

Management's Discussion and Analysis
(In millions of Canadian dollars)

ALECTRA Inc.

Year ended December 31, 2023

GLOSSARY

The following acronyms and abbreviations are used in this document.

ACD	Alectra Convergent Development LP	IDR	Issuer Default Rating
AES	Alectra Energy Solutions Inc.	IESO	Independent Electricity System Operator
AESI	Alectra Energy Services Inc.	IFRS	International Financial Reporting Standards
AFFO	Adjusted Funds from Operations	IR	Incentive Rate
Alectra Utilities	Alectra Utilities Corporation	kWh	Kilowatt-hour
AMSP	Alectra Microgrid Master Limited Partnership	LDC	Local Distribution Company
APSI	Alectra Power Services Inc.	LPC	Late Payment Charge
CC	Customer Contributions	MD&A	Management Discussion and Analysis
CC&B	Customer Care and Billing	MIFRS	Modified International Financial Reporting Standards
CDM	Conservation and Demand Management	MW	Megawatt
CP	Commercial Paper	OEB	Ontario Energy Board
DBRS	Dominion Bond Rating Service	OEBA	Ontario Energy Board Act
DER	Distributed Energy Resource	OEFC	Ontario Electricity Finance Corporation
DSC	Distribution System Code	PP&E	Property, Plant and Equipment
EBITDA	Earnings before interest, taxes, depreciation, and amortization	PWU	Power Workers' Union
ECL	Expected Credit Loss	ROE	Return on Equity
ERM	Enterprise Risk Management	RoU	Right of Use
ESG	Environmental, Social and Corporate Governance	RRF	Renewed Regulatory Framework for Electricity Distributors
GA	Global Adjustment	SA	System Access
GHG	Greenhouse Gas	SAIDI	System Average Interruption Duration Index
GP	General Plant	SAIFI	System Average Interruption Frequency Index
HNE	Holland New England	SCADA	Supervisory Control and Data Acquisition
HPSI	Holland Power Services Inc.	SP	Spare Parts
HPS	HPS Holdings Inc.	SR	System Renewal
IAS	International Accounting Standards	SS	System Service
IASB	International Accounting Standards Board	UA	Util-Assist Inc.
IBEW	International Brotherhood of Electrical Workers	WMS	Wholesale Market Service
ICI	Industrial, Commercial and Institutional	YoY	Year over Year
ICM	Incremental Capital Module		

LEGEND:

	Higher	Lower
Revenue	↑	↓
Expenses	↑	↓

	Lower	Higher
Assets	↓	↑
Liabilities	↓	↑

FORWARD LOOKING STATEMENTS AND INFORMATION

The oral and written public communications of Alectra Inc. ("the Corporation"), including this document, often contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the business and the industry in which the Corporation operates, and include beliefs and assumptions made by the management of the Corporation. Such statements include, but are not limited to:

- Statements about strategy, including strategic objectives;
- Statements related to economic conditions;
- Statements regarding liquidity and capital resources and operational requirements;
- Statements regarding credit facilities and other sources of corporate liquidity;
- Statements regarding ongoing and planned projects and/or initiatives including the expected results of these projects and/or initiatives and their completion dates;
- Statements regarding expected future capital and development expenditures, the timing of these expenditures and investment plans;
- Statements regarding contractual obligations and other commercial commitments;
- Statements related to the Ontario Energy Board ("OEB");
- Statements regarding future post-retirement benefit contributions, and actuarial valuations;
- Statements related to the outlook and approach of the Corporation to distribution sector rationalization;
- The estimated impact of changes in the forecasted long-term Government of Canada bond yield (used in determining the regulated rate of return) on the results of operations;
- Expectations regarding financing activities; and
- Expectations regarding the recoverability of large capital expenditures.

Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "aim", "target", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking statements.

The Corporation does not intend, and disclaims any obligation, to update any forward-looking statements, except as required by law. These forward-looking statements are based on a variety of factors and assumptions including, but not limited to the following:

- Unforeseen changes in the legislative and operating framework for Ontario's electricity market;
- Decisions from the OEB and other regulatory bodies concerning outstanding rate and other applications;
- Delays in obtaining required approvals;
- Unforeseen changes in rate orders or rate structures;
- A stable regulatory environment;
- Unexpected changes in environmental regulation; and
- Unforeseen significant events occurring outside the ordinary course of business.

These assumptions are based on information currently available to the Corporation, including information obtained from third-party sources. Actual results may significantly differ from those predicted by such forward-looking statements.

FORWARD LOOKING STATEMENTS AND INFORMATION (continued)

Readers are cautioned that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section "Risk Management and Risks" in this Management Discussion and Analysis ("MD&A"). In addition, the Corporation cautions the reader that information provided in this MD&A regarding the Corporation's outlook on certain matters, including future expenditures, is provided in order to give context to the nature of some of the Corporation's future plans and may not be appropriate for other purposes.

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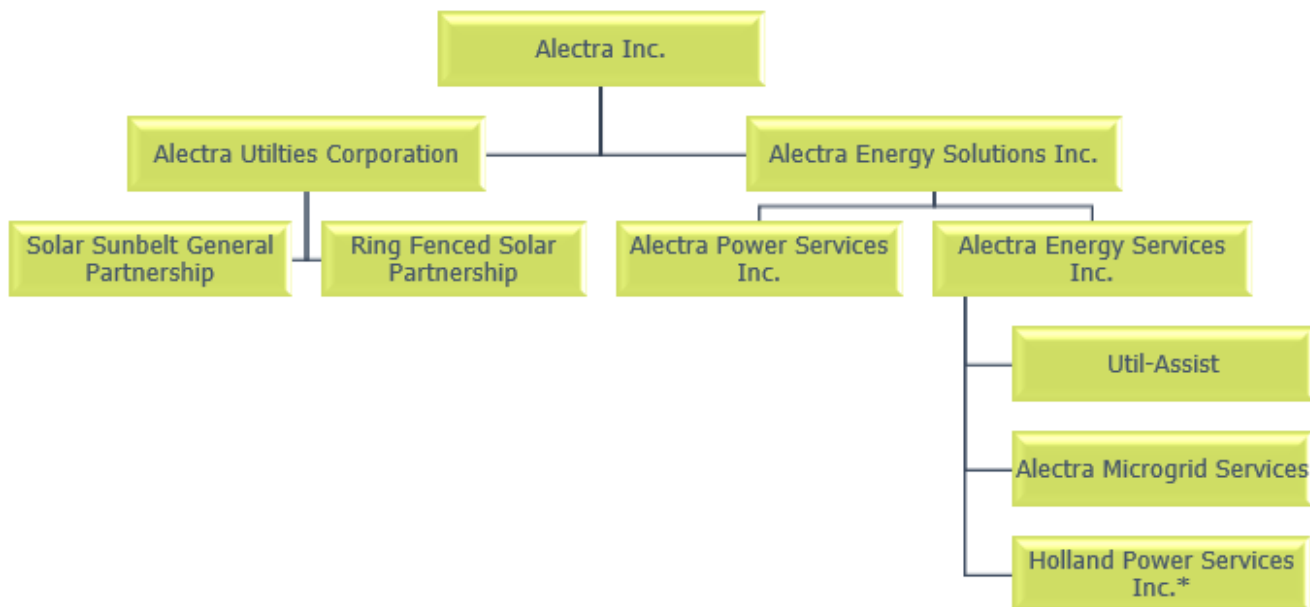
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INTRODUCTION

The following discussion and analysis of the consolidated financial condition and results of operations of the Corporation should be read together with its Consolidated Financial Statements and accompanying notes for the year ended December 31, 2023, (the "Consolidated Financial Statements").

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2023. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW



* On January 1, 2023, HPS Holdings Inc. ("HPS") amalgamated under the provisions of the Business Corporations Act (New Brunswick) with Holland Power Services Inc. to form Holland Power Services Inc.

Alectra Inc. is indirectly owned through holding companies by eight shareholders: the City of Barrie; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; the City of Guelph; and BPC Energy Corporation.

Vision and Strategic Intent

The Corporation's goal is to be a leading distribution and integrated energy solutions provider, creating a future where people, businesses, and communities will benefit from energy's full potential. The traditional centralized and unidirectional electricity system of the past is now transforming into one that is much more customer-focused, distributed, and integrated.

Responding in part to the profound transformation that the electricity sector is experiencing, and the risks and opportunities it creates, in 2020, the Corporation evolved its strategy beyond the initial merger transaction and integration. "Strategy 2.0" builds upon the Corporation's integration and synergy

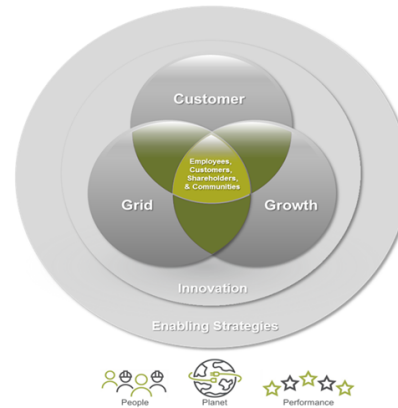
CORPORATE OVERVIEW (continued)

Vision and Strategic Intent (continued)

successes achieved to date. The ability to prepare for and adapt to changing conditions as well as adapt to transformation is essential to achieving the objectives of Strategy 2.0.

"Strategy 2.0" was designed to be a natural evolution from the initial strategy focusing on three core strategic pillars:

- Customer (Experience);
 - Improving service, building stronger customer relationships and understanding of their needs, and creating a digital experience
- Grid (Modernization);
 - Adapting to the needs of the future, while ensuring reliability for today, a digital grid
- Growth (Enterprise).
 - Seeking new opportunities in distribution and energy solutions



These core strategic pillars are intertwined and supported by three enabling strategies, culture and transformation, advocacy and financing, which will provide Strategy 2.0 with greater reliability and resiliency.

As a sustainable company, the Corporation is committed to meeting the needs of current and future generations by empowering its customers, communities, and employees, protecting the environment, and embracing innovation.

AlectraCARES is the umbrella program and framework that embeds sustainability principles into the Corporation's core business strategy and operations helping to create enduring value and connects the Corporation to the three pillars of sustainability: People, Planet, and Performance.

For further details on the values and the mission of the Corporation, please review Alectra's 2023 Annual ESG Reports on the Corporation's website at:

<https://www.alectra.com/annual-sustainability-report>

REGULATED BUSINESS

Alectra Utilities Corporation

Alectra Utilities provides electricity distribution to over one million customers and is the second largest municipally owned Local Distribution Company ("LDC") in North America by number of customers. In addition to its electricity distribution business, Alectra Utilities also has a competitive commercial rooftop solar photovoltaic generation business ("Solar PV Business") under which it develops, constructs, owns, finances, and operates rooftop photovoltaic generation equipment ("Solar PV Property"). The electricity generated by the Solar PV Business is sold to the IESO under its Feed-In-Tariff long-term power purchase agreements.

REGULATED BUSINESS (continued)

Industry Regulation

The Corporation, through Alectra Utilities, is regulated by the OEB. In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that differ from IFRS. The regulatory accounting treatments of the OEB require the recognition of regulatory assets and liabilities which do not meet the definition of an asset or liability under IFRS.

Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders of the Corporation with opportunity to earn a regulated Maximum Allowable Return on Equity on the amount of shareholders' equity supporting the business of electricity distribution, which is also determined by regulation.

The rate-making policies of the OEB are guided by its statutory objectives under The Ontario Energy Board Act, 1998 (Ontario) ("OEBA") that include, among other matters, to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB regulates the electricity distribution rates charged by LDCs, such as Alectra Utilities, through periodic rate applications to the OEB and its ongoing monitoring and reporting requirements. At present, LDCs may apply to the OEB for electricity distribution rates under options specified in its *Report of the Board - A Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ("RRF"). The three rate-setting methods available to LDCs under the RRF are: Price Cap Incentive Rate-setting ("Price Cap IR"); Custom Incentive Rate-setting ("Custom IR"); or Annual Incentive Rate-setting Index ("Annual IR"). These methods are described in more detail in the Consolidated Financial Statements.

The Incremental Capital Module ("ICM") is available to distributors under the Price Cap IR method. It is intended to address capital investment needs that arise during the rate-setting plan that are incremental to an OEB prescribed materiality threshold. The requested amount for an ICM claim must be: incremental to a distributor's capital requirements within the context of its financial capacities underpinned by existing rates; and satisfy the eligibility criteria of materiality, need, and prudence. For distributors that are in an extended rebasing deferral period arising from utility consolidations (i.e., distributors in years six to ten of the rebasing deferral period), incremental capital funding may be requested for an annual capital program. The OEB requires that a distributor requesting relief for incremental capital during the Price Cap IR plan term include comprehensive evidence to support the need. This includes the calculation of a rate rider to recover the incremental revenue from each applicable customer class. The incremental revenue is recognized in the year when the actual ICM related expenditures are expected to be in-service. This approach is consistent with the timing of the actual capital investment benefit to customers, which aligns with the expected timing of the OEB approval of ICM rate adjustments.

