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

ALECTRA Inc.

Year ended December 31, 2024

GLOSSARY

The following acronyms and abbreviations are used in this document.

ACD	Alectra Convergent Development LP	**IESO**	Independent Electricity System Operator
AES	Alectra Energy Solutions Inc.	**IFRS**	International Financial Reporting Standards
AESI	Alectra Energy Services Inc.	**IR**	Incentive Rate
AFFO	Adjusted Funds from Operations	**LDC**	Local Distribution Company
Alectra Utilities	Alectra Utilities Corporation	**LPC**	Late Payment Charge
AMSP	Alectra Microgrid Master Limited Partnership	**MD&A**	Management Discussion and Analysis
APSI	Alectra Power Services Inc.	**MIFRS**	Modified International Financial Reporting Standards
CC	Customer Contributions	**NWS**	Non-Wires Solutions
CDM	Conservation and Demand Management	**OEB**	Ontario Energy Board
CP	Commercial Paper	**OEBA**	Ontario Energy Board Act
DBRS	Dominion Bond Rating Service	**OEFC**	Ontario Electricity Finance Corporation
DER	Distributed Energy Resource	**PP&E**	Property, Plant and Equipment
DSC	Distribution System Code	**PV**	Photovoltaic
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	**S&P**	Standard & Poor's
GHG	Greenhouse Gas	**SA**	System Access
GLC	Gagnon Line Construction Inc.	**SAIDI**	System Average Interruption Duration Index
GP	General Plant	**SAIFI**	System Average Interruption Frequency Index
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	**VASH**	Vulnerability & System Hardening
ICI	Industrial, Commercial and Institutional	**WFM**	Workforce Management
ICM	Incremental Capital Module	**WMS**	Wholesale Market Service
IDR	Issuer Default Rating	**YoY**	Year over Year

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.

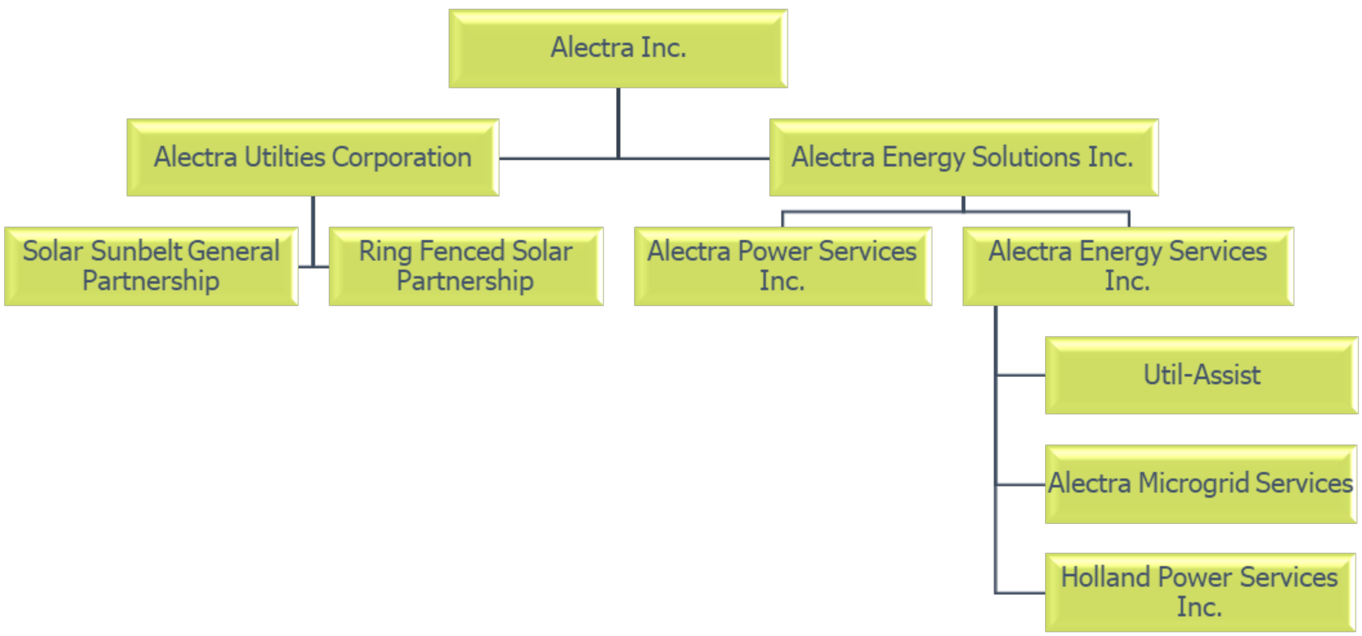
TABLE OF CONTENTS

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, 2024, (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, 2024. All dollar amounts in the tables are in millions of Canadian dollars, which are presented in whole numbers.

CORPORATE OVERVIEW



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 trusted energy partner empowering a sustainable and brighter future. The traditional centralized and unidirectional electricity system of the past is now transforming into one that is much more customer-focused, distributed, and integrated.

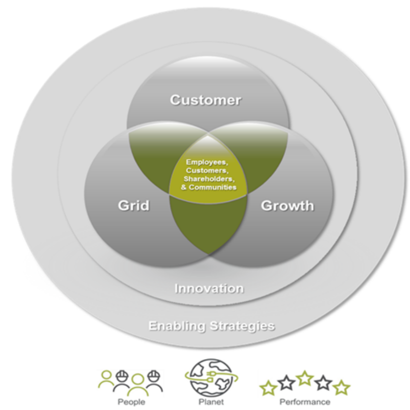
CORPORATE OVERVIEW (continued)

Vision and Strategic Intent (continued)

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 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 news 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 Corporations 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 latest Annual Environmental Social and Corporate Governance ("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 ("PV") 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.

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.

REGULATED BUSINESS (continued)

Rate Setting (continued)

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.

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 Independent Electricity System Operator ("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.

REGULATED BUSINESS (continued)

Rate Applications

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 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.

2025 Rate Applications

On August 15, 2024, Alectra Utilities filed an application for all five predecessor utility rate zones for the approval of 2025 electricity distribution rates and other charges, effective January 1, 2025. On December 12, 2024, the OEB issued its Decision and Rate Order on the Price Cap IR application, approving a 3.3% rate adjustment to distribution rates effective January 1, 2025, 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.

2027 - 2031 Rate Application

Alectra Utilities is preparing to file a rate application in 2025 for the period spanning from 2027 to 2031. This application will outline proposed electricity distribution rates aimed at ensuring the continued delivery of reliable and efficient electrical services to the communities it serves.

Select Energy Policies and Regulation Affecting the Corporation

Ontario Energy Board Initiatives and Consultation:

- Cost of Capital – OEB Generic Hearing – In March 2024, the OEB commenced a hearing on its own motion to consider the methodology used to determine the values of the cost of capital parameters and deemed capital structure to be used to set rates for utilities. The methodology for determining the OEB's prescribed interest rates and matters relating to the Cloud Computing Deferral Account will also be considered, including what type of interest rate should apply. The cost of capital methodology was last reviewed in 2009. Alectra is participating in the OEB's Cost of Capital Generic Hearing through a consortium of Ontario Energy Association members. The OEB is expected to issue its decision in Q1 2025.

REGULATED BUSINESS (continued)

Select Energy Policies and Regulation Affecting the Corporation (continued)

- System Expansion for Housing Developments – In late 2024, the OEB issued final Code amendments pertaining to system expansion for housing developments. The amendments extend the connection horizon from five years to a maximum of 15 years for qualifying housing developments and extend the revenue horizon from 25 years to 40 years for all residential developments, whether they are qualifying housing developments or not. All other load types will maintain a 5 year connection horizon, and a 25 year revenue horizon.
- Non-Wires Solutions (“NWS”) – In 2024, the OEB released the NWS Guidelines, which establish new requirements for distributors to document their consideration of NWSs when making investment decisions for electricity system needs that have an expected capital cost exceeding $2 million as part of Distribution System Planning, excluding general plant. As a result, this new policy will impact future investment planning, as well as operational costs necessary to operate the NWSs, as applicable.
- Reliability & Power Quality – In 2022, the OEB established a policy review of reliability and power quality to focus on developing enhanced reliability reporting and approaches for benchmarking in order to establish performance expectations going forward. It is expected that this will result in the development of an analytics framework that links investment plans to performance expectations. The policy review remains on-going.
- Vulnerability & System Hardening (“VASH”) – The VASH Initiative was launched in June 2024 and will require the integration of resilience and system hardening into the investment planning process. The initiative will result in policies and a framework to protect customers against climate change by obligating distributors to: incorporate climate resiliency into investment planning activities; engage in regular assessment of vulnerabilities in the event of severe weather; and to prioritize value for customers when investing in enhancements. As a result, the outcomes of this initiative will impact expectations for utility performance, and investment planning and prioritization.

