MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

TORONTO HYDRO CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
INTERIM PERIOD ENDED
JUNE 30, 2013**

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Executive Summary

- Net income for the three months and six months ended June 30, 2013 was $37.6 million and $56.1 million, compared to net income of $41.5 million and $28.7 million for the comparable periods in 2012;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of Toronto Hydro-Electric System Limited ("LDC") and were $105.1 million and $186.8 million for the three months and six months ended June 30, 2013, compared to $49.9 million and $115.3 million for the comparable periods in 2012;
- on April 2, 2013, the Ontario Energy Board ("OEB") issued a partial decision and order for phase one of the proceeding comprising LDC's 2012 and 2013 capital work program proposals and the new Clare R. Copeland Transformer Station ("Copeland Station") project, formerly called "Bremner Station";
- on April 9, 2013, Toronto Hydro Corporation (the "Corporation") issued $250.0 million of 2.91% senior unsecured debentures due April 10, 2023 ("Series 8") and $200.0 million of 3.96% senior unsecured debentures due April 9, 2063 ("Series 9");
- the net proceeds of the above debentures, together with borrowings under the Corporation's revolving credit facility, were used to repay the Corporation's $225.0 million of 6.11% senior unsecured debentures ("Series 1") and $245.1 million of 6.11% senior unsecured debentures ("Series 5") which matured on May 7, 2013 and May 6, 2013;
- construction on Copeland Station continued during the quarter and on May 22, 2013, the Corporation celebrated the official groundbreaking at the station; and
- on August 1, 2013, LDC filed an application with the OEB requesting approval for the disposition of balances in its smart meter deferral account related to smart meter installations in 2008, 2009 and 2010.

Introduction

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with:

- the unaudited interim consolidated financial statements and accompanying notes of the Corporation as at and for the three-month period and six-month period ended June 30, 2013 (the "Interim Consolidated Financial Statements");

- the audited consolidated financial statements and accompanying notes of the Corporation as at and for the years ended December 31, 2012 and 2011; and

- the Corporation's MD&A for the year ended December 31, 2012 (including the sections entitled "Electricity Distribution – Industry Overview", "Liquidity and Capital Resources", "Corporate Developments", "Share Capital", "Transactions with Related Parties", "Risk Factors", "Critical Accounting Estimates", "Changes in Accounting Estimates", and "Future Accounting Pronouncements" which remain substantially unchanged as at the date hereof except as noted below or as updated by the Interim Consolidated Financial Statements).

Copies of these documents are available on the Canadian Securities Administrators' web site at www.sedar.com.

The Corporation's interim consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP") and are presented in Canadian dollars (see "Significant Accounting Policies" below). The Ontario Securities Commission ("OSC") has granted the Corporation an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015.

Business of Toronto Hydro Corporation

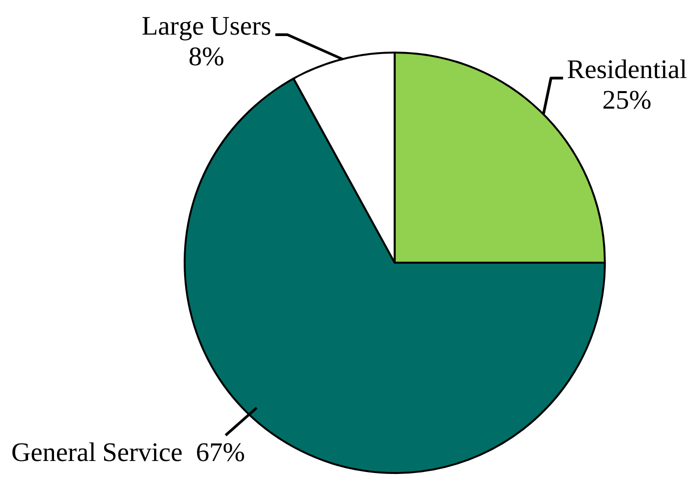
The Corporation is a holding company which wholly-owns two subsidiaries:

- *LDC* - which distributes electricity and engages in Conservation and Demand Management ("CDM") activities; and
- *Toronto Hydro Energy Services Inc.* ("TH Energy") - which provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, which delivers electricity to approximately 723,000 customers located in the City of Toronto (the "City"). The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% 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 six months ended June 30, 2013, LDC earned electricity revenues of $1,521.7 million. As illustrated in the accompanying chart, 67% of the revenues were earned from the general service users[1], 25% from residential service users[2], and 8% from large users[3].