REGULATED BUSINESS (continued)

Rate Setting (continued)

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

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

Rate Applications

2023 Rate Applications

On May 16, 2022, Alectra Utilities filed an ICM application for the approval of 2023 incremental capital funding for underground cable renewal investments in the PowerStream and Enersource rate zones, effective January 1, 2023. On November 17, 2022, the OEB issued its Decision and Order on the ICM application, approving \$18 of Alectra Utilities' \$25 ICM capital request. The OEB approved recovery of the incremental revenue requirement effective January 1, 2023.

On August 3, 2022, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2023 electricity distribution rates, effective January 1, 2023. On December 8, 2022, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving a 3.4% rate adjustment to distribution rates effective January 1, 2023 and providing for disposition of deferral and variance account balances.

2024 Rate Applications

On July 21, 2023, Alectra Utilities filed an ICM application for the approval of 2024 incremental capital funding for urgent underground cable renewal investments in the PowerStream and Enersource rate zones, effective January 1, 2024. On February 13, 2024, the OEB issued its Decision and Order on the ICM application, approving \$17 of Alectra Utilities' \$25 ICM capital request. For the 2024 rate year, the OEB approved recovery of the incremental revenue requirement, approved as part of the

REGULATED BUSINESS (continued)

Decision, over a 10-month period from March 1, 2024, to December 31, 2024, and over a 12-month period in the subsequent rate years.

On August 17, 2023, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2024 electricity distribution rates and other charges, effective January 1, 2024. On December 14, 2023, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving a 4.5% rate adjustment to distribution rates effective January 1, 2024 and providing for disposition of deferral and variance account balances.

Please refer to <https://www.alectrautilities.com/regulatory-affairs/> for the status of the Corporation's rate applications.

Select Energy Policies and Regulation Affecting the Corporation

Ontario Energy Board Initiatives and Consultation:

- Getting Ontario Connected Act Variance Account – On October 31, 2023, the OEB approved the creation of a generic, sector-wide variance account to track the incremental costs of locates resulting from Bill 93 (*the Getting Ontario Connected Act 2022*) effective April 1, 2023. Bill 93 includes amendments to the *Ontario Underground Notification System Act, 2012*, which impose a five-business-day deadline for completing standard locate requests and introduce administrative penalties for failing to comply. The implementation of the administrative penalty regime has been postponed to April 1, 2024. The disposition of any balance in this variance account will be subject to a prudence review and a requirement to establish that any cost incurred over and above what is provided for in current rates is an incremental cost resulting from Bill 93. Disposition of the variance account will occur at the utility's next rebasing application.
- Cloud Computing Implementation Costs Deferral Account – On November 2, 2023, the OEB issued an Accounting Order establishing a generic sector-wide deferral account to capture incremental cloud computing implementation costs and any related offsetting savings, if applicable, effective December 1, 2023. Under the regulatory accounting treatment, costs for on-premise solutions are typically capitalized in accordance with the utility's capitalization policy, while costs for cloud computing solutions are typically expensed as incurred. Cloud computing solutions often require significant up-front costs for implementation. The deferral account is intended to remove regulatory barriers to adopting cloud computing solutions and optimize a utility's ability to plan for cloud computing implementation outside of a rebasing year. Disposition of the account balances will be subject to the applicable criteria for causation, materiality, and prudence.

REGULATED BUSINESS (continued)

Rate Applications (continued)

2024 Rate Applications (continued)

- Enersource Rate Zone – Price Cap adjustment and incremental capital funding under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 1 dollar and 20 cents or 4.34%; and
- Guelph Rate Zone – Price Cap adjustment under the OEB's Price Cap IR. The resulting change to the distribution portion of the bill for a typical residential customer consuming 750 kWh per month is an increase of approximately 1 dollar and 45 cents or 4.52%.

Please refer to <https://www.alectrautilities.com/regulatory-affairs/> for the status of the Corporation's rate applications.

Select Energy Policies and Regulation Affecting the Corporation

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KEY BUSINESS STATISTICS

	2023	2022	2022 Average Urban Distributor Benchmark ⁽¹⁾
SAIDI ⁽²⁾	0.83	0.88	1.14
SAIFI ⁽³⁾	1.06	1.07	1.15

⁽¹⁾ The Average Urban Distributor is based on the average 2022 SAIDI and SAIFI performance results for Urban Ontario Distributors with at least 50k customers from the 2022 yearbook of the OEB.

⁽²⁾ SAIDI equals the average duration of a sustained interruption per customer during a predefined period. A sustained interruption has a duration greater than or equal to one minute, adjusted for loss of supply and major events. The lower the SAIDI, the better the reliability. SAIDI figures presented in the table above are in hours and have been adjusted to exclude loss of supply customer interruptions and major events.

⁽³⁾ SAIFI equals the average number of times a customer experiences a sustained interruption over a predefined period of time. A sustained interruption has a duration greater than or equal to one minute, adjusted for loss of supply and major events. The lower the SAIFI, the better the reliability. Alectra Utilities' SAIFI results have been adjusted to exclude loss of supply customer interruptions and major events.

Loss of Supply customer interruptions are due to problems associated with assets owned and/or operated by another party that supplies power to Alectra Utilities and as such are beyond Alectra's control.

A Major Event is defined as an event that is beyond the control of the distributor and is: a) unforeseeable; b) unpreventable; c) unavoidable and causes exceptional and/or extensive damage to assets, takes significantly longer to repair and affects a substantial number of customers.

Alectra Utilities' SAIDI and SAIFI were 0.83 and 1.06, respectively, in 2023, compared to SAIDI and SAIFI of 0.88 and 1.07, respectively, in 2022.

Alectra Utilities' SAIDI performance improved relative to 2022 due to distribution automation and focused restoration efforts resulting in fewer outages caused by defective equipment and shorter outage durations.

Alectra Utilities' SAIFI performance improved relative to 2022 primarily due to fewer customer interruptions from outages caused by defective equipment, partially offset by increased customer interruptions resulting from external factors such as adverse weather, adverse environmental conditions, and foreign interference including equipment damage from vehicle collisions or animal contacts.

COMPETITIVE BUSINESS

Overview of AES

AES is a competitive energy services company that provides innovative energy solutions including power services, street lighting, distributed energy solutions, energy storage, metering, emergency power restoration and sub-metering services to institutional, commercial, and industrial customers.

AES provides effective solutions to its customers through the use of current and emerging technologies, and empowers homeowners, businesses and communities with efficient energy solutions that offer more choices and deliver sustainable value.

APSI provides street lighting services including design, construction, and maintenance.

AESI provides wholesale metering and sub-metering services for condominium and commercial properties.

UA provides consulting services with respect to advanced metering systems procurement and implementation; customer information systems procurement and implementation; billing and meter data exception management services; an outage management call centre (PowerAssist); and other smart grid applications and services.

AMSP provides energy management services partnership which includes installing, owning, and operating an industrial energy storage battery and gas system with a third party.

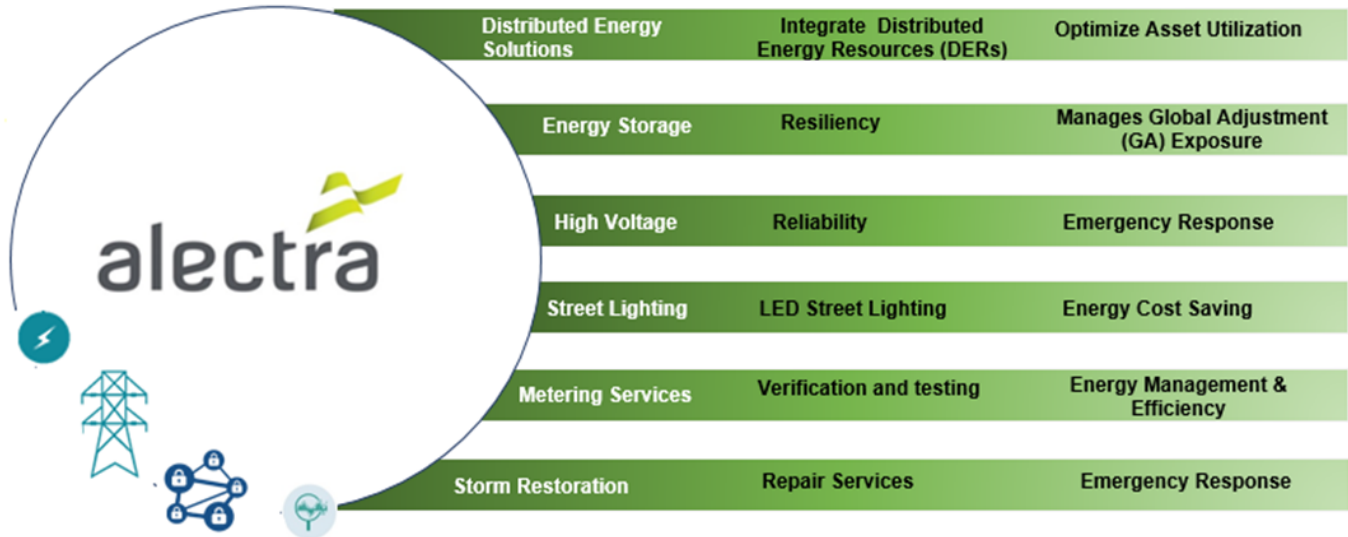
HPSI and HNE provide emergency restoration services to utilities primarily located along the eastern seaboard of the United States and Canada; and industrial electrical services to utilities and industrial clients.

ACD provides distributed energy solutions which includes developing, constructing, commissioning, owning, operating and maintaining front-of-the-meter storage system projects in Ontario.

COMPETITIVE BUSINESS (continued)

Key Business Updates

The competitive business provides opportunities for customers to find energy solutions that fit their needs through services offered in each of its key divisions.

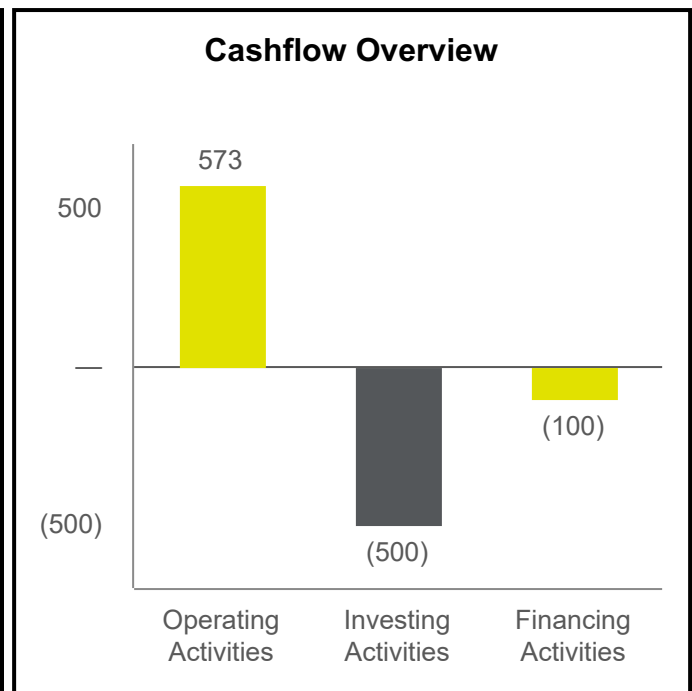
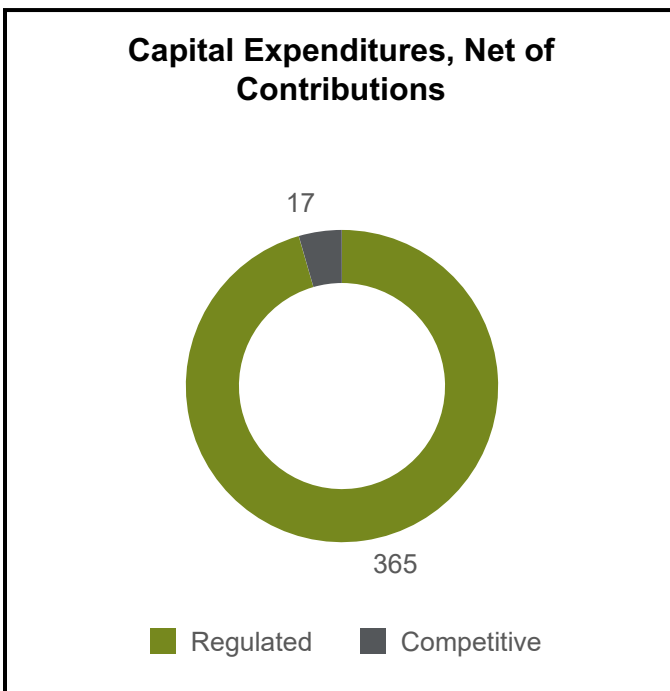
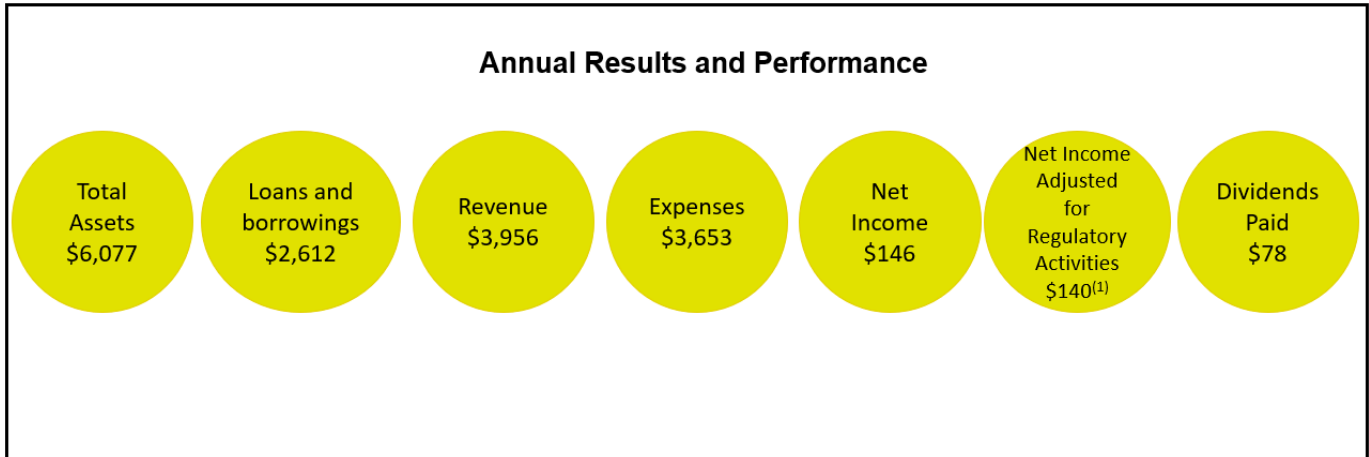