(in millions of Canadian dollars)

KEY BUSINESS STATISTICS

	2024	2023	2023 Average Urban Distributor Benchmark [1]
SAIDI [2]	0.75	0.83	1.03
SAIFI [3]	1.08	1.06	1.14

[1] The Average Urban Distributor is based on the average 2023 System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI") performance results for Urban Ontario Distributors with at least 50k customers from 2023 Open Data published by 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 0.75 and 1.08, respectively, in 2024, compared to SAIDI and SAIFI of 0.83 and 1.06, respectively, in 2023.

Alectra Utilities’ SAIDI performance improved in 2024 due to increased use of distribution automation to promptly isolate faults and restore power to affected customers.

Alectra Utilities’ SAIFI performance declined in 2024 due to an increase in customer interruptions from outages caused by tree contacts and defective equipment, partially offset by a decrease in customer interruptions from outages caused by external factors such as adverse weather, adverse environment and foreign interference.

COMPETITIVE BUSINESS

Overview of AES

Alectra Energy Solutions Inc. ("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.

Alectra Power Services Inc. ("APSI") provides street lighting services including design, construction, and maintenance.

Alectra Energy Services Inc. ("AESI") provides wholesale metering and sub-metering services for condominium and commercial properties.

Util-Assist Inc. ("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.

Alectra Microgrid Master Limited Partnership ("AMSP") provides energy management services which includes installing, owning, and operating an energy storage battery and gas system while providing services to third parties.

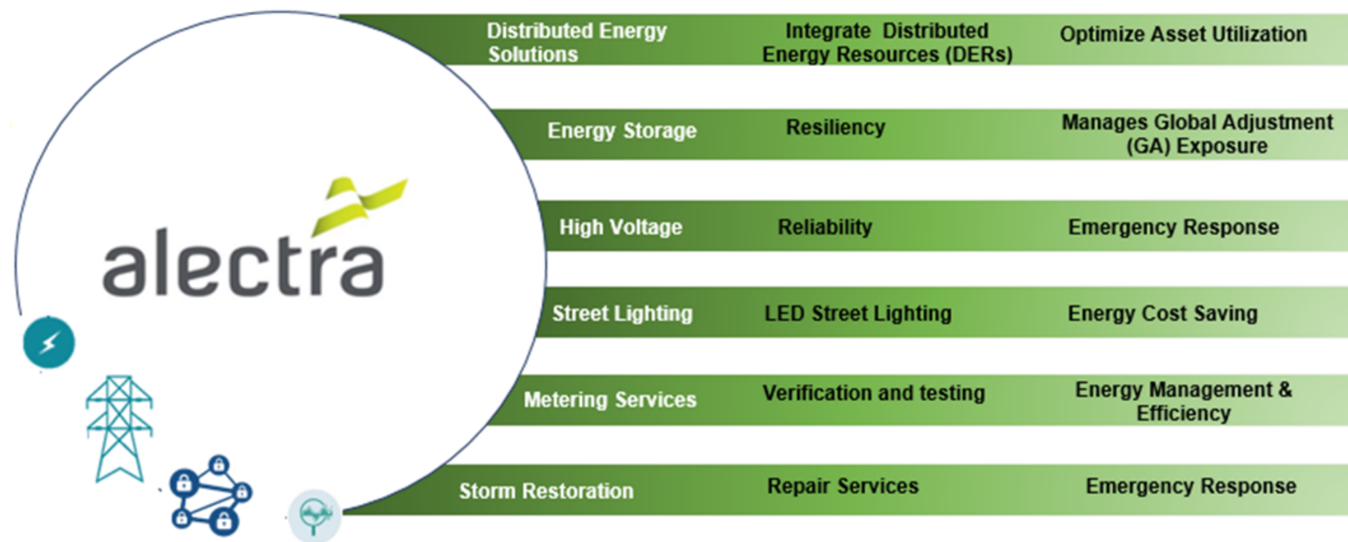
Holland Power Services Inc. ("HPSI") provides emergency restoration services to utilities primarily located along the eastern seaboard of the United States and Canada; and industrial electrical services to utilities and industrial clients.

Alectra Convergent Development LP ("ACD"), a joint venture in which AESI owns a 50% share, 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 October 12, 2023, HPSI incorporated a wholly owned subsidiary, 748953 N.B. Ltd. On May 31, 2024, 748953 N.B. Ltd. acquired assets from Gagnon Line Construction Inc. ("GLC"), a private company specialized in providing emergency power restoration services in Eastern Canada and the United States.

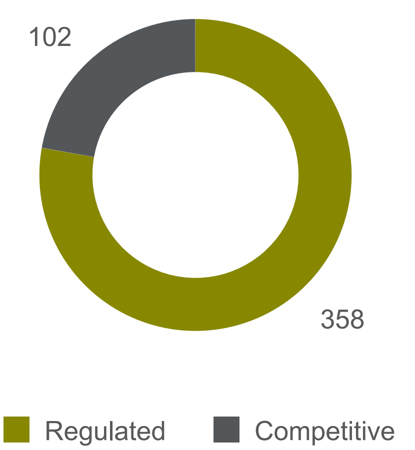
The acquisition of assets from GLC has created the largest electricity grid storm restoration company in Eastern Canada providing emergency power restoration services in the wake of power outages caused by severe weather events. GLC also provides various electrical services to utility and industrial customers in Atlantic Canada, including specialized equipment testing, installation, maintenance and repairs to power infrastructure.

2024 FINANCIAL RESULTS AT A GLANCE

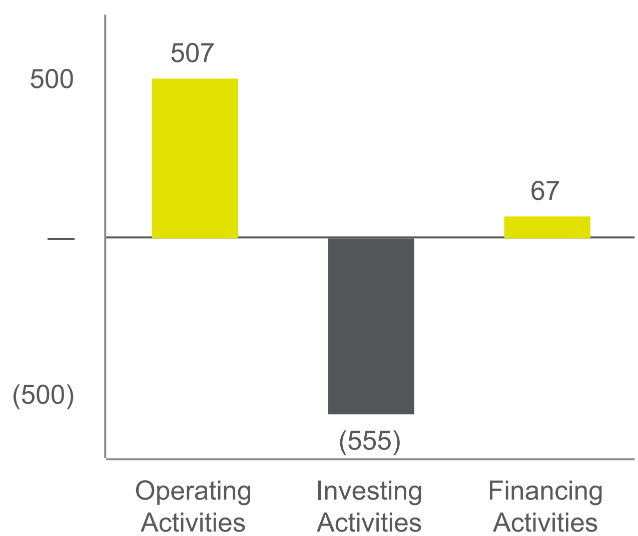
Annual Results and Performance

- Total Assets $6,611
- Loans and borrowings $2,874
- Revenue $4,369
- Expenses $4,016
- Net Income $167
- Net Income Unadjusted for Regulatory Activities $139[1]
- Dividends Paid $82

