

2019 Montreal Debt Capital Markets Conference  
**407 International**  
February 26, 2019



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- This presentation has been prepared by 407 ETR.
- The financial information presented is taken from quarterly and year-end statistics that have been disclosed publicly.
- All financial amounts are shown in Canadian dollars unless otherwise indicated.
- Additional information relating to 407 ETR and / or 407 International, including the 2018 Annual Information Form dated February 7, 2019, can be accessed on SEDAR.
- The statements about expected future events and financial and operating results are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These statements reflect internal projections, expectations, future growth, performance and business prospects and opportunities, and, as they are subject to a number of risks and uncertainties, you are cautioned not to put undue reliance upon such statements as they may differ from actual results and developments.

# 2018 Highlights

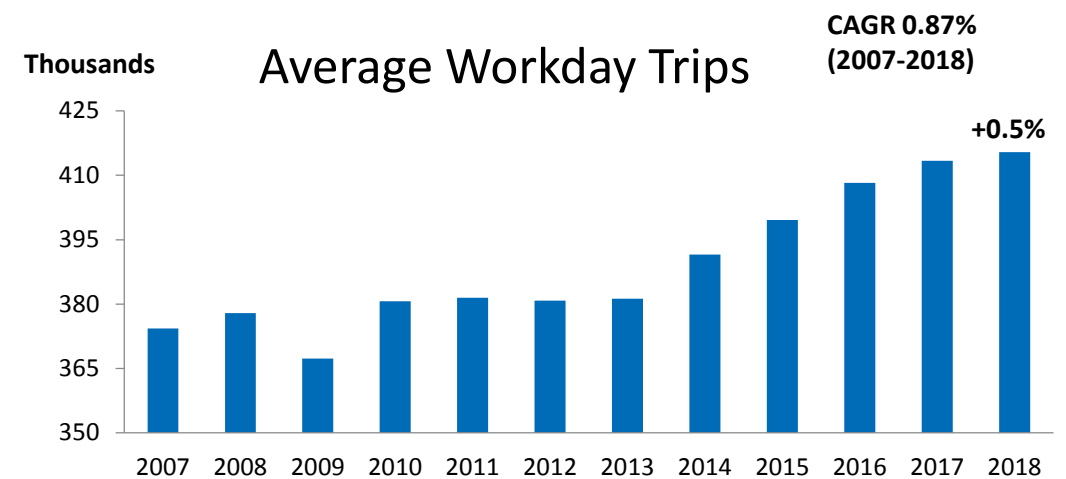
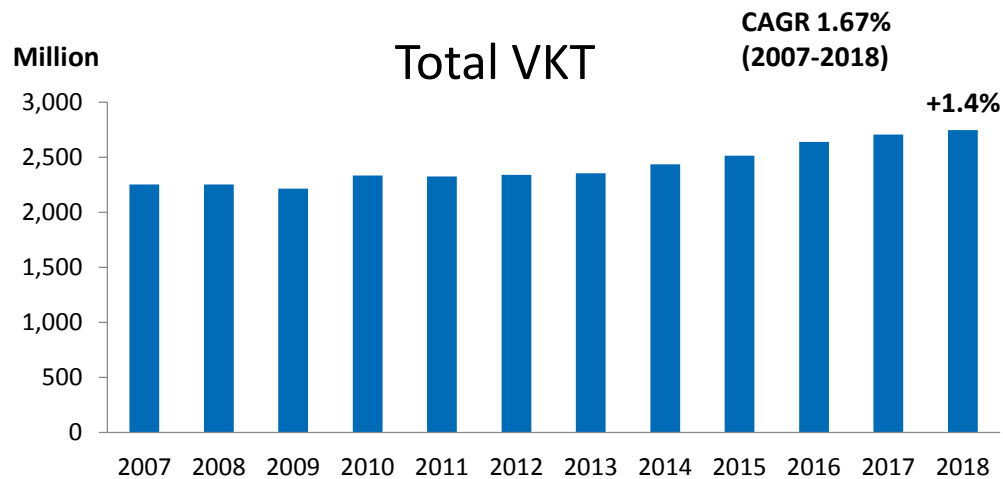
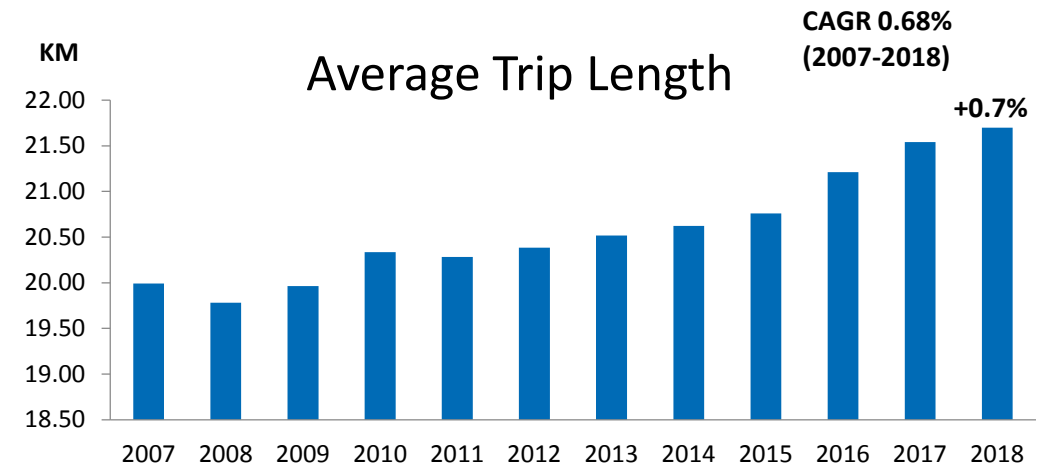
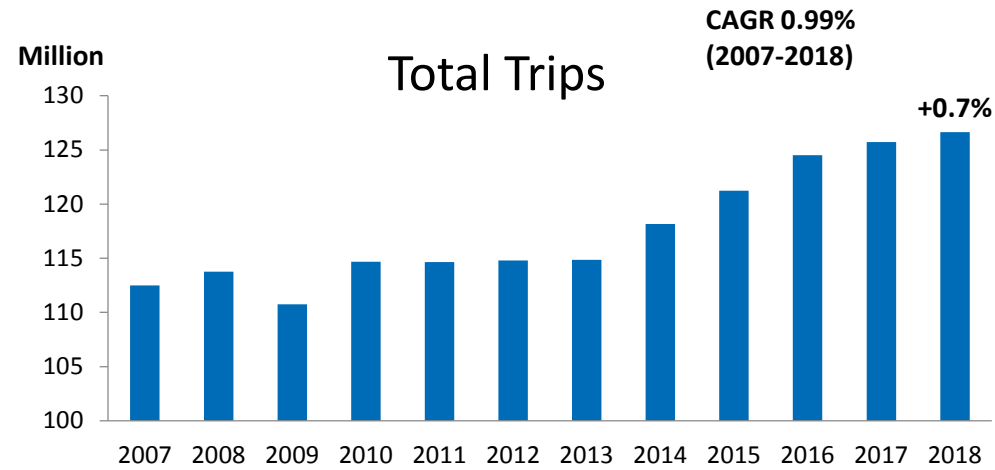