Latest Investments

On June 27, 2022, AESI entered into a 50% Joint Venture with Convergent Energy and Power through the formation of ACD. On August 22, 2023, ACD was selected by the IESO to construct and operate three battery energy storage projects.

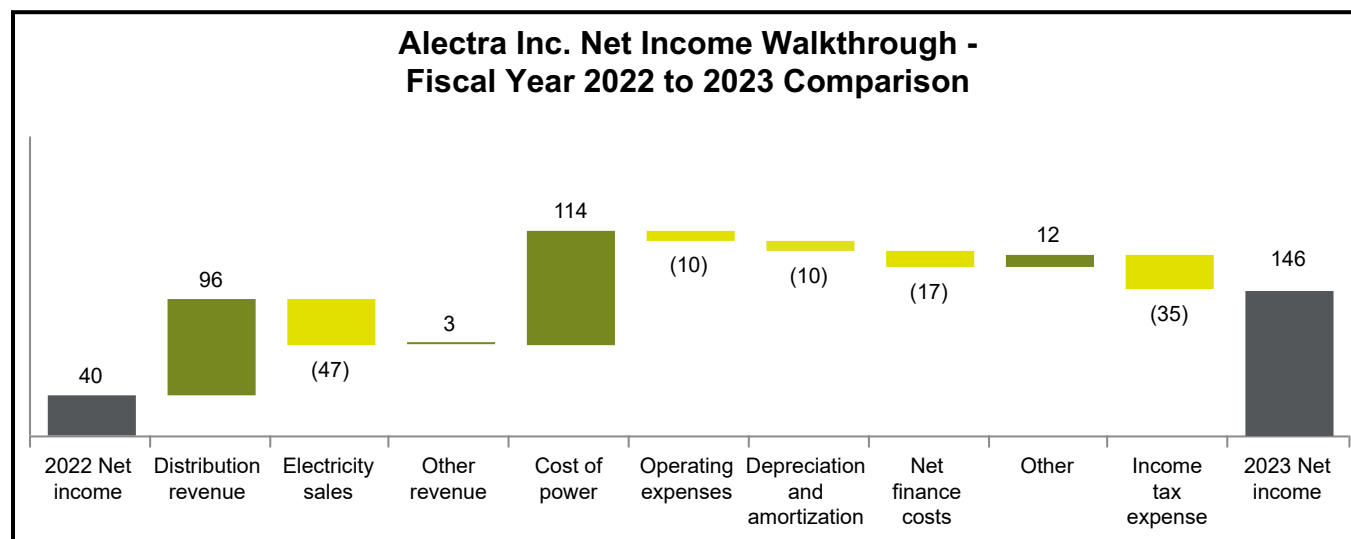
A total of 80 MW of storage will be built, enough to power more than 83,000 homes – across three sites. The distributed nature of the battery energy storage system proposed by the Alectra Convergent partnership will provide the ability to quickly and reliably support voltage, regulate frequency and provide capacity while reducing reliance on fossil fuel generation. Investments in the Joint Venture will be made over the construction period.

2023 FINANCIAL RESULTS AT A GLANCE



⁽¹⁾ Net Income Adjusted for Regulatory Activities represents the net income for the year, adjusted for the effect of rate regulation. Refer to Note 28 for further details.

RESULTS OF OPERATIONS



	2023	2022	Change
Net Income	146	40	106 ↑

Net income for the year ended December 31, 2023, was \$146 and \$106 higher than 2022 net income of \$40. The increase in net income is principally attributable to:

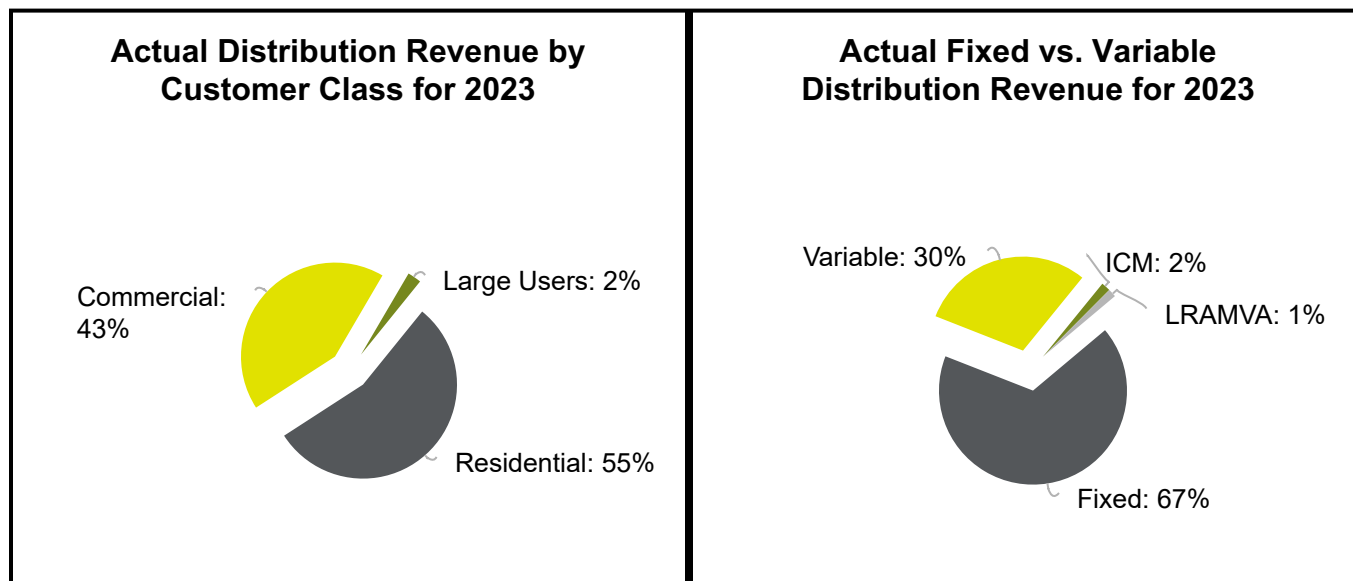
- i. lower cost of power (\$114) primarily due to lower wholesale electricity prices and lower wholesale electricity consumption;
- i. higher distribution revenue (\$96) mainly because of higher revenue recovered from customers through OEB approved rate riders; and
- ii. lower other expenses (\$12) related to the fair value loss of contingent consideration on the earnout payable related to the acquisition of HPSI, and lower impairment loss on investment in associate; partially offset by
- iii. lower electricity sales (\$47) largely driven by lower electricity prices and lower electricity consumption;
- iv. higher income taxes (\$35) due to higher income before tax in 2023;
- v. higher net finance costs (\$17) primarily due to higher interest costs related to the issuance of a new debenture and an increase in the rate of funding from commercial paper;
- vi. higher operating expenses (\$10) due to higher contract and consulting costs; and
- vii. higher depreciation and amortization costs (\$10) primarily due to new in-service additions in 2023.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by Alectra Utilities in delivering electricity to customers.

RESULTS OF OPERATIONS (continued)

Distribution Revenue (continued)



Alectra Utilities' customer classes are as follows:

- **Residential** - the residential class includes single family or individually metered multi-family units and seasonal occupancy;
- **Commercial** - the commercial class typically includes small businesses and bulk-metered multi-unit residential establishments that is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period; and
- **Large users** - customers in the large users class have a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

	2023	2022	Change
Distribution Revenue	716	620	96 ↑

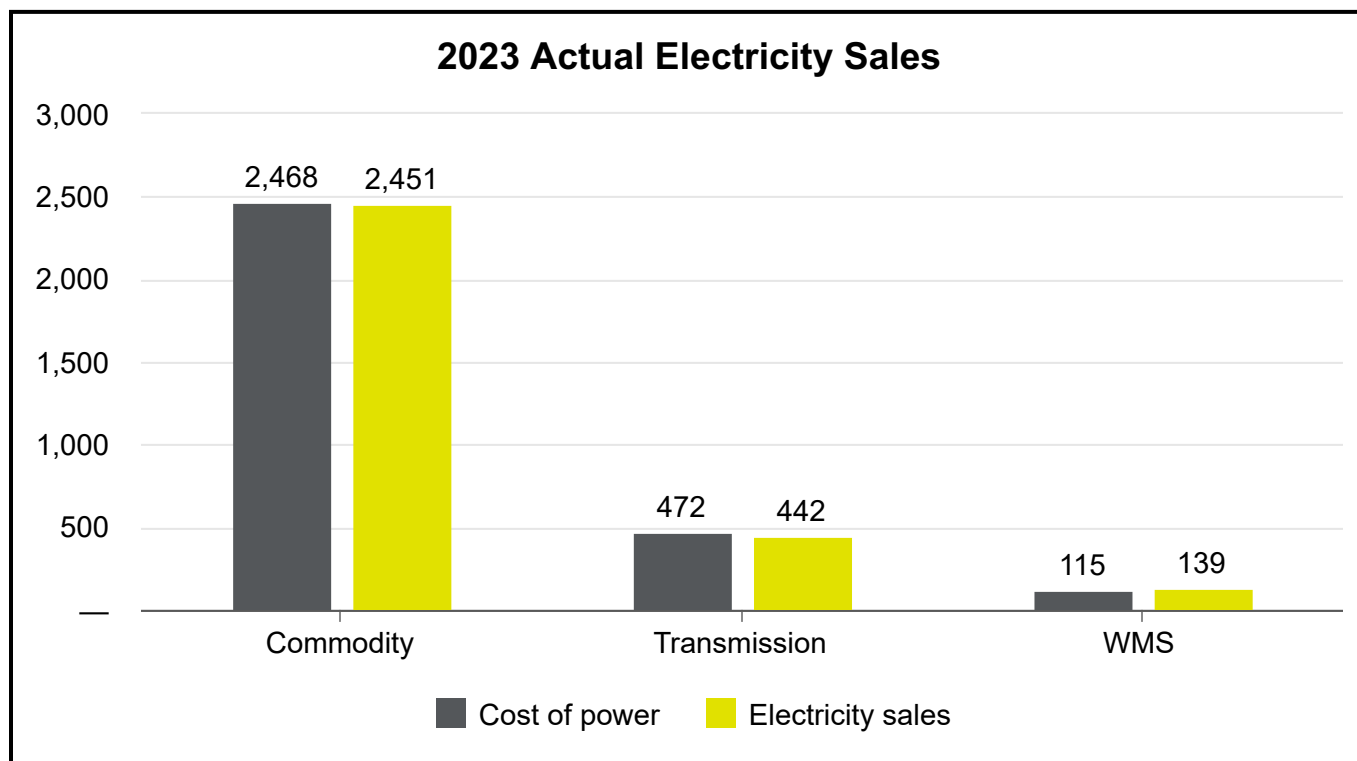
The increase in distribution revenue is mainly attributable to: (i) higher revenue recovered from customers through OEB approved rate riders (\$73) and (ii) higher OEB approved distribution rates driven by a higher inflation factor (\$21).