Capital Expenditures, Net of Contributions



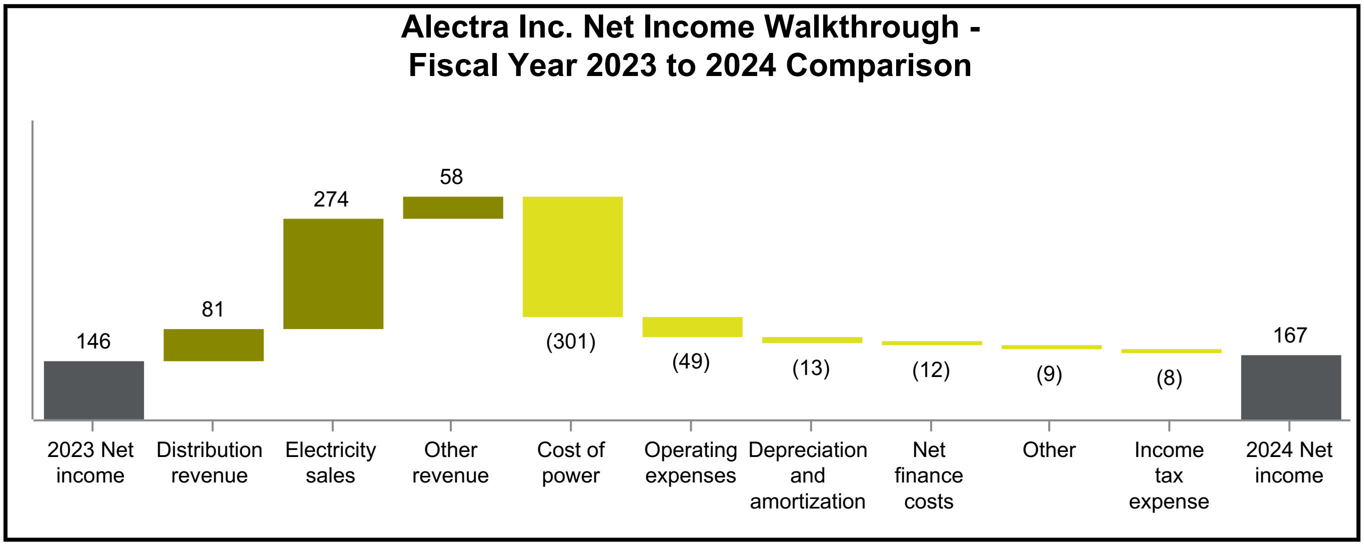
Cashflow Overview



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

(in millions of Canadian dollars)

RESULTS OF OPERATIONS



	2024	2023	Change
Net Income	167	146	21 ↑

Net income for the year ended December 31, 2024, was $167 and $21 higher than 2023 net income of $146. The increase in net income is principally attributable to:

i. higher electricity sales ($274) largely driven by higher electricity prices and higher electricity consumption;
ii. higher distribution revenue ($81) mainly because of higher revenue recovered from customers through OEB approved rate riders; and
iii. higher other revenue ($58) mainly due to higher power restoration services revenue due to higher storm response activities in the competitive business; partially offset by
iv. higher cost of power ($301) primarily due to higher wholesale electricity prices and higher wholesale electricity consumption;
v. higher operating expenses ($49) mainly due to higher storm response activity in the competitive business;
vi. higher depreciation and amortization costs ($13) primarily due to new in-service additions of distribution assets and computer software in 2024; and
vii. higher net finance costs ($12) primarily due to higher average volume of short-term borrowings;

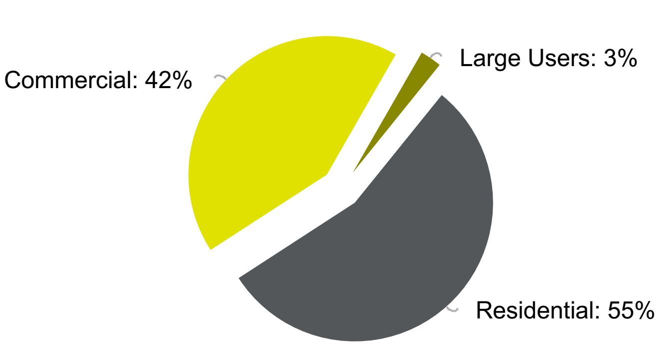
(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

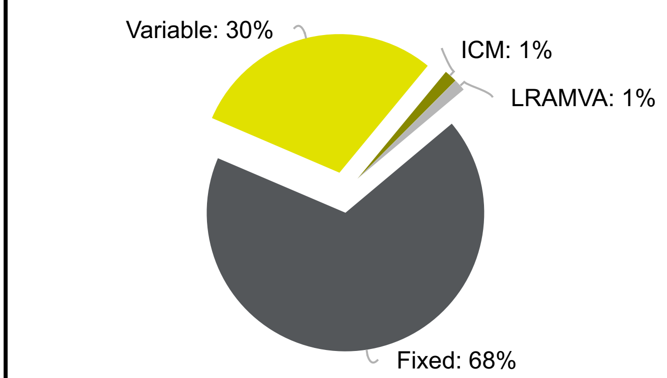
Distribution Revenue

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

Actual Distribution Revenue by Customer Class for 2024



Actual Fixed vs. Variable Distribution Revenue for 2024



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.

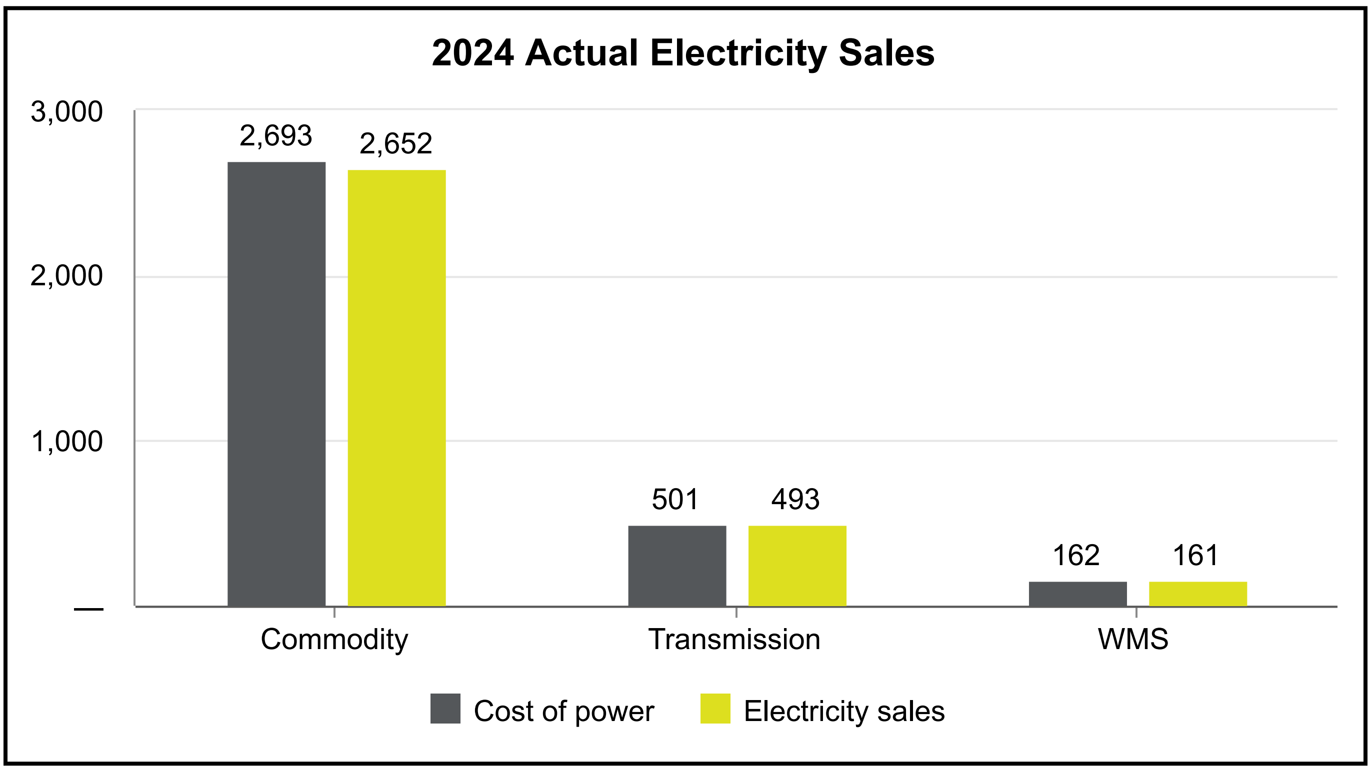
	2024	2023	Change
Distribution Revenue	797	716	81 ↑

The increase in distribution revenue is mainly attributable to: (i) higher revenue recovered from customers through OEB approved rate riders ($50); and (ii) higher OEB approved distribution rates driven by a higher inflation factor ($31).

RESULTS OF OPERATIONS (continued)

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.



