, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Toronto Hydro Corporation as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
March 2, 2017
Toronto, Canada

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	2016 \$	2015 \$
ASSETS		
Current		
Accounts receivable [notes 4 and 15[b]]	229.8	191.7
Unbilled revenue [note 15[b]]	320.5	320.4
Income tax receivable	-	9.9
Materials and supplies	9.7	9.8
Other assets [note 5]	13.5	9.9
Total current assets	573.5	541.7
Property, plant and equipment [note 6]	3,907.2	3,588.7
Intangible assets [note 7]	217.8	199.3
Deferred tax assets [note 20]	63.8	114.3
Other assets [note 5]	1.3	1.2
Total assets	4,763.6	4,445.2
Regulatory balances [note 8]	190.8	241.7
Total assets and regulatory balances	4,954.4	4,686.9
LIABILITIES AND EQUITY		
Current		
Working capital facility [note 9]	7.1	14.2
Commercial paper [note 9]	261.0	324.0
Accounts payable and accrued liabilities [note 10]	504.4	474.3
Income tax payable	8.1	-
Customer deposits	39.1	37.5
Deferred revenue [note 11]	5.1	4.8
Deferred conservation credit [note 3[b]]	5.5	17.9
Debentures [note 12]	249.8	-
Other liabilities [note 23]	3.1	3.2
Total current liabilities	1,083.2	875.9
Debentures [note 12]	1,834.8	1,885.1
Customer deposits	15.0	9.9
Deferred revenue [note 11]	140.3	100.3
Post-employment benefits [note 13]	280.5	296.5
Other liabilities [note 23]	2.3	6.7
Total liabilities	3,356.1	3,174.4
Commitments, contingencies and subsequent events [notes 2, 23 and 24]		
Equity		
Share capital [note 16]	567.8	567.8
Retained earnings	861.1	773.1
Total equity	1,428.9	1,340.9
Total liabilities and equity	4,785.0	4,515.3
Regulatory balances [note 8]	169.4	171.6
Total liabilities, equity and regulatory balances	4,954.4	4,686.9

ON BEHALF OF THE BOARD:

"David McFadden"
David McFadden, Director

"Michael Nobrega"
Michael Nobrega, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	2016 \$	2015 \$
Revenues		
Energy sales	3,306.2	2,925.6
Distribution revenue	647.9	555.4
Other [note 17]	75.9	58.9
	4,030.0	3,539.9
Expenses		
Energy purchases	3,216.9	2,898.5
Operating expenses [note 18]	277.1	274.6
Depreciation and amortization [notes 6 and 7]	212.2	194.3
	3,706.2	3,367.4
Finance costs [note 19]	74.2	70.4
Gain on disposals of property, plant and equipment	2.1	10.1
Income before income taxes	251.7	112.2
Income tax expense [note 20]	67.1	31.5
Net income	184.6	80.7
Net movements in regulatory balances [note 8]	(77.2)	17.4
Net movements in regulatory balances arising from deferred tax assets [note 8]	44.0	28.6
Net income after net movements in regulatory balances	151.4	126.7

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	2016 \$	2015 \$
Net income after net movements in regulatory balances	151.4	126.7
Other comprehensive income		
Items that will not be reclassified to income or loss		
Remeasurements of post-employment benefits, net of tax (2016 - \$5.5, 2015 - \$nil) [note 13]	15.5	-
Net movements in regulatory balances related to OCI, net of tax (2016 - \$5.5, 2015 - \$nil) [note 13]	(15.5)	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	151.4	126.7

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	2016 \$	2015 \$
Share capital <i>[note 16]</i>	567.8	567.8
Retained earnings, beginning of year	773.1	702.7
Net income after net movements in regulatory balances	151.4	126.7
Dividends <i>[notes 16 and 22]</i>	(63.4)	(56.3)
Retained earnings, end of year	861.1	773.1
Total equity	1,428.9	1,340.9

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	2016 \$	2015 \$
OPERATING ACTIVITIES		
Net income after net movements in regulatory balances	151.4	126.7
Net movements in regulatory balances <i>[note 8]</i>	77.2	(17.4)
Net movements in regulatory balances arising from deferred tax assets <i>[note 8]</i>	(44.0)	(28.6)
Adjustments		
Depreciation and amortization <i>[notes 6 and 7]</i>	212.2	194.3
Amortization of deferred revenue <i>[note 11]</i>	(3.8)	(2.2)
Finance costs	74.2	70.4
Income tax expense	67.1	31.5
Post-employment benefits	5.0	9.1
Gain on disposals of property, plant and equipment	(2.1)	(10.1)
Other	0.7	0.7
Capital contributions received <i>[note 11]</i>	44.7	33.0
Net change in other non-current assets and liabilities	(1.8)	-
Increase in customers deposits	6.7	4.2
Changes in non-cash working capital balances <i>[note 21]</i>	(15.3)	24.0
Income tax paid	(0.9)	(8.9)
Net cash provided by operating activities	571.3	426.7
INVESTING ACTIVITIES		
Purchase of property, plant and equipment <i>[note 21]</i>	(511.7)	(550.7)
Purchase of intangible assets <i>[note 21]</i>	(39.9)	(21.1)
Proceeds on disposals of property, plant and equipment	2.2	14.4
Net cash used in investing activities	(549.4)	(557.4)
FINANCING ACTIVITIES		
Increase (decrease) in commercial paper <i>[note 9]</i>	(63.0)	16.0
Dividends paid <i>[notes 16 and 22]</i>	(63.4)	(56.3)
Proceeds from debentures <i>[note 12]</i>	200.0	244.9
Debt issuance costs paid <i>[note 12]</i>	(1.3)	(1.9)
Repayment of finance lease liability	(3.1)	(2.9)
Interest paid	(84.0)	(77.2)
Net cash provided by (used in) financing activities	(14.8)	122.6
Net decrease (increase) in working capital facility during the year	7.1	(8.1)
Working capital facility, beginning of year	(14.2)	(6.1)
Working capital facility, end of year	(7.1)	(14.2)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