Electricity Sales

Electricity sales arise from the responsibility of the Corporation for billing customers for electricity generated by third parties and the related costs of providing electricity service, as shown in the chart below. The amounts billed to the Corporation for electricity generation by the IESO and Hydro One Networks often differ from the amount that the Corporation recovers from its customers. The difference between sales of energy and the corresponding cost of power is a timing difference ultimately recoverable from or repayable to ratepayers prospectively through annual applications to the OEB to adjust the rates of the Corporation to settle such timing differences. Such differences as at the end of the prior fiscal year are generally settled over a twelve-month period as of the effective date of such annual applications, or, more generally, the thirteenth to twenty-fourth month following the end of the prior fiscal year.

RESULTS OF OPERATIONS (continued)

Electricity Sales (continued)



	2023	2022	Change
Electricity Sales	3,032	3,079	(47) ↓

The decrease in electricity sales of \$47 is mainly driven by lower electricity prices (\$25) and lower electricity consumption (\$22) in the current year.

Other Revenue

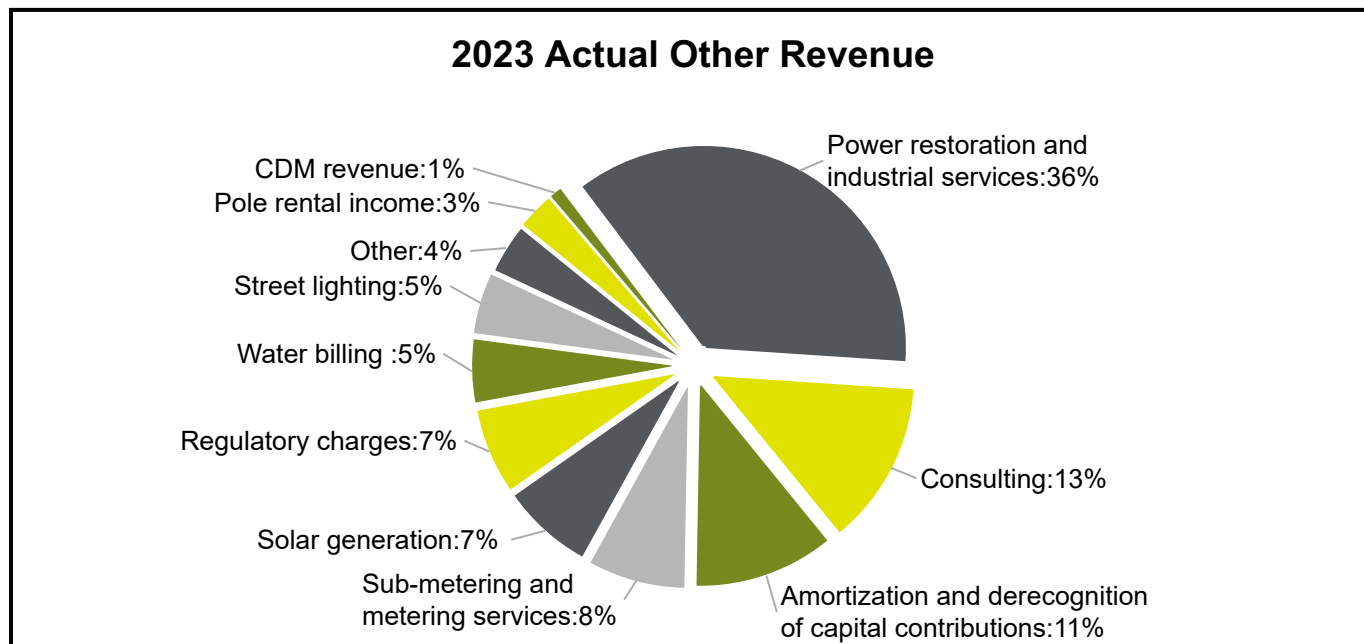
Other revenue is earned from regulated electricity distribution activities as well as competitive activities.

Other revenue from regulated activities include: (i) the amortization and derecognition of capital contributions; (ii) solar generation revenue; (iii) rates charged to customers for connections, reconnections, LPCs, and ancillary services; (iv) water and wastewater billing and customer charges; and (v) pole attachment charges to other utility service providers that attach equipment to poles owned by Alectra Utilities; and (vi) CDM incentives.

Other revenue from competitive activities include: (i) power restoration and industrial services; (ii) consulting services; (iii) sub-metering and meter services; (iv) street lighting and ancillary services; and (v) distributed energy services.

RESULTS OF OPERATIONS (continued)

Other Revenue (continued)



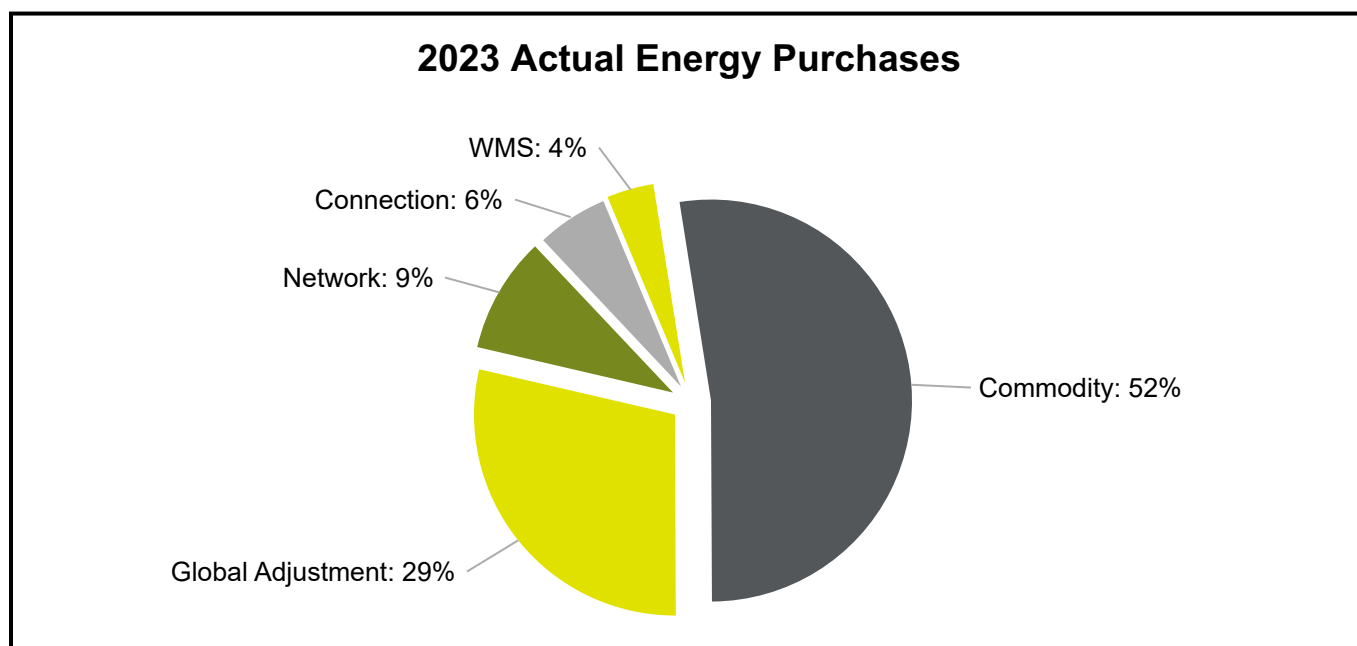
	2023	2022	Change
Other Revenue	208	205	3 ↑

The increase in other revenue of \$3 primarily relates to: (i) higher revenue from the amortization and derecognition of capital contributions (\$7), (ii) higher revenue from distributed energy services (\$5); (iii) higher consulting revenue (\$3); and (iv) higher street lighting revenue (\$2); partially offset by (v) lower power restoration services revenue due to lower storm response activities in the competitive business (\$15).

RESULTS OF OPERATIONS (continued)

Cost of Power

Cost of Power represents actual charges for electricity generated by third parties, which are delivered by Alectra Utilities and passed through to customers in the form of energy sales.



	2023	2022	Change
Cost of Power	3,055	3,169	114 ↓

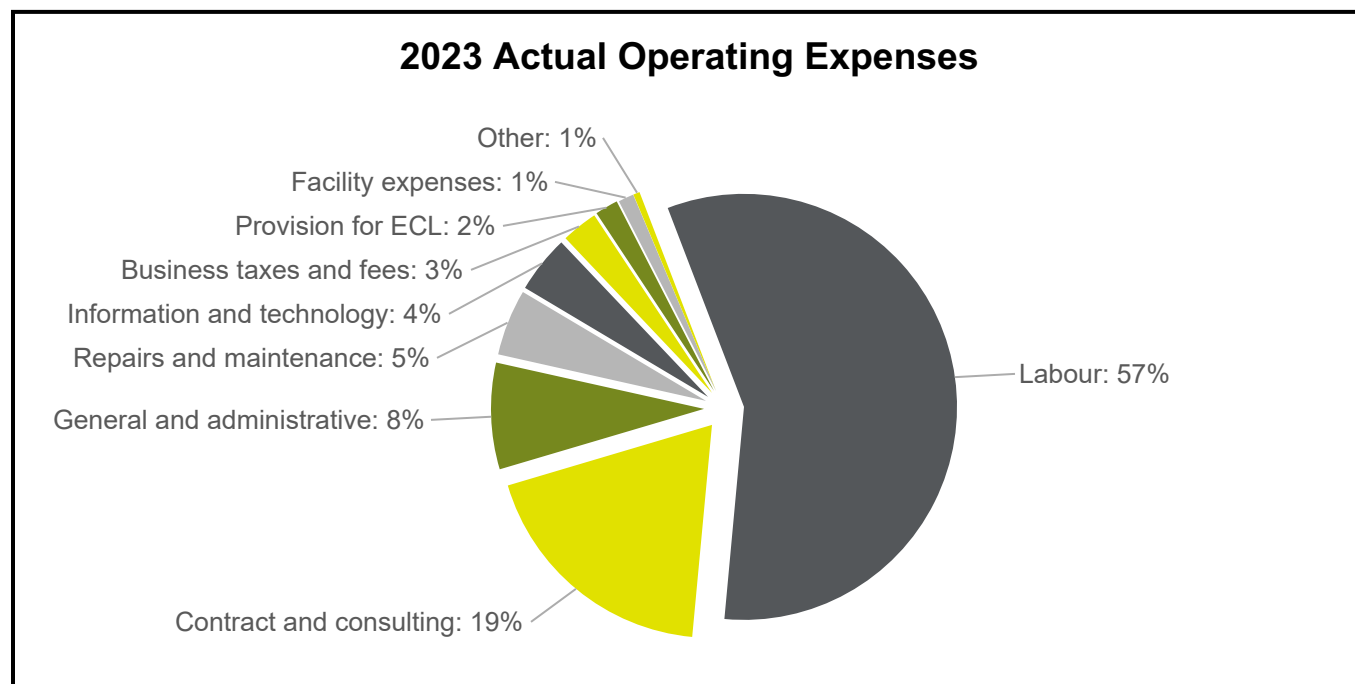
The decrease in cost of power by \$114 is primarily because of lower wholesale electricity prices (\$92) and lower wholesale electricity consumption (\$22).

Operating Expenses

Operating expenses primarily include (i) salaries and benefits; (ii) contract and consulting; (iii) general and administrative; (iv) repairs and maintenance; and (v) other third-party service costs in support of the activities underlying the business of the Corporation.

RESULTS OF OPERATIONS (continued)

Operating Expenses (continued)



	2023	2022	Change
Operating Expenses	397	387	(10) ↑

The increase in operating expense of \$10 is principally due to: (i) higher contract and consulting costs (\$8) due to relocation costs for a new operations service centre, higher third-party support costs due to increased prices, and higher cable locate costs due to the implementation of Bill 93; and (ii) higher labour costs (\$6) related to higher salaries and benefits; partially offset by (iii) a lower provision for ECL (\$5) due to a decrease in energy arrears from improved collections.

	2023	2022	Change
Depreciation and amortization	201	191	(10) ↑

The increase in depreciation and amortization expense of \$10 is primarily due to new in-service additions for distribution and computer software assets.

	2023	2022	Change
Net finance costs	96	79	(17) ↑

The increase in net finance costs of \$17 is primarily due to a higher rate of funding for commercial paper with a weighted average interest rate of 4.92% (2022 - 2.39%) and a higher average amount of outstanding debentures.