	2024	2023	Change
Electricity Sales	3,306	3,032	274 ↑

The increase in electricity sales of $274 is mainly driven by (i) higher electricity prices ($220); and (ii) higher electricity consumption ($54) in the current year.

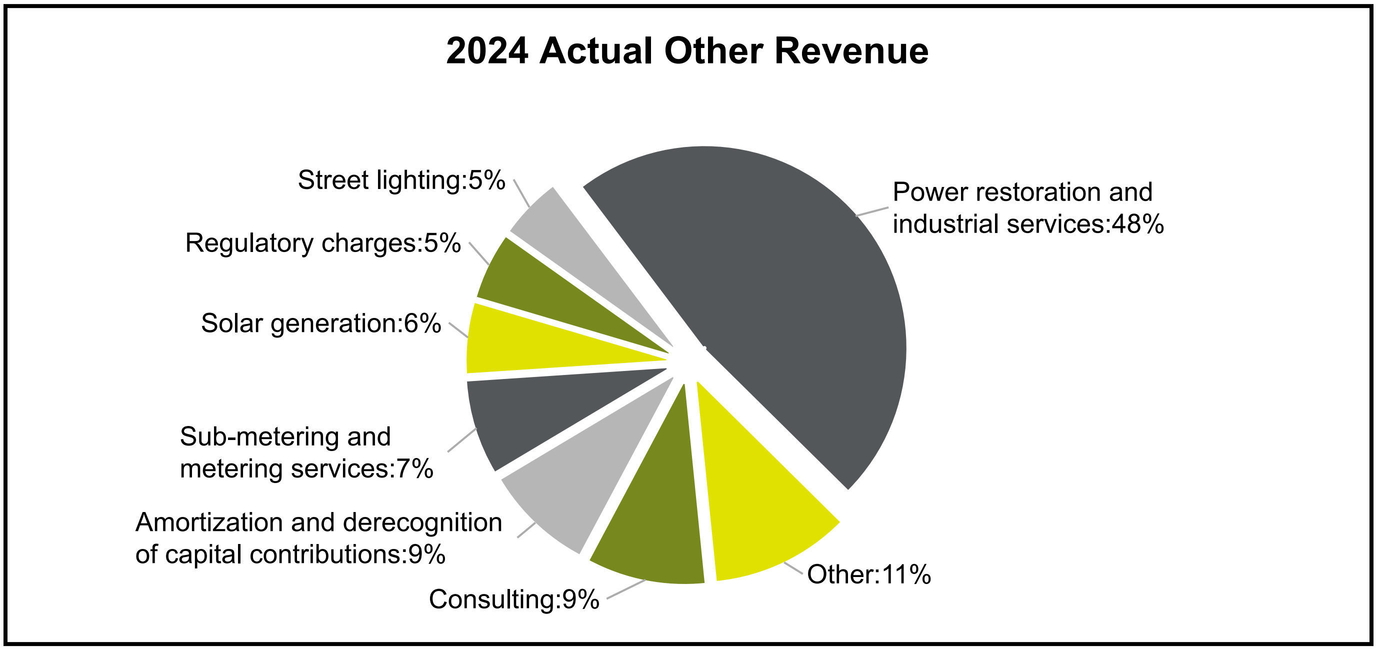
RESULTS OF OPERATIONS (continued)

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, late payment charges ("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) conservation and demand management ("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.



	2024	2023	Change
Other Revenue	266	208	58 ↑

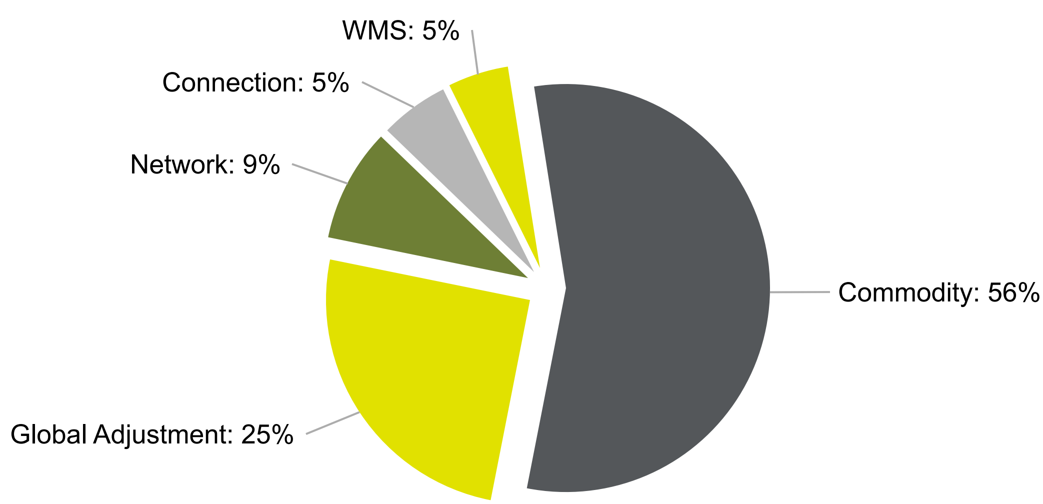
The increase in other revenue of $58 primarily relates to: (i) higher storm response activities in the competitive business ($52); and (ii) higher sub-metering and metering services revenue due to customer growth in the competitive business ($4).

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.

2024 Actual Energy Purchases



	2024	2023	Change
Cost of Power	3,356	3,055	(301) ↑

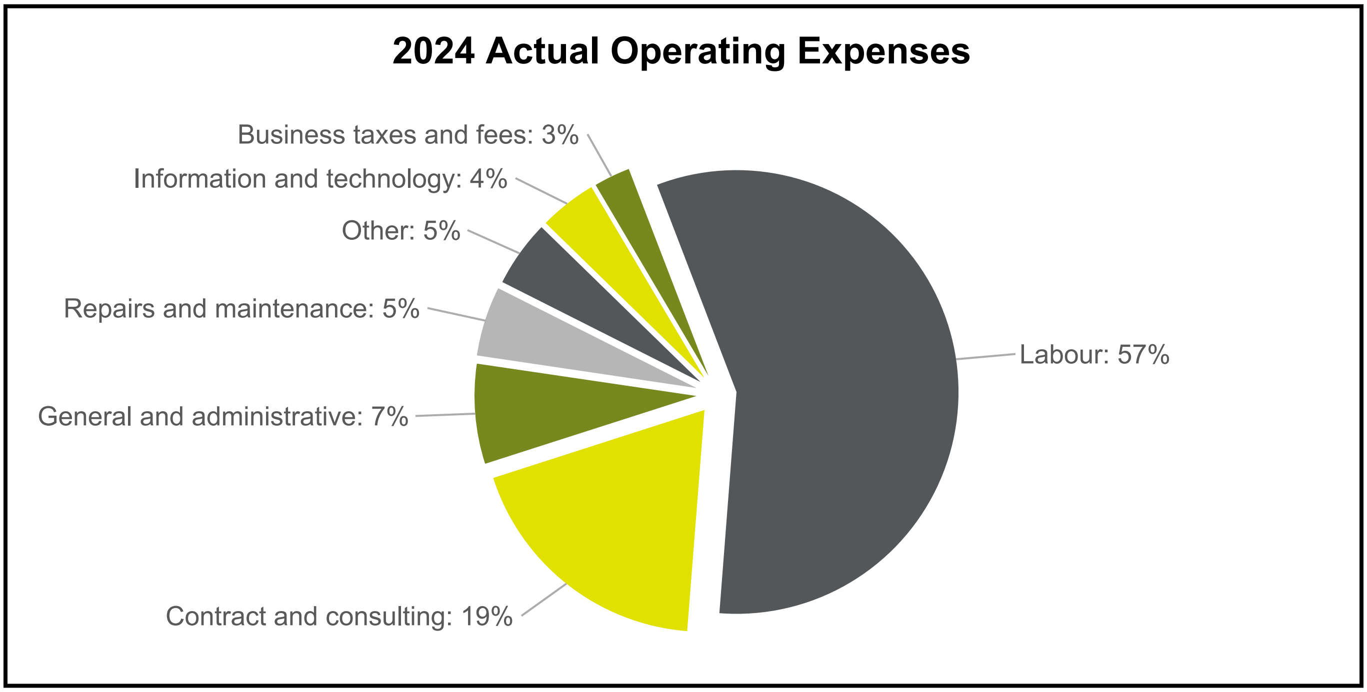
The increase in cost of power by ($301) is primarily due to (i) higher wholesale electricity prices ($246); and (ii) higher wholesale electricity consumption ($55).