[All tabular amounts in millions of Canadian dollars]

1. NATURE OF BUSINESS

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

2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2016 and 2015 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS with respect to the preparation of annual financial information.

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

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 2, 2017 when the Corporation's Consolidated Financial Statements were authorized for issue by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in the notes to the Consolidated Financial Statements [note 16].

The summary of significant accounting policies has been disclosed in note 25.

3. REGULATION

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

[All tabular amounts in millions of Canadian dollars]

a) 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 IRM adjustments. Under the OEB's rate-setting methods, actual operating conditions may vary from forecasts such that actual returns achieved can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the 2015-2019 rate application filed on July 31, 2014 [the "CIR decision and rate order"]. The CIR decision and rate order approved a rate base of \$3,232.0 million and revenue requirement of \$633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved, on an interim basis, subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively [note 8[a]]. On August 22, 2016, LDC filed its 2017 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2017 and ending on December 31, 2017. On December 21, 2016, the OEB issued a decision finalizing LDC's 2017 rates and providing for other deferral and variance account dispositions.

On July 28, 2016, the OEB approved a settlement proposal submitted by LDC and intervenors to the ICM rate application, which provided that there would be no change to the 2015-2019 rate base previously approved in the CIR decision and the 2012-2014 ICM process would be closed with no future disposition to or from ratepayers. Further to this approval, \$9.8 million previously recorded as an ICM regulatory credit balance [note 8] was recorded as an increase in equity through net movements in regulatory balances in 2016.

b) CDM Activities

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

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

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of CDM programs over the 2015-2020 period. The IESO and the OPA were merged under the name IESO starting on January 1, 2015. Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

[All tabular amounts in millions of Canadian dollars]

Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provides combined funding of approximately \$425.0 million, including participant incentives and program administration costs to achieve an aggregate energy savings target of approximately 1,668 GWh. The programs for Oakville Hydro Electricity Distribution Inc. under the joint CDM plan started on January 1, 2016. LDC received \$17.2 million as at December 31, 2015 and \$27.7 million in the year ended December 31, 2016 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit.

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

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	2016 \$	2015 \$
Trade receivables	215.4	185.6
Due from related parties <i>[note 22]</i>	12.7	5.1
Other	1.7	1.0
	229.8	191.7

5. OTHER ASSETS

Other assets consist of the following:

	2016 \$	2015 \$
Prepaid expenses	12.3	9.5
Deferred financing costs	1.6	1.6
Other	0.9	—
Total other assets	14.8	11.1
Less: Current portion of other assets relating to:		
Prepaid expenses	12.3	9.5
Deferred financing costs	0.4	0.4
Other	0.8	—
Current portion of other assets	13.5	9.9
Non-current portion of other assets	1.3	1.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets \$	Land and buildings \$	Equipment and other \$	Construction in progress \$	Total \$
Cost					
Balance as at January 1, 2015	2,685.7	137.6	161.1	432.8	3,417.2
Additions/(Transfers)	368.0	67.6	14.6	65.9	516.1
Disposals and retirements	(26.5)	(2.1)	—	—	(28.6)
Balance as at December 31, 2015	3,027.2	203.1	175.7	498.7	3,904.7
Additions/(Transfers)	381.2	111.3	67.0	(47.7)	511.8
Disposals and retirements	(32.1)	(0.1)	(0.3)	—	(32.5)
Balance as at December 31, 2016	3,376.3	314.3	242.4	451.0	4,384.0
Accumulated depreciation					
Balance as at January 1, 2015	106.1	7.0	54.2	—	167.3
Depreciation	118.9	9.1	23.5	—	151.5
Disposals and retirements	(2.4)	(0.4)	—	—	(2.8)
Balance as at December 31, 2015	222.6	15.7	77.7	—	316.0
Depreciation	129.3	10.3	25.9	—	165.5
Disposals and retirements	(4.6)	—	(0.1)	—	(4.7)
Balance as at December 31, 2016	347.3	26.0	103.5	—	476.8
Carrying amount					
Balance as at December 31, 2015	2,804.6	187.4	98.0	498.7	3,588.7
Balance as at December 31, 2016	3,029.0	288.3	138.9	451.0	3,907.2

As at December 31, 2016, Equipment and other included assets under finance lease with cost of \$18.2 million [December 31, 2015 - \$18.2 million] and accumulated depreciation of \$8.3 million [December 31, 2015 - \$6.0 million]. For the year ended December 31, 2016, the Corporation recorded depreciation expense of \$2.3 million [2015 - \$2.2 million] related to assets under finance lease.

