Insight beyond the rating.

Rating Report

Report Date:
January 20, 2012

Previous Report:
February 10, 2011

Toronto Hydro Corporation

Analysts

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The Company

Toronto Hydro Corporation is a holding company with the following subsidiaries: Toronto Hydro-Electric System Ltd., which distributes electricity, and Toronto Hydro Energy Services Inc., which provides street lighting and expressway lighting services, as well as energy-efficient products and services. Toronto Hydro's sole shareholder is the City of Toronto (the City), rated AA by DBRS.

Rating

Debt	Rating	Rating Action	Trend
Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Senior Unsecured Debentures & Medium Term Notes	A (high)	Confirmed	Stable

Rating Update

DBRS has confirmed the Senior Unsecured Debentures & Medium Term Notes and Short-Term Issuer ratings of Toronto Hydro Corporation (THC or the Company) at A (high) and R-1 (low), respectively. The trends are both Stable. The rating confirmations reflect relatively stable earnings contributions from THC's regulated distribution business and a strong credit profile.

DBRS notes that on January 5, 2011, the Ontario Energy Board (OEB) announced that it had turned down THC's electricity distribution rate increase application under the cost-of-service framework for the May 2012 to May 2014 period. DBRS expects the Company to proceed with a follow-up filing under the Incentive Regulation Mechanism (IRM) framework, as recommended by the OEB.

Under the IRM framework, the Company's actual rate of return on equity in the next rate period will likely weaken from the current allowed level of 9.58%, due to challenges associated with operating efficiency improvements and potential restructuring charges. In addition, the Company will be required to manage its capital program effectively within its regulatory limits. This could be a challenge in the medium term due to THC's aging regulated electricity distribution infrastructure, which could require a costly and extensive refurbishment to improve reliability. However, in the near term, key financial ratios – including interest coverage, leverage and cash flow ratios – are expected to be stronger under IRM than under the cost-of-service framework as THC should reduce capital spending to around its approved depreciation level.

Rating Considerations

Strengths
(1) Reasonable regulatory environment
(2) Strong franchise area
(3) Strong financial profile

Challenges
(1) Aging infrastructure
(2) Earnings sensitive to volume of electricity sold
(3) Low electricity consumption growth

Financial Information

	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
($ thousands- CAD, where applicable)	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Net income before extras.	73,684	50,984	82,638	59,938	42,169	68,029	65,463	116,552
Cash flow (before working cap. changes)	183,959	185,413	251,566	253,020	221,804	232,720	199,837	257,484
Return on equity	9.2%	6.7%	7.8%	5.9%	4.3%	7.1%	7.2%	13.4%
Net debt in capital structure	53.5%	50.5%	53.5%	51.0%	50.0%	46.9%	51.6%	49.6%
Total debt in capital structure	56.4%	58.0%	56.4%	57.6%	54.8%	55.2%	56.5%	57.5%
Cash flow (times)/Total debt	17.4%	17.3%	17.8%	17.9%	18.3%	19.3%	16.6%	21.4%
EBIT interest coverage (times)	2.31	2.12	2.20	2.05	1.73	1.77	2.07	2.66

Rating Considerations Details

Strengths

(1) **Low business risk profile in a regulated market:** THC is predominantly a regulated electric distribution company that operates in a reasonable regulatory environment. The Company's regulated business model provides a high degree of stability to earnings and cash flow over the longer term.

(2) **Strong franchise area:** THC is one of the largest municipally owned local distribution companies (LDCs) in Canada, serving a customer base of 700,000 users. Approximately 91% of THC's electricity throughput is to residential and general service customers. Demand from these customers is relatively stable year over year, as they are less sensitive to economic cycles when compared to large users (9% of demand).

(3) **Solid financial profile and credit metrics:** The Company continues to maintain strong and stable credit metrics and a healthy balance sheet. DBRS expects cash flow, leverage and coverage metrics to improve under IRM, largely due to expected lower capital spending.

Challenges

(1) **Aging infrastructure:** Some of THC's assets date back to the 1950s. It is expected over the next five to nine years that about 30% of the Company's assets will be nearing the end of their serviceable life, with some assets in operation beyond this point. Historically, the Company has been in line with industry standards as measured by their System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI); however, approximately 40% of the downtime represented in these indicators is from defective equipment. Given the likelihood of moving to IRM and the probability of a reduced capital expenditure budget, THC will have to be very strategic on how they allocate their capex programs going forward.

(2) **Earnings sensitivities due to volumes sold:** Earnings and cash flow for electricity distribution companies are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality and weather variability have a direct impact on the volume of electricity sold and, therefore, on revenue earned from electricity sales.

(3) **Low electricity volume growth:** THC has been experiencing low distribution volume growth, partly due to energy conservation initiatives and the negative impacts of the recent economic recession. The average load growth was less than 1% over the past five years.

Toronto Hydro Corporation

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Earnings and Outlook

	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
($ millions, CAD, where applicable)	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Net operating revenues	424.1	410.2	563.3	549.4	504.3	495.8	497.6	541.1
Operating Expenses*	288.8	289.0	392.6	392.7	371.8	359.6	334.4	331.5
EBITDA	242.3	242.5	325.9	326.1	295.4	292.4	307.2	346.9
EBIT	135.28	121.20	170.75	156.67	132.46	136.20	163.23	209.60
Gross interest expense	58.61	57.22	77.74	76.36	76.51	76.77	78.76	78.80
Payments in lieu of income tax	5.78	17.54	13.81	25.58	19.74	5.75	37.80	58.40
Net income before extraordinary items	74	51	83	60	42	68	65	117
Reported net income	79	56	89	66	42	169	83	92
Return on equity*	9.2%	6.7%	7.8%	5.9%	4.3%	7.1%	7.2%	13.4%
Operating Margin	6.4%	6.2%	6.2%	6.0%	5.4%	5.7%	6.9%	9.3%
*DBRS adjusted numbers								

2010 versus 2009

- Revenue increased in 2010 versus 2009 due to the OEB approved distribution rate increases of $31.3 million and marginal increases in electricity consumption.
- Net income before extraordinary items was higher year over year as a result of a growing regulated rate base, partially offset by higher operating expenses.