(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

Operating Expenses

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



	2024	2023	Change
Operating Expenses	452	403	(49) ↑

The increase in operating expense of $49 is principally due to: (i) higher temporary and contract labour costs due to higher storm response activity in the competitive business ($28); (ii) higher labour costs related to headcount increases, higher salaries and benefits ($6); (iii) higher consulting costs due to incremental rebasing application support, system implementation costs and increased scope of work from existing customers ($4); and (iv) higher repairs costs due to a larger number of fleet vehicles and higher security service costs ($3).

	2024	2023	Change
Depreciation and amortization	208	195	(13) ↑

The increase in depreciation and amortization expense of $13 is primarily due to new in-service additions for distribution system and computer software assets.

(in millions of Canadian dollars)

RESULTS OF OPERATIONS (continued)

	2024	2023	Change
Net finance costs	108	96	(12) ↑

The increase in net finance costs of $12 is primarily due to: (i) higher average volume of short-term term borrowings ($7); (ii) lower capitalized interest on projects under construction ($4); and (iii) higher interest on the decommissioning provision for leased assets ($3); partially offset by (iv) higher interest on bank deposits ($3).

Other

Other include: (i) loss on derecognition on property, plant, and equipment and intangible assets; (ii) loss on fair value of contingent consideration; and (iii) share of net loss of joint venture.

	2024	2023	Change
Loss on derecognition of property, plant and equipment and intangible assets	12	6	(6) ↑

The increased loss on the derecognition of property, plant and equipment and intangible assets of $6 is primarily related to higher derecognition of distribution assets and meters removed from service.

	2024	2023	Change
Loss on fair value of contingent consideration	4	—	(4) ↑

The loss on fair value of contingent consideration of $4 is related to the earnout payment associated with the acquisition of assets from GLC.

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.

	2024	2023	Change
Income tax expense	62	54	(8) ↑

The increase in income tax expense by $8 primarily relates to higher income before tax.

(in millions of Canadian dollars)

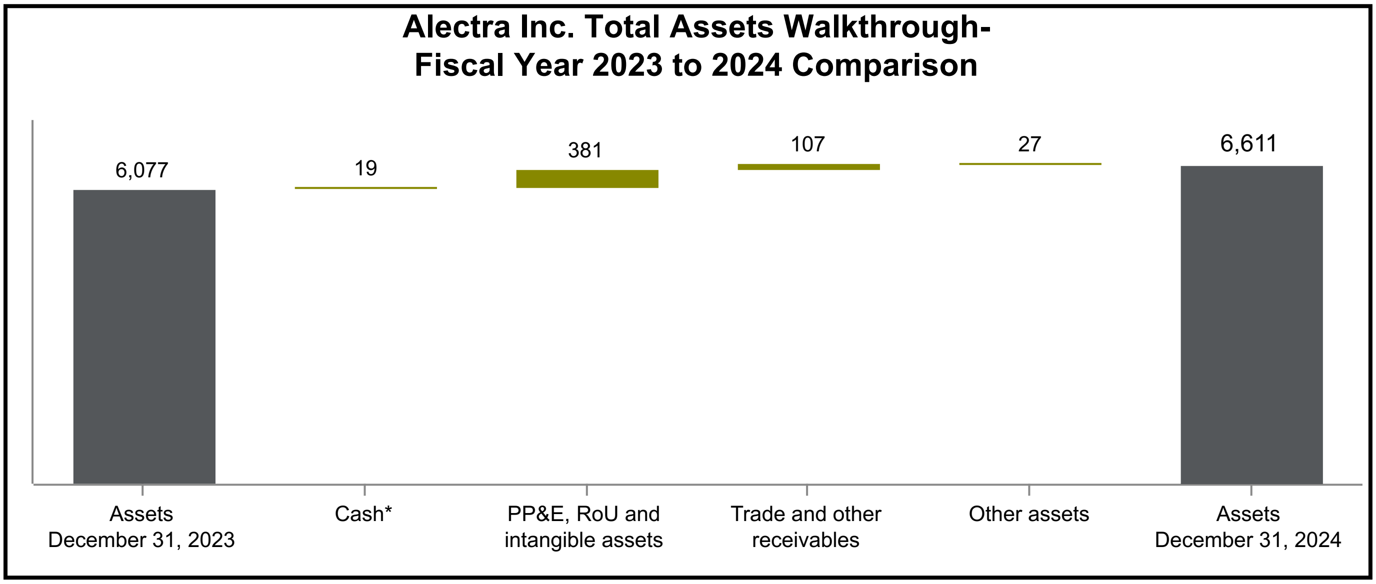
RESULTS OF OPERATIONS (continued)

Competitive Operations Variance Analysis

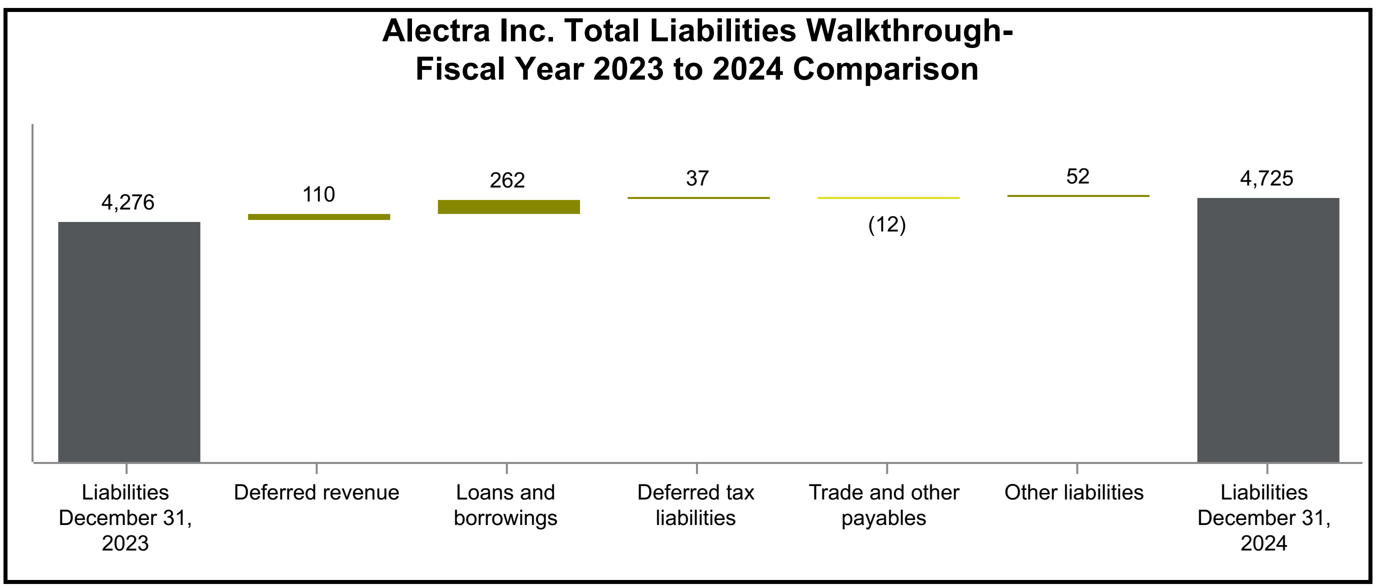
	2024	2023	Change
AES Net Income	18	7	11 ↑

Net income for the year ended December 31, 2024, was $18 which is $11 higher than 2023 net income of $7. The increase in net income is primarily due to (i) higher net revenue mainly due to higher storm response activities ($24); partially offset by (ii) a loss on the fair value of contingent consideration related to the earnout payment associated with the acquisition of assets from GLC ($4); and (iii) higher income tax expense due to higher income before tax ($4).