RESULTS OF OPERATIONS (continued)

	2023	2022	Change
Loss on fair value of contingent consideration	—	7	7 ↓

The decreased loss on fair value of the contingent consideration of \$7 is related to the earnout payment associated with the acquisition of HPSI.

Income Tax Expense

The Corporation and its subsidiaries, other than AESI, HPSI and UA, are currently exempt from taxes under the *Income Tax Act (Canada)* and the *Ontario Corporations Tax Act* (collectively the "Tax Acts").

As a consequence of this exemption from income taxes under the Tax Acts, the Corporation is required to make payments in lieu of income taxes to the Ontario Electricity Finance Corporation ("OEFC"). These payments are calculated in accordance with the Tax Acts. These amounts are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC. AESI, HPSI and UA are subject to the payment of tax under the Tax Acts.

	2023	2022	Change
Income tax expense	54	19	(35) ↑

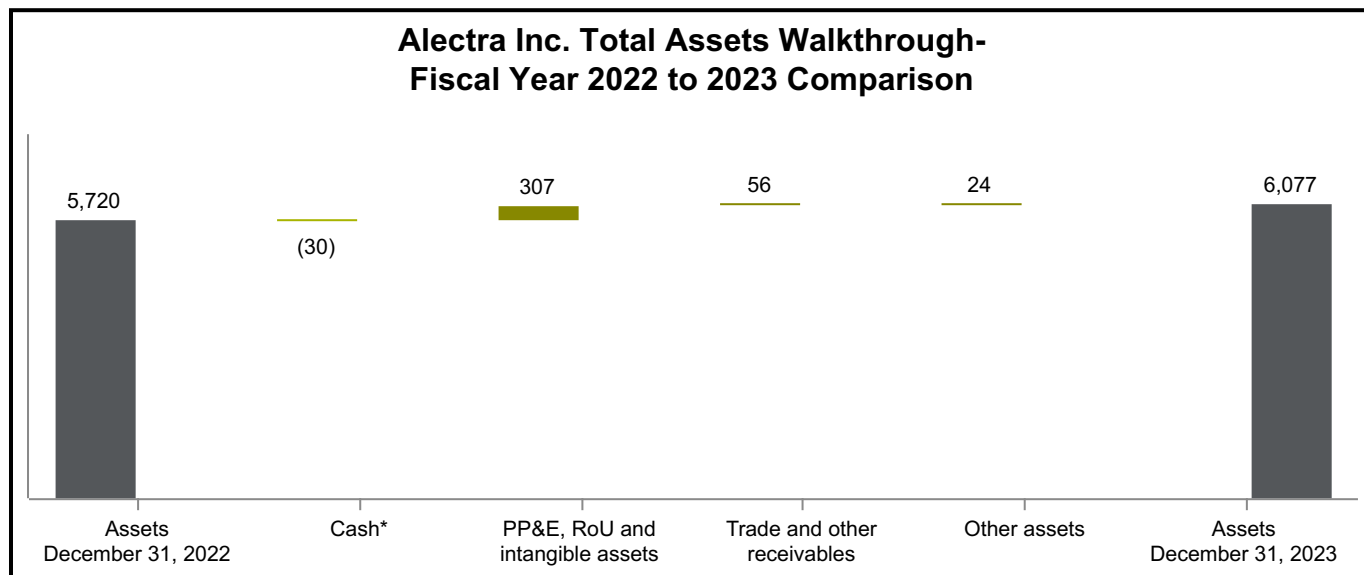
The increase in income tax expense by \$35 primarily relates to: (i) higher income before tax (\$37); partially offset by (ii) lower permanent differences between accounting and tax treatments (\$4).

Competitive Operations Variance Analysis

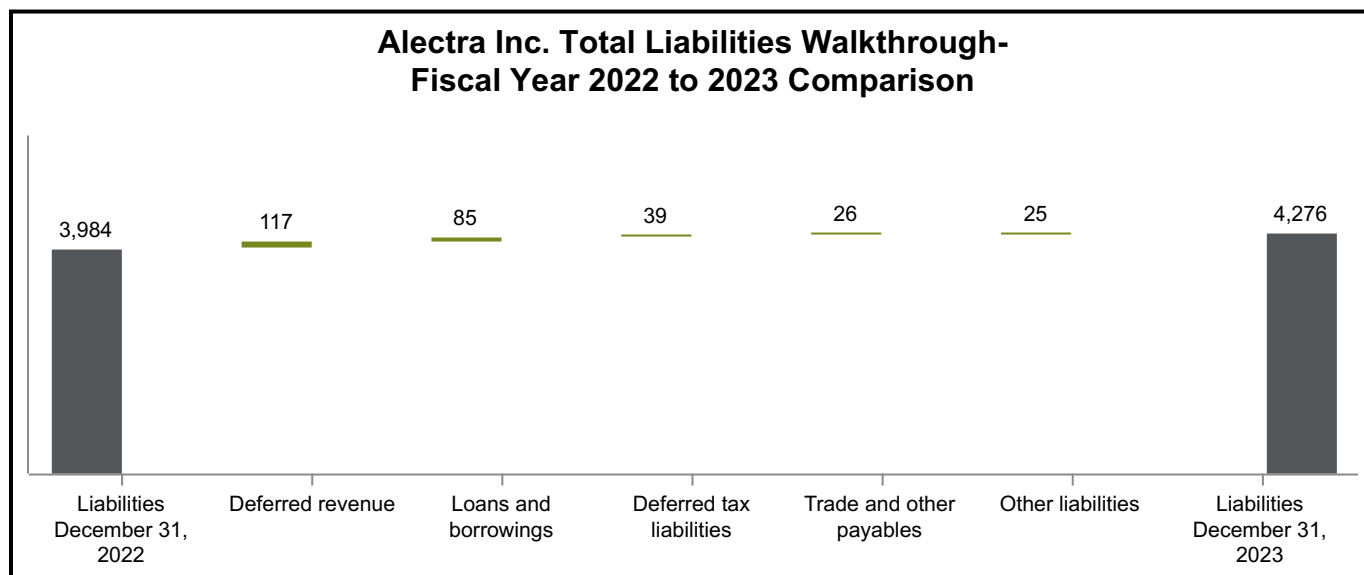
	2023	2022	Change
AES Net Income	7	—	7 ↑

Net income for the year ended December 31, 2023, was \$7 which is \$7 higher than 2022 net income of \$nil. The increase in net income is primarily due to: (i) a decrease in the loss on the fair value of contingent consideration for the earnout payment associated with the acquisition of HPSI (\$7); and (ii) lower impairment loss on investment in associate (Grid4C Ltd.) (\$6); partially offset by (iii) a decrease in income from operating activities mainly due to lower storm response activities (\$7).

FINANCIAL POSITION



*For details, refer to the Liquidity and Capital Resources section



For details, refer to the Consolidated Financial Statements for the Year Ended December 31, 2023.

Significant year over year changes in the Corporation's assets and liabilities as at December 31, 2023, are as follows:

FINANCIAL POSITION (continued)

Assets	\$ Change	% Change	Trend	Explanation
PP&E, RoU and intangible assets	307	6 %	↑	The increase is primarily due to: (i) in-service additions for distribution assets and land and buildings; partially offset by (ii) higher accumulated depreciation.
Trade and other receivables	56	10 %	↑	The increase is primarily due to: (i) timing of billing and collection activities; and (ii) higher unbilled revenue primarily due to higher average energy prices; partially offset by (iii) lower provision for ECL due to a decrease in energy arrears from improved collection activities.
Other assets	24	33 %	↑	The increase is primarily due to higher inventory due to an increase in safety stock.

Liabilities	\$ Change	% Change	Trend	Explanation
Deferred revenue	117	19 %	↑	The increase is driven by (i) additional customer contributions for transit projects and (ii) distribution system expansion for new customer projects.
Loans and borrowings	85	3 %	↑	The increase is primarily due to higher short-term borrowings required to fund working capital and general corporate requirements.
Deferred tax liabilities	39	36 %	↑	The increase is due to (i) the difference between capital cost allowance deductions for tax purposes compared to accounting depreciation for property, plant and equipment and intangible assets; and (ii) the difference between the cost of electricity commodity and sales revenue at the OEB approved rates.

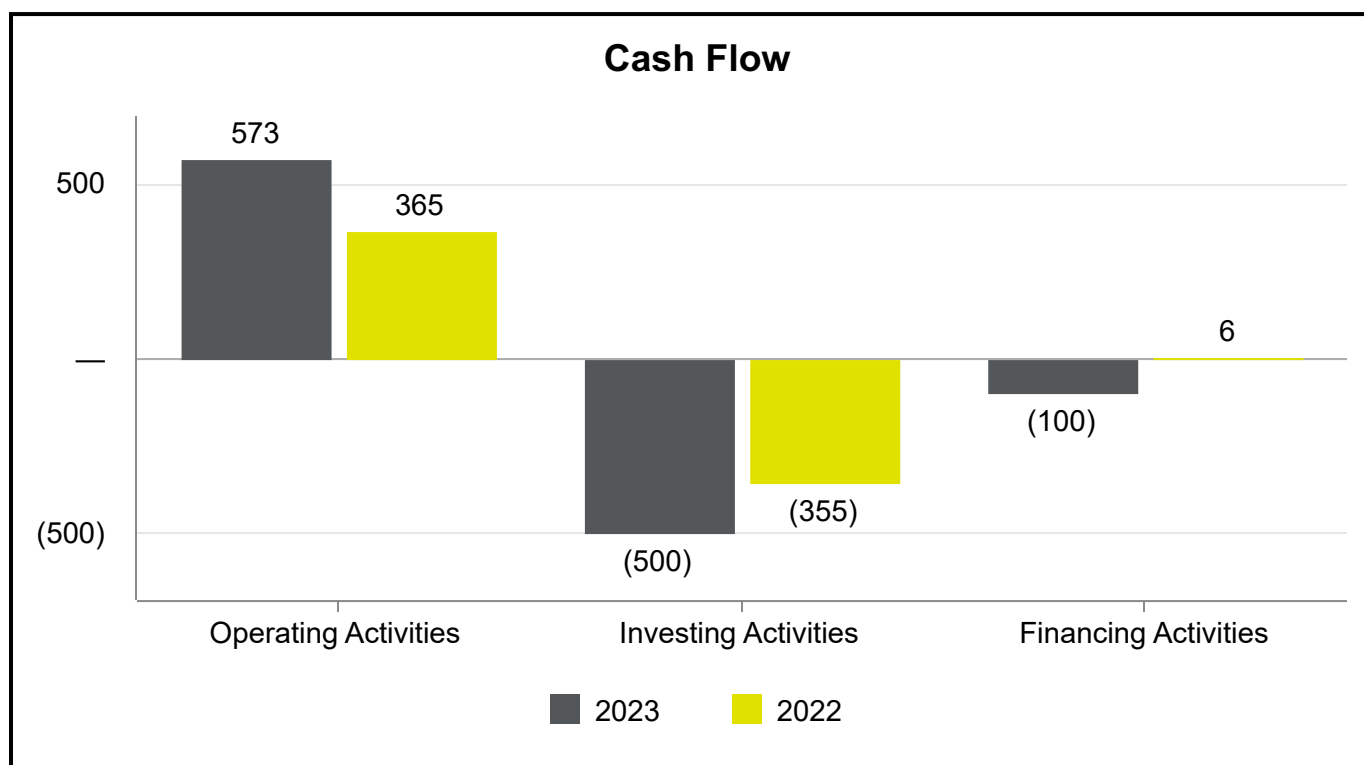
LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

The Corporation's current ratio (Current Assets over Current Liabilities) decreased year over year from 0.75 to 0.54. The decrease is primarily attributable to: (i) the reclassification of shareholders promissory notes maturing in May 2024 (\$166) and a maturing debenture in November 2024 (\$150) to current liabilities; (ii) an increase in short term debt (\$85); and (iii) an increase in trade payables and other liabilities (\$58).

The Corporation utilizes its Commercial Paper ("CP") program to fund working capital requirements before issuing additional debentures. This strategy incorporates an optimal mix of short-term and long-term debt to lower overall financing costs and to enhance borrowing flexibility. In addition to the Corporation's primary sources of short-term liquidity, the Corporation borrows from debt capital markets on a long-term basis. The Corporation's liquidity and capital resource needs are required mainly for system expansion and enhancement expenditures to maintain and improve reliability and service quality of the electricity distribution system, for energy purchases and to meet working capital obligations.

The principal sources of liquidity and capital resources comprise funds generated from operations and the financing and investing activities of the Corporation.



Operating Activities

The increase in net cash generated from operating activities of \$208 from 2022 to 2023 was principally due to: (i) higher EBITDA in 2023 relative to 2022 (\$156); and (ii) higher customer contributions for transit projects and distribution system expansion for new customer projects (\$45).