LDC Electricity Revenues by Class %

Six Month Ended June 30, 2013



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

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

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

Corporate Strategy

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

The Corporation is focused on the following four strategic pillars:

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

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

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

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

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

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

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

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

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

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

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

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

Performance Measurement

The Corporation measures its performance in relation to the achievement of its strategic objectives by using a balanced scorecard approach. Key Performance Indicators ("KPI's") are monitored throughout the year and appropriate actions are taken as required. The definitions of the 2013 KPI's associated with the previously mentioned four strategic pillars are as follows:

Strategic Pillars	Performance Measure	Definition
People	Safety	• Number of recordable injuries x 200,000 / exposure hours.
	Employee Engagement	• Average number of employee engagement sessions per employee per year, including corporate-wide, divisional and departmental.
Financial	Net Income	• Net income per the Corporation's consolidated financial statements.
Operations	System Average Interruption Duration Index	• Measure of the annual system average interruption duration for customer served, not including MED [1].
	System Average Interruption Frequency Index	• Measure of the frequency of service interruptions for customers served, not including MED [1].
	Worst Performing Feeders	• Total number of feeders experiencing seven or more sustained outages in a year, with outages defined as interruptions greater than one minute.
	LDC Regulated Capital	• Achievement of LDC capital work program as approved by the Board of Directors.
Customer	Conservation Demand Management	• Annual summer peak demand savings through year over year megawatt reduction.
	Enhanced Customer Engagement	• Increase in customer self-serve transactions / engagements using various self-serve options.
	Call Centre Service Response	• Average of call centre responses within thirty seconds.

[1] MED refers to major event days as defined by the Institute of Electrical & Electronic Engineers Inc. specification 1366.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. In 2012, the Corporation exceeded all of its 2012 corporate and divisional objectives represented by its KPI's. The Corporation's ability to deliver results in each of its strategic pillars in 2013 is limited by risks inherent in its regulatory environment, business, workforce and in the economic environment. These risks were discussed under the section "Risk Factors" in the Corporation's MD&A for the year ended December 31, 2012.

Selected Interim Consolidated Financial Data

Interim Consolidated Statements of Net Income and Comprehensive Income
Three months ended June 30
(in thousands of Canadian dollars, except for per share amounts, unaudited)

	2013 $	2012 $	Change $	Change %
Revenues	792,905	709,700	83,205	11.7
Costs				
Purchased power	645,915	565,053	80,862	14.3
Operating expenses	62,711	49,646	13,065	26.3
Depreciation and amortization	35,308	35,132	176	0.5
	743,934	649,831	94,103	14.5
Income before the following:	48,971	59,869	(10,898)	(18.2)
Net financing charges	(17,317)	(18,170)	853	4.7
Income before income taxes	31,654	41,699	(10,045)	(24.1)
Income tax expense (recovery)	(5,901)	161	(6,062)	n.m.[1]
Net income and comprehensive income	37,555	41,538	(3,983)	(9.6)
Basic and fully diluted net income per share	37,555	41,538	(3,983)	(9.6)

[1] n.m. – not meaningful.

Interim Consolidated Statements of Net Income and Comprehensive Income
Six months ended June 30
(in thousands of Canadian dollars, except for per share amounts, unaudited)

	2013 $	2012 $	Change $	Change %
Revenues	1,549,785	1,409,360	140,425	10.0
Costs				
Purchased power	1,258,180	1,127,483	130,697	11.6
Operating expenses	132,819	117,828	14,991	12.7
Depreciation and amortization	70,022	70,560	(538)	(0.8)
	1,461,021	1,315,871	145,150	11.0
Income before the following:	88,764	93,489	(4,725)	(5.1)
Net financing charges	(35,911)	(36,820)	909	2.5
Restructuring costs	-	(27,796)	27,796	100.0
Income before income taxes	52,853	28,873	23,980	83.1
Income tax expense (recovery)	(3,283)	161	(3,444)	n.m.[1]
Net income and comprehensive income	56,136	28,712	27,424	95.5
Basic and fully diluted net income per share	56,136	28,712	27,424	95.5

n.m. – not meaningful.

Condensed Interim Consolidated Balance Sheets Data
(in thousands of Canadian dollars, unaudited)

	As at June 30 2013 $	As at December 31 2012 $
Total assets	3,655,269	3,539,354
Current liabilities	594,851	937,514
Long-term liabilities	1,894,505	1,461,568
Total liabilities	2,489,356	2,399,082
Shareholder’s equity	1,165,913	1,140,272
Total liabilities and shareholder’s equity	3,655,269	3,539,354

Results of Operations

Net Income

Net income for the three months and six months ended June 30, 2013 was $37.6 million and $56.1 million compared to $41.5 million and $28.7 million for the comparable periods in 2012.

The decrease in net income for the three months ended June 30, 2013 was primarily due to higher operating expenses ($13.1 million), partially offset by lower income tax ($6.1 million), higher net revenues ($2.3 million), and lower net financing charges ($0.9 million).