9M 2011 versus 9M 2010

- Net income before extraordinary items increased by $23 million in 9M 2011 versus 9M 2010 mainly due to an increase in distribution revenues ($18.7 million) and a lower provision for payments in lieu of income taxes ($11.8 million).
- The OEB approved the distribution rate increases to help fund THC's regulated electricity distribution infrastructure upgrade initiatives as well as its workforce renewal program.

Electricity Throughputs (million GWh)	%	2010	2009	2008	2007	2006
Residential	21%	5,209	5,037	5,216	5,332	5,352
General service	70%	17,318	16,855	17,415	17,837	17,583
Large users	9%	2,219	2,462	2,508	2,591	2,592
Total (million GWh)	100%	24,746	24,354	25,139	25,760	25,527
Growth in electricity throughputs		1.6%	-3.1%	-2.4%	0.9%	-3.2%
Customers	%	2010	2009	2008	2007	2006
Residential	89%	620,501	611,357	605,509	601,515	599,080
General service	11%	79,836	78,840	78,589	78,349	78,978
Large users	0%	50	47	47	49	49
Total	100%	700,387	690,244	684,145	679,913	678,107
Growth in customer base		1.5%	0.9%	0.6%	0.3%	0.2%

Outlook

- Under the IRM framework, the Company's actual rate of return on equity in the next rate period will likely weaken from the current allowed level of 9.58% due to challenges associated with operating efficiency improvements and potential restructuring charges.

Toronto Hydro Corporation

Report Date:
January 20, 2012

Financial Profile and Outlook

	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
($ thousands)	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Net income before extraordinary items	73,684	50,984	82,638	59,938	42,169	68,029	65,463	116,552
Depreciation, depletion & amortization	107,038	121,267	155,179	169,408	162,970	156,159	143,983	137,344
Deferred income taxes and other	3,237	13,162	13,749	23,674	16,665	8,532	(9,609)	3,588
Cash flow (before working cap. changes)	183,959	185,413	251,566	253,020	221,804	232,720	199,837	257,484
Dividends paid	(26,063)	(18,000)	(33,063)	(25,000)	(25,170)	(116,416)	(46,200)	(46,200)
Capital expenditures	(306,796)	(244,863)	(452,717)	(390,784)	(249,305)	(214,581)	(289,502)	(185,307)
Free Cash Flow (bef. work. cap. changes)	(148,900)	(77,450)	(234,214)	(162,764)	(52,671)	(98,277)	(135,865)	25,977
Changes in non-cash work. cap. items	25,578	30,865	22,011	27,298	(31,047)	33,746	14,317	(144,756)
Net Free Cash Flow	(123,322)	(46,585)	(212,203)	(135,466)	(83,718)	(64,531)	(121,548)	(118,779)
Acquisitions & Long-term Investments	(59,041)	0	(59,041)	0	0	0	(88,000)	0
Short-term Investments	0	0	0	0	7	0	0	0
Proceeds on asset sales	29,277	8,787	79,701	59,211	1,056	0	1,845	938
Net equity change	0	0	0	0	0	0	0	0
Net debt change	0	198,493	0	198,493	3,341	0	4,608	(1,182)
Other	(23,112)	(561)	(26,008)	(3,457)	(49,801)	189,021	91,573	(2,398)
Change in cash	(176,198)	160,134	(217,551)	118,781	(129,115)	124,490	(111,522)	(121,421)
Total debt	1,410,405	1,429,416	1,410,405	1,409,837	1,210,590	1,206,694	1,206,188	1,205,231
Cash and equivalents	153,953	371,504	153,953	330,151	211,370	340,492	216,002	327,524
Net debt in capital structure	53.5%	50.5%	53.5%	51.0%	50.0%	46.9%	51.6%	49.6%
Total debt in capital structure	56.4%	58.0%	56.4%	57.6%	54.8%	55.2%	56.5%	57.5%
Adjusted total debt in capital structure*	56.6%	58.1%	56.6%	58.5%	55.4%	55.8%	57.2%	58.0%
Net debt/cash flow (times)	5.12	4.28	4.99	4.27	4.50	3.72	4.95	3.41
Total debt/cash flow (times)	5.75	5.78	5.61	5.57	5.46	5.19	6.04	4.68
Adjusted total debt/cash flow (times)*	5.80	5.81	5.65	5.79	5.58	5.32	6.21	4.79
EBIT interest coverage (times)	2.31	2.12	2.20	2.05	1.73	1.77	2.07	2.66
Adjusted EBIT interest coverage (times)*	2.31	2.12	2.20	2.09	1.76	1.80	2.09	2.67
*Including operating leases.								