For the year ended December 31, 2016, borrowing costs in the amount of \$9.5 million [2015 - \$7.0 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.61% [2015 - 3.74%].

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

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7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software	Contributions	Software in development	Contributions for work in progress	Total
	\$	\$	\$	\$	\$
Cost					
Balance as at January 1, 2015	86.7	19.9	13.2	98.5	218.3
Additions/(Transfers)	14.9	1.8	(1.4)	5.8	21.1
Balance as at December 31, 2015	101.6	21.7	11.8	104.3	239.4
Additions/(Transfers)	11.9	53.8	8.4	(34.2)	39.9
Balance as at December 31, 2016	113.5	75.5	20.2	70.1	279.3
Accumulated amortization					
Balance as at January 1, 2015	18.7	0.9	—	—	19.6
Amortization	19.4	1.1	—	—	20.5
Balance as at December 31, 2015	38.1	2.0	—	—	40.1
Amortization	19.3	2.1	—	—	21.4
Balance as at December 31, 2016	57.4	4.1	—	—	61.5
Carrying amount					
Balance as at December 31, 2015	63.5	19.7	11.8	104.3	199.3
Balance as at December 31, 2016	56.1	71.4	20.2	70.1	217.8

For the year ended December 31, 2016, borrowing costs in the amount of \$3.0 million [2015 - \$3.8 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.61% [2015 - 3.74%].

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

Computer software is externally acquired. The remaining amortization periods for computer software and contributions range from less than one year to 6 years, and from 12 to 25 years, respectively.

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8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2016	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2016	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Foregone revenue	61.1	19.2	(16.0)	—	64.3	36	—
OPEB actuarial net loss	81.2	(21.0)	—	—	60.2	note 8[b]	—
IFRS transitional adjustments	28.9	—	(6.1)	—	22.8	36	—
Stranded meters	14.4	—	(3.0)	—	11.4	36	*
LRAM	9.1	4.7	(3.3)	—	10.5	note 8[e]	*
Gain on disposal	—	—	14.5	(5.9)	8.6	note 8[f]	*
Named properties	5.8	—	(1.2)	—	4.6	36	—
OPEB cash versus accrual	1.8	1.1	—	—	2.9	note 8[h]	—
Smart meters	10.0	—	(7.9)	—	2.1	4	—
Capital contributions	1.9	—	(0.4)	—	1.5	36	—
Settlement variances	25.3	—	—	(25.3)	—	—	*
Other	2.2	1.6	—	(1.9)	1.9	—	*
	241.7	5.6	(23.4)	(33.1)	190.8		

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2015	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
OPEB actuarial net loss	81.2	—	—	—	81.2	note 8[b]	—
Foregone revenue	—	61.1	—	—	61.1	46	—
IFRS transitional adjustments	24.2	4.7	—	—	28.9	46	—
Settlement variances	51.7	(26.4)	—	—	25.3	note 8[k]	*
Stranded meters	14.4	—	—	—	14.4	46	—
Smart meters	20.9	—	(10.9)	—	10.0	16	—
LRAM	—	9.1	—	—	9.1	note 8[e]	*
Named properties	—	5.8	—	—	5.8	46	—
Capital contributions	—	1.9	—	—	1.9	46	—
OPEB cash versus accrual	—	1.8	—	—	1.8	note 8[h]	—
Other	4.7	2.0	(0.1)	(4.4)	2.2	10	*
	197.1	60.0	(11.0)	(4.4)	241.7		

* Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.10% for 2016 [January 1, 2015 to March 31, 2015 - 1.47%; April 1, 2015 to December 31, 2015 - 1.10%].

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Credit balances consist of the following:

	January 1, 2016	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2016	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Deferred taxes	114.8	(49.5)	—	—	65.3	note 8[j]	—
Settlement variances	—	89.3	1.2	(27.7)	62.8	note 8[k]	*
Tax-related variances	26.5	—	(8.5)	(0.5)	17.5	24	*
Derecognition	9.9	2.9	—	—	12.8	note 8[m]	*
Capital-related revenue requirement	2.8	6.0	—	—	8.8	note 8[n]	*
ICM	9.7	0.1	(9.8)	—	—	—	*
Gain on disposal	5.9	—	—	(5.9)	—	—	*
Other	2.0	1.2	(2.0)	1.0	2.2	—	*
	171.6	50.0	(19.1)	(33.1)	169.4		

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2015	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Deferred taxes	143.4	(28.6)	—	—	114.8	note 8[j]	—
Tax-related variances	25.3	1.2	—	—	26.5	10-34	*
Derecognition	—	9.9	—	—	9.9	note 8[m]	*
ICM	2.3	—	7.4	—	9.7	note 8[o]	*
Gain on disposal	—	5.9	—	—	5.9	note 8[f]	*
Capital-related revenue requirement	—	2.8	—	—	2.8	note 8[n]	*
Other	2.0	—	—	—	2.0	10	*
	173.0	(8.8)	7.4	—	171.6		

* Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.10% for 2016 [January 1, 2015 to March 31, 2015 - 1.47%; April 1, 2015 to December 31, 2015 - 1.10%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. During 2016, residual regulatory balances approved by the OEB for disposition over a 10-month period commencing on March 1, 2016 were reclassified from "Other" regulatory debit balance, settlement variances and tax-related variances into "Other" regulatory credit balance. For the year ended December 31, 2015, LDC recorded an impairment of \$4.4 million on regulatory debit balances within 'Other' as a result of the CIR decision and rate order. There was no impairment recorded for the year ended December 31, 2016.