The increase in net income for the six months ended June 30, 2013 was primarily due to restructuring costs recognized in the first quarter of 2012 ($27.8 million) related to cost reduction initiatives at LDC, higher net revenues ($9.7 million), lower income tax ($3.4 million), and lower net financing charges ($0.9 million). These favourable variances were partially offset by higher operating expenses ($15.0 million).

Net Revenues

Net revenues for the three months and six months ended June 30, 2013 were $147.0 million and $291.6 million compared to $144.6 million and $281.9 million for the comparable periods in 2012 (see "Non-GAAP Financial Measures" below).

The increase in net revenues for the three months ended June 30, 2013 was primarily due to higher regulated distribution revenue at LDC ($1.5 million). The increase in distribution revenue was primarily due to revenue recognition related to the Incentive Regulation Mechanism ("IRM") adjustment and the eligible in-service capital expenditures under the Incremental Capital Module ("ICM") approved by the OEB and commencing June 1, 2013, partially offset by lower electricity consumption in the second quarter of 2013.

The increase in net revenues for the six months ended June 30, 2013 was primarily due to higher regulated distribution revenue at LDC ($9.3 million). The increase in distribution revenue was primarily due to an unfavourable revenue adjustment recorded in 2012 for future taxes payable to customers, and revenue recognition related to the IRM adjustment and the eligible in-service capital expenditures under ICM.

Expenses

Operating expenses for the three months and six months ended June 30, 2013 were $62.7 million and $132.8 million compared to $49.6 million and $117.8 million for the comparable periods in 2012.

The increase in operating expenses for the three months ended June 30, 2013 was primarily due to a favourable reassessment for payments in lieu of property taxes to the Ministry of Finance of Ontario ("Ministry of Finance") recorded in the second quarter of 2012 ($8.7 million) and higher operational and maintenance programs in 2013 ($4.0 million).

The increase in operating expenses for the six months ended June 30, 2013 was primarily due to higher operational and maintenance programs in 2013 ($8.8 million) and a favourable reassessment for payments in lieu of property taxes to the Ministry of Finance recorded in the second quarter of 2012 ($8.7 million). These variances were partially offset by lower compensation costs resulting mainly from a workforce restructuring program implemented in 2012 ($2.6 million).

Depreciation and amortization expense for the three months and six months ended June 30, 2013 was $35.3 million and $70.0 million compared to $35.1 million and $70.6 million for the comparable periods in 2012.

Net Financing Charges

Net financing charges for the three months and the six months ended June 30, 2013 were $17.3 million and $35.9 million compared to $18.2 million and $36.8 million for the comparable periods in 2012.

The decrease in net financing charges for the three months and the six months ended June 30, 2013 was primarily due to the refinancing of maturing debentures at a lower interest rate in the second quarter of 2013.

Income Tax Expense (Recovery)

Income tax recovery for the three months and six months ended June 30, 2013 was $5.9 million and $3.3 million compared to an income tax expense of $0.2 million for the comparable periods in 2012.

The favourable variance in income tax for the three months ended June 30, 2013 was due to favourable resolution of issues identified in prior periods and related reassessments by the Ministry of Finance ($4.9 million) and lower income before taxes ($2.7 million). These variances were offset by lower deductions for permanent and temporary differences between accounting and tax treatments ($1.5 million).

The favourable variance in income tax for the six months ended June 30, 2013 was due to higher deductions for permanent and temporary differences between accounting and tax treatments ($5.0 million) and favourable resolution of issues identified in prior periods and related reassessments by the Ministry of Finance ($4.9 million). These variances were partially offset by higher income before taxes ($6.4 million).

Quarterly Results of Operations

The table below presents unaudited quarterly consolidated financial information of the Corporation for eight quarters including and immediately preceding June 30, 2013.

Quarterly Results of Operations
(in thousands of Canadian dollars, unaudited)

	June 30 2013 $	March 31 2013 $	December 31 2012 $	September 30 2012 $
Revenues	792,905	756,880	691,847	751,270
Costs	743,934	717,087	652,274	693,809
Net income	37,555	18,581	22,842	34,436
	June 30 2012 $	**March 31 2012 $**	**December 31 2011 $**	**September 30 2011 $**
Revenues	709,700	699,660	694,284	738,352
Costs	649,831	666,040	653,374	687,279
Net income (loss)	41,538	(12,826)	17,228	28,982

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices, and the timing and recognition of regulatory decisions. Consequently, the Corporation's revenues, all other things being equal, 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 variation in the above noted trend was primarily due to an increase in commodity costs in the second quarter of 2013 and 2012 which resulted in increased revenue and cost of purchased power.