Summary

- THC's financial profile remained strong and key financial ratios were reasonable for the assigned rating category.
- Free cash flow deficits continued in 2010 and 9M 2011, primarily due to increased levels of capital spending to modernize THC's aging regulated electricity distribution infrastructure.
- The cash flow deficits in 2010 were financed primarily with debt and in part through the sale of all their asset-backed commercial paper (ABCP) notes (restructured after the liquidity crisis in 2007).
- Dividends remained steady over the past two years as per the shareholders' direction adopted by the City of Toronto, which states that the Company will pay $25 million (in segments throughout the year) per year and, if applicable, 50% of any consolidated net income surpassing this amount.

Outlook

- The Company will be required to manage its capital program effectively and within it regulatory limits. This could be a challenge in the medium term due to its aging regulated electricity distribution infrastructure, which could require a costly and extensive refurbishment of the distribution network to improve reliability.
- However, in the near term, key financial ratios – including interest coverage, leverage and cash flow ratios – are expected to be stronger under IRM than under the cost-of-service framework as THC should reduce its capital spending to around its approved depreciation level.

Long-Term Debt Maturities and Bank Lines

- THC's liquidity profile remains strong and sufficient to cover all near to medium-term obligations. Prior to the quarter ending September 30, 2011, THC consistently maintained cash balances of more than $210 million.

($ millions - As at Sep. 30, 2011)	Amount	Draw/LOCs	Available	Expiry
Cash & Cash Equivalents	154	-	154	-
Credit Facility*	400	0	400	3-May-13
Bilateral facility	50	45.1	4.9	Demand
		Total:	559	

- THC remains fairly flexible, with the ability to scale down or postpone dividends. Dividend payments to the City of Toronto require the board of director's approval and have consistently remained around $25 million as per the shareholders' direction.

Debt - As at Dec 31. 2011		
($ millions)	Maturity	Outstanding
Series 1 - 6.11%	7-May-13	224.2
Series 2 - 5.15%	14-Nov-17	248.9
Series 3 - 4.49%	12-Nov-19	248.6
Series 5 - 6.11%	6-May-13	245.1
Series 6 - 5.54%	21-May-40	198.7
Series 7 - 3.54%	18-Nov-21	300.0
	Total:	1,465.4

Long-term Debt Maturities						
($ millions - As at Dec. 31, 2011)	2012	2013	2014	2015	2016+	Total
Amount	0	469	0	0	996	1465
% of Total	0.0%	32.0%	0.0%	0.0%	68.0%	100.0%

- While 32% of the long-term debt is maturing in 2013, DBRS does not believe re-financing will pose a problem for the Company given its recent successes:
  - The Series 4 debenture with $254.1 million outstanding was re-financed in November 2011, with a 3.54% $300 million unsecured debenture (Series 7) maturing in November 2021 (rated A (high)).
  - The City of Toronto's promissory note of $490 million was converted into THC issued Series 4 and Series 5 debentures (maturing Dec 30, 2011, and May 6, 2013, respectively) and sold in the secondary market (no proceeds to THC).
- The Company has access to a shelf prospectus initiated December 9, 2010, for the issuance of $1 billion active for 25 months following this prospectus date.
- DBRS notes that THC does not currently have a commercial paper program.

Regulation

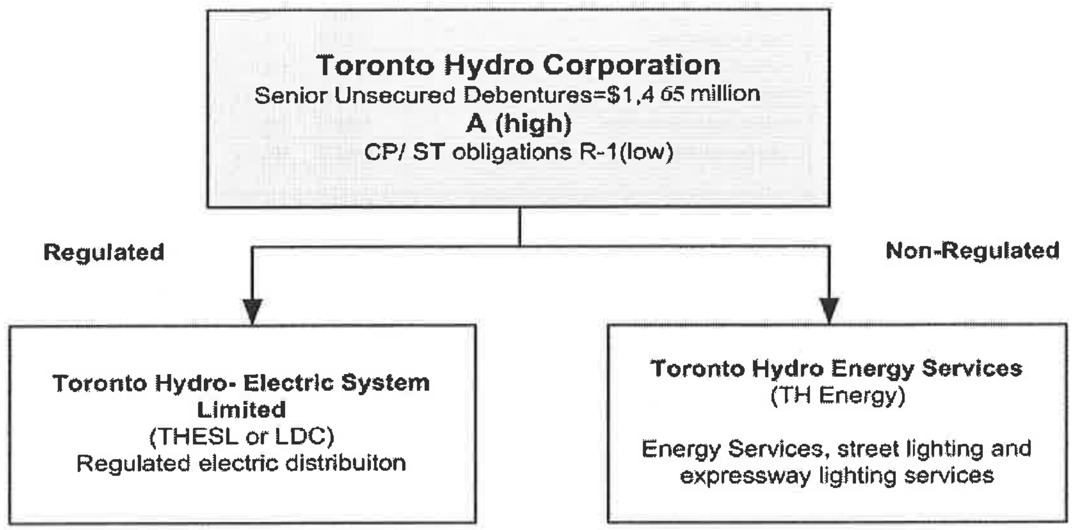
Provincial Regulation

- THC's regulated electricity distribution business operates within the bounds of the OEB, whose mandate is to approve and set rates for the distribution and transmission of electricity as set out by the *Electricity Act*, 1998.
- THC operates with a deemed capital structure of 60% debt (divided into 56% long term and 4% short term) and 40% equity.
- In December 2009, the OEB changed its methodology for calculating return on equity (ROE), resulting in a decrease in ROE to 9.58% for 2011, down from 9.85% in 2010.
- The new calculation is composed of a base ROE of 9.75% plus 50% of the change in the long Canada Bond forecast from base year, and 50% of the change in the spread of an "A"-rated bond index over the 30-year Canada bond yield.
- In August 2011, a rate application was filed with the OEB for permission to increase THC's regulated electricity distribution rates for three separate, consecutive years effective May 2012, 2013 and 2014.
- This application sought approval for distribution rates to be derived from a cost-of-service framework as the Company felt that large capital spending toward regulated infrastructure would be required for system upgrades.
- On January 5, 2012, the OEB ruled against the Company's application, stating that the evidences submitted failed to meet the Preliminary Issue test. As a result, the Company is expected to operate under the IRM framework for the May 2012 to May 2014 period as suggested by the OEB.

