



FINANCIAL BACKGROUNDER

Key Financial Highlights (in millions of Canadian dollars)

	Three Months Ended December 31		Year Ended December 31	
	2015 \$	2014 \$	2015 \$	2014 \$
Net income after net movements in regulatory balances	74.3	23.8	126.7	111.7
Capital expenditures	134.6	190.0	537.2	626.0

CORPORATE DEVELOPMENTS

Effective January 1, 2015, the Corporation adopted International Financial Reporting Standards (IFRS), including early adoption of IFRS 14 *Regulatory Deferral Accounts* (IFRS 14). All comparative consolidated financial information has been modified from the consolidated financial statements previously presented in accordance with United States Generally Accepted Accounting Principles (US GAAP). The Corporation's first IFRS annual consolidated financial statements is for the year ended December 31, 2015.

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

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

impact of the OEB's CIR decision and rate order has been reflected in the Consolidated Financial Statements.

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

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). 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. Both Series 9 and Series 11 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and THESL to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The net proceeds of both debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes.

FINANCIAL STATEMENTS

Due to the transition to IFRS and early adoption of IFRS 14 (effective the first quarter of 2015), all comparative figures for 2014 that were previously reported in accordance with US GAAP have been modified to conform with the new standards adopted. The audited consolidated financial statements and related Management's Discussion and Analysis, presented in Canadian dollars, are available on the Corporation's website www.torontohydro.com or through SEDAR's website www.sedar.com.