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

	2016 \$	2015 \$
Total movements per regulatory debit balances table	(50.9)	44.6
Total movements per regulatory credit balances table	2.2	1.4
Total net movements	(48.7)	46.0
Net movements per financial statements:		
Net movements in regulatory balances	(77.2)	17.4
Net movements in regulatory balances arising from deferred tax assets	44.0	28.6
Net movements in regulatory balances related to OCI, net of tax	(15.5)	—
Total net movements per financial statements	(48.7)	46.0

Ontario's electricity industry regulatory developments and other governmental policy changes may affect the electricity distribution rates charged by LDC and the costs LDC 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 the assessment is made.

The regulatory balances of the Corporation consist of the following:

a) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the CIR decision and rate order, the OEB approved foregone revenue rate riders commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates [note 3[a]].

b) OPEB Actuarial Net Loss

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, 2016 of \$21.0 million is related to the actuarial gain recorded for the year [2015 - \$nil] [note 13[a]]; however, the net position is an actuarial loss that is recoverable in future rates. LDC has not sought recovery to date from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction when recovery is sought.

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the CIR decision and rate order, the OEB approved disposition of the balance commencing on March 1, 2016 [note 3[a]].

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d) Stranded Meters and Smart Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

The net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. In the CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 commencing on March 1, 2016 [note 3[a]].

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances to be recovered through rates commencing on May 1, 2014. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

e) Lost Revenue Adjustment Mechanism ["LRAM"]

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. New variances are accrued based on current CDM activities while approved variances up to 2014 are disposed through OEB-approved rate riders over twelve months commencing on January 1, 2017. Variances pertaining to years subsequent to 2014 have yet to be applied for disposition.

f) Gain on Disposal

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (debits), and the after-tax gain realized on two significant LDC properties (credits). As part of the CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on both properties back to ratepayers, effective from March 1, 2016 to December 31, 2018. During 2015, the gain on one of the properties was realized by LDC resulting in a net credit balance at December 31, 2015. As at December 31, 2016, the amount disposed through the rate riders exceeded the gain realized on the first property as the second property was still not sold, resulting in a net debit balance. Upon the sale of the second property, the account would revert to a credit balance if actual net gains and tax savings exceed the total amount of the approved rate riders. LDC expects to seek disposition for any residual balance in a future rate application.

g) Named Properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale in between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the CIR decision and rate order, the OEB approved disposition of this variance commencing on March 1, 2016 [note 3[a]].

h) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. The OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. LDC does not consider the OEB's direction to constitute a change in the basis of its recovery of OPEB costs at this time, considering the OEB's approval of the variance account. The timing of disposition of the balance is currently unknown.

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i) Capital Contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the CIR decision and rate order, the OEB approved disposition of this variance commencing on March 1, 2016 [note 3[a]].

j) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 [note 25[b]] and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. LDC did not apply for disposition of the balance since it is being reversed through timing differences in the recognition of deferred tax assets.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of \$36.4 million as at December 31, 2016 [December 31, 2015 - \$42.1 million] offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$10.4 million as at December 31, 2016 [December 31, 2015 - \$26.2 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was \$39.3 million as at December 31, 2016 [December 31, 2015 - \$98.9 million].

k) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. New variances are accrued based on current charges while approved variances up to 2015, including carrying charges forecasted to the end of 2016, are disposed through OEB-approved rate riders over twelve months commencing on January 1, 2017. Settlement variances pertaining to years subsequent to 2015 have yet to be applied for disposition.

l) Tax-related Variance Accounts

This regulatory credit balance arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates. In the CIR decision and rate order, the OEB approved disposition of the balance commencing on March 1, 2016 [note 3[a]].

m) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. This account was approved by the OEB in the CIR decision and rate order [note 3[a]]. The timing of disposition of the balance is currently unknown.

n) 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. If the cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeds the actual capital-related revenue requirement over the same rate period, LDC must apply for disposition of this account in order to clear the

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balance to ratepayers through a rate rider. This account was approved by the OEB in the CIR decision and rate order [note 3[a]]. The timing of disposition of the balance is currently unknown.

o) Incremental Capital Module

This regulatory balance related to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013. The balance of \$9.8 million represented the net of amounts collected through the ICM rate riders from 2013 to 2014 and amounts recognized in profit or loss in relation to the eligible in-service capital expenditures. Further to the OEB's decision of July 28, 2016, the entire balance of \$9.8 million was recorded as an increase in equity through net movements in regulatory balances in 2016 [note 3[a]].

9. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2021 ["Revolving Credit Facility"], pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million is available in the form of letters of credit. On August 19, 2016, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2020 to October 10, 2021. Borrowings under the Revolving Credit Facility bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Corporation's credit rating.