Financial Reporting

- The Canadian Accounting Standards Board (CASB) ruled in February 2008 that all public Canadian companies would be required to adopt International Financial Reporting Standards (IFRS) starting January 1, 2011.
- The International Account Standards Board (IASB) received a number of opinions which differed from their own on a variety of regulations imposed under this impending IFRS implementation.
- Due to the continued uncertainty surrounding IFRS in 2011, permission was granted from the applicable Canadian securities regulators as well as the Company's board of directors to begin looking at transitioning to U.S. GAAP.
- THC has indicated that the first report under U.S. GAAP will be in March 2012. DBRS expects that this standards change will be generally consistent with Canadian GAAP (currently used), and the Company will experience no material changes to operations or credit metrics as a result.

Description of Operations



As of December 31, 2011

- Toronto Hydro Corporation is a holding company with the following two subsidiaries operating exclusively in the Toronto area:
  - Toronto Hydro-Electric System Limited, one of the largest municipal distribution utilities in Canada, is responsible for regulated electricity distribution (99% of revenue).
  - Toronto Hydro Energy Services Inc. (which has a contractual relationship with the City of Toronto) owns and operates street lighting services (1% or revenue).
- Energy is generated by Ontario Power Generation Inc. (rated A (low)) and then transmitted to Toronto Hydro Corporation's networks by Hydro One Inc. (rated A (high)). From here, THC distributes the power to its customers via overhead and underground lines.
- The Company employs approximately 1,800 people, has a peak load of 5,000 megawatts and distributes electricity to over 700,000 customers (approximately 19% of the market in Ontario (rated AA (low)).
- The customer mix is heavily weighted toward residential consumers (89%), followed by general service (11%) and large users (less than 1%).

Toronto Hydro Corporation

Balance Sheet ($ thousands - CAD)	Sept. 30	Dec. 31	Dec. 31		Sept. 30	Dec. 31	Dec. 31
Assets	2011	2010	2009	**Liabilities & Equity**	2011	2010	2009
Cash & equivalents	153,953	330,151	211,370	S.T. borrowings	0	0	0
Accounts receivable	220,968	168,988	150,795	Accounts payable	389,776	373,543	318,317
Inventories	7,365	7,501	6,224	Current portion L.T.D.	245,057	245,057	0
Prepaid expenses & other	290,890	298,670	314,910	Deferred tax	0	0	0
Total Current Assets	**673,176**	**805,310**	**683,299**	Other current liab.	38,540	21,785	19,895
				Total Current Liab.	**673,373**	**640,385**	**338,212**
Net fixed assets	2,321,436	2,128,777	1,919,954	Long-term debt	1,165,348	1,164,780	1,210,590
Future income tax assets	207,491	256,147	253,149	Deferred income taxes	0	0	0
Goodwill & intangibles	106,008	85,996	73,829	Other L.T. liab.	457,237	524,317	512,171
Investments & others	79,867	92,631	128,996	Shareholders equity	1,092,020	1,039,379	998,254
Total Assets	**3,387,978**	**3,368,861**	**3,059,227**	**Total Liab. & SE**	**3,387,978**	**3,368,861**	**3,059,227**

Balance Sheet &	9 mos.ending Sept. 30		12 mos.	For the year ended December 31				
Liquidity & Capital Ratios (1)	2011	2010	Sept. 30	2010	2009	2008	2007	2006
Current ratio	1.00	2.33	1.00	1.26	2.02	1.37	2.12	1.44
Net debt in capital structure	53.5%	50.5%	53.5%	51.0%	50.0%	46.9%	51.6%	49.6%
Total debt in capital structure	56.4%	58.0%	56.4%	57.6%	54.8%	55.2%	56.5%	57.5%
Adj. total debt in capital structure*	56.6%	58.1%	56.6%	58.5%	55.4%	55.8%	57.2%	58.0%
Cash flow/total debt	17.4%	17.3%	17.8%	17.9%	18.3%	19.3%	16.6%	21.4%
Cash flow/adj. total debt	17.2%	17.2%	17.7%	17.3%	17.9%	18.8%	16.1%	20.9%
(Cash flow - dividends)/capex (2)	0.51	0.68	0.48	0.58	0.79	0.54	0.53	1.14
Dividend payout ratio	35.4%	35.3%	40.0%	41.7%	59.7%	171.1%	70.6%	39.6%
Coverage Ratios (times) (3)								
EBIT interest coverage	2.31	2.12	2.20	2.05	1.73	1.77	2.07	2.66
EBITDA interest coverage	4.13	4.24	4.19	4.27	3.86	3.81	3.90	4.40
Fixed-charge coverage	2.31	2.15	2.21	2.10	1.77	1.93	2.27	3.22
Adjusted EBIT interest coverage*	2.31	2.12	2.20	2.09	1.76	1.80	2.09	2.67
Profitability Ratios								
EBITDA margin	11.4%	12.4%	11.7%	12.5%	12.0%	12.3%	13.1%	15.4%
EBIT margin	6.4%	6.2%	6.2%	6.0%	5.4%	5.7%	6.9%	9.3%
Profit margin	3.5%	2.6%	3.0%	2.3%	1.7%	2.9%	2.8%	5.2%
Return on equity	9.2%	6.7%	7.8%	5.9%	4.3%	7.1%	7.2%	13.4%
Return on capital	5.8%	4.9%	5.3%	4.6%	4.0%	5.3%	5.3%	8.0%

(1) Minority interests treated as equity equivalents. (2) Capital expenditures excluding acquisitions and equity investments.
(3) Before capitalized interest is deducted.
*Including operating leases.