Financial Position

The following table outlines the significant changes in the consolidated balance sheets between June 30, 2013 and December 31, 2012.

Interim Consolidated Balance Sheets Data
As at June 30, 2013 compared to December 31, 2012
(in thousands of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Cash and cash equivalents	(43,118)	See "Liquidity and Capital Resources" below.
Accounts receivable, net of allowance for doubtful accounts	10,119	The increase was primarily due to higher energy prices partially offset by the timing of billing of recoveries from the Ontario Power Authority for CDM programs.
Unbilled revenue	21,645	The increase in unbilled revenue was primarily due to higher energy prices, partially offset by lower consumption and the timing of billing activities.
Property, plant and equipment ("PP&E") and intangible assets, net	79,546	The increase was primarily due to capital expenditures, partially offset by depreciation during the period and net eligible in-service capital expenditures under ICM reclassified to regulatory assets per the direction from the OEB.
Regulatory assets	63,963	The increase in regulatory assets was primarily due to the reclassification of ICM-related eligible in-service capital expenditures and higher retail settlement balances regulated by the OEB.
Deferred income tax assets	(21,799)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E.
Liabilities and Shareholder's Equity		
Bank Indebtedness	100,000	The increase was due to funds drawn under the Corporation's revolving credit facility (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	30,620	The increase was primarily due to higher electricity payable to the Independent Electricity System Operator related to purchased power.
Restructuring accrual	(7,023)	The decrease was due to payments made against the restructuring accrual related to the workforce restructuring program initiated by the Corporation in the first quarter of 2012.

Interim Consolidated Balance Sheets Data
As at June 30, 2013 compared to December 31, 2012
(in thousands of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Debentures	(20,284)	The decrease was primarily due to the repayment of $470.1 million senior unsecured debentures offset by the issuance of $450.0 million senior unsecured debentures during the second quarter of 2013 (see "Liquidity and Capital Resources" below).
Regulatory liabilities	(14,778)	The decrease was primarily due to lower deferred income tax assets payable to customers, partially offset by a disposition from regulatory variance accounts primarily related to Payments In Lieu of Corporate Taxes ("PILs").
Retained earnings	25,641	The increase in retained earnings was due to net income for the year ($56.1 million), partially offset by dividends paid ($30.5 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are its cash and cash equivalents, cash provided by operating activities, borrowings from debt capital markets and amounts available to be drawn against its credit facilities. 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, to meet financing obligations and for prudential requirements.

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital.

The City has authorized the Corporation to provide financial assistance to its subsidiaries, and LDC to provide financial assistance to other subsidiaries of the Corporation, in the form of guarantees, letters of credit, direct loans or otherwise, for the purpose of enabling them to carry on their businesses, with financial assistance provided to subsidiaries other than LDC not to exceed an aggregate amount of $500.0 million.

As at June 30, 2013, $100.0 million had been drawn under the $600.0 million revolving credit facility and no amounts had been drawn under the $20.0 million working capital facility. As at June 30, 2013, $49.8 million had been drawn on the $75.0 million prudential facility. For the three months and the six months ended June 30, 2013, the average outstanding borrowings on the Corporation's revolving credit facility were $33.8 million and $20.8 million with a weighted average interest rate of 2.54% and 2.63%.

As at June 30, 2013, the Corporation had long term debentures outstanding in the principal amount of $1,450.0 million. These debentures mature between 2017 and 2063.

On April 9, 2013, the Corporation issued Series 8 and Series 9 debentures. The Series 8 and Series 9 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 8 and Series 9 debentures prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest to the date fixed for redemption. The net proceeds of the debentures, together with borrowings under the Corporation's revolving credit facility, were used to repay the Corporation's Series 1 and Series 5 debentures which matured on May 7, 2013 and May 6, 2013, respectively. Debt issuance costs of $2.7 million relating to the Series 8 and Series 9 debentures were deferred as other assets in the period.

The debentures issued under the Corporation's medium-term note program were rated as follows:

Credit Ratings
As at June 30, 2013

	Rating
DBRS	A (high)
Standard & Poor's	A

On February 28, 2013, the Board of Directors of the Corporation declared dividends in the amount of $24.0 million. The dividends were comprised of $18.0 million with respect to net income for the year ended December 31, 2012, which was paid to the City on March 8, 2013, and $6.0 million with respect to the first quarter of 2013, which was paid to the City on March 28, 2013.

On May 16, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6.5 million with respect to the second quarter of 2013, which was paid to the City on June 28, 2013.

On August 15, 2013, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the third quarter of 2013. The dividend is payable on September 30, 2013.