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

Additionally, the Corporation is a party to:

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

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

	Revolving Credit Facility Limit \$	Revolving Credit Facility Borrowings \$	Commercial Paper Outstanding \$	Revolving Credit Facility Availability \$
December 31, 2016	800.0	—	261.0	539.0
December 31, 2015	800.0	—	324.0	476.0

For the year ended December 31, 2016, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$348.7 million [2015 - \$289.1 million] with a weighted average interest rate of 0.89% [2015 - 0.91%].

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As at December 31, 2016, \$7.1 million had been drawn under the Working Capital Facility [December 31, 2015 - \$14.2 million] and \$33.4 million of letters of credit had been issued against the Prudential Facility [December 31, 2015 - \$32.4 million].

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2016 \$	2015 \$
Trade payables	328.6	316.3
Accrued liabilities	116.3	104.3
Due to related parties <i>[note 22]</i>	41.0	36.6
Accrued interest	16.6	14.9
Other	1.9	2.2
	504.4	474.3

11. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E which have not yet been recognized into other revenue, and revenue not yet recognized from ancillary services *[note 25[j]]*.

	2016 \$	2015 \$
Capital contributions, beginning of year	103.0	72.6
Capital contributions received	44.7	33.0
Amortization	(3.8)	(2.2)
Other	(0.3)	(0.4)
Capital contributions, end of year	143.6	103.0
Other	1.8	2.1
Total deferred revenue	145.4	105.1
Less: Current portion of deferred revenue relating to:		
Capital contributions	3.3	2.7
Other	1.8	2.1
Current portion of deferred revenue	5.1	4.8
Non-current portion of deferred revenue	140.3	100.3

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12. DEBENTURES

Debentures consist of the following:

	2016 \$	2015 \$
Senior unsecured debentures		
Series 2 – 5.15% due November 14, 2017	250.0	250.0
Series 3 – 4.49% due November 12, 2019	250.0	250.0
Series 6 – 5.54% due May 21, 2040	200.0	200.0
Series 7 – 3.54% due November 18, 2021	300.0	300.0
Series 8 – 2.91% due April 10, 2023	250.0	250.0
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	—
Total debentures	2,095.0	1,895.0
Less: Unamortized debt issuance costs	9.7	9.1
Unamortized discount/premium	0.7	0.8
Current portion of debentures	249.8	—
Long-term portion of debentures	1,834.8	1,885.1

All debentures of the Corporation rank equally.

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

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

On June 14, 2016, the Corporation issued \$200.0 million of 2.52% senior unsecured debentures at a price of \$999.84 per \$1,000 principal amount due August 25, 2026 [“Series 12”]. The Series 12 debentures bear interest payable semi-annually in arrears. The net proceeds from debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.3 million relating to the Series 12 debentures were recorded against the carrying amount of the debentures in the second quarter of 2016 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

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and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price agreed upon with the holder of the debentures being purchased. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

13. EMPLOYEE FUTURE BENEFITS

Pension

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2016, the OMERS plan was 93.4% funded [December 31, 2015 - 91.5%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2016, the Corporation's contributions were \$17.6 million [2015 - \$17.6 million], representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately \$19.2 million to the OMERS plan in 2017.

Post-employment benefits other than pension

a) Benefit obligation

	2016 \$	2015 \$
Balance, beginning of year	296.5	287.4
Current service cost	6.2	6.0
Interest cost	12.0	11.5
Benefits paid	(10.9)	(9.3)
Experience loss (gain) ⁽¹⁾	(4.2)	0.9
Actuarial gain arising from changes in demographic assumptions ⁽¹⁾	(17.5)	—
Actuarial gain arising from changes in financial assumptions ⁽¹⁾	(1.6)	—
Balance, end of year	280.5	296.5

⁽¹⁾ Actuarial loss (gain) on accumulated sick leave credits of (\$2.3) million [2015 - \$0.9 million] is recognized in benefit cost [note 13[c]] and (\$21.0) million [2015 - \$nil] of actuarial gain on medical, dental and life insurance benefits is recognized in OCI [note 13[d]].

The weighted average duration of the benefit obligation as at December 31, 2016 is 16.7 years [2015 - 17.1 years].

b) Amounts recognized in regulatory balances

As at December 31, 2016, the amount recognized in regulatory balances related to net actuarial loss and IFRS transitional adjustments was \$60.2 million [December 31, 2015 - \$81.2 million] [note 8[b]].

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c) *Benefit cost recognized*

	2016 \$	2015 \$
Current service cost	6.2	6.0
Interest cost	12.0	11.5
Actuarial loss (gain) on other employee benefits [note 13[a]]	(2.3)	0.9
Benefit cost	15.9	18.4
Capitalized to PP&E and intangible assets	6.4	7.7
Charged to operating expenses	9.5	10.7

d) *Amounts recognized in OCI*

	2016 \$	2015 \$
Actuarial gain [note 13[a]]	(21.0)	—
Income tax expense in OCI [note 20]	5.5	—
Remeasurements of post-employment benefits, net of tax	(15.5)	—
Net movements in regulatory balances related to OCI, net of tax	15.5	—
OCI, net of tax	—	—

e) *Significant assumptions*

	2016	2015
Discount rate (%) used in the calculation of:		
Benefit obligation as at December 31	4.00	4.00
Assumed medical and dental cost trend rates (%) as at December 31:		
Rate of increase in dental costs assumed for next year	4.00	4.00
Rate of increase in medical costs assumed for next year		
For pre July 2000 retirements	5.00	5.00
For other retirements	5.50	6.00
Rate that medical cost trend rate gradually declines to		
For pre July 2000 retirements	5.00	5.00
For other retirements	5.00	5.00
Year that the medical cost trend rate reaches the ultimate trend rate		
For pre July 2000 retirements	2015	2015
For other retirements	2018	2018