## 2018 Highlights

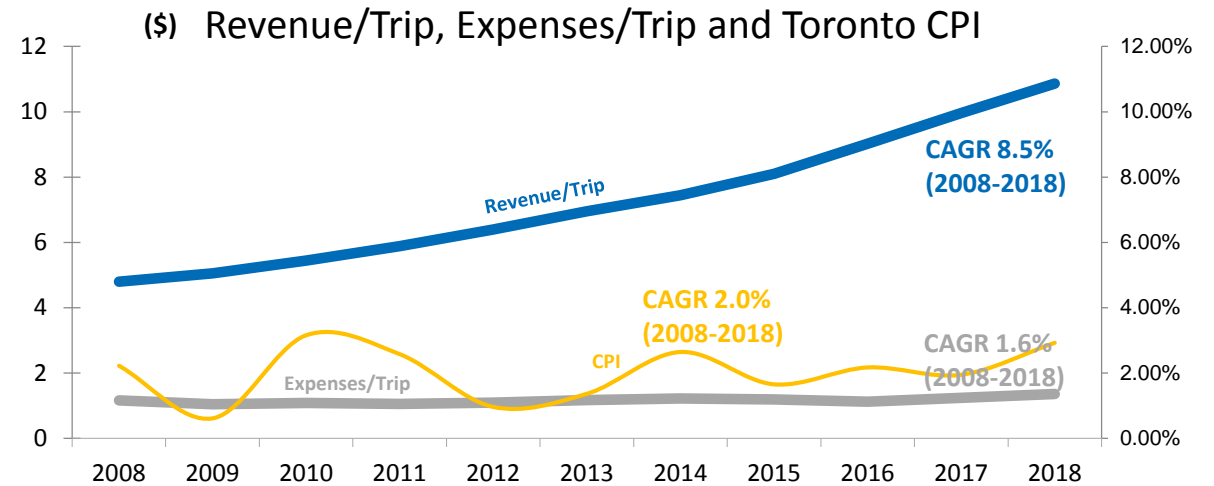
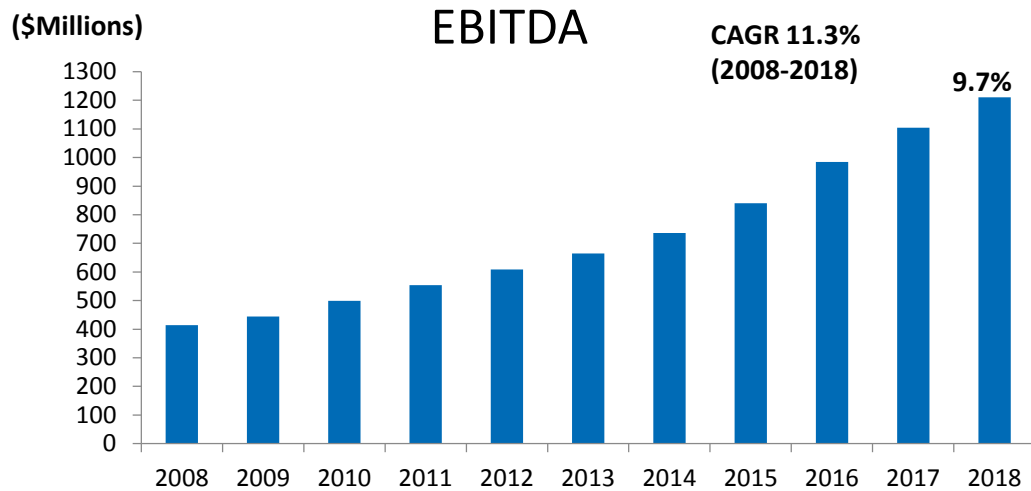
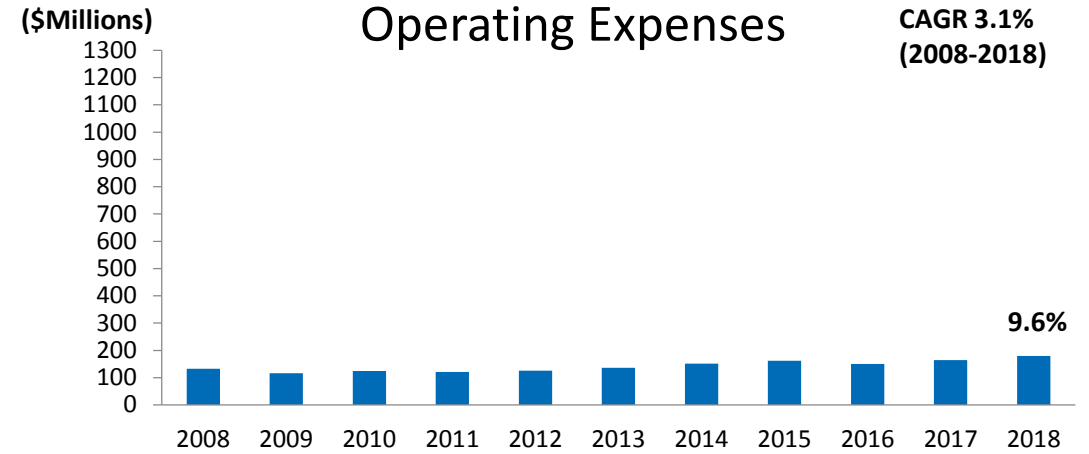
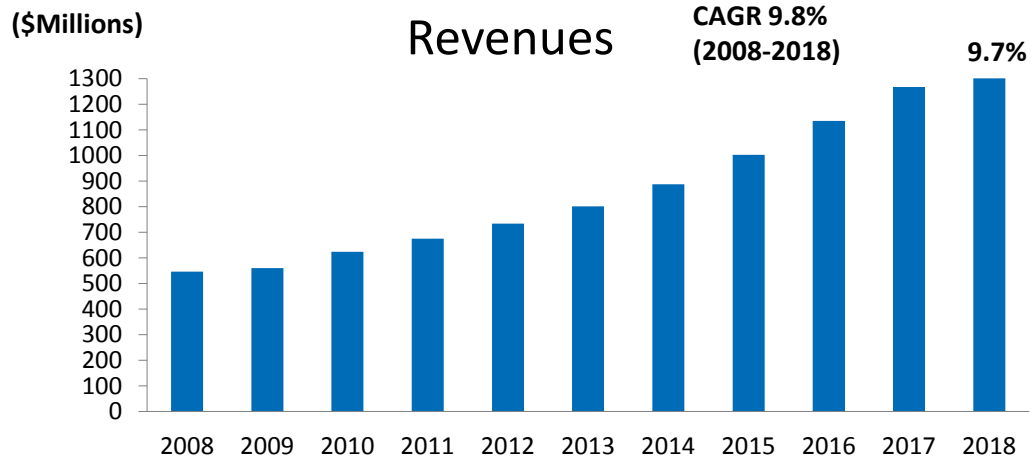
		2018	2017	% Variance
Operations	Traffic/Trips (in millions)	126.625	125.738	0.7%
	Average Workday Number of Trips (in thousands)	415.429	413.381	0.5%
	VKTs (in millions)	2,747.482	2,708.588	1.4%
	Average Trip Length (kilometres)	21.70	21.54	0.7%
	Unbillable Trips (percent)	2.36	2.26	4.4%
	Average Revenue per Trip (\$)	10.86	9.96	9.0%
	Transponder Penetration Rate (percent)	82.1	82.1	0.0%
	Transponders in Circulation as at December 31	1,525,396	1,434,485	6.3%

\$ millions		2018	2017	% Variance
Financials	Revenues	1,390.3	1,267.7	9.7%
	Operating Expenses	179.7	163.9	9.6%
	EBITDA	1,210.6	1,103.8	9.7%
	Net Income	539.0	470.1	14.7%
	Cash Balance (December 31)	308.1	763.1	-59.6%