Toronto Hydro Corporation

Report Date:
January 20, 2012

Rating

Debt	Rating	Rating Action	Trend
Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Senior Unsecured Debentures & Medium Term Notes	A (high)	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008
Short-Term Issuer Rating	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Senior Unsecured Debentures & Medium Term Notes	A (high)	A (high)	A (high)	A (high)	A

Note:
All figures are in Canadian dollars unless otherwise noted.

DBRS

Insight beyond the rating.

Rating Report

Report Date:
September 7, 2012

Previous Report:
June 19, 2012

Toronto Hydro Corporation

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The Company

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Recent Actions

January 20, 2012
Confirmed

Rating

Debt	Rating	Rating Action	Trend
Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A (high)	Confirmed	Stable

Rating Update

DBRS has confirmed the rating of the Senior Unsecured Debentures & MTNs and Short-Term Issuer Rating of Toronto Hydro Corporation (THC or the Company) at A (high) and R-1 (low), respectively. The trends are both Stable. The rating confirmations reflect the continued stable earnings contribution from THC's regulated distribution business and its reasonable credit profile.

On May 10, 2012, THC filed its application to set electricity distribution rates for the 2012, 2013 and 2014 rate years under the Incentive Regulation Mechanism (IRM) framework. Under the IRM framework, the Company's actual rate of return on equity (ROE) in the next rate period is expected to weaken from the current allowed level of 9.58%, due to challenges associated with restructuring charges.

As the Company continues to refurbish its electricity distribution infrastructure to improve reliability, capital expenditures are expected to be well over the Company's current depreciation level. In light of the IRM framework, the Company will be required to manage its capital program effectively within its regulatory limits, which could be challenging given THC's aging infrastructure. The Company filed an incremental capital module (ICM) application in which it sought funding for capex of approximately $450 million to $500 million annually for the 2012 to 2014 period in order to maintain system reliability.

The confirmation incorporates DBRS's expectation that the Company remains committed to maintaining its debt-to-capital ratio in line with the regulatory 60% debt-to-40% equity structure. This capital structure is expected to allow THC to spend approximately $300 million to $350 million annually on capex with reasonable rate increases. DBRS notes that THC's leverage has increased over the years from approximately 55% in 2009 to 60% in the second quarter of 2012. Any additional significant increase in leverage or weakening of key credit metrics could cause THC's credit risk profile to deteriorate to a level that is no longer commensurate with the current A (high) rating.

Rating Considerations

Strengths
(1) Reasonable regulatory environment
(2) Strong franchise area
(3) Reasonable financial profile

Challenges
(1) Aging infrastructure
(2) Earnings sensitive to volume
(3) Low electricity consumption growth
(4) Limited access to equity markets

Financial Information

	USGAAP	USGAAP	Mix	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Toronto Hydro Corporation	6 mos. June. 30		12 mos. June. 30	For the year ended December 31				
(CA$ millions where applicable)	2012	2011	2012	2011	2010	2009	2008	2007
EBIT gross interest coverage	2.46	2.07	2.38	2.19	2.10	1.73	1.77	2.07
Total debt in capital structure (1)	59.9%	57.8%	59.9%	59.7%	58.5%	55.4%	55.8%	57.2%
Cash flow/Total debt	14.7%	19.2%	14.9%	16.8%	17.9%	18.3%	19.3%	16.6%
(Cash flow-dividends)/Capex (times)	0.64	0.56	0.49	0.49	0.58	0.79	0.54	0.53
Net income before non-recurring items	47	47	94	93	61	43	68	66
Cash flow from operations	108	135	219	246	253	222	233	200

(1) Including operating leases.

Rating Considerations

Strengths

(1) **Reasonable regulatory environment.** THC is predominantly a regulated electric distribution company that operates in a reasonable regulatory environment. The Company's regulated business model provides a high degree of stability to earnings and cash flow over the long term.

(2) **Strong franchise area.** THC is one of the largest municipally-owned local distribution companies (LDCs) in Canada, serving a customer base of approximately 712,000 users. Approximately 90% of THC's electricity throughput is to residential and general service customers. Demand from these customers is relatively stable year over year, as they are less sensitive to economic cycles than large users (10% of demand).

(3) **Reasonable financial profile.** The Company's key credit metrics remain reasonable for its rating category. The confirmation incorporates DBRS's expectations that the Company remains committed to maintaining its debt-to-capital ratio in line with the regulatory 60% debt-to-40% equity structure, and that in the event that debt leverage rises above the regulated capital structure, the Company will take necessary measures to restore its structure to the 60% debt level in a timely manner.

Challenges

(1) **Aging infrastructure.** It is expected that over the next five to nine years, approximately 30% of the Company's assets will be nearing the end of their serviceable life, with some assets in operation beyond this point. Although the Company has been in line with industry standards, as measured by their System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI), approximately 40% of the downtime represented in these indicators is from defective equipment. Given the likelihood of moving to IRM and the probability of a reduced capex budget, THC will have to be very strategic on how it allocates its capex programs going forward.