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f) Sensitivity analysis

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

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

		Change in assumption	2016 \$	2015 \$
As reported			280.5	296.5
Discount rate	1% ↑		(42.0)	(45.5)
	1% ↓		54.0	54.1
Medical and dental cost trend rate	1% ↑		36.1	38.6
	1% ↓		(32.3)	(34.7)

14. CAPITAL MANAGEMENT

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

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

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses capital markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2016, the Corporation's definition of capital included borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, and equity, and had remained unchanged from the definition as at December 31, 2015. As at December 31, 2016, equity amounted to \$1,428.9 million [December 31, 2015 - \$1,340.9 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, amounted to \$2,357.8 million [December 31, 2015 - \$2,231.3 million].

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

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The Corporation's debt agreements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2016 and December 31, 2015, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

15. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2016 and December 31, 2015, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments [note 25[k]]. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

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

	2016		2015	
	Carrying amount	Fair value ⁽¹⁾	Carrying amount	Fair value ⁽¹⁾
Senior unsecured debentures				
Series 2 – 5.15% due November 14, 2017	249.8	258.7	249.6	267.2
Series 3 – 4.49% due November 12, 2019	249.5	270.8	249.3	276.8
Series 6 – 5.54% due May 21, 2040	198.7	253.5	198.7	248.4
Series 7 – 3.54% due November 18, 2021	298.9	322.8	298.8	326.2
Series 8 – 2.91% due April 10, 2023	249.0	259.3	248.9	259.4
Series 9 – 3.96% due April 9, 2063 ⁽²⁾	243.3	246.4	243.2	237.9
Series 10 – 4.08% due September 16, 2044	198.3	209.4	198.3	203.4
Series 11 – 3.55% due July 28, 2045	198.3	191.3	198.3	185.1
Series 12 – 2.52% due August 25, 2026	198.8	195.5	—	—
	2,084.6	2,207.7	1,885.1	2,004.4

⁽¹⁾ The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [note 25[k]].

⁽²⁾ Re-opened on September 2, 2015 for an additional issuance of \$45.0 million [note 12].

b) Financial risks

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

Credit risk

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

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The Corporation is subject to credit risk with respect to customer non-payment of electricity bills. As at December 31, 2016, LDC had approximately 761,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2016, LDC held security deposits in the amount of \$54.1 million [December 31, 2015 - \$47.4 million], of which \$30.0 million [December 31, 2015 - \$25.1 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. As at December 31, 2016, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as for accounts receivable. The credit risk related to cash, cash equivalents and investments is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2016 and December 31, 2015.

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

	2016 \$	2015 \$
Accounts receivable (net of allowance for doubtful accounts)		
Outstanding for not more than 30 days	197.9	171.7
Outstanding for more than 30 days and not more than 120 days	27.3	16.5
Outstanding for more than 120 days	4.6	3.5
Total accounts receivable	229.8	191.7
Unbilled revenue	320.5	320.4
Total accounts receivable and unbilled revenue	550.3	512.1

The Corporation has a broad base of customers. As at December 31, 2016 and December 31, 2015, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk and no additional allowance for doubtful accounts was required for these balances.

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

	2016 \$	2015 \$
Balance, beginning of year	(11.5)	(11.9)
Provision for doubtful accounts	(5.7)	(7.1)
Write-offs	7.7	7.7
Recoveries	(0.3)	(0.2)
Balance, end of year	(9.8)	(11.5)

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at December 31, 2016 and December 31, 2015.

Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations [note 13[f]]. The Corporation is also exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program

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[note 9] and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2016, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$3.2 million to annual finance costs.

Liquidity risk

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

Liquidity risks associated with financial commitments are as follows:

2016						
	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	7.1	—	—	—	—	—
Commercial paper ⁽¹⁾	261.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	487.8	—	—	—	—	—
Obligations under finance leases	3.2	1.6	—	—	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	250.0	—	—	—	—	—
Series 3 – 4.49% due November 12, 2019	—	—	250.0	—	—	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	300.0	—
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	245.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Series 12 – 2.52% due August 25, 2026	—	—	—	—	—	200.0
Interest payments on debentures	83.0	70.2	70.2	59.0	59.0	1,001.8
	1,092.1	71.8	320.2	59.0	359.0	2,296.8

⁽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 \$16.6 million of accrued interest on debentures included within "Interest payments on debentures".

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Foreign exchange risk

As at December 31, 2016, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the Consolidated Financial Statements.

16. SHARE CAPITAL

Share capital consists of the following:

	2016 \$	2015 \$
Authorized The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding 1,000 common shares, of which all were fully paid.	567.8	567.8

Dividends

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

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

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

On November 13, 2016, the Board of Directors of the Corporation passed a resolution providing that the cumulative annual payment of dividends by the Corporation to the City be reduced to \$25.0 million per year, effective as and from that date, which reduction shall continue in effect until otherwise determined by the Board of Directors of the Corporation.