# Traffic Performance



# Financial Performance



# Traffic Performance

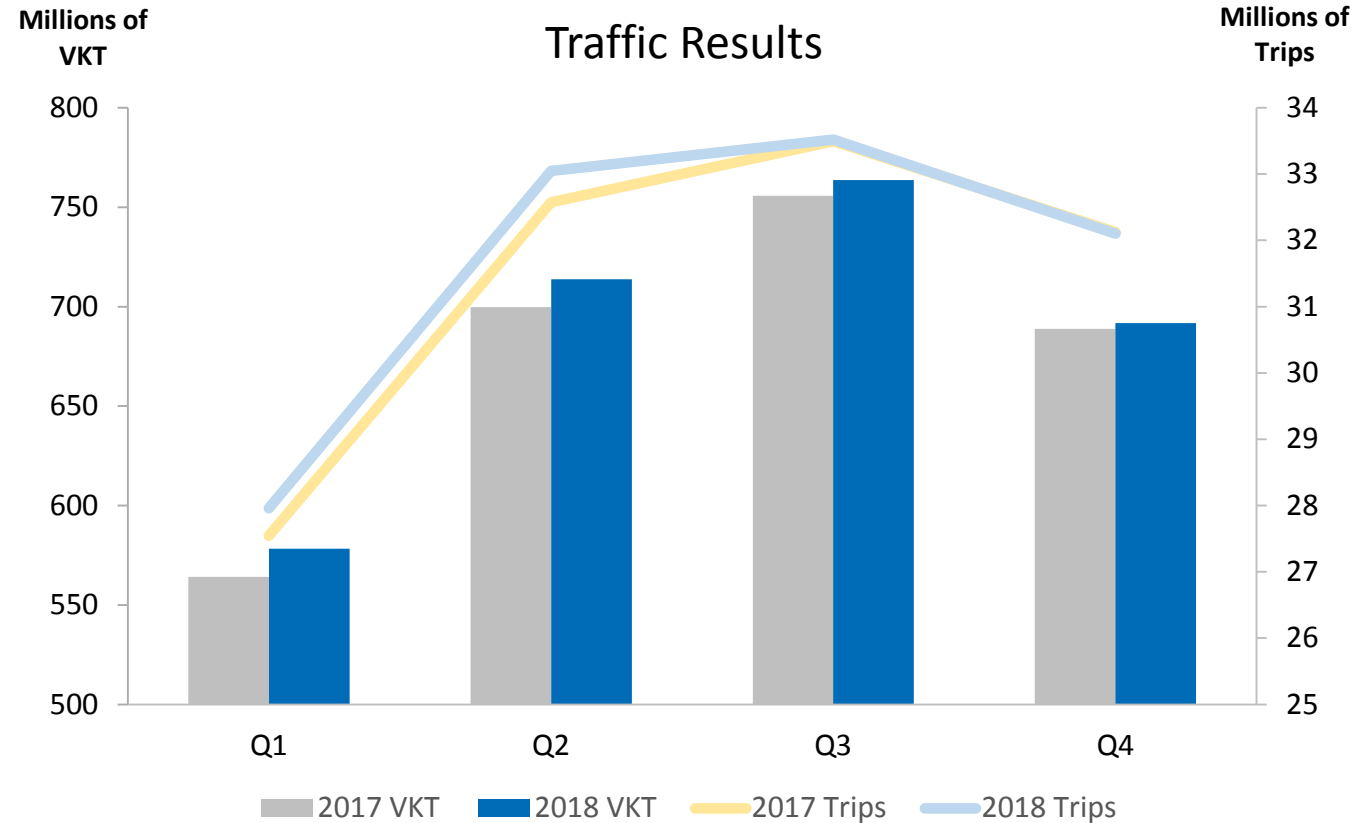


# 2018 Traffic Performance

**1.4%**  
traffic growth in VKT

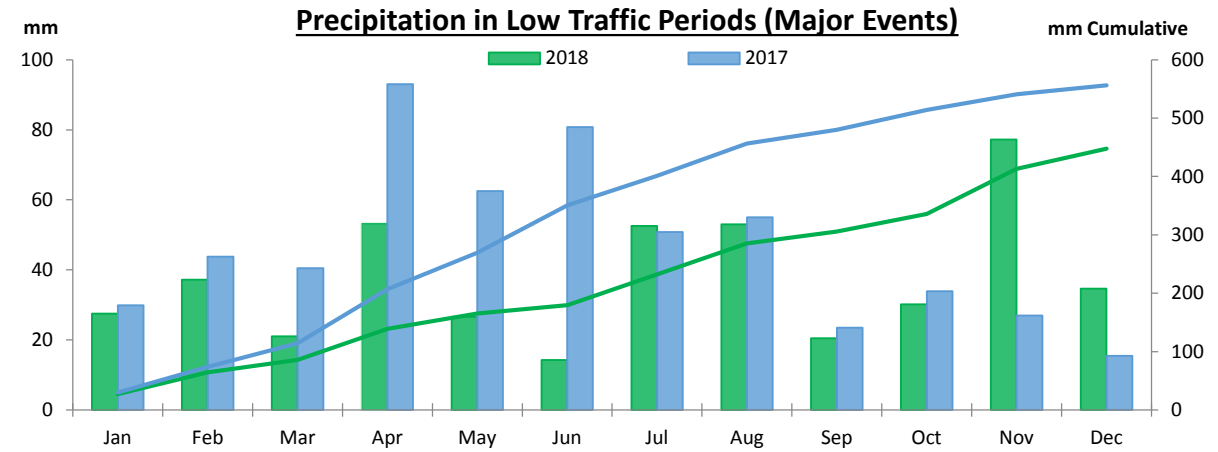
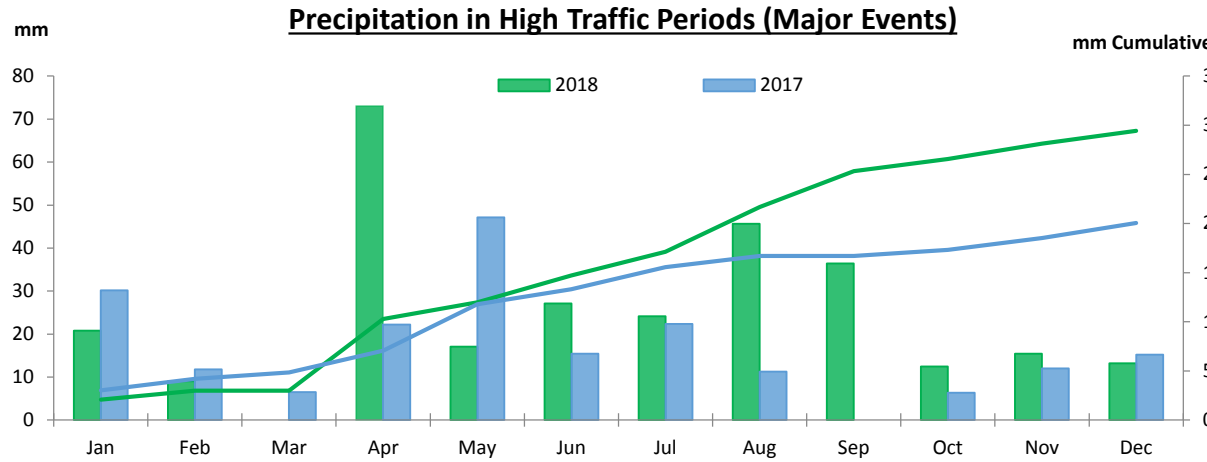
**0.7%**  
increase in trips

**0.7%**  
increase in average  
trip length



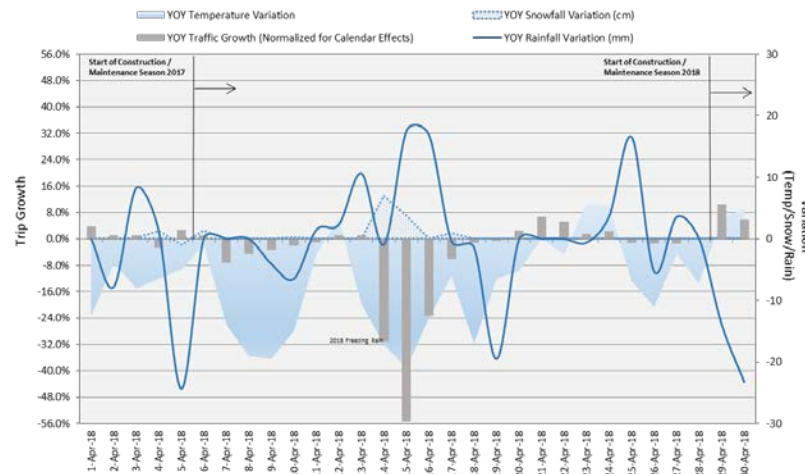


# 2018 Traffic Performance – Weather



- 2018 experienced more adverse weather events impacting high traffic periods compared to 2017 and fewer events in low traffic periods.
- 2018 experienced extreme weather events including record low temperatures in April 2018 and major flooding in August 2018.

## Impact of Weather on April Highway 407 ETR Trip Growth



**Ross Hull** @Ross\_Hull

Storm cells already popping up across the #GTA #Toronto - more slow moving storms likely this afternoon and evening with heavy downpours a concern - some locally heavy downpours of 50+mm possible. Special weather statement has been issued. #onstorm

10:59 am - 17 Aug 2018



Police officers look on as water floods King St. W. during heavy rain, stopping a streetcar in Toronto on Tuesday, August 7, 2018.

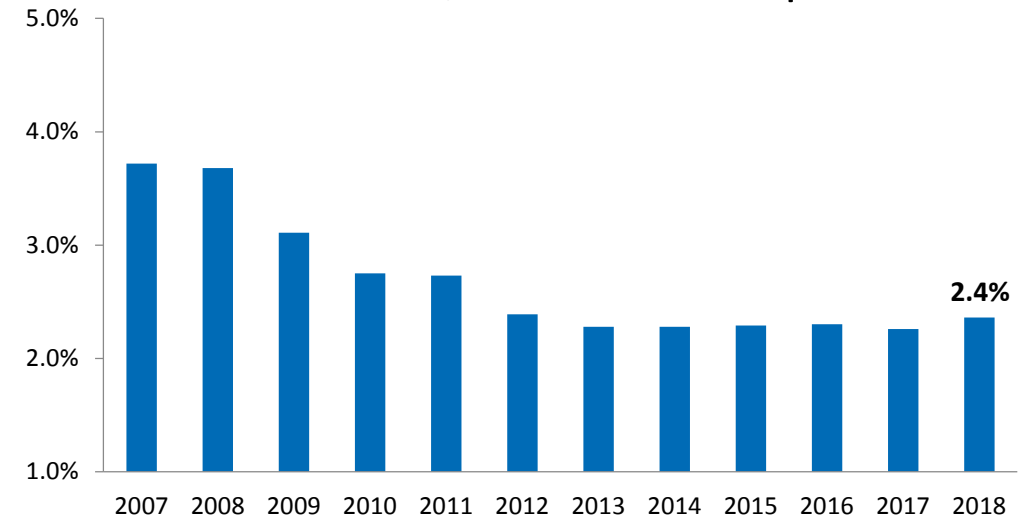
SHLDNI AMIGA/THE CANADIAN PRESS

# Unbillable Traffic

Management works actively on strategies to reduce unbillable traffic

- Deployment of CMOS and Front Plate cameras to reduce unreadable trips
- Installation of Seeker to improve transponder detection
- Enhanced matching algorithm
- Reduced unreadable trips through improved VEP
- Vehicle fingerprinting technology
- Toll evasion enforcement strategies