LIQUIDITY AND CAPITAL RESOURCES (continued)

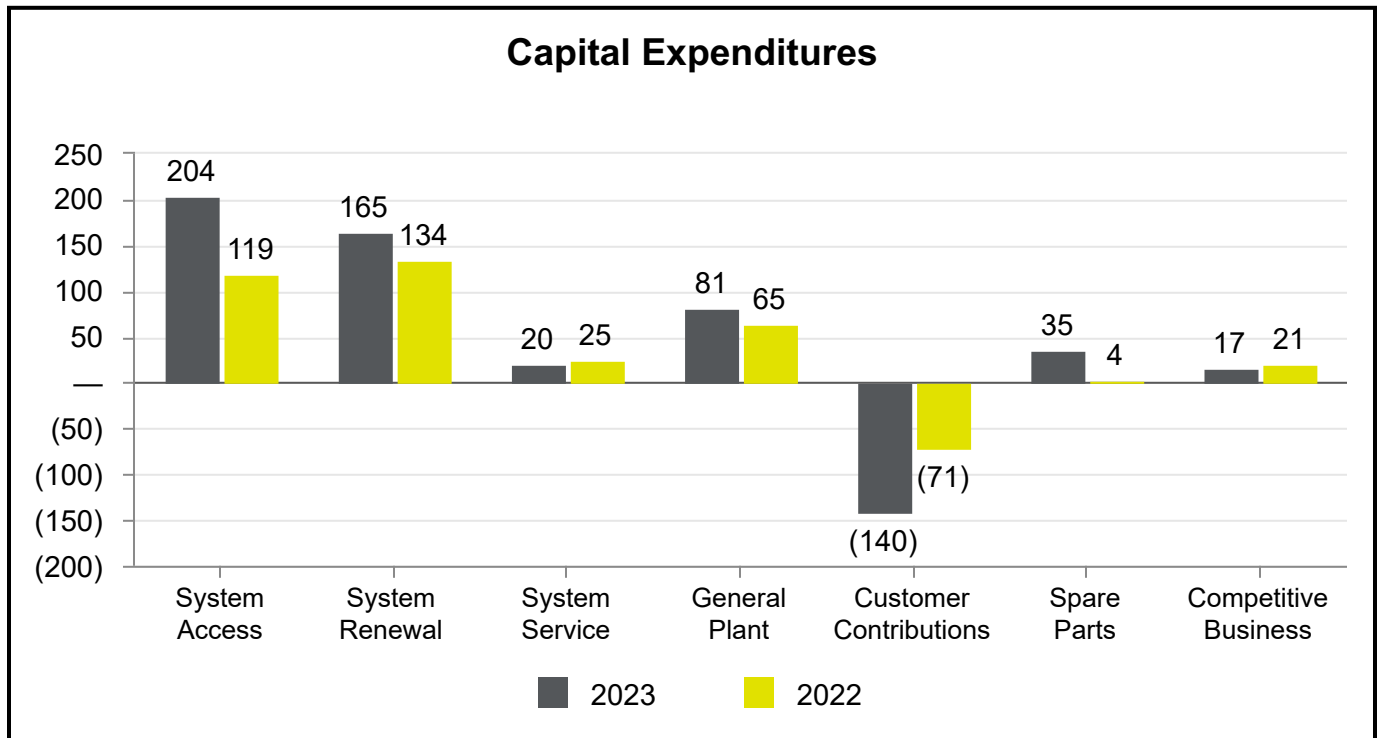
Sources of Liquidity and Capital Resources (continued)

Investing Activities

The increase in cash used for investing activities by \$145 from 2022 to 2023 was primarily due to an increase in purchases of PP&E primarily related to distribution assets and land and buildings.

As the largest municipally-owned LDC in Canada providing service to over one million customers, the Corporation continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

The Corporation's gross capital investments and customer contributions are presented below:



System Access ("SA") expenditures relate to projects required to meet customer service obligations in accordance with the DSC of the OEB and corporate Conditions of Service. Projects in this category include connecting new customers; building distribution infrastructure for new subdivisions; and relocating system plant for roadway reconstruction and major transit initiatives. Capital expenditures in this category have increased by \$85 relative to 2022, principally as a result of: (i) higher expenditures for major transit related projects (\$43); (ii) increased new connections activity from subdivision development and for ICI customers (\$28); and (iii) increased investment in distribution assets to support large customer expansion projects throughout Alectra's service territory (\$11).

LIQUIDITY AND CAPITAL RESOURCES (continued)

System Renewal ("SR") expenditures relate to long-term plans to replace assets that are at the end or nearing the end of their useful lives. Replacement strategies are prioritized based on the condition and reliability of the assets. Capital expenditures in this category have increased by \$31 relative to 2022, principally as a result of: (i) higher expenditures for underground asset renewal projects to improve the reliability performance of the electrical system (\$22); and (ii) higher expenditures for pole replacement projects (\$6).

System Service ("SS") expenditures relate to projects required to support the expansion, automation, and reliability of the distribution system. Capital expenditures in this category have decreased by \$5 relative to 2022, principally due to: (i) lower expenditures on capacity expansion projects (\$3); and (ii) lower expenditures on SCADA and automation projects (\$2).

General Plant and transition expenditures relate to information systems projects, facilities, and fleet. Capital expenditures in this category have increased by \$16 relative to 2022, principally due to: (i) higher expenditures for a new operations service center (\$20); (ii) higher fleet vehicle expenditures (\$4); partially offset by (iii) lower expenditures on information technology (\$8).

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have increased by \$69 over the previous year primarily due to (i) higher contributions for transit project work (\$43); and (ii) higher contributions for subdivision and ICI connections projects (\$27).

Spare Parts ("SP") relate to transformers and meters which are held for use in the operation. SP have increased by \$31 relative to 2022, principally due to increased supplier prices and quantity of purchases.

Capital expenditures in the competitive business have decreased by \$5 relative to 2022, principally because of the acquisition of land and building in 2022.

Financing Activities

The decrease in cash from financing activities by \$106 from 2022 to 2023 was primarily due: (i) a decrease in proceeds from debenture issuance in 2022 (\$248); partially offset by (ii) a decrease from debenture repayment in 2022 (\$150).

Credit Ratings

Credit ratings are forward looking opinions about an issuer's relative creditworthiness for investors to consider as part of their decision-making processes while assessing the relative likelihood of whether an issuer may repay its debts on time and in full.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings (continued)

The following table sets out the current credit ratings of the Corporation.

	DBRS Morningstar		Fitch		S&P Global Ratings	
	Credit Rating	Trend	Credit Rating	Outlook	Credit Rating	Outlook
Issuer rating	A	Stable	A-	Stable	A-	Negative
Senior unsecured debentures	A	Stable	A	Stable	A-	Negative
Short-term (Commercial Paper)	R-1 (low)	Stable				

On June 21, 2023, DBRS Morningstar confirmed the Corporation's "A"/ Stable rating for Issuer Rating and Senior Unsecured Debentures and R-1 (low) rating for commercial paper. The Corporation's DBRS ratings are based on the company's regulated business, which provides a predictable source of earnings and cash flows. The stable trend reflects DBRS financial risk assessment of the Corporation, which remains supportive of the current ratings. DBRS also notes that there were no material changes to the Corporation's business risk assessment, which continues to be supported by a reasonable regulatory framework.

On August 14, 2023, Fitch assigned a first-time Long-Term Issuer Default Rating ("IDR") of 'A-' with a Stable outlook and assigned an instrument rating of 'A' to the Corporation's senior unsecured debt. The Corporation's Fitch ratings are supported by the company's large-scale regulated electric distribution operations in high growth areas of Ontario. Additionally, Fitch views the rate-setting mechanisms employed by the OEB, to be highly constructive. Fitch has applied a one notch utility sector uplift from the IDR to the ratings of the Corporation's senior unsecured debt. This assessment is based on the Corporation's financing policy of raising debt exclusively at the parent level and the expectation that its business mix will remain predominantly regulated.

On May 11, 2023, S&P Global ("S&P") affirmed the Corporation's Corporate and Long-Term Credit Rating as "A-" and changed the outlook from "Stable" to "Negative". This action was consistent with other ratings issued by S&P in the Ontario electricity distributor sector. The "A-" credit rating with negative outlook incorporates S&P's expectation of continued strong financial performance. The negative outlook reflects the possibility of S&P reassessing their view of the Ontario regulatory framework because of "rising" regulatory lag, resulting in weakened financial performance, increased cash flow volatility, and weakened financial predictability for Ontario utilities.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources

The Corporation has the following sources of liquidity under which it may access financial capital from time to time:

- \$1,000 in aggregate revolving unsecured credit facilities comprising: (i) \$700 committed revolving facility with four banks maturing September 29, 2027 ("Revolving Facility"); (ii) \$100 uncommitted facility with a bank which is callable by the bank; and (iii) an additional credit facility to support Letters of Credit of up to \$200.
- The committed facility is also used to support outstanding commitments under the CP program by way of same day market rate advances.
- Issuance of senior unsecured debentures with various maturity dates under established Trust Indentures.

The Revolving Facility contains certain covenants, including a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2023, the Corporation was in compliance with all covenants included in its Revolving Facility agreement.

As at December 31, 2023, the Corporation was in compliance with all covenants included in its Trust Indentures.

The Corporation believes it has sufficient access to short-term and long-term debt to meet liquidity requirements.

Short-term debt at December 31, 2023, and 2022 consist of CP issued under the Corporation's CP program. The short-term debt is denominated in Canadian dollars and is issued with varying maturities of less than one year. CP issuances bear interest based on the prevailing market conditions at the time of issuance. CP issuance at December 31, 2023, was \$375 (2022 - \$290).

Long-term liquidity is available through the Corporation's ability to issue senior unsecured debentures under an established Trust Indenture. The rates of interest on such debentures comprise: government of Canada bond yields with terms of maturity corresponding to the terms of issued debentures; market-based credit spreads determined with reference to comparably rated entities; and costs of issuance.

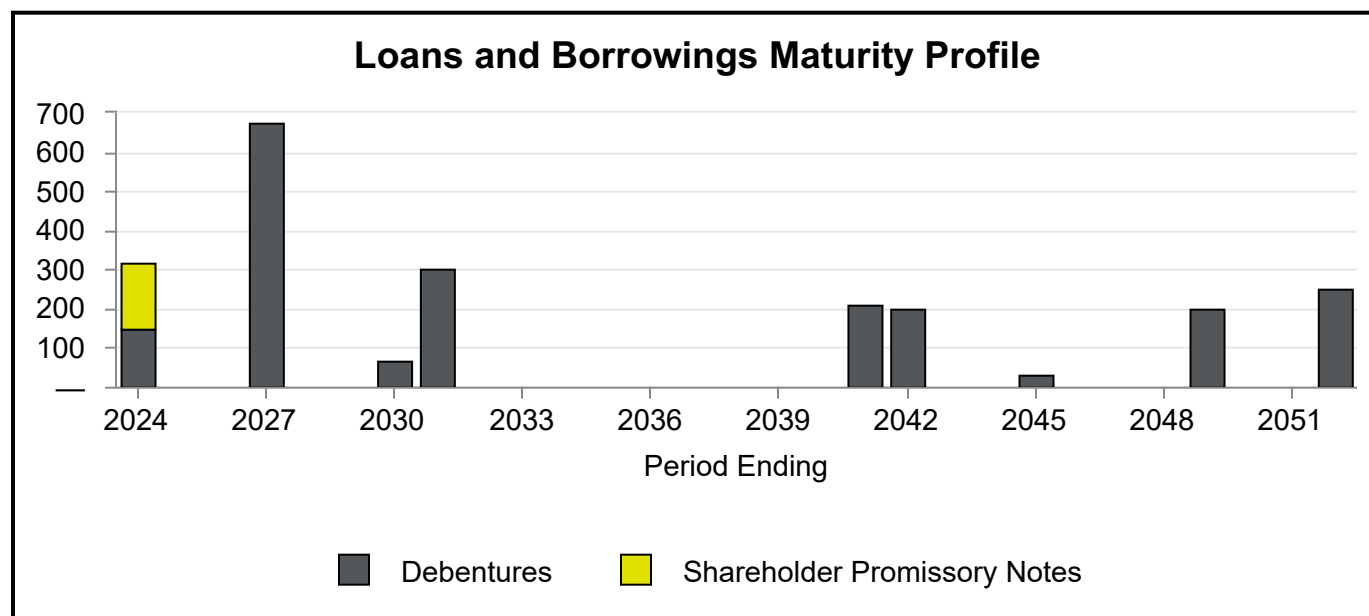
Refer to *Note 12* for details of the Corporation's long-term borrowings.