(2) **Earnings sensitive to volume.** Earnings and cash flow for electricity distribution companies are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality and weather variability have a direct impact on the volume of electricity sold and, therefore, on revenue earned from electricity sales.

(3) **Low electricity consumption growth.** THC has been experiencing low distribution volume growth, partly due to energy conservation initiatives and the negative impacts of the recent economic recession. The average load growth has been less than 1% over the past five years.

(4) **Limited access to equity markets.** THC's ownership structure (100% owned by the City of Toronto) limits its ability to access the equity markets directly. As a result, THC's additional cash flow needs are being financed largely through its retained earnings and debt issuances.

Earnings and Outlook

	USGAAP	USGAAP	Mix	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	6 mos. June. 30		12 mos. June. 30		For the year ended December 31			
(CA$ millions where applicable)	2012	2011	2012	2011	2010	2009	2008	2007
Net Sales	282	282	570	571	549	504	496	498
EBITDA	164	151	341	327	326	295	292	307
EBIT	93	82	188	176	157	132	136	163
Gross interest expense	38	39	79	81	75	77	77	79
Earning before taxes	57	45	113	101	86	62	74	103
Net income before non-recurring items	47	47	94	93	61	43	68	66
Reported net income	29	50	75	96	66	42	169	83
Return on equity	8.5%	8.9%	8.6%	8.7%	6.0%	4.3%	7.1%	7.3%

2011 Summary

- Net income before extraordinary items was higher year over year as a result of (1) a growing regulated rate base and (2) lower depreciation and amortization charges of $18.4 million, mainly due to the extension of the useful life of property, plant and equipment. This was partially offset by higher operating expenses (operating labour costs due to accounting changes).

Electricity Throughputs (million GWh)	%	2011	2010	2009	2008	2007
Residential	21%	5,204	5,209	5,037	5,216	5,332
General service	69%	17,148	17,318	16,855	17,415	17,837
Large users	10%	2,355	2,219	2,462	2,508	2,591
Total (million kWh)	100%	24,708	24,746	24,354	25,139	25,760
Growth in electricity throughputs		(0.2%)	1.6%	(3.1%)	(2.4%)	0.9%

Customers	%	2011	2010	2009	2008	2007
Residential	89%	629,049	620,501	611,357	605,509	601,515
General service	11%	80,222	79,836	78,840	78,589	78,349
Large users	0%	52	50	47	47	49
Total (million kWh)	100%	709,323	700,387	690,244	684,145	679,913
Growth in customer base		1.3%	1.5%	0.9%	0.6%	0.3%

As of December 31, 2011

2012 Outlook

- Net income before extraordinary items remained constant for the six months ended June 30, 2012 (H1 2012) compared to H1 2011. This was mainly due to lower operating expenses (as a result of cost reduction initiatives), which were offset by lower revenues, higher depreciation and higher income taxes.
- Under the IRM framework, the Company's actual rate of ROE in the next rate period will likely weaken from the current allowed level of 9.58%, due to challenges associated with the workforce restructuring program.
- THC spent $27.8 million for restructuring costs, of which $19.3 million remains unpaid as at June 30, 2012.

Financial Profile and Outlook

	USGAAP	USGAAP	Mix	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
	6 mos. June. 30		12 mos. June. 30	For the year ended December 31				
(CA$ millions where applicable)	2012	2011	2012	2011	2010	2009	2008	2007
Net income before non-recurring items	47	47	94	93	61	43	68	66
Depreciation & amortization	71	69	153	151	169	163	156	144
Deferred income taxes and other	(9)	20	(27)	2	22	16	9	(10)
Cash flow from operations	108	135	219	246	253	222	233	200
Dividends paid	(35)	(20)	(48)	(33)	(25)	(25)	(116)	(46)
Capital expenditures	(115)	(205)	(347)	(437)	(391)	(249)	(215)	(290)
Free cash flow (bef. working cap. changes)	(42)	(90)	(176)	(224)	(163)	(53)	(98)	(136)
Changes in non-cash work. cap. items	(24)	(52)	92	64	27	(31)	34	14
Net Free Cash Flow	(66)	(142)	(84)	(160)	(135)	(84)	(65)	(122)
Acquisitions & long-term investments	0	0	0	0	0	0	0	(88)
Short-term investments	34	(34)	34	(34)	50	0	0	0
Proceeds on asset sales	1	4	1	5	9	1	0	2
Net equity change	0	0	0	0	0	0	0	0
Net debt change	0	0	53	53	198	3	0	5
Other	(2)	(39)	(4)	(40)	(3)	(50)	189	92
Change in cash	(33)	(210)	1	(176)	119	(129)	124	(112)
Total debt	1,470	1,410	1,470	1,464	1,410	1,211	1,207	1,206
Cash and equivalents	121	120	121	154	330	211	340	216
Total debt in capital structure	57.3%	56.9%	57.3%	57.0%	57.6%	54.8%	55.2%	56.5%
Total debt in capital structure (1)	59.9%	57.8%	59.9%	59.7%	58.5%	55.4%	55.8%	57.2%
Cash flow/Total debt	14.7%	19.2%	14.9%	16.8%	17.9%	18.3%	19.3%	16.6%
Cash flow/Total debt (1)	13.2%	18.5%	13.4%	15.1%	17.3%	17.9%	18.8%	16.1%
EBIT gross interest coverage (times)	2.46	2.07	2.38	2.19	2.10	1.73	1.77	2.07
EBIT gross interest coverage (times) (1)	2.52	2.10	2.44	2.27	2.13	1.76	1.80	2.09
Dividend payout ratio	74.7%	43.0%	51.3%	35.4%	40.8%	59.2%	171.1%	69.9%

(1) Including operating leases.