For the year ended December 31, 2016, the Board of Directors of the Corporation declared and paid dividends to the City totalling \$63.35 million [2015 - \$56.25 million].

On March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of \$6.25 million, payable to the City on March 31, 2017.

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17. OTHER REVENUE

Other revenue consists of the following:

	2016 \$	2015 \$
Other regulatory service charges	16.7	13.5
Street lighting service fee	16.6	16.3
Ancillary services	16.4	11.2
Pole and duct rentals	12.0	10.5
Amortization of deferred revenue	3.8	2.2
Miscellaneous	10.4	5.2
	75.9	58.9

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2016 \$	2015 \$
Salaries and benefits	223.6	231.0
External services	112.9	102.3
Materials and supplies	16.7	15.2
Other support costs ⁽¹⁾	32.7	37.9
Less: Capitalized costs	(108.8)	(111.8)
	277.1	274.6

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

For the year ended December 31, 2016, the Corporation recognized operating expenses of \$7.6 million related to materials and supplies used to service electricity distribution assets [2015 - \$6.6 million].

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19. FINANCE COSTS

Finance costs consist of the following:

	2016 \$	2015 \$
Interest income	(0.2)	(0.2)
Interest expense		
Interest on long-term debt ⁽¹⁾	81.6	76.1
Interest on short-term debt	4.9	4.2
Other interest	0.5	1.1
Capitalized borrowing costs	(12.6)	(10.8)
	74.2	70.4

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

20. INCOME TAXES

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

	2016 \$	2015 \$
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	251.7	112.2
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected income tax expense	66.7	29.7
Other	0.4	1.8
Income tax expense	67.1	31.5
Effective tax rate	26.7%	28.1%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax ⁽¹⁾	174.5	129.6
Statutory Canadian federal and provincial income tax rate	26.5%	26.5%
Expected income tax expense	46.2	34.3
Temporary differences recoverable in future rates	(22.7)	(31.7)
Other	(0.4)	0.3
Income tax expense and income tax recorded in net movements in regulatory balances	23.1	2.9
Effective tax rate	13.2%	2.2%

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

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

	2016 \$	2015 \$
Income tax expense	67.1	31.5
Income tax recorded in net movements in regulatory balances	(44.0)	(28.6)
Income tax expense and income tax recorded in net movements in regulatory balances	23.1	2.9
Income tax expense in OCI <i>[note 13[d]]</i>	5.5	—
Income tax recovery in OCI recorded in net movements in regulatory balances	(5.5)	—
Income tax expense in OCI	—	—

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

	2016 \$	2015 \$
Current tax expense		
Current year	24.3	2.5
Adjustment for tax positions taken in prior periods	(2.2)	(0.3)
	22.1	2.2
Deferred tax expense		
Origination and reversal of temporary differences	1.0	0.7
Income tax expense and income tax recorded in net movements in regulatory balances	23.1	2.9

Deferred tax assets consist of the following:

	Net balance, January 1 2016 \$	Recognized in net income \$	Recognized in OCI \$	Net balance, December 31 2016 \$
PP&E and intangible assets	34.5	(22.8)	—	11.7
Post-employment benefits	78.6	1.2	(5.5)	74.3
Other taxable temporary differences	1.2	(23.4)	—	(22.2)
	114.3	(45.0)	(5.5)	63.8

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

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As at December 31, 2016, the Corporation had \$2.6 million accumulated non-capital losses for income tax purposes [December 31, 2015 - \$2.1 million], which are available to offset net income in future years before expiring [\$2.1 million expires in 2035 and \$0.5 million expires in 2036]. As at December 31, 2016, the Corporation had accumulated net capital losses of \$18.7 million [December 31, 2015 - \$18.7 million], which are available to offset capital gains in future years.

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom.

	2016 \$	2015 \$
Deductible temporary differences	7.7	8.3
Net capital losses	5.0	5.0
Non-capital losses	0.7	0.5
	13.4	13.8

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2016 \$	2015 \$
Accounts receivable	(38.1)	15.2
Unbilled revenue	(0.1)	(12.9)
Income tax receivable	9.9	(9.1)
Materials and supplies	0.1	(1.2)
Other current assets	(3.6)	—
Accounts payable and accrued liabilities	20.6	11.6
Income tax payable	8.1	—
Deferred revenue	0.3	1.9
Deferred conservation credit	(12.4)	17.9
Other current liabilities	(0.1)	0.6
	(15.3)	24.0

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

	2016 \$	2015 \$
Purchase of PP&E, cash basis	511.7	550.7
Net change in accruals related to PP&E	(1.7)	(36.3)
Other	1.8	1.7
Total additions to PP&E	511.8	516.1
Purchase of intangible assets, cash basis	39.9	21.1
Total additions to PP&E and intangible assets	551.7	537.2

22. RELATED PARTY TRANSACTIONS

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

Summary of Transactions with Related Parties	2016 \$	2015 \$
Revenues	275.3	239.3
Operating expenses and capital expenditures	26.9	19.7
Dividends	63.4	56.3

Summary of Amounts Due to/from Related Parties	2016 \$	2015 \$
Accounts receivable	12.7	5.1
Unbilled revenue	23.2	20.8
Accounts payable and accrued liabilities	41.0	36.6
Customer deposits	14.1	11.7
Deferred revenue	3.5	1.0

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City [note 16].