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, 2024.*

(in millions of Canadian dollars)

FINANCIAL POSITION (continued)

Significant year over year changes in the Corporation's assets and liabilities as at December 31, 2024, are as follows:

Assets	$ Change	% Change	Trend	Explanation
PP&E, RoU and intangible assets	381	7 %	↑	The increase is primarily due to: (i) in-service additions for distribution system and computer software assets; and (ii) land, buildings and vehicles associated with the acquisition of assets from GLC; partially offset by (iii) higher accumulated depreciation.
Trade and other receivables	107	17 %	↑	The increase is primarily due to: (i) higher storm response activities in the competitive business; ii) higher energy prices; and (iii) higher unbilled revenue due to higher average energy prices and unbilled consumption.
Other assets	27	28 %	↑	The increase is primarily due to (i) higher inventory due to increased prices and an increase in safety stock; and (ii) higher investment in a joint venture in the competitive business.

Liabilities	$ Change	% Change	Trend	Explanation
Deferred revenue	110	15 %	↑	The increase is driven by (i) additional customer contributions for transit projects; and (ii) distribution system expansion for new customer projects.
Loans and borrowings	262	10 %	↑	The increase is primarily due to: (i) issuance of two new debentures; (ii) higher short-term borrowings required to fund working capital and general corporate requirements; partially offset by (iii) repayment of a debenture and promissory notes to the cities of Vaughan, Markham and Barrie.
Other liabilities	52	18 %	↑	The increase is driven by (i) higher holdback related to the acquisition of natural gas generating assets in the competitive business; (ii) higher income tax payable due to higher income before taxes in 2024; (iii) higher deposits for customer expansion projects; and (iv) higher contingent consideration related with the acquisition of assets from GLC.

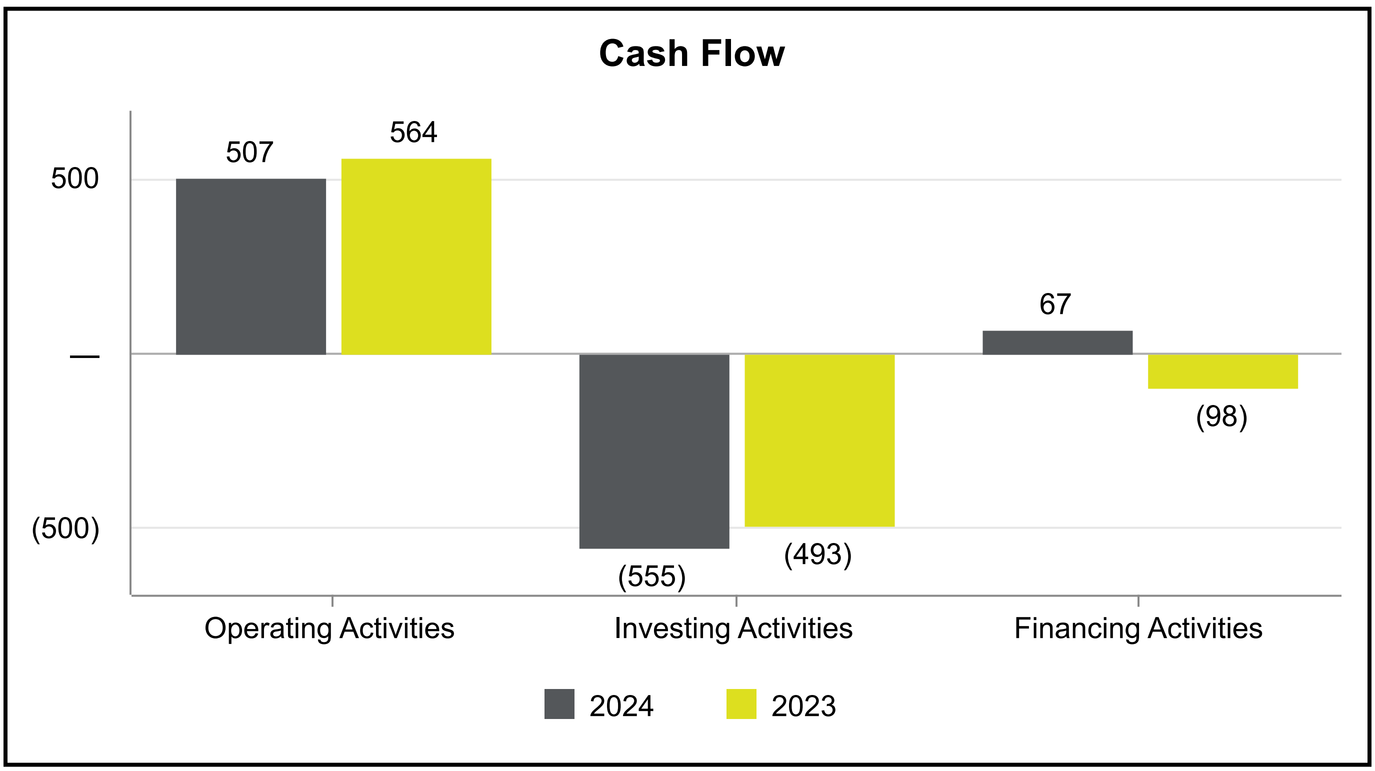
LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital Resources

The Corporation's current ratio (current assets over current liabilities) increased year over year from 0.54 to 0.75. The increase is primarily attributable to: (i) a decrease in the current portion of long-term debt that was repaid in 2024; (ii) an increase in trade receivables due to higher revenue from storm response activities in the competitive business; and (iii) an increase in inventories primarily due to higher prices and an increase in safety stock.

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.



LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Operating Activities

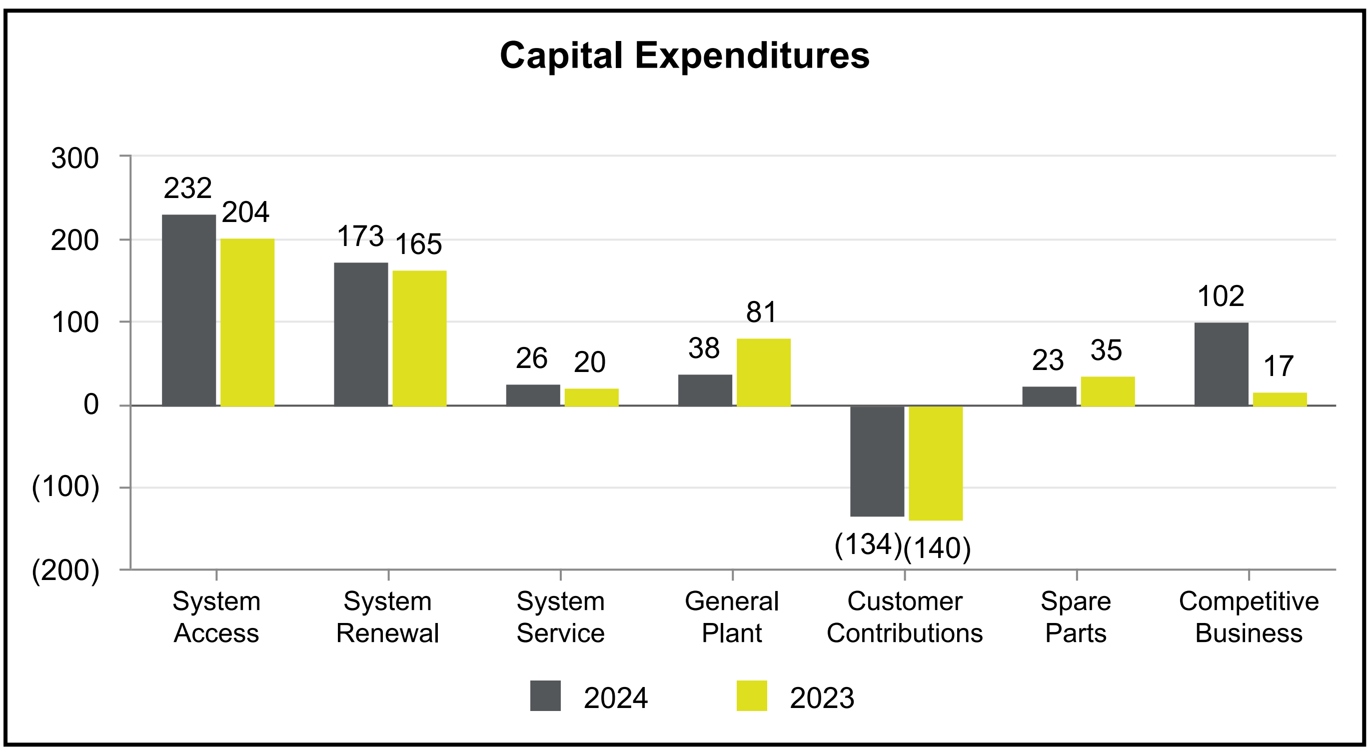
The decrease in net cash generated from operating activities of $57 from 2023 to 2024 was principally due to: (i) decrease from net change in non-cash operating working capital ($116) mainly due to an increase in receivables; partially offset by (ii) higher earnings before interest, taxes, depreciation and amortization ("EBITDA") in 2024 relative to 2023 ($51).