Interim Consolidated Statement of Cash Flows
(in thousands of Canadian dollars, unaudited)

	Three months Ended June 30		**Six months Ended June 30**	
	2013 $	**2012 $**	**2013 $**	**2012 $**
Cash and cash equivalents, beginning of period	44,144	133,132	76,592	154,256
Net cash provided by operating activities	37,719	28,900	118,640	85,284
Net cash used in investing activities	(117,793)	(35,709)	(204,914)	(84,447)
Net cash provided by (used in) financing activities	69,404	(5,492)	43,156	(34,262)
Cash and cash equivalents, end of period	33,474	120,831	33,474	120,831

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and six months ended June 30, 2013 was $37.7 million and $118.6 million compared to $28.9 million and $85.3 million for the comparable periods in 2012.

The increase in net cash provided by operating activities for the three months ended June 30, 2013 was primarily due to higher non-cash working capital, partially offset by lower net income.

The increase in net cash provided by operating activities for the six months ended June 30, 2013 was primarily due to an increase in net income and non-cash working capital, partially offset by changes in non-cash items, primarily the non-current portion of the restructuring accrual established in 2012 and post-retirement benefit obligations.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and six months ended June 30, 2013 was $117.8 million and $204.9 million compared to $35.7 million and $84.4 million for the comparable periods in 2012.

The increase in net cash used in investing activities for the three months ended June 30, 2013 was primarily due to higher capital expenditures in 2013 and a change in net regulatory assets and liabilities mainly related to variances in retail settlement balances and regulatory asset recovery accounts regulated by the OEB.

The increase in net cash used in investing activities for the six months ended June 30, 2013 was primarily due to higher capital expenditures in 2013, the sale and maturity of investments in 2012, and a change in net regulatory assets and liabilities mainly related to variances in retail settlement balances and regulatory asset recovery accounts regulated by the OEB.

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

LDC estimates that approximately one-third of its electricity distribution assets are past their expected useful lives. As a strategic response to meet the objective of maximizing customer and stakeholder satisfaction through providing safe and reliable service, LDC is committed to maintenance and capital expenditure requirements for distribution plant refurbishment and replacement.

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

Capital Expenditures
(in thousands of Canadian dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2013 $	2012 $	2013 $	2012 $
Regulated LDC				
Distribution system	101,065	41,283	177,315	100,787
Technology assets	3,318	5,971	5,988	10,221
Other [1]	619	2,065	1,290	3,067
	105,002	49,319	184,593	114,075
Other [2]	100	573	2,232	1,195
Total Capital Expenditures	105,102	49,892	186,825	115,270

1 Includes fleet capital and buildings.

2 Includes unregulated capital expenditures primarily related to TH Energy equipment.

The total regulated capital expenditures were $105.0 million and $184.6 million for the three months and six months ended June 30, 2013 compared to $49.3 million and $114.1 million for the comparable periods in 2012. For the six months ended June 30, 2013 compared to June 30, 2012, the increase in regulated capital expenditures was primarily related to Copeland Station ($23.0 million), overhead infrastructure ($16.4 million), customer connections ($13.2 million), underground infrastructure ($10.1 million), and network infrastructure and equipment ($7.9 million).

The largest capital initiatives in 2013 include the construction of Copeland Station in response to the developing need for distribution solutions in the downtown core of the City, the delivery of customer connections, the replacement of underground infrastructure, and the replacement of overhead infrastructure.

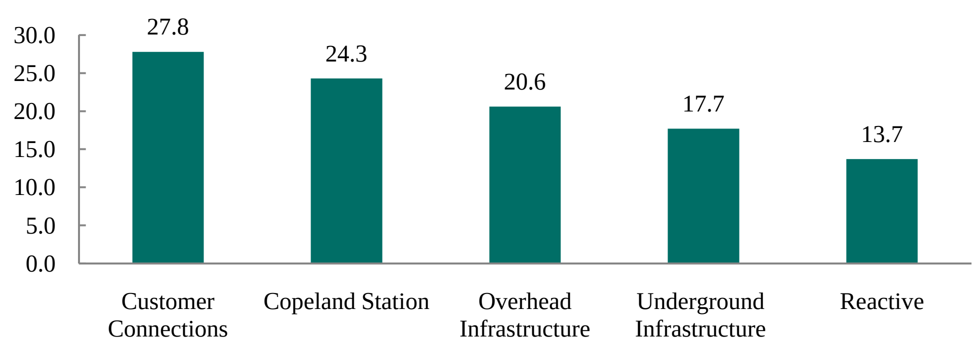
Copeland Station will be the first transformer station built in downtown Toronto since the 1960’s and will be the second underground transformer station in Canada. When in service, the new station will provide electricity to buildings and neighbourhoods in the central-southwest region of Toronto. Between 2006 and 2011, the population in the City's downtown increased by over 50%, and Toronto is now the fourth largest metropolitan area[4], by population, in North America. Copeland Station will provide much needed additional capacity to serve current and future load requirements in this high-density, high-growth area of Toronto.