### Unbillable/Unreadable Trips



Construction



# Remaining Lane Expansion



**W1-W3**  
One additional lane  
in each direction

**C1**  
One additional lane  
in each direction

**C2**  
One additional lane  
in each direction

**C3-C6**  
Maximum lane  
capacity reached

**C7**  
One additional lane  
in each direction

**E1**  
Two additional lane  
in each direction

**E2**  
Two additional lane  
in each direction

# Additional Lanes



# Operations Yards and Buildings – 2018 Improvements

## New OPP Detachment

## New East Patrol Yard

## Rebuild of Steeles Patrol Yard

Q1



Q2



Q3



# Operations Yards and Buildings – 2018 Improvements

New East Patrol Yard



Rebuild of Steeles Patrol Yard



## Highway Operations by the Numbers

**198**  
gantries

**1,218 km**  
of lanes across 108 km

**68 km**  
of concrete pavement (central)

**40 km**  
of asphalt (east and west)

**40**  
interchanges  
(seven 400-series highways)

**212**  
bridges

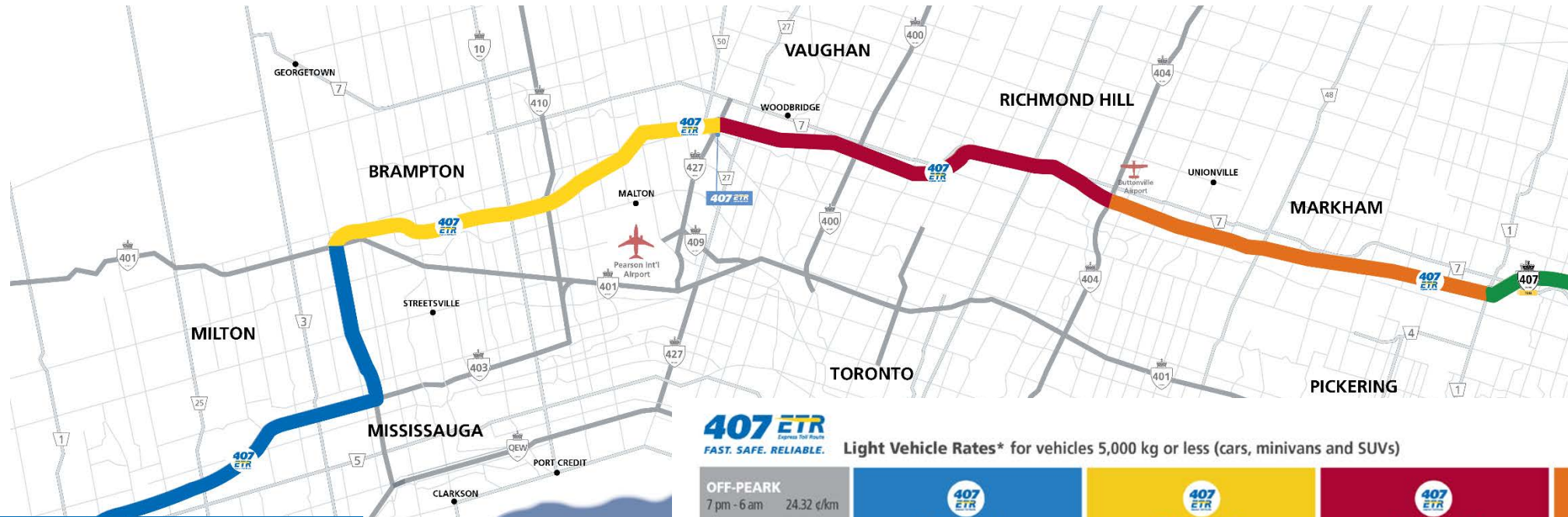




# 2019 Toll Rates



# 2019 Toll Rates



**\$6.96**

2013 average revenue per trip

**\$10.86**

2018 average revenue per trip



Light Vehicle Rates\* for vehicles 5,000 kg or less (cars, minivans and SUVs)

	Zone 1 QEW to Highway 401		Zone 2 Highway 401 to Highway 427		Zone 3 Highway 427 to Highway 404		Zone 4 Highway 404 to Brock Road	
	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
<b>OFF-PEAK</b> 7 pm - 6 am	24.32 ¢/km							
<b>WEEKENDS &amp; HOLIDAYS</b> 11 am - 7 pm	33.30 ¢/km							
<b>PEAK HOURS</b> AM: 7 - 9:30 PM: 3:30 - 6	AM: 51.05 ¢/km PM: 46.39 ¢/km	AM: 45.13 ¢/km PM: 56.61 ¢/km	AM: 52.26 ¢/km PM: 54.63 ¢/km	AM: 47.12 ¢/km PM: 51.34 ¢/km	AM: 52.25 ¢/km PM: 57.63 ¢/km	AM: 50.40 ¢/km PM: 54.62 ¢/km	AM: 44.29 ¢/km PM: 54.15 ¢/km	AM: 50.86 ¢/km PM: 45.89 ¢/km
<b>PEAK PERIOD</b> AM: 6 - 7 & 9:30 - 10:30 PM: 2:30 - 3:30 & 6 - 7	AM: 42.08 ¢/km PM: 40.78 ¢/km	AM: 39.68 ¢/km PM: 48.08 ¢/km	AM: 44.71 ¢/km PM: 45.35 ¢/km	AM: 41.18 ¢/km PM: 46.81 ¢/km	AM: 43.92 ¢/km PM: 48.07 ¢/km	AM: 43.13 ¢/km PM: 47.23 ¢/km	AM: 38.93 ¢/km PM: 45.01 ¢/km	AM: 43.13 ¢/km PM: 40.39 ¢/km
<b>Weekday Midday</b> 10:30 am - 2:30 pm	36.18 ¢/km	36.18 ¢/km	37.19 ¢/km	36.18 ¢/km	37.87 ¢/km	37.19 ¢/km	36.18 ¢/km	36.18 ¢/km

The Heavy Vehicle Rate\*\* for vehicles over 5,000 kg (large trucks and buses) is two times the Light Vehicle Rate.

The Heavy Multiple Unit Vehicle Rate\*\* (tractor trailers) is three times the Light Vehicle Rate.

# 407 ETR Compared to Alternate Routes

**CP 24** Fri Feb 15 -3°  
**5:07:24**  
 SAT SUN MON TUE WED  
  
 -3 -5 -5 -4 -1  
 BURLINGTON -2°  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**401**  
 EB  
 HWY 410 EXPRESS  
 HIGHWAY 404  
**NOW** 47 MIN **NORMAL** 17 MIN

**CP 24** Fri Feb 15 -3°  
**5:08:07**  
 EVE NITE MORN AFT EVE  
  
 -5 -8 -6 -3 -7  
 HUMIDITY 64%  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**401**  
 WB  
 WINSTON CHURCHILL  
 HIGHWAY 25  
**NOW** 24 MIN **NORMAL** 8 MIN

**CP 24** Fri Feb 15 -3°  
**5:12:09**  
 EVE NITE MORN AFT EVE  
  
 -5 -8 -6 -3 -7  
 KITCHENER -4°  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**GARDINER**  
 WB  
 DON VALLEY PARKWAY  
 HIGHWAY 427  
**NOW** 26 MIN **NORMAL** 11 MIN

**CP 24** Fri Feb 15 -3°  
**5:13:55**  
 SAT SUN MON TUE WED  
  
 -3 -5 -6 -4 -2  
 WHITBY -2°  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**GARDINER**  
 EB  
 HIGHWAY 427  
 DON VALLEY PARKWAY  
**NOW** 20 MIN **NORMAL** 10 MIN

**CP 24** Fri Feb 15 -3°  
**5:10:27**  
 EVE NITE MORN AFT EVE  
  
 -5 -8 -6 -3 -7  
 BURLINGTON -2°  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**407**  
 WB  
 HIGHWAY 400  
 HIGHWAY 410  
**NOW** 10 MIN **NORMAL** 12 MIN

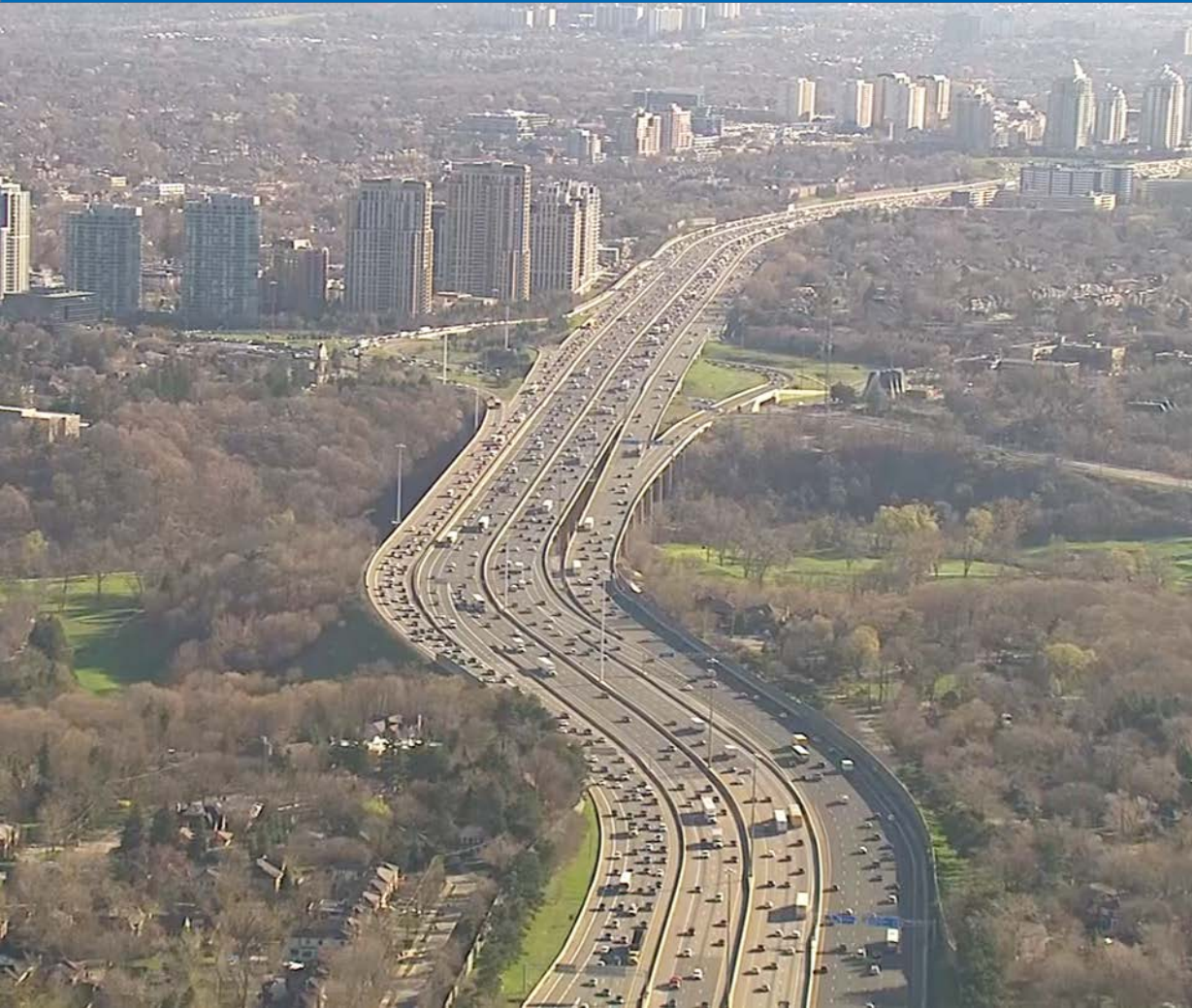
**CP 24** Fri Feb 15 -3°  
**5:10:23**  
 EVE NITE MORN AFT EVE  
  