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

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

	2016 \$	2015 \$
Short-term employee benefits	4.1	4.5
Post-employment benefits	1.0	1.0
Termination benefits	—	1.0
	5.1	6.5

23. COMMITMENTS

Operating leases and capital projects

As at December 31, 2016, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases \$	Capital projects ⁽²⁾ and other \$
Less than one year	2.6	20.2
Between one and five years	3.0	2.5
Total amount of future minimum payments ⁽¹⁾	5.6	22.7

⁽¹⁾ Refer to note 15 for financial commitments excluded from the table above.

⁽²⁾ Mainly commitments for construction services.

Operating lease expense for the year ended December 31, 2016 was \$6.4 million [2015 - \$6.3 million].

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Finance leases

As at December 31, 2016 and December 31, 2015, reconciliation between the future minimum lease payments and their present value was as follows:

	2016 \$			2015 \$		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	3.2	0.2	3.0	3.5	0.3	3.2
Between one and five years	1.6	—	1.6	5.0	0.2	4.8
More than five years	—	—	—	—	—	—
Current portion included in Other liabilities	4.8	0.2	4.6	8.5	0.5	8.0
Non-current portion included in Other liabilities			3.0			3.2
			1.6			4.8

24. CONTINGENCIES

Legal Proceedings

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

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

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

b) Regulation

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

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Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The Corporation elected to early adopt IFRS 14 for the year ended December 31, 2015.

The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on the Corporation's consolidated balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances 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 the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the consolidated balance sheets, 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. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

c) Cash and cash equivalents

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

d) Accounts receivable and unbilled revenue

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

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled

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revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, as well as current economic and credit conditions.

e) Materials and supplies

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

f) Property, plant and equipment

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

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

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

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

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g) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable.

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

Computer software	10.0% to 25.0%
Contributions	4.0%

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

h) Impairment of non-financial assets

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

i) Capitalized borrowing costs

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

j) Revenue recognition

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

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. The Corporation applies judgment to determine whether revenues are recorded on a gross or net basis.

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These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. The Corporation has primary responsibility for the delivery of electricity to the customer. During the same period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance 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 LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

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

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

k) Financial instruments

All financial assets are classified as “Loans and Receivables” and all financial liabilities are classified as “Other Financial Liabilities”. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm’s length transaction between willing parties.

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

- Cash, cash equivalents and short-term investments are classified as “Loans and Receivables” and are measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Accounts receivable and unbilled revenue are classified as “Loans and Receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Working capital facility, revolving credit facility and commercial paper are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation’s revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.

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- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value because of the short maturity of these instruments.
- Customer deposits are classified as “Other Financial Liabilities” and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.
- Obligations under finance leases are classified as “Other Financial Liabilities” and are initially measured at fair value, or the present value of the minimum lease payments if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.
- Debentures are classified as “Other Financial Liabilities” and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation’s current borrowing rate for similar debt instruments [note 15[a]]. Debt issuance costs incurred in connection with the Corporation’s debenture offerings are capitalized as part of the carrying amount of the debentures and amortized over the term of the related debentures, using the effective interest method, and the amortization is included in finance costs.

l) Fair value measurements

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

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m) Employee benefits

(i) Short-term employee benefits

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

(ii) Multi-employer pension plan

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

(iii) Post-employment benefits other than pension

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

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

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, 2016.

n) Customer deposits

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

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the

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Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

o) Income taxes

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

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

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

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

p) Use of judgments and estimates

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

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

- Note 25[b] – Recognition and measurement of regulatory balances;
- Note 25[j] – Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Notes 25[f] and 25[g] – Determination of useful lives of depreciable assets;
- Notes 25[m] and 13 – Measurement of post-employment benefits – key actuarial assumptions;
- Notes 25[o] and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Note 24 – Recognition and measurement of provisions and contingencies.

q) *Changes in accounting policies*

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments were adopted effective January 1, 2016. The adoption of these amendments has no material impact on the Corporation's consolidated financial statements.

r) *Future accounting pronouncements*

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016, and have not yet been applied in preparing these Consolidated Financial Statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its consolidated financial statements.

Revenue from Contracts with Customers

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

In April 2016, the IASB issued amendments to IFRS 15, which was originally issued in May 2014. These amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments also include two additional transitional reliefs. The amendments are effective for annual periods beginning on or after January 1, 2018, consistent with the effective date of the standard.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach with practical expedients. The Corporation has completed its initial assessment of the key revenue streams and continues to evaluate the impact of the new standard.

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Financial Instruments

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

Leases

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

The Corporation will elect to early adopt IFRS 16 on January 1, 2018 using the full retrospective approach for lessee's measurement of leases with practical expedients, and apply the practical expedient on lease definition. The Corporation has completed its initial assessment of its existing operating leases and anticipates that IFRS 16 will not have a significant impact on the Corporation's consolidated financial statements.

Disclosure Initiative

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments are expected to increase disclosures relating to changes in liabilities arising from financing activities with no impact to the Corporation's financial position or results of operations.