On May 22, 2013, the Corporation celebrated the official groundbreaking at the station. The project is currently in the excavation phase and the construction of a new underground cable tunnel between Hydro One's transformer station and Copeland Station has commenced. As at June 30, 2013, the life-to-date capital expenditures on the Copeland Station project amounted to $39.5 million of which $24.3 million relates to 2013. The total capital expenditures required to complete Copeland Station are expected to be approximately $194.9 million. All capital expenditures related to Copeland Station are recorded to PP&E.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. As at June 30, 2013, the year-to-date capital expenditures for the delivery of customer connections were $27.8 million, net of capital contributions received of $8.3 million.

The replacement of overhead infrastructure includes replacing poles, overhead transformers, overhead switches and other aging overhead infrastructure and equipment. The replacement of underground infrastructure includes replacing direct buried cables, transformers, handwells, and other aging underground infrastructure. Both initiatives will ensure LDC continues to provide ongoing safe and reliable service to its customers. As at June 30, 2013, the year-to-date capital expenditures for the overhead and the underground infrastructure initiatives were $20.6 million and $17.7 million, respectively.

Most Significant Regulated Capital Expenditures
($Millions)
Six months ended June 30, 2013



Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the three months and the six months ended June 30, 2013 was $69.4 million and $43.2 million compared to net cash used in financing activities of $5.5 million and $34.3 million for the comparable periods in 2012.

The increase in net cash provided by financing activities for the three months and six months ended June 30, 2013 compared to the same periods in 2012 was primarily due to funds drawn under the Corporation's revolving credit facility related to higher capital expenditures, partially offset by the net effect of payment in connection with the retirement of $470.1 million of senior unsecured debentures and the issuance of $450.0 million of senior unsecured debentures in the second quarter of 2013.

[4] http://www1.toronto.ca/staticfiles/static_files/economic_development_and_culture/docs/backgroundfile-56336.pdf

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 June 30, 2013
(in thousands of Canadian dollars, unaudited)

	Total $	2013 [1] $	2014/2015 $	2016/2017 $	After 2017 $
Debentures – principal repayment	1,450,000	-	-	250,000	1,200,000
Debentures – interest payments	989,101	30,518	121,990	121,990	714,603
Operating lease obligations and other	24,717	3,215	13,161	8,341	-
Future capital commitments [2]	82,435	27,396	55,039	-	-
Capital lease obligations	12,590	1,268	5,049	5,018	1,255
Asset retirement obligations	6,050	387	1,124	517	4,022
Total contractual obligations and other commitments	2,564,893	62,784	196,363	385,866	1,919,880

1 The amounts disclosed represent the balances due over the period from July 1, 2013 to December 31, 2013.

2 Reflect capital commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Corporate Developments

Distribution Rates for LDC

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013, and 2014 using the IRM framework, including the filing of an ICM application (the "IRM/ICM Application").

On October 31, 2012, LDC submitted an update to its IRM/ICM Application modifying the requested capital expenditures for 2012 and 2013 to $283.0 million and $579.1 million, respectively, and requesting that consideration for 2014 be deferred to a second phase of the proceeding, once LDC had received a decision from the OEB in respect of phase one. On November 3, 2012, the OEB accepted LDC's request for a two-phase proceeding: phase one comprising LDC's 2012 and 2013 work program proposals and phase two comprising LDC's 2014 work program proposal.

On April 2, 2013, the OEB issued a partial decision and order for phase one of the proceeding comprising LDC's 2012 and 2013 work program proposals. The OEB's decision determined that eligible capital funding under the ICM framework was to be calculated on an in-service basis. This correlates to the approval of capital expenditures amounting to $203.3 million for 2012 and $484.2 million for 2013. New rates became effective June 1, 2013. In 2015, LDC will be allowed to seek recovery for capital spent in 2012 and 2013 that has not yet been approved by the OEB in the current ICM decision due to the standard operation of the regulatory model.

On August 1, 2013, LDC filed an application with the OEB requesting approval for the disposition of balances in its smart meter deferral account related to smart meter installations in 2008, 2009 and 2010. In the application, LDC requested two new rate riders effective May 1, 2014. The first rate rider relates to the recovery of $23.9 million, which represents the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider would be discontinued when the new rate riders become effective. The second rate rider relates to the recovery of $9.6 million, which represents the forecasted 2014 incremental revenue requirement until LDC may be permitted to transfer the smart meter assets out of regulatory assets. LDC expects to apply to the OEB for both the transfer of the 2008, 2009 and 2010 smart meter costs from regulatory assets to PP&E and intangible assets, and the transfer of the net book value of the stranded meters from PP&E to regulatory assets, at the time of its next scheduled rebasing in 2015.