 -5 -8 -6 -3 -7  
 HAMILTON -2°  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**407**  
 WB  
 HIGHWAY 404  
 HIGHWAY 400  
**NOW** 8 MIN **NORMAL** 9 MIN

**CP 24** Fri Feb 15 -3°  
**5:09:30**  
 SAT SUN MON TUE WED  
  
 -3 -5 -5 -4 -1  
 CURRENT TEMP -3°  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**407**  
 EB  
 HIGHWAY 400  
 HIGHWAY 404  
**NOW** 9 MIN **NORMAL** 10 MIN

**CP 24** Fri Feb 15 -3°  
**5:09:26**  
 EVE NITE MORN AFT EVE  
  
 -5 -8 -6 -3 -7  
 TORONTO'S BREAKING NEWS  
 TRAVEL TIMES RIGHT NOW  
**407**  
 EB  
 HIGHWAY 410  
 HIGHWAY 400  
**NOW** 11 MIN **NORMAL** 12 MIN

# Congestion: Greater Toronto Area Morning Rush

Highway 401



Highway 407 ETR



# Allocation of Per Km Rates

- ❑ Allocate per-km toll rates to match price increases with operational value:
  - ❑ Allocate Toll Rate increase to each zone/direction cell based on speed advantage value relative to alternative routes
    - ❑ E.g. 407 ETR EB Zone 3 (C4-C6) has the highest speed advantage in the Pm Peak Hour vs. Hwy 401. Higher toll rate increase is applied.

## Allocation Zone/Direction based on Speed Advantage

	EB				WB			
	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4
	W1-C1	C2-C3	C4-C6	C7-E2	W1-C1	C2-C3	C4-C6	C7-E2
AM Peak Hour (7:00-9:30 AM)	Yellow	Orange	Red	Green	Yellow	Orange	Red	Orange
AM Peak Period (6:00-7:00 and 9:30-10:30 AM)	Yellow	Orange	Red	Green	Yellow	Orange	Red	Orange
PM Peak Hour (3:30-6:00 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Red	Orange
PM Peak Period (2:30-3:30 and 6:00-7:00 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Red	Orange
Workday Midday (10:30 AM – 2:30 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Red	Orange
Weekend Midday (11:00 AM – 7:00 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Red	Orange
Off Peak (REST)	Green	Green	Green	Green	Green	Green	Green	Green

	EB				WB			
	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4
	W1-C1	C2-C3	C4-C6	C7-E2	W1-C1	C2-C3	C4-C6	C7-E2
AM Peak Hour (7:00 - 9:30 AM)	8.4%	12.0%	13.0%	7.0%	7.0%	7.6%	13.0%	10.0%
AM Peak Period (6:00 - 7:00 and 9:30 - 10:30 AM)	7.0%	13.0%	12.0%	7.0%	7.0%	7.0%	10.0%	10.0%
PM Peak Hour (3:30 - 6:00 PM)	7.1%	11.0%	14.0%	11.0%	11.0%	6.2%	14.0%	7.0%
PM Peak Period (2:30 - 3:30 and 6:00 - 7:00 PM)	7.0%	10.5%	14.0%	10.7%	13.0%	10.0%	12.0%	7.0%
Workday Midday (10:00 AM – 2:30 PM)	7.0%	10.0%	12.0%	7.0%	7.0%	7.0%	10.0%	7.0%
Weekend Midday (11:00 AM – 7:00 PM)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Off Peak (REST)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

- ❑ The 2019 Per KM Toll Rates reflect the demand by time period and speed differential between zones and achieves the weighted 10% Per KM rate increase.

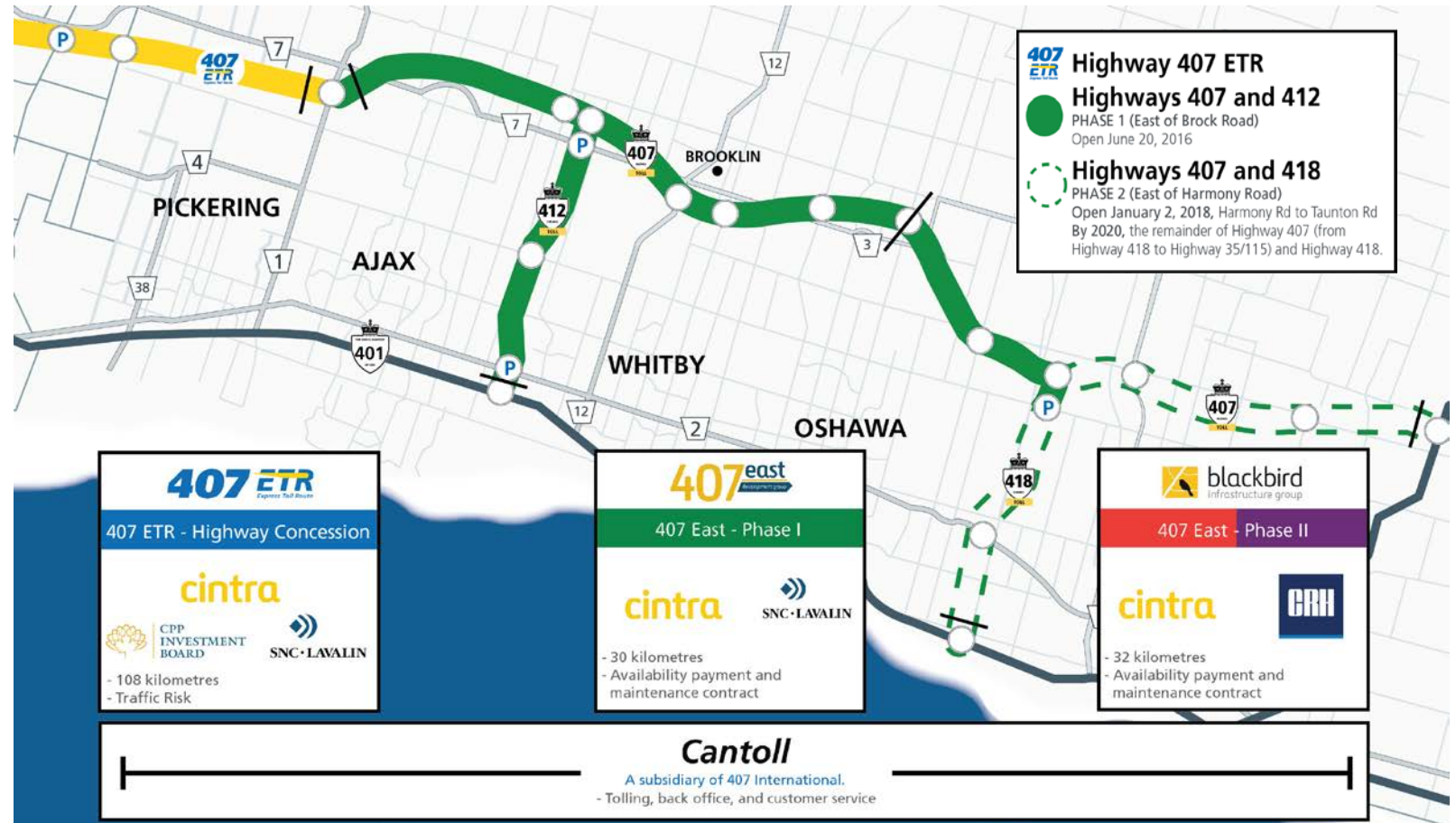
Service Provider to MTO



# 407 ETR as a Service Provider to MTO

## 407 ETR as a Tolling Leader

- Government of Ontario has contracted 407 ETR to provide transponder lease management, billing, bilingual call centre and customer service, collections and the website for the new highways
- The Province will set and regulate tolls on the new highways and retain the revenue
- Experience is seamless for drivers – both on and off the road
- 407 ETR stands ready and prepared to offer these services to the Government of Ontario in future tolling projects