Investing Activities

The increase in cash used for investing activities by $62 from 2023 to 2024 was primarily due to (i) the acquisition of assets from GLC ($49); and (ii) investment in joint venture in the competitive business ($8).

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 Distribution System Code ("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.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Investing Activities (continued)

Capital expenditures in this category have increased by $28 relative to 2023, principally as a result of: (i) increased new connections activity from subdivision development and for industrial, commercial and institutional ("ICI") customers ($19); (ii) increased investment in distribution assets to support large customer expansion projects throughout Alectra’s service territory ($16); and (iii) increased investment in distribution assets as a result of municipal roadway reconstruction projects ($13); partially offset by (iv) lower transit related investments due to timeline changes and project delays ($27).

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 $8 relative to 2023, principally as a result of higher expenditures for underground asset renewal projects to improve the reliability performance of the electrical system.

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 increased by $6 relative to 2023, principally due to increased activity on capacity expansion projects.

General Plant ("GP") expenditure relate to information systems projects, facilities, and fleet. Capital expenditures in this category have decreased by $43 relative to 2023, principally due to lower expenditures for a new operations service center completed in the current year.

Customer Contributions ("CC") relate to deposits in aid of the capital cost of construction. CC have decreased by $6 over the previous year, primarily due to (i) lower contributions for transit project work ($27); partially offset by (ii) higher contributions for customer related work ($20).

Spare Parts ("SP") relate to transformers and meters which are held for use in the operation. SP have decreased by $12 relative to 2023, principally due to lower quantity of purchases in the current year.

Capital expenditures in the competitive business have increased by $85 relative to 2023, principally due to: (i) the acquisition of assets from GLC and distributed energy resource ("DER") infrastructure assets ($73); and (ii) higher expenditures for the construction of office and storage facilities ($8).

(in millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Sources of Liquidity and Capital Resources (continued)

Financing Activities

The increase in cash from financing activities by $165 from 2023 to 2024 was primarily due: (i) an increase in proceeds from debenture issuances in 2024 ($498); partially offset by (ii) a decrease from repayment of an outstanding debenture and promissory notes ($316).

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.

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-	Stable
Senior unsecured debentures	A	Stable	A	Stable	A-	Stable
Short-term (Commercial Paper)	R-1 (low)	Stable				

On June 21, 2024, Dominion Bond Rating Service ("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 July 23, 2024, Fitch Ratings has affirmed The Corporation's Long-Term Issuer Default Rating ("IDR") of 'A-' with a Stable outlook and also affirmed 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.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Credit Ratings (continued)

On March 20, 2024, Standard & Poor's Global ("S&P") affirmed the Corporation's Corporate and Long-Term Credit Rating as "A-" and changed the outlook from "Negative" to "Stable". In 2023, S&P changed the outlook of a number of Ontario utilities, including Alectra, to negative, based on "the possibility of S&P reassessing their view of the Ontario regulatory framework because of regulatory lag that has weakened financial performance, increased cash flow volatility, and weakened financial predictability". This was reversed in 2024, when S&P concluded their review of Ontario's regulatory construct and determined to maintain the assessment of Ontario as a most credit supportive regulatory jurisdiction. The assessment reflects the OEB proactively addressing regulatory lag in 2023, effectively reducing it and improving financial predictability for Ontario utilities. The "A-" credit rating with stable outlook incorporates S&P's expectation of continued strong financial performance.

Requirements for liquidity resources

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

- $1,100 in aggregate revolving unsecured credit facilities comprising: (i) $900 committed revolving facility with five banks maturing November 29, 2029 ("Revolving Facility"); and (ii) 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, 2024, the Corporation was in compliance with all covenants included in its Revolving Facility agreement.

As at December 31, 2024, 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, 2024, and 2023 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, 2024, was $455 (2023 - $375).

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 on the Corporation's long-term borrowings.

(in millions of Canadian dollars)

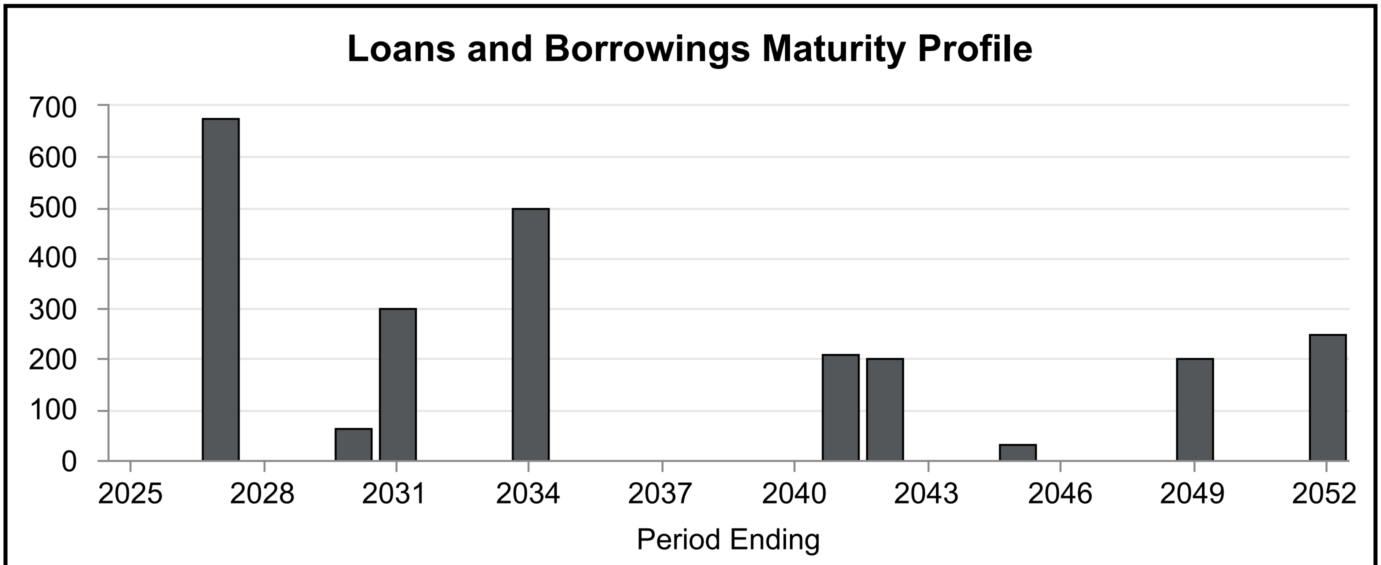
LIQUIDITY AND CAPITAL RESOURCES (continued)

Requirements for liquidity resources (continued)

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.

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:

	2025	2026	2027	2028	2029	After 2029	Total
Commercial Paper	455	—	—	—	—	—	455
Debentures - principal repayment	—	—	675	—	—	1,755	2,430
Debentures - interest payments	88	88	80	71	71	803	1,201
Leases	4	3	3	3	3	13	29
Capital expenditures/financial investments	216	20	4	4	—	7	251
Operating expenditures	40	3	8	—	—	—	51
Total contractual obligations and other commitments	803	114	770	78	74	2,578	4,417

(in millions of Canadian dollars)

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:

	2024		2023	
	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	25	99,999	37
Total share capital	10,584,999	978	10,584,999	990

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 Modified International Financial Reporting Standards ("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, 2024, the Corporation declared and paid dividends as follows:

- Common share dividends aggregating $81 or $7.70 per share (2023 - $76 or $7.31 per share); and
- Class S share dividends aggregating $1 or $14.72 per share (2023 - $2 or $15.04 per share).