OEB PILs Proceeding

The OEB conducted a review of the PILs variances accumulated in regulatory variance accounts for the period from October 1, 2001 to April 30, 2006 for certain Municipal Electricity Utilities ("MEUs"). On June 24, 2011, the OEB issued its decision for these MEUs and provided guidelines for the calculation and further disposition of the balances accumulated in the PILs regulatory variance accounts.

LDC reviewed the balance of its PILs regulatory variance accounts and applied the guidelines provided by the OEB. LDC applied for disposition of the balance as part of its IRM/ICM Application filed on May 10, 2012. The OEB issued its decision and order on April 2, 2013 approving the disposition of the balance. The impact was recorded previously in the Corporation's consolidated financial statements.

Changes to the Corporation's Board of Directors

On April 3, 2013, the City, as the sole shareholder of the Corporation, appointed David Williams, Colum Bastable, Vincent Brescia, Glenna Carr, Derek Cowbourne, Sara Gelgor, Paulette Kennedy and Isabel Meharry to the Board of Directors as independent directors of the Corporation. Their appointments were effective April 15, 2013 for a term ending April 14, 2015, or until their successors are appointed. On April 3, 2013, the City also nominated David Williams as Chairman of the Corporation. Mr. Williams was appointed Chairman by the Corporation's Board of Directors effective April 15, 2013 for a term ending April 14, 2015, or until his successor is appointed.

Effective January 1, 2013, the City, as the sole shareholder of the Corporation, appointed councillor Gloria Lindsay Luby to the Board of Directors of the Corporation to replace councillor Ron Moeser and also re-appointed each of councillor Josh Colle, as the Mayor's designate, and councillor Shelley Carroll to the Board of Directors of the Corporation. Their appointments are effective for a term ending November 30, 2014, or until their successors are appointed.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various litigation and claims with 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. The Corporation and its subsidiaries are subject to various legal actions that arise in the normal course of business and if damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under their liability insurance which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the Class Proceedings Act, 1992 (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. This action is at a preliminary stage. The statement of claim has been served on LDC, a statement of defence and third party claim have been served by LDC and a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million have been filed. A certification order has been issued. Affidavits of documents have been produced by LDC to the other parties and examinations for discovery have commenced and are continuing. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions and a smaller non-class action commenced in April 2009 involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks damages in the amount of $10.0 million from LDC. Both actions are at a preliminary stage. The plaintiff has now scheduled its certification motion for September 2013. Statements of defence to the main action and to the third party claim have not been filed. Accordingly, given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares of which 1,000 common shares are issued and outstanding as at the date hereof.

Transactions with Related Parties

For the Corporation, transactions with related parties include transactions with the City. All transactions with the City are conducted at prevailing market prices and normal trade terms.

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

Accounts receivable include receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related to the provision of electricity and other services provided and not yet billed. Other assets include amounts primarily for prepaid land leases from the City. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services, as well as amounts received from the City for the construction of electricity distribution assets. Advance deposits include amounts received from the City for future expansion projects.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a “Venture Issuer”. As such, it is exempt from certain of the 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 Interim Consolidated Financial Statements as at and for the six months ended June 30, 2013, and the MD&A for the six months ended June 30, 2013. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation for the periods presented.

Non-GAAP Financial Measures

The Corporation’s MD&A includes references to “net revenues”, which is a non-GAAP financial measure. The definition of net revenues is revenue minus the cost of purchased power. This measure does not have any standard meaning prescribed by US GAAP and is not necessarily comparable to similarly titled measures of other companies. The Corporation uses this measure to assess its performance and to further make operating decisions. Users of the MD&A utilize this measure to assess the Corporation's financial performance from ongoing operations.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with US GAAP and are presented in Canadian dollars. In preparing the Interim 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 Interim Consolidated Financial Statements, and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy of Ontario, or the Ministry of Finance of Ontario. The significant accounting policies of the Corporation are summarized in note 2 and 4 to the Interim Consolidated Financial Statements.

IFRS

As a result of the Corporation's 2011 decision to adopt US GAAP, the conversion of the Corporation's general purpose financial statements to IFRS was suspended. The Corporation's IFRS conversion project included separate awareness and assessment, design and implementation phases. As well, it involved among other initiatives, a detailed assessment of the effects of IFRS on its financial statements, an update of information systems to meet IFRS requirements, and assessment of internal controls over financial reporting and disclosure controls and processes, as well as training of key finance and operations staff.