# Financial Performance



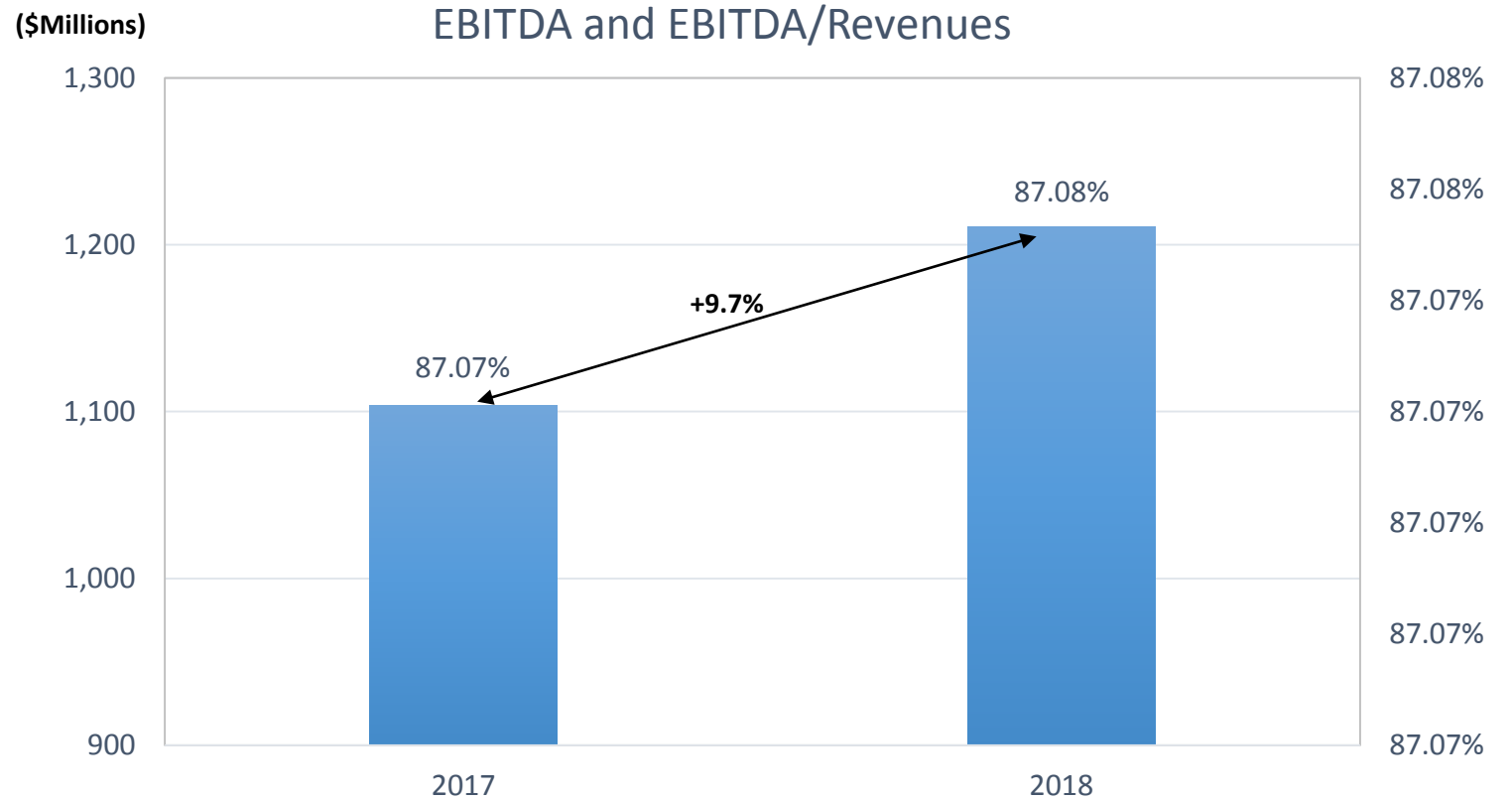


# 2018 EBITDA Highlights

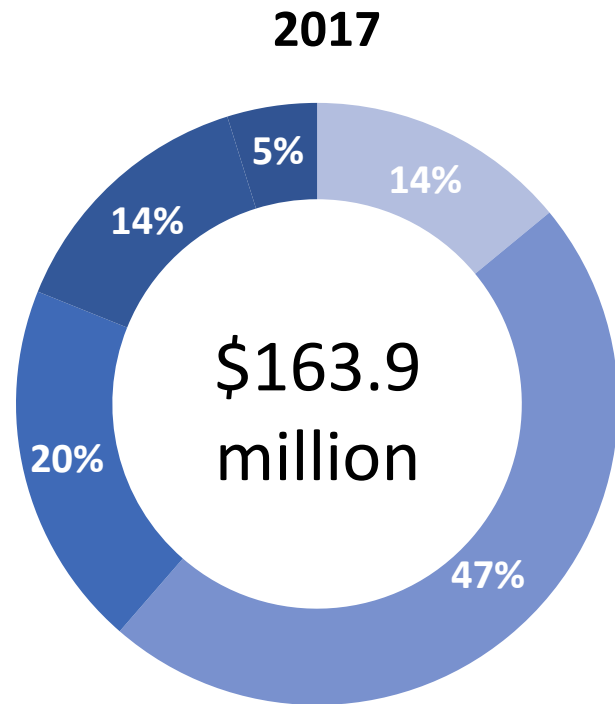
**+ \$106.8 million**

**9.7%**

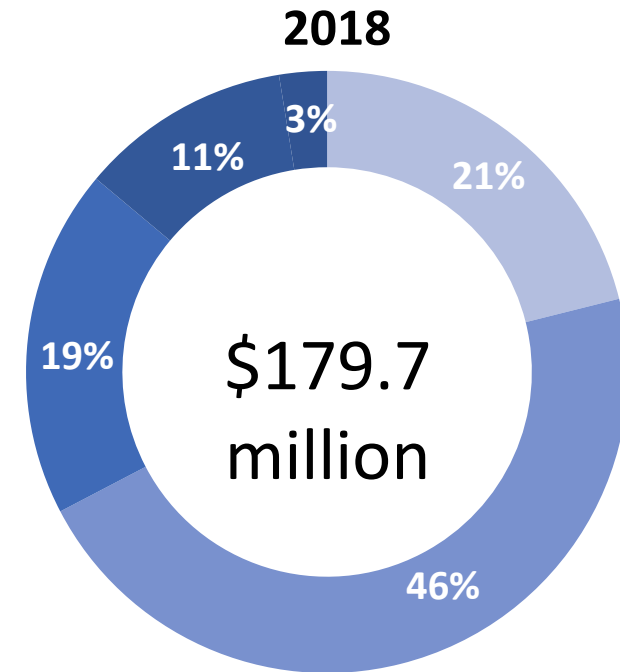
increase to EBITDA



# 2018 Operating Expenses



- Systems Operations
- Customer Operations
- Highway Operations
- General & Administration
- Contract



# Capital Structure Plan



# Credit Ratings

## Senior/Junior/Subordinated Bonds A/A- (low)/BBB, Stable Trend

- “All trends are Stable, supported by the solid long-term economic fundamentals of the catchment area, sound cash flow generation and good operating efficiency.”
- “Further population increases and the extension of the Highway 407 east to Oshawa, should support continued traffic growth. The Ontario government estimates that the population of the GTA will reach 9.7 million by 2041.”
- “The growth in leverage was in line with the Company’s intentions as framed in its management discussion and analysis of June 2012 to gradually increase debt by way of bullet bonds of staggered maturities, with long-term preferences, while maintaining a cash-based senior and junior DSCRs above 2.0x and a senior DSCR, including shadow amortization as per its Master Trust Indenture, above 1.7x.”