In addition, a return of capital of $2 (2023 - $2) was declared and paid by the Corporation on Class S shares during the year.

The Class S share 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.

(in millions of Canadian dollars)

RELATED PARTIES BALANCES AND TRANSACTIONS

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

	2024	2023
Transactions		
Revenue	104	92
Expenses	6	6
Return of capital	2	2
Dividends declared and paid	82	78
Balances		
Due from related parties	18	12
Due to related parties	58	54
Loans and borrowings	—	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 that were repaid during the year. Refer to Note 12.

The annual compensation of key management personnel that is directly or indirectly attributable to the Corporation was $19 (2023 - $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. Changes in the economic environment arising from geopolitical events and uncertainty over economic growth 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; employee future benefits; lease term; deferred tax assets and liabilities; and provisions and contingencies.

FUTURE ACCOUNTING CHANGES

The amendments have been published by the International Accounting Standards Board but are not effective as at December 31, 2024, and have not been adopted in these consolidated financial statements: The Corporation is assessing the impact of implementation of these Standards on its consolidated financial statements. The Corporation does not plan to early adopt these standards.

Effective Date: Reporting periods beginning on or after January 1, 2027

(a) Presentation and Disclosure in Financial Statements (IFRS 18)

During the year, the IASB published a new IFRS accounting standard, IFRS 18 - *Presentation and Disclosure in Financial Statements*, to replace IAS 1, *Presentation of Financial Statements*, and will amend IAS 7, *Statement of Cash Flows*. The primary objective of IFRS 18 is to improve the assessment of an entity's performance by increasing comparability in presentation. Changes include: introducing a defined structure for the presentation of the Consolidated Statement of Income and Comprehensive Income, including required totals and sub-totals, management-defined performance measures, enhanced requirements for grouping (aggregation and disaggregation) of information, and disclosure of specific expenses by nature.

(b) Subsidiaries without Public Accountability: Disclosures (IFRS 19)

IFRS 19, allows eligible subsidiaries to apply reduced disclosure requirements in its consolidated, separate or individual financial statements. This new standard aims to simplify and reduce the cost of financial reporting for subsidiaries while maintaining the usefulness of their financial statements.

(in millions of Canadian dollars)

NON-IFRS FINANCIAL MEASURES

EBITDA

The Corporation uses EBITDA, comparable net earnings, and adjusted funds from operations as financial performance measures under 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.

	2024	**2023**
EBITDA (MIFRS)	462	417
Add adjustments to remove regulatory accounting:		
Revenue	105	88
Operating expenses	(16)	(10)
Loss on derecognition of property, plant, and equipment and intangible assets	(2)	(3)
EBITDA (IFRS)	549	492
Depreciation and amortization	(208)	(195)
Net finance costs	(108)	(96)
Loss on fair value of contingent consideration	(4)	—
Share of net loss of joint venture	—	(1)
Income before income taxes (IFRS)	229	200

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.

(in millions of Canadian dollars)

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, 2024, and 2023.

	2024	**2023**
IFRS Net income	167	146
Adjustment for regulatory activities [1]	(28)	(6)
MIFRS Net income	139	140
Depreciation and amortization	185	181
Loss on derecognition of property, plant, and equipment and intangible assets	10	3
Loss on fair value of contingent consideration	4	—
Net change in non-cash operating working capital	(142)	(11)
Net change in non-current assets and liabilities	70	54
Net change in taxes	16	—
Share of net loss of joint venture	—	1
Total changes	143	228
AFFO	282	368

[1] Refer to Note 28 for details of the adjustments for regulatory activities.

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

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 and uncertainties. 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 Corporation's ERM Program supports routine risk review in a process that identifies, assesses, manages, monitors, and reports on risks. 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 Corporation's 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.
- The Executive Committee – ensures systems are in place to manage and monitor risks and trends as well as to escalate key risks to the attention of the Board, 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 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.

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.

RISK MANAGEMENT AND RISKS (continued)

Regulatory & Compliance Risk (continued)

Regulatory Oversight & Government Action

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 return on equity ("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 is a municipally owned LDC that is subject to actions of governments. Governments could pass legislation, 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, industry associations and government engagement that are designed to inform development of the legislative and regulatory environment. 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.

Compliance with Laws and Regulations

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.

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.

RISK MANAGEMENT AND RISKS (continued)

Strategic Risk

The Corporation pursues growth through acquisitions and organically from development projects and capital expenditures.

The Corporation’s business model and strategic direction are based on certain assumptions, including the growth strategy of its business mix, electricity demand forecast reflective of economic growth projections, evolution of technology used in the industry, Ontario's electricity regulatory model and broader energy policy developments. 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

The Corporation is subject to changes in economic conditions and risks related to the financial markets that could adversely impact the Corporation’s financial performance.

Economic Conditions

Changes in interest rates, inflation, government policies, employment levels, business investments, technology developments and other factors could influence energy consumption demand. Further, an economic downturn could impair customers’ ability to pay their bills in a timely manner. These changes could impact the Corporation’s operations and cash flows. The regulatory framework partially mitigates the impact of market changes through its rate setting process by providing the Corporation the opportunity to earn a regulated return on equity from its electricity distribution business.

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 expected credit losses ("ECLs") on accounts receivable balances, which require estimates and judgements.

RISK MANAGEMENT AND RISKS (continued)

Financial Risk (continued)

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 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.

Downgrades to credit ratings by credit rating agencies could affect the Corporation's ability to access debt capital on favourable terms and increase the Corporation's cost of debt. The inability to access debt capital markets 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. Further, the need to raise additional capital could occur if existing financing arrangements are insufficient to support the Corporation's regulated electricity distribution and other businesses.

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.

Interest Rate and Foreign Exchange Risk

The Corporation is exposed to short-term interest rate risk on the short-term debt under its credit facility and CP Program. The Corporation is also exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. The Corporation manages interest rate risk by monitoring its fixed and floating rate instruments and taking action as necessary to maintain an appropriate balance.

The Corporation has limited foreign exchange exposure arising from its $USD denominated cash and investment security balances, and impact of foreign exchange fluctuations is not expected to have a material effect on its operations and financial condition.

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 health & safety, cybersecurity, supply chain, human resources, labour relations, climate change, environmental and emergency preparedness and business continuity risks.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Health & 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 ingoing education, and safety audits.

In addition, 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 evolving technology landscape with increased digitization and emerging technologies such as artificial intelligence further challenges the cybersecurity threat environment with increasing sophistication, magnitude and frequency of cyberattacks.

The Corporation maintains cyber insurance and has a cybersecurity program that incorporates industry leading practices, which includes 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.

Human Resources Risk

The Corporation's workforce is composed of union and non-union employees with skills relating to trades, technical and professional expertise in a competitive labour market. 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.

Labour Relations Risk

The Corporation is committed to maintaining effective relationships with its union, which is represented by the Power Workers' Union ("PWU") and International Brotherhood of Electrical Workers ("IBEW"). The Corporation reached an agreement with the PWU, covering the period from June 1, 2022, to May 31, 2025, and with the IBEW, covering the period from April 1, 2024, to March 31, 2027. 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. Extreme weather events continue to increase in frequency and intensity, and in recent years, the Corporation has experienced extreme winds, flash floods and severe thunderstorms within its service territory.

RISK MANAGEMENT AND RISKS (continued)

Operational Risk (continued)

Climate Change Risk (continued)

The Corporation incurs capital expenditures and monitors the condition of its assets to manage the risk of equipment failures and to determine the need for and timing of replacement of its distribution infrastructure. Further, the Corporation continues to adapt and increase its infrastructure and operations resilience and reliability to address the effects of climate change and extreme weather events. These initiatives include updating major equipment specifications, revising design practices, updating planning processes, enhancing maintenance programs, building supply chain resiliency and initiating emergency preparedness program to minimize the extent of disruptions.

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 greenhouse gas ("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 and 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 plan provides a framework to enable efficient deployment and coordination of resources to minimize the effects of an emergency on its business, employees and customers. The Corporation's business continuity program focuses on building resilience into business processes to ensure continued operation of critical business functions. The Corporation also regularly monitors global events and makes improvements to the plan and program to prepare for major operational threats, such as major power outages and infectious disease emergencies.