Rate-Regulated Accounting

In accordance with US GAAP, the Corporation currently follows specific accounting policies unique to a rate-regulated business. Under Rate-Regulated Accounting ("RRA"), the timing and recognition of certain expenses and revenues may differ from those otherwise expected under US GAAP in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These timing differences are recorded as regulatory assets and regulatory liabilities on the Corporation's consolidated balance sheet and represent current rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. As at June 30, 2013, the Corporation reported $185.2 million of regulatory assets and $182.0 million of regulatory liabilities.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft ("ED") proposing accounting requirements for rate-regulated activities. The IASB received a significant number of comment letters with diverging opinions. After much deliberation with respect to the various issues raised, the IASB members remained divided and determined that the matter could not be resolved quickly. The RRA project was suspended in 2010, awaiting the outcome of the Agenda consultation.

On May 21, 2012, the IASB expressed its support for a standards level project on RRA. On September 20, 2012, the IASB decided that the RRA project would be restarted with the development of a Discussion Paper ("DP"). In preparation for the December IASB meetings, the IASB staff issued Agenda Paper 6 outlining the staff's view of the issues to be addressed in the DP, a proposed project plan and timeline and issues to consider when deciding whether or not to publish an interim standard. The IASB has also established a rate-regulated activities consultative group which includes a panel of experts comprised of preparers, auditors, users of financial statements and regulators to help in its project. The DP is tentatively set to be published at the end of 2013. The IASB also tentatively decided to develop an ED for an interim standard that would permit grandfathering of existing recognition and measurement policies for those entities that currently recognize regulatory assets and liabilities in accordance with their local accounting requirements. The ED was released on April 25, 2013 and is open for public comment until September 4, 2013. The Corporation intends to issue a letter in support of the ED for the interim standard.

On March 28, 2013, the IASB issued a Request for Information ("RFI") as it relates to the RRA project to help identify the various rate-regulatory schemes that stakeholders think should be incorporated into the scope of the full RRA standard. The comment period on the RFI ended on May 30, 2013. The Corporation issued two joint letters with the Canadian Electricity Association and the Coalition of Large Distributors in response to the RFI on May 30, 2013.

On February 12, 2013, the Accounting Standards Board decided to extend the existing deferral for IFRS adoption for entities subject to rate-regulation to January 1, 2015. The new mandatory IFRS adoption date also coincides with the expiration of the OSC's exemption permitting the Corporation to report under US GAAP. In the absence of an interim or final RRA standard by the IASB, the Corporation intends to continue to use the OSC's exemption to report under US GAAP up to December 31, 2014. The Corporation is actively monitoring developments by the IASB on rate-regulated accounting should a future IFRS conversion be required. Although the conversion of the Corporation's general purpose financial statements to IFRS was suspended in 2011, the IFRS conversion work is being managed in such a way that if a future transition to IFRS is required, the Corporation believes that this transition can be effectively accomplished.

Forward-Looking Information

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding the Corporation's achievement of its strategic pillars as described in the section entitled "Corporate Strategy", LDC's distribution revenue and the outcome of outstanding rate applications and other proceedings before the OEB as described in the section entitled "Corporate Developments", the Corporation's strategy and plans to finance the investment in LDC's infrastructure as described in the section entitled "Liquidity and Capital Resources", the expected results of legal proceedings as described in the section entitled "Legal Proceedings", the impact of market volatility on the Corporation's consolidated results of operations, performance, business prospects and opportunities as described in the section entitled "Quarterly Results of Operations", the changes in accounting estimates as described in the section entitled "Significant Accounting Policies", and progress of the RRA project as described in the section entitled "IFRS". The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow, and the effectiveness of a potential future transition to IFRS by the Corporation.

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

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

Selected Financial Highlights

The following table sets forth selected financial information of the Corporation for the three months and six months ended June 30, 2013 and for the comparable periods in 2012. This information has been derived from the Interim Consolidated Financial Statements.

Selected Financial Highlights
(in thousands of Canadian dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2013 $	2012 $	2013 $	2012 $
Net revenues [1]	146,990	144,647	291,605	281,877
Operating expenses [1]	62,711	49,646	132,819	117,828
Net income [1]	37,555	41,538	56,136	28,712
Capital expenditures [2]	105,102	49,892	186,825	115,270
Total debt to capitalization ratio [3]			57.1%	57.3%
Return on equity [4]			10.0%	6.9%

1 See “Results of Operations” for further details on net revenues, operating expenses and net income.

2 See “Liquidity and Capital Resources” for further details on capital expenditures.

3 Total debt to capitalization ratio = (total debt) / (total debt + total shareholder’s equity), where total debt = (bank indebtedness + current portion of debentures + long-term portion of debentures).

4 Return on equity = net income / average total shareholder’s equity. Return on equity is measured over a 12-month period.

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available at www.sedar.com.

Toronto, Canada

August 15, 2013