2011 Summary

- THC's financial profile and key financial ratios remained reasonable for the assigned rating category.
- Dividends increased in 2011 as per the Company's shareholder direction adopted by the City of Toronto (the City), which states that the Company will pay the greater of $25 million per year (in segments throughout the year), or if applicable, 50% of any consolidated net income surpassing this amount.
- Free cash flow deficits continued in 2011, primarily due to increased levels of capex to modernize THC's aging electricity distribution infrastructure. This was financed with cash on hand and debt.

2012 Outlook

- THC's key credit metrics remained relatively stable in H1 2012. Capex was lower in H1 2012 than in H1 2011, primarily due to the uncertainty regarding electricity distribution rates for 2012.
- Dividends increased in H1 2012, following the City's direction. Out of the $35 million paid, $23 million was attributable to 2011 and $12 million was attributable to H1 2012. On August 17, 2012, the Company declared a dividend of $6 million for the third quarter of 2012.
- The free cash flow deficit was lower in H1 2012 than H1 2011, mainly due to lower capex. The deficit was funded by cash on hand.
- The Company will be required to manage its capital program effectively and within its regulatory limits. This could be a challenge in the medium term, due to its aging regulated electricity distribution infrastructure, which could require a costly and extensive refurbishment of the distribution network to maintain reliability.
- DBRS expects the Company to continue to maintain its leverage at 60%, in line with the OEB-approved deemed capital structure. If leverage rises above the OEB deemed capital structure (60% debt-to-40% equity) or if key credit metrics weaken significantly, THC's financial profile could deteriorate to a level that is no longer commensurate with the current A (high) rating.

Long-Term Debt Maturities and Bank Lines

(CA$ millions)	Amount	Draw/LOCs	Available	Expiry
Cash & Cash Equivalents	120.8	-	120.8	-
Revolving Credit Facility	400.0	-	400.0	May 3, 2013
Bilateral facility	50.0	45.6	4.4	Demand
		Total	**525.2**	

As at June 30, 2012

- The Company's liquidity profile remained strong and sufficient to cover all near- to medium-term obligations, with approximately $525.2 million of available funds.
- DBRS notes that THC does not currently have a commercial paper program.

Debentures

(CA$ millions)	Maturity	Outstanding
Series 1 - 6.11%	May 7, 2013	225.0
Series 2 - 5.15%	Nov 14, 2017	249.8
Series 3 - 4.49%	Nov 12, 2019	250.0
Series 5 - 6.11%	May 6, 2013	245.1
Series 6 - 5.54%	May 21, 2040	199.9
Series 7 - 3.54%	Nov 18, 2021	299.9
Total debentures		**1,469.6**
Less: Current portion of debentures		(470.0)
Long-term portion of debentures		**999.5**

As at June 30, 2012

Long-term Debt Maturities

(CA$ millions)	2012	2013	2014	2015	2016+	Total
Amount	-	470.0	-	-	999.5	1469.6
% of Total	0.0%	32.0%	0.0%	0.0%	68.0%	100.0%

As at June 30, 2012

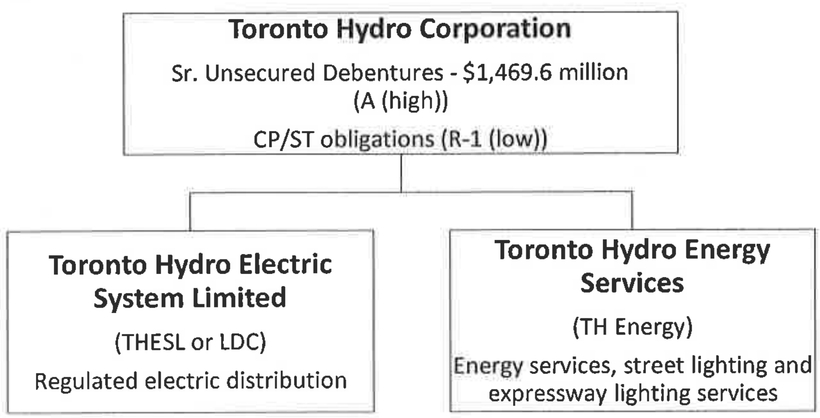
- While 32% of the long-term debt is maturing in 2013, DBRS does not believe refinancing will pose a problem for the Company, given its recent successes.
  - The Series 4 debenture with $254.1 million outstanding was refinanced in November 2011, with a 3.54% $300 million unsecured debenture (Series 7) maturing in November 2021.
- The Company has access to a shelf prospectus initiated on December 9, 2010, for the issuance of up to $1 billion, active for 25 months following this prospectus date.

Regulation

Provincial Regulation

- THC's regulated electricity distribution business is regulated by the OEB, whose mandate is to approve and set rates for the distribution and transmission of electricity as set out by the *Electricity Act, 1998*.
- THC operates with a deemed capital structure of 60% debt (divided into 56% long-term and 4% short-term) and 40% equity.
- In December 2009, the OEB changed its methodology for calculating ROE. The new formula adopted by the OEB provided for an allowed ROE of 9.58% for 2011, down from 9.85% in 2010.
- The new calculation is composed of a base ROE of 9.75% plus 50% of the change in the long-term Government of Canada Bond forecast from the base year, and 50% of the change in the spread of an A-rated bond index over the 30-year Canada bond yield.
- In August 2011, a rate application was filed with the OEB for permission to increase THC's regulated electricity distribution rates for three separate consecutive years, effective May of 2012, 2013 and 2014. The application sought approval for distribution rates to be derived from a cost-of-service framework, as the Company felt that large capex toward regulated infrastructure would be required for system upgrades.
- On January 5, 2012, the OEB ruled against the Company's application, stating that the evidence submitted failed to meet the Preliminary Issue test.
- On May 10, 2012, THC filed its application to set electricity distribution rates for the 2012, 2013 and 2014 rate years under the IRM framework. In the ICM, the Company sought funding for its total regulated capex of approximately $448.7 million in 2012, $534.5 million in 2013 and $439.5 million in 2014. The OEB decision is expected in the fourth quarter of 2012 or the first quarter of 2013.