*insight beyond the rating.*

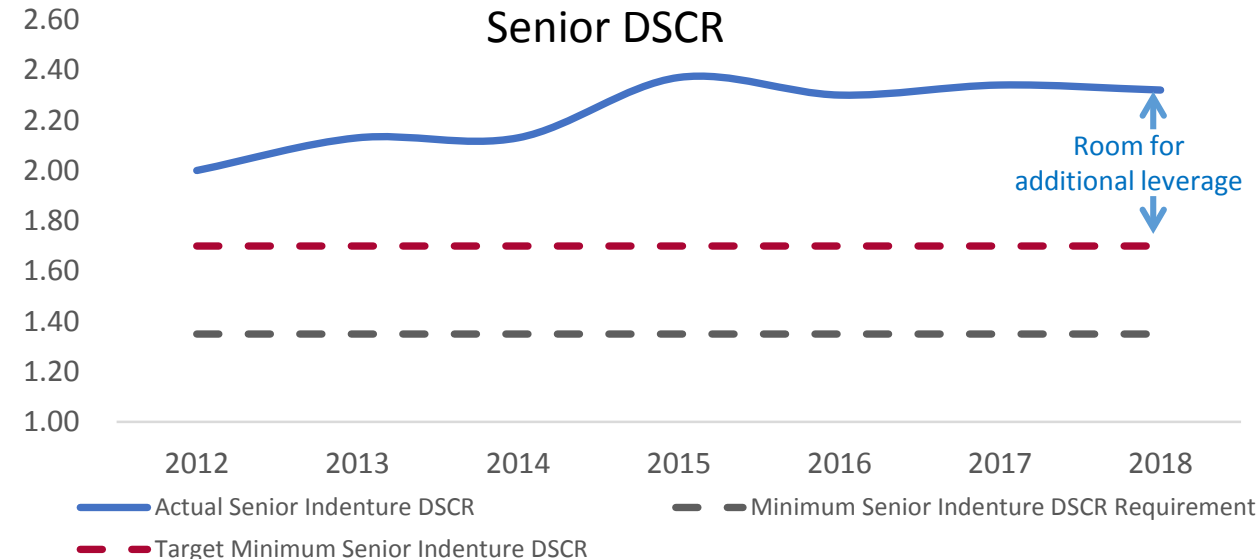
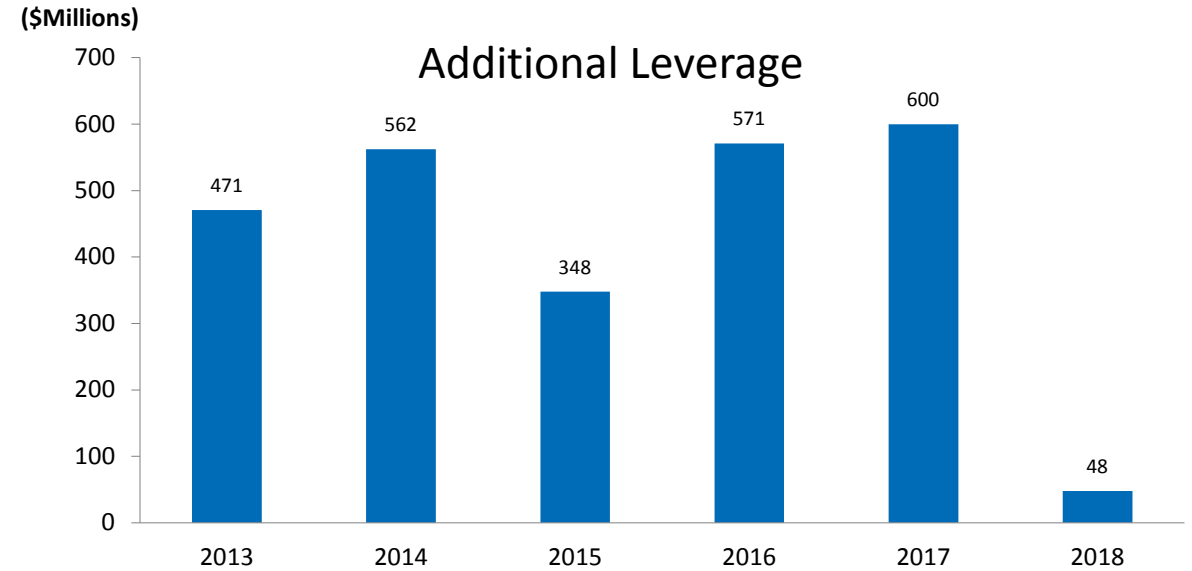
## Senior/Junior/Subordinated Bonds A/A-/BBB, Stable Outlook

- “407 benefits from its strong competitive position, favourable tolling mechanism which allows complete freedom over its pricing strategies, and very low operating leverage.”
- “407 has a strong competitive position, and continues to see fairly stable and inelastic motorist demand owing to the strong value proposition of its highway. It is a mature commuter route in a key transportation corridor that is well-integrated with other regional highways.”
- “We expect that over the long term, rising population and employment in greater Toronto, together with longer travel times on 470’s congested alternatives, will continue to support demand for using Highway 407”.
- “The Opening of 407 East Phase 1....has generated additional trips on 407”.



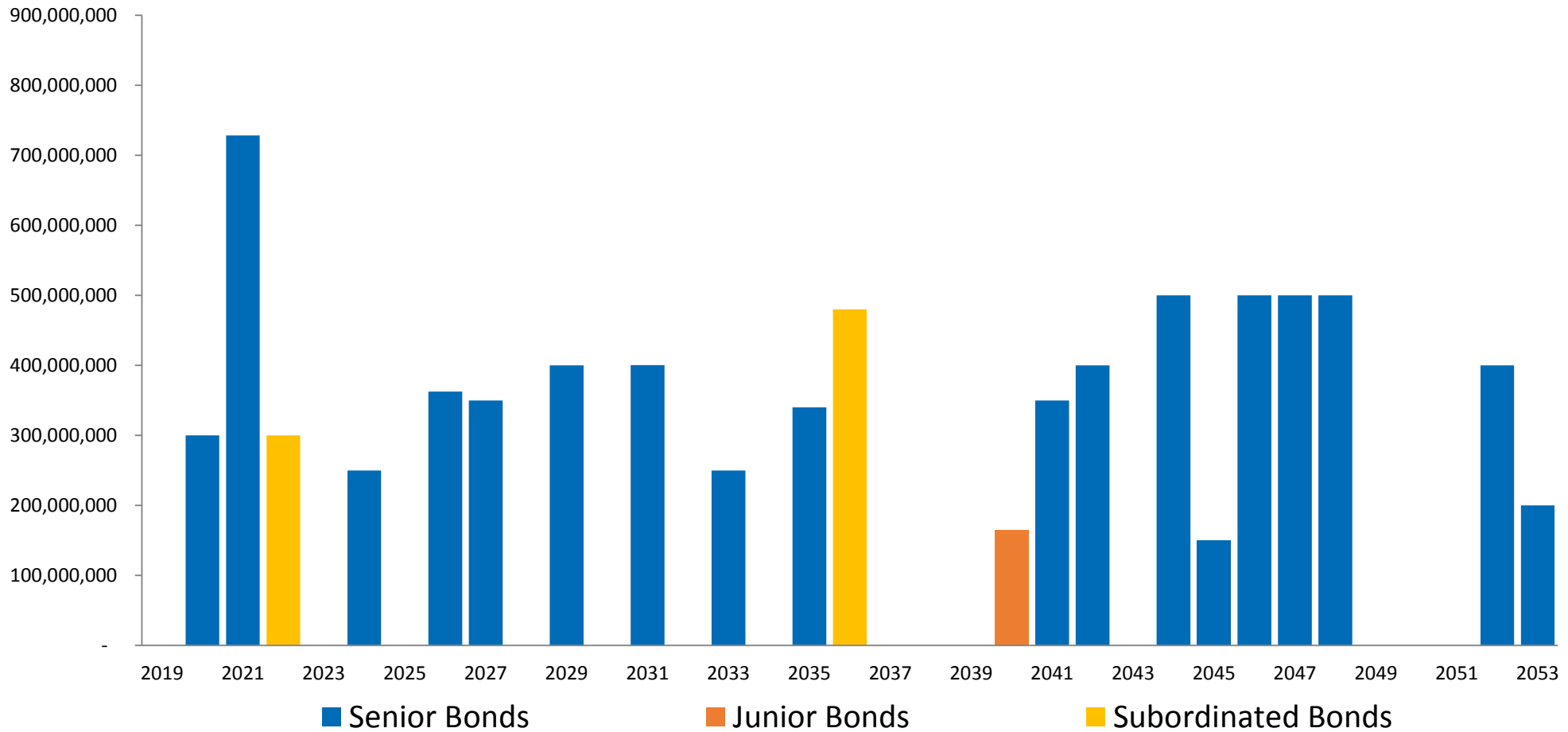
# Capital Structure Plan

- No significant additional leverage issued in 2018 due to a high ending cash balance from operations in 2017 which was used, in part, to fund the company's operations, including the 2018 dividends.
- Continue to increase the leverage of the highway asset
- Reward shareholders and slow down deleveraging due to increasing EBITDA
  - Gradual additional leverage
  - Performance based
  - Mitigate ratings upgrade
- Maintain existing credit ratings: S&P (A), DBRS (A)
- Debt Service Coverage Ratios:
  - Target senior indenture DSCR: 1.70x; indenture requirement: 1.35x
  - Target senior and junior cash DSCR: 2.00x



# Bond Maturity Profile

No more than **20%** total debt maturing during any 24-month period



# Ongoing Project Initiatives



# Data Analytics



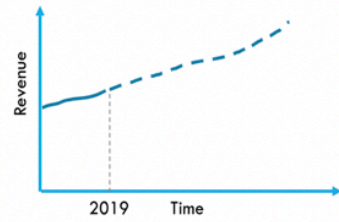
## Better Understand Customers

Leveraging deeper insights into the customer to understand value drivers and willingness to pay



## Customer Choice

Identifying customers who choose vs. do not choose and understanding their motivations.



## Multiyear Pricing Model

Model that allows us to understand how long can we continue to raise toll rates in future.



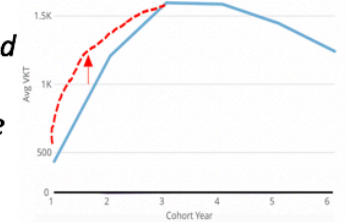
## Toll Allocation Model 2.0

Allocates Toll Rates by Time, Direction and Segment to Maximize Potential Revenue.