The Corporation has sufficient liquidity to meet the needs of its ongoing commitment to maintain, improve and expand its distribution system and competitive businesses, and invest in other infrastructure assets on a sustainable basis.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Loans and borrowings maturities

The following table presents a summary of the Corporation's loans and borrowings maturities:



Summary of contractual obligations and other commitments

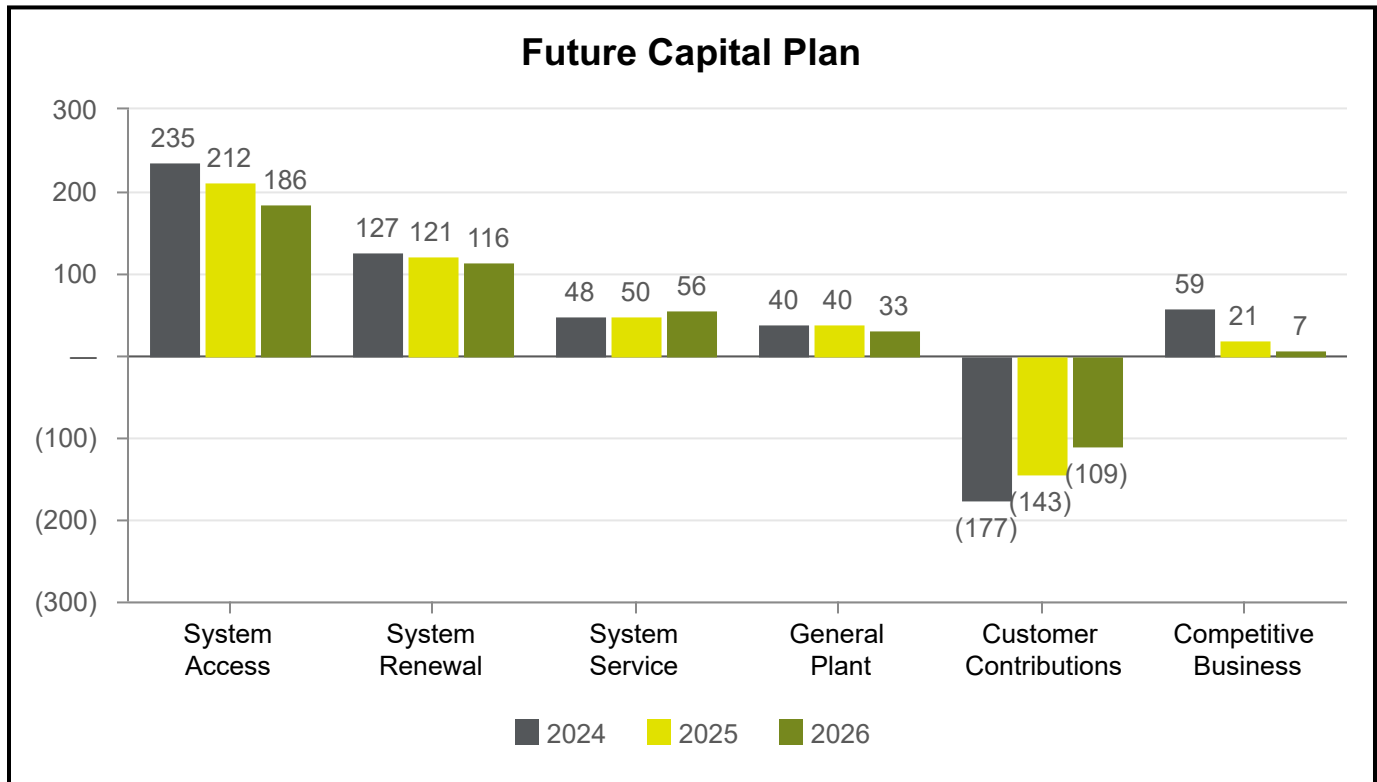
The following table presents a summary of the Corporation's debentures, major contractual obligations, and other commitments:

	2024	2025	2026	2027	2028	After 2028	Total
Commercial Paper	375	—	—	—	—	—	375
Debentures - principal repayment	150	—	—	675	—	1,255	2,080
Debentures - interest payments	70	66	66	57	49	747	1,055
Promissory notes - principal repayment	166	—	—	—	—	—	166
Promissory notes - interest repayments	6	—	—	—	—	—	6
Leases	4	3	3	3	4	16	33
Capital expenditures/financial investments	281	41	2	5	—	7	336
Operating expenditures	45	8	2	5	—	—	60
Total contractual obligations and other commitments	1,097	118	73	745	53	2,025	4,111

LIQUIDITY AND CAPITAL RESOURCES (continued)

Future Capital Plan

The three-year capital expenditure plan structure corresponds to the OEB's Renewed Framework for Electricity Distributors along with Competitive Business Plans. The total net capital expenditure plan is \$922 over the 2024-2026 period as outlined in the table below:



The three-year SA investment plan is primarily driven by the requirement to connect new residential and general service customers as well as customer-initiated expansion requirements, accounting for approximately 45% of total SA expenditures. Alectra Utilities will also make significant investments in SA over the next three years to support municipal road widening, transit infrastructure and network metering projects. Major transit projects include the Hurontario Light Rail Transit initiative in Peel Region and GO Transit electrification projects across the Peel and York Regions and Simcoe County. Transit projects are predominantly funded by customer contributions from Metrolinx. Additional investments in System Access will be made to support the installation of AMI 2.0 meters and corresponding communication infrastructure.

The three-year SR investment plan is primarily driven by renewal of the underground and overhead distribution infrastructure, comprising approximately 35% and 27% of the planned SR investments, respectively. Investment in the underground system is the primarily to improve the declining reliability performance in the distribution system. Investment in overhead assets is largely to address the impact of weather outages which have increased in both duration and severity.

The three-year SS investment plan is primarily driven by Alectra Utilities' plan to invest in system connection to support expansion driven by general growth of residential, commercial, and industrial

LIQUIDITY AND CAPITAL RESOURCES (continued)

customers. Approximately 70% of the SS investments are planned to accommodate this system growth and expansion in Alectra Utilities' service areas. Additional investments in SS will support system automation equipment associated with controlling, monitoring, and modernizing the distribution system to improve reliability, resiliency, and grid flexibility.

The three-year expenditure plan for GP addresses the need to upgrade corporate information systems such as the CC&B system, implement innovative technology including the Customer Experience platform and renew aged and obsolete computing assets. Information technology investments account for 63% of the total GP expenditures. In addition, 25% of total General Plant investments will be used for invested in updating transportation equipment to allow Alectra Utilities' crews to respond to distribution system needs efficiently and safely.

The three-year capital expenditure plan for the competitive business is primarily driven by investments required to support the growth and strategic goals of the business. These investments will support initiatives such as the construction of DER infrastructure, the purchase of sub-metering projects/customer contracts and metering hardware, the acquisition of vehicles to replace aging fleet and software development to support product offerings.

SHARE CAPITAL

The Corporation's authorized share capital is comprised of an unlimited number of Class A through G voting common shares, and an unlimited number of Class S non-voting shares, all of which are without nominal or par value as follows:

	2023		2022	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited Class A through G common shares				
Issued and outstanding	10,485,000	953	10,485,000	953
Authorized				
Unlimited Class S shares				
Issued and paid				
Class S shares	99,999	37	99,999	39
Total share capital	10,584,999	990	10,584,999	992

An unlimited number of Class A through C special shares have been authorized but not issued.

The Alectra Inc. Dividend Policy was approved by its shareholders and is incorporated into the Unanimous Shareholders' Agreement, dated as of January 1, 2019, as Schedule C.

The annual Voting Common Dividend is set as a target up to 60% of the Corporation's annual consolidated MIFRS net income excluding the results from the former PowerStream Solar Business that accrue to the Solar Shareholders on Class S shares. The annual Class S Shares Dividend is set with respect to "forecast annual net free cash flow" generated exclusively by the former PowerStream Solar Business, with the criteria for determining the dividend amount including provisions with respect to ensuring that the Solar business is able to maintain adequate cash and adequate credit metrics.

During the year ended December 31, 2023, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating \$76 or \$7.31 per share (2022 - \$95 or \$9.06 per share); and
- Class S share dividends aggregating \$2 or \$15.04 per share (2022 - \$1 or \$14.32 per share).

In addition, a return of capital of \$2 (2022 - \$2) was declared and paid by the Corporation on Class S shares during the year.

The Class S dividends, other than return on capital, are subject to Part VI.1 tax under the *Income Tax Act (Canada)* at a rate of 25% based on the amount of dividend paid. The Corporation is also eligible for a corresponding deduction equal to a specified multiple of the dividend. The deduction does not fully offset the Part VI.1 tax, resulting in a net effective tax rate of 1.8% on the Class S share dividends.

Refer to *Note 16* for details.

RELATED PARTIES BALANCES AND TRANSACTIONS

Significant related party transactions and balances with related parties are as follows:

	2023	2022
<i>Transactions</i>		
Revenue	92	82
Expenses	6	6
Return of capital	2	2
Dividends declared and paid	78	96
<i>Balances</i>		
Due from related parties	12	9
Due to related parties	54	52
Loans and borrowings	166	166

Services provided to related parties include electricity distribution, street lighting, road projects, and water and sewage billing. Expenses incurred include municipal taxes and facilities rental (refer to *Note 11 (a)*).

The amount due to/from related parties is comprised of amounts payable to/receivable from: the City of Barrie; the City of Guelph; the City of Hamilton; the City of Markham; the City of Mississauga; the City of St. Catharines; the City of Vaughan; and wholly-owned subsidiaries of related parties (refer to *Note 11*).

Loans and borrowings comprise shareholder promissory notes owing to the City of Barrie, the City of Markham, and the City of Vaughan (refer to *Note 12*).

The annual compensation of key management personnel that is directly or indirectly attributable to the Corporation was \$17 (2022 - \$17) (refer to *Note 11 (b)*).

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL JUDGMENTS AND ESTIMATES

The Corporation's critical accounting policies have been reviewed and approved by the Audit, Finance and Risk Management Committee and are outlined in *Note 4*.

Certain judgments, estimates and assumptions arising from these policies are inherently complex and subjective, changes to which could significantly impact the financial results. The changes in the economic environment arising from geopolitical events, high inflation rates and interest rate increases continue to cause uncertainty over economic growth. Such uncertainty could generate, in future periods, a risk of adjustments to the carrying amounts of balances subject to estimates and judgments.

Judgments and estimates are often interrelated. The areas which require management to make significant estimates and judgments in determining carrying values include: valuation of identifiable net assets acquired in a business combination; unbilled revenue; useful lives of depreciable assets; valuation of financial instruments; employee future benefits; ECLs; lease term; deferred tax assets and liabilities; provisions and contingencies; and goodwill in cash generating units.

FUTURE ACCOUNTING CHANGES

The following proposed new accounting standards/amendments have been published by the IASB but are not effective as at December 31, 2023, and have not been adopted in these financial statements:

(a) Regulatory Assets and Regulatory Liabilities

On January 1, 2021, the IASB published the Exposure Draft, Regulatory Assets and Liabilities. If finalized as a new IFRS Standard, the proposals would replace IFRS 14, *Regulatory Deferral Accounts*.

The Exposure Draft proposes to introduce a requirement for companies subject to rate regulation, to report regulatory assets and liabilities and the related regulatory income and expenses that arise due to timing differences. The Corporation is monitoring the Exposure Draft for potential changes and is assessing the impact of implementation of the standard on its financial statements. The IASB has not set an implementation date for the proposed standard.

(b) Impacts of Amendments to Accounting Standards Issued but not yet Effective

The following amendments have been issued by the IASB but are not yet effective and have not been early adopted in these consolidated financial statements. Management has assessed that the expected impact of adopting these amendments is not significant.

Effective Date January 1, 2024

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 - *Leases*);
- Disclosures regarding Supplier Finance arrangements (Amendments to IAS 7 - *Statement of Cash Flows* and IFRS 7 - *Financial Instruments: Disclosures*); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1 - *Presentation of Financial Statements*).

NON-IFRS FINANCIAL MEASURES

EBITDA

The Corporation uses EBITDA, comparable net earnings, and adjusted funds from operations as financial performance measures under Modified International Financial Reporting Standards ("MIFRS"). MIFRS adjusts IFRS results for the effect of rate regulation. These measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

The following table provides a reconciliation of non-IFRS financial measures to IFRS reported results on a consolidated basis. These non-IFRS financial measures are consistently applied in the previous period.

	2023	2022
EBITDA (MIFRS)	423	408
Add adjustments to remove regulatory accounting:		
Revenue	88	(64)
Operating expenses	(10)	(2)
Loss on derecognition of property, plant, and equipment and intangible assets	(3)	—
EBITDA (IFRS)	498	342
Depreciation and amortization	(201)	(191)
Net finance costs	(96)	(79)
Loss on fair value of contingent consideration	—	(7)
Share of net loss of joint venture	(1)	—
Impairment loss on investment in associate	—	(6)
Income before income taxes (IFRS)	200	59

Management believes that a measure of operating performance is more meaningful when including regulatory accounting in the results of operations as this better reflects the Corporation's normal operations.