Corporate Structure



- THC is a holding company with the following two subsidiaries operating exclusively in the Toronto area:
  - Toronto Hydro-Electric System Limited, one of the largest municipal distribution utilities in Canada, is responsible for regulated electricity distribution (99% of revenue).
  - Toronto Hydro Energy Services Inc. (which has a contractual relationship with the City) owns and operates street lighting services (1% of revenue).
- Energy is generated by Ontario Power Generation Inc. (rated A (low)) and then transmitted to THC's networks by Hydro One Inc. (rated A (high)). From here, THC distributes the power to its customers via overhead and underground lines.
- The Company currently employs approximately 1,600 people, has a peak load of approximately 5,000 megawatts and distributes electricity to over 712,000 customers (approximately 18% of the market in Ontario (rated AA (low)).
- The customer mix is heavily weighted toward residential consumers (89%), followed by general service (11%) and large users (less than 1%).

Toronto Hydro Corporation

Report Date:
September 7, 2012

Toronto Hydro Corporation

Balance Sheet (CA$ millions) Assets	USGAAP Jun. 30 2012	CGAAP Dec. 31 2011	CGAAP Dec. 31 2010	Liabilities & Equity	USGAAP Jun. 30 2012	CGAAP Dec. 31 2011	CGAAP Dec. 31 2010
Cash & equivalents	121	154	330	Accounts payable	397	412	374
Accounts receivable	192	183	169	Current portion L.T.D.	470	0	245
Inventories	6	7	8	Customer advanced deposits	44	20	19
Unbilled revenue	273	262	288	Deferred revenue	19	13	1
Prepaid expenses & other	30	50	11	Other current liab.	25	2	1
Total Current Assets	622	656	805	**Total Current Liab.**	956	448	640
Net fixed assets	2,428	2,399	2,129	Long-term debt	1,000	1,464	1,165
Future income tax assets	199	202	226	Deferred income taxes	198	200	225
Goodwill & intangibles	128	113	86	Provisions	245	184	175
Regulatory assets	136	77	85	Regulatory liabilities	4	10	49
Investments & others	12	7	8	Other L.T. liab.	28	47	46
				Shareholders' equity	1,096	1,102	1,039
Total Assets	3,526	3,456	3,339	**Total Liab. & SE**	3,526	3,456	3,339

Balance Sheet & Liquidity & Capital Ratios	USGAAP 6 mos. June. 30 2012	USGAAP 6 mos. June. 30 2011	Mix 12 mos. June. 30 2012	CGAAP 2011	CGAAP For the year ended December 31 2010	CGAAP 2009	CGAAP 2008	CGAAP 2007
Current ratio	0.65	1.06	0.65	1.46	1.26	2.02	1.37	2.12
Total debt in capital structure	57.3%	56.9%	57.3%	57.0%	57.6%	54.8%	55.2%	56.5%
Total debt in capital structure (1)	59.9%	57.8%	59.9%	59.7%	58.5%	55.4%	55.8%	57.2%
Cash flow/Total debt	14.7%	19.2%	14.9%	16.8%	17.9%	18.3%	19.3%	16.6%
Cash flow/Total debt (1)	13.2%	18.5%	13.4%	15.1%	17.3%	17.9%	18.8%	16.1%
(Cash flow-dividends)/Capex (times)	0.64	0.56	0.49	0.49	0.58	0.79	0.54	0.53
Dividend payout ratio	74.7%	43.0%	51.3%	35.4%	40.8%	59.2%	171.1%	69.9%
Coverage Ratios (times)								
EBIT gross interest coverage	2.46	2.07	2.38	2.19	2.10	1.73	1.77	2.07
EBITDA gross interest coverage	4.32	3.82	4.31	4.06	4.37	3.86	3.81	3.90
Fixed-charges coverage	2.46	2.07	2.38	2.19	2.10	1.77	1.93	2.27
EBIT gross interest coverage (1)	2.52	2.10	2.44	2.27	2.13	1.76	1.80	2.09
Profitability Ratios								
EBITDA margin	58.2%	53.3%	59.7%	57.3%	59.4%	58.6%	59.0%	61.7%
EBIT margin	33.2%	28.9%	33.0%	30.9%	28.5%	26.3%	27.5%	32.8%
Profit margin	16.6%	16.5%	16.4%	16.4%	11.1%	8.4%	13.7%	13.3%
Return on equity	8.5%	8.9%	8.6%	8.7%	6.0%	4.3%	7.1%	7.3%
Return on capital	5.2%	5.6%	5.4%	5.4%	4.5%	4.1%	5.3%	5.4%

(1) Including operating leases.

Rating

Debt	Rating	Rating Action	Trend
Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A (high)	Confirmed	Stable

Rating History

	Current	2011	2010	2009	2008
Short-Term Issuer Rating	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Senior Unsecured Debentures & MTNs	A (high)	A (high)	A (high)	A (high)	A

Note:
All figures are in Canadian dollars unless otherwise noted.