# DATA ANALYTICS

## Understanding Customer Lifecycle

Identifying customers who have the habits and profile of our best customers to accelerate frequency of usage.



## Cohort Behavior Analysis

Do Not Choose      Choose

### TREND



**Budget Conscious:** This group of consumers is likely price sensitive. They may make their purchase decision based on the price and are looking for value for money. They use toll routes "only when necessary" and are scattered through the GTA.



**Up the Ladder:** A group of growing consumers with higher income, education and real estate holdings, seeking flexibility of trips. Heavily represented by the northern area of Toronto such as York Region and Richmond Hill. Price elasticity likely to be low.



**Frequent Users:** Have a strong need for Speed / Time Savings. They have stable and mature usages of 407. The price elasticity is very low for these customers.

## Market Share

Understanding alternative routes by O-D to find areas of competitive advantage and opportunity.



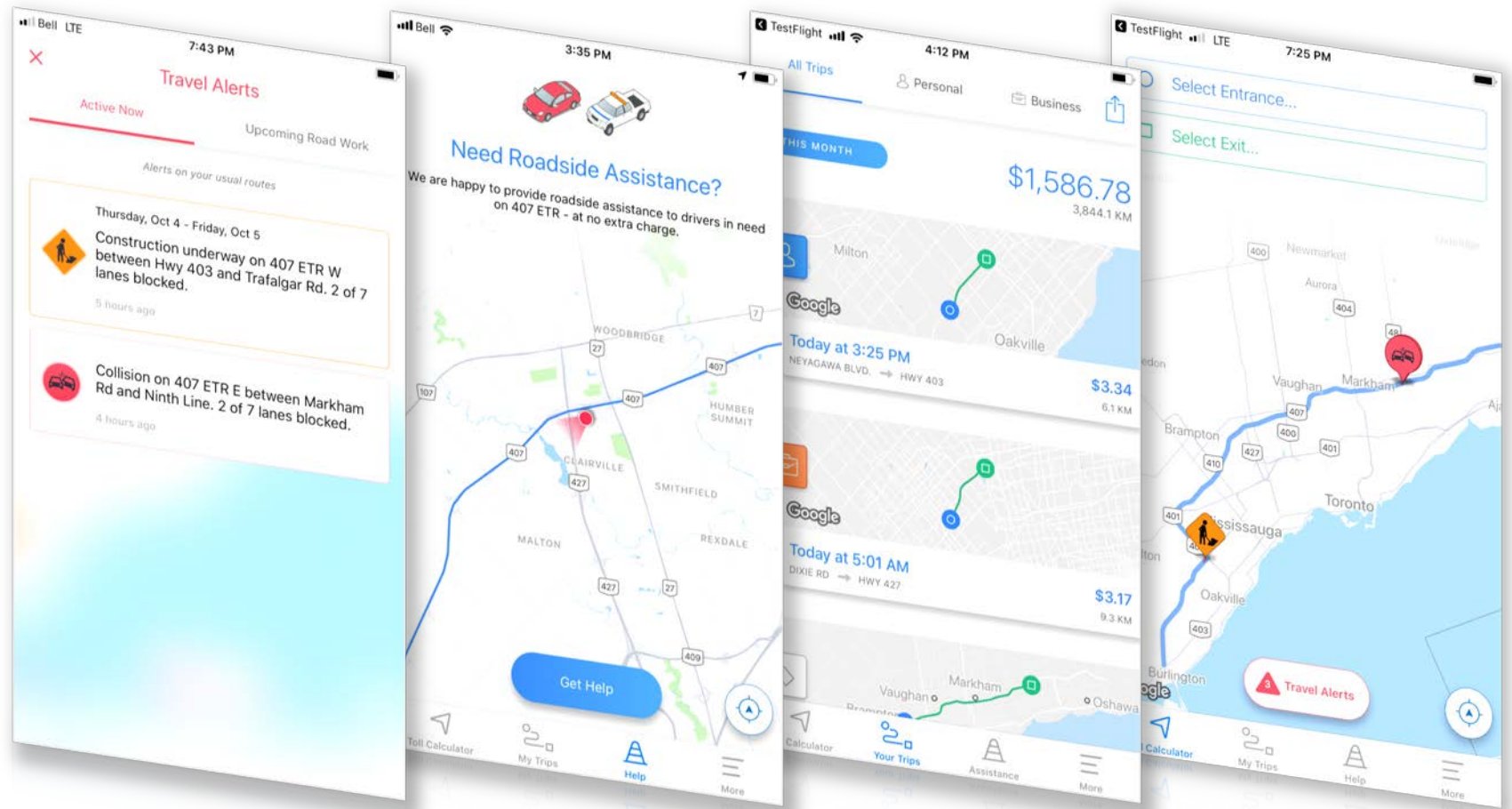


# The App - Pilot Functionality

- Travel Alerts
- Roadside Assistance
- Real Time Trips
- Toll Calculator

Ongoing development & testing of additional features continues

Customer feedback is being collected and will be incorporated in the General Availability release



# Community Involvement



# 407 ETR in the Community



## Sponsorships, Donations and Community Involvement



Youth sport team sponsorships



Hospitals and rehabilitation



Supporting communities along the corridor



## Other Partnerships



Safety initiatives



Traffic and transportation initiatives



# Community Engagement



Shareholders



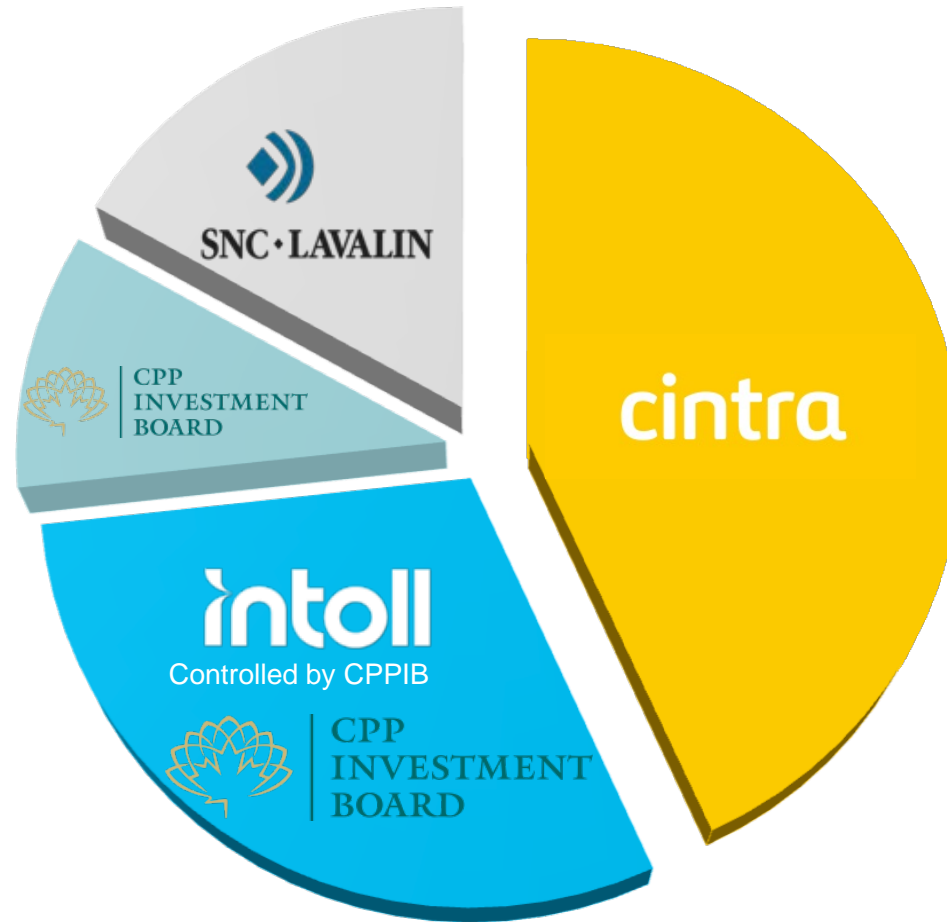
# 407 International Shareholders

## SNC Lavalin: 16.77%

Engineering, construction and investor in infrastructure projects. Developer and Initial Investor.

## CPPIB: 10% + 30%

Canada Pension Plan Investment Board. Over \$368.5B under mgmt. Bought 10% of Cintra interest and Intoll in 2010.



## Cintra: 43.23%

100% subsidiary of Ferrovial. Owns and operates toll roads worldwide. Developer and Initial Investor.

## Contacts

### **Geoffrey Liang**

Chief Financial Officer

407 ETR Concession Company Ltd

[gliang@407etr.com](mailto:gliang@407etr.com)

905-264-5298

### **Karim Sunderji**

Director, Tax & Treasury

407 ETR Concession Company Ltd

[ksunderji@407etr.com](mailto:ksunderji@407etr.com)

905-264-5375

# Appendix





2001 Company builds east and west extensions (40km).

1999 Privatization. Taxpayers receive over \$3.1 billion; directed to other government priorities.

1997 Government builds central section (68km). Cost to taxpayer \$1.5 billion.

1980s Preliminary construction.