NON-IFRS FINANCIAL MEASURES (continued)

AFFO

Adjusted funds from Operations ("AFFO") is used as an additional metric of cash flow without regard to changes in the Corporation's non-cash working capital and adjusted for contributions in aid of construction. The table below summarizes the Corporation's AFFO as at December 31, 2023, and 2022.

	2023	2022
IFRS Net income	146	40
Adjustment for regulatory activities ⁽¹⁾	(6)	82
MIFRS Net income	140	122
Depreciation	181	175
Loss on derecognition of property, plant, and equipment and intangible assets	3	9
Loss on fair value of contingent consideration	—	7
Impairment loss on investment in associate	—	6
Net change in non-cash operating working capital	(11)	(5)
Net change in non-current assets and liabilities	54	(83)
Net change in taxes	—	(16)
Share of net loss of joint venture	1	—
Total changes	228	93
AFFO	368	215

⁽¹⁾ Refer to Note 28 for details of the adjustments for regulatory activities.

The increase in AFFO is mainly attributable to: (i) increase from the net change in non-current assets and liabilities mainly resulting from the net movement in regulatory assets and liabilities; and (ii) higher net income in 2023 relative to 2022; partially offset by (iii) decrease from the net change in non-cash operating working capital mainly due to an increase in receivables.

RISK MANAGEMENT AND RISKS

This section provides an overview of the Corporation's overall risk management approach, which is followed by a discussion of the specific risks that could adversely affect its business.

The Corporation is subject to various risks that could impact the achievement of its strategic objectives. As a result, the Corporation has adopted an enterprise-wide approach to risk management, which is governed by its Enterprise Risk Management ("ERM") Program. The ERM Program incorporates industry leading practices and aligns with international guidelines that are tailored to the business.

The Corporation's ERM Program supports routine risk review in a process that identifies, assesses, manages, monitors, and reports on risks. Identified risks are assessed using a standardized risk scoring matrix, with mitigation measures established and incorporated in the Corporation's business plans and strategy development.



At the Corporation, risk management is the responsibility of all business units. There are strong governance practices in place to ensure consistent consideration of risks in all decision-making.

The risk management governance structure is comprised of three key levels:

- **The Board of Directors** – maintains a general understanding of the Corporation's risk profile and philosophy, and oversees the management of the Corporation's significant exposures, including review of risk assessment and risk management practices.
- **The Executive Committee** – ensures systems are in place to identify, manage and monitor risks and trends. The Executive Committee also ensures that key risks are escalated to the attention of the Board for discussion, as required.
- **The Senior Leadership Team** – supports the overall risk management program and actively engages in the day-to-day management of risks.

The Corporation's business is subject to a variety of risks, which are generally categorized into the following key risk areas: Regulatory & Compliance, Strategic, Financial and Operational. The section below discusses certain specific risks that could have a material adverse impact on the Corporation's business, financial condition, or results of operations and is not a comprehensive list of all the risks to the Corporation.

RISK MANAGEMENT AND RISKS (continued)

Regulatory & Compliance Risk

The Corporation operates in a regulated electricity industry. Risks exist that the Corporation's business activities could be impeded through actions of regulatory authorities and/or governments. In addition, any non-compliance with laws or regulations affecting the Corporation's business could have a material adverse effect on its operations.

Regulatory Risk

The electricity distribution business in Ontario is regulated, which poses risks to the financial and operational aspects of the Corporation's rate regulated business. All requests for changes in electricity distribution charges require OEB approval. The Corporation files applications to the OEB on an ongoing basis for rate adjustments to support the sustainment and growth of its distribution system, which includes distribution assets maintenance and expansion. OEB decisions to disallow or limit the recovery of costs and/ or earn the allowed ROE on applications could have a material adverse effect on the Corporation's distribution revenue. There is no assurance that resulting decisions issued by the OEB will permit the Corporation to recover all costs actually incurred or to earn the allowable ROE that permits the financial sustainability of its operations.

The Corporation's regulatory risk is managed through ongoing stakeholder and government engagement, on aspects such as utility operations, rate filings and capital plans. The Corporation also employs a comprehensive regulatory application process to ensure applications to the OEB are evidence-based and accurately reflect the needs of the Corporation.

Political Risk

The Corporation is a municipally owned LDC that is subject to actions of governments. Governments could pass legislations, issue regulations, or implement policies that could have potential adverse effects on the Corporation's financial condition and hinder its ability to pursue its strategy and business objectives. Such government actions and the political uncertainties around these actions could require LDCs to commit to additional costs.

The Corporation actively participates in stakeholder groups and industry associations that are designed to inform development of the legislative and regulatory environment. Through such engagements, the Corporation maintains dialogue, shares perspectives, and reinforces the Corporation's vital interests and advocacy stance.

Compliance Risk

The Corporation must comply with all applicable laws and regulations and other requirements to which it subscribes or is subject to. These requirements may be as a result of Federal, Provincial or Municipal laws, regulations, by-laws, or other instruments. Other requirements or obligations may also include the IESO Market Rules, OEB license terms and conditions as well as other industry codes to which the Corporation must abide. Failure to comply with applicable laws and regulations could have a material adverse effect on the Corporation.

RISK MANAGEMENT AND RISKS (continued)

Regulatory & Compliance Risk (continued)

Compliance Risk (continued)

The Corporation actively monitors business activities that could be subject to compliance actions, including routine monitoring of applicable legislations and regulations for changes and implementing appropriate measures in response.

Strategic Risk

The Corporation pursues growth through acquisitions and organically from development projects and capital expenditures. Risks associated with the Corporation's strategy, including the inability to adapt to broader industry trends and foster a supportive corporate culture, could adversely impact its operations.

Risks Associated with Business Model

The Corporation's business model and strategic direction are based on certain assumptions, including the growth strategy of the competitive and regulated businesses, electricity demand forecast reflective of economic growth projections and evolution of technology used in the industry. Any significant changes to the key assumptions made could cause the Corporation to reevaluate its business model and/or strategic direction. The Corporation routinely monitors industry trends, the business environment and conducts customer outreach to understand the evolving needs and expectations of its customers.

Financial Risk

Risks related to the financial markets that could adversely impact the Corporation's financial performance. Some of the Corporation's key financial risks include credit risk, and risks associated with debt financing.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing agent for all industry participants, and remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. This regulation exposes the Corporation to credit risk, principally through the realization of its customer receivables.

The Corporation has implemented credit and collection policies in compliance with OEB regulation to mitigate the exposure to credit risk. In addition, trends for customer collections, economic and other market conditions are incorporated in determining the ECLs on accounts receivable balances, which require estimates and judgements.

Risks Associated with Arranging Debt Financing

The Corporation relies on debt financing to repay existing indebtedness and to finance its ongoing business operations. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including: (i) financial market conditions (such as

RISK MANAGEMENT AND RISKS (continued)

changes in interest rates); (ii) the regulatory environment in Ontario; (iii) the Corporation's results of operations and financial condition; (iv) the ratings assigned to the Corporation and its debt securities by credit rating agencies; (v) the current timing of debt maturities; and (vi) other general economic conditions. The inability to access debt capital markets on favourable terms and within a desired timeframe could impair the Corporation's ability to fund capital expenditures and meet other obligations, which could have an adverse effect on its operating results and financial position in the future.

The Corporation has taken proactive measures to ensure adequate access to financial liquidity, including active monitoring of its cash position, and communicating regularly with credit rating agencies and investment community regarding its capital position.

Operational Risk

The Corporation's ability to safely and reliably operate as well as maintain its distribution assets and facilities inherently has risks. Some of the Corporation's key operational risks include safety, cybersecurity, supply chain, people and skills, labour relations, climate change, environmental and emergency preparedness/ business continuity risks.

Safety Risk

The Corporation is engaged in the construction, operation, and maintenance of high voltage electrical infrastructure throughout the communities it serves and is exposed to significant safety hazards associated with this work. In addition, the Corporation is subject to government legislation and regulations relating to health and safety. Failure to comply with these requirements and/ or to keep the public and employees safe could have adverse operational, financial, compliance and reputational impact on the Corporation. The Corporation's safety management program is based on a continuous improvement principle, which includes measures such as equipment inspections, employee training, and safety audits. In addition, the Corporation continually strengthens its safety culture program to support safety performance and minimize associated threats.

The Corporation has undertaken actions to promote psychological safety and additional support through the employee assistance program. The Corporation is also prepared to address future potential infectious disease emergencies to limit the health and safety exposures to the public and employees.

Cybersecurity Risk

The Corporation's ability to operate effectively in the Ontario electricity market is in part dependent on the management of its information technology and operational technology systems. These systems are employed to operate and monitor electricity distribution, as well as the Corporation's financial, billing, and other business systems. As a critical infrastructure operator, the Corporation's distribution infrastructure and technology systems are vulnerable to damage or interruption from cyberattacks, breaches or other compromise. A cybersecurity incident could result in service disruptions, theft of intellectual property and confidential customer or business information, resulting in regulatory scrutiny, litigation, and reputational damage for the Corporation. The Corporation maintains cyber insurance and has a cybersecurity program that incorporates industry leading practices, which include employee training, protecting assets and safeguarding sensitive information, continuous monitoring of technology systems, and incident response procedures to minimize damage from a cyberattack, breach or other compromise.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Supply Chain Risk

Global supply chains have been disrupted by factors such as macroeconomic conditions, the geopolitical environment, and labour markets constraints, which have resulted in increased material and equipment lead times and costs. Prices for key materials and equipment continue to evolve as the global economic recovery remains uncertain, due to the volatility in commodity prices, inflation, and interest rates. The Corporation's ability to operate effectively is in part dependent upon timely access to equipment, materials, and key suppliers. Loss of key suppliers and volatility in material and equipment lead times could adversely impact the Corporation's operations and its capital project planning and execution. The Corporation continues to diversify its supplier base to alleviate single point of supply issues and advance procurement of key equipment and materials that have expected long lead times.

People and Skills Risk

The Corporation is subject to the risk that skilled and experienced resources may not be available to support its business objectives and strategy execution. To mitigate this risk, the Corporation implements various programs to attract, develop and retain talent, including talent attraction and retention strategies, succession planning, and knowledge management programs to ensure ongoing workforce capability to meet the evolving needs of the business. The Corporation expects to continue to meet its talent needs by developing existing employees and hiring in specific areas where appropriate.

Labour Relations Risk

The Corporation is committed to maintaining effective relationships with its union, which is represented by the PWU and IBEW. The Corporation reached an agreement with the PWU, covering the period from June 1, 2022, to May 31, 2025. The collective agreement between the Corporation and IBEW expires on March 31, 2024. The inability to negotiate the collective agreement with PWU and IBEW on mutually acceptable terms could lead to work disruptions, resulting in adverse impacts to the Corporation's business including potential risk to its ability to sustain the continued supply of electricity to customers.

Climate Change Risk

The Corporation's service territory, its energy-related infrastructure and other facilities are exposed to the risk of climate change and extreme weather events. Extreme weather events create a risk of physical damage to the Corporation's distribution infrastructure, which could result in service disruption, and increased repair and replacement costs.

The Corporation continues to adapt and increase the resilience and reliability of its infrastructure and operations to address the effects of climate change. These initiatives include updating major equipment specifications, revising design practices, updating planning processes, enhancing maintenance programs, and initiating emergency preparedness program to minimize the extent of disruptions.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Environmental Risk

The Corporation is subject to Canadian environmental laws and regulations. Release of hazardous or other harmful substances (e.g. - asset leaks and spills) has the potential for adverse environmental impacts and could lead to governmental orders requiring the Corporation to investigate, control and remediate the effects of these substances. Failure to comply could subject the Corporation to injunction, fines, or other penalties.

The Corporation has a standardized response procedure to regularly inspect assets, investigate, remediate, and report on asset leaks and spills in a timely manner upon discovery. The Corporation monitors Canadian and Ontario regulation with respect to GHG emissions. Although the Corporation is not required by Ontario regulation to report on its GHG emissions at this time, it continues to track and voluntarily discloses Alectra Utilities' GHG emissions publicly.

Emergency Preparedness/ Business Continuity Risk

The Corporation's operations could be exposed to the effects of natural or human-caused hazards. These effects could result in operational disruptions, decrease in distribution revenue, and increase in costs to repair and restore operations.

The Corporation continues to place insurance where available to mitigate the risks associated with damage to assets or service disruption. The Corporation's emergency preparedness and business continuity program focuses on building resilience into business processes to ensure continued operation of critical business functions. The Corporation regularly monitors for industry events and makes improvements to the program to prepare for major operational threats, such as major power outages and infectious disease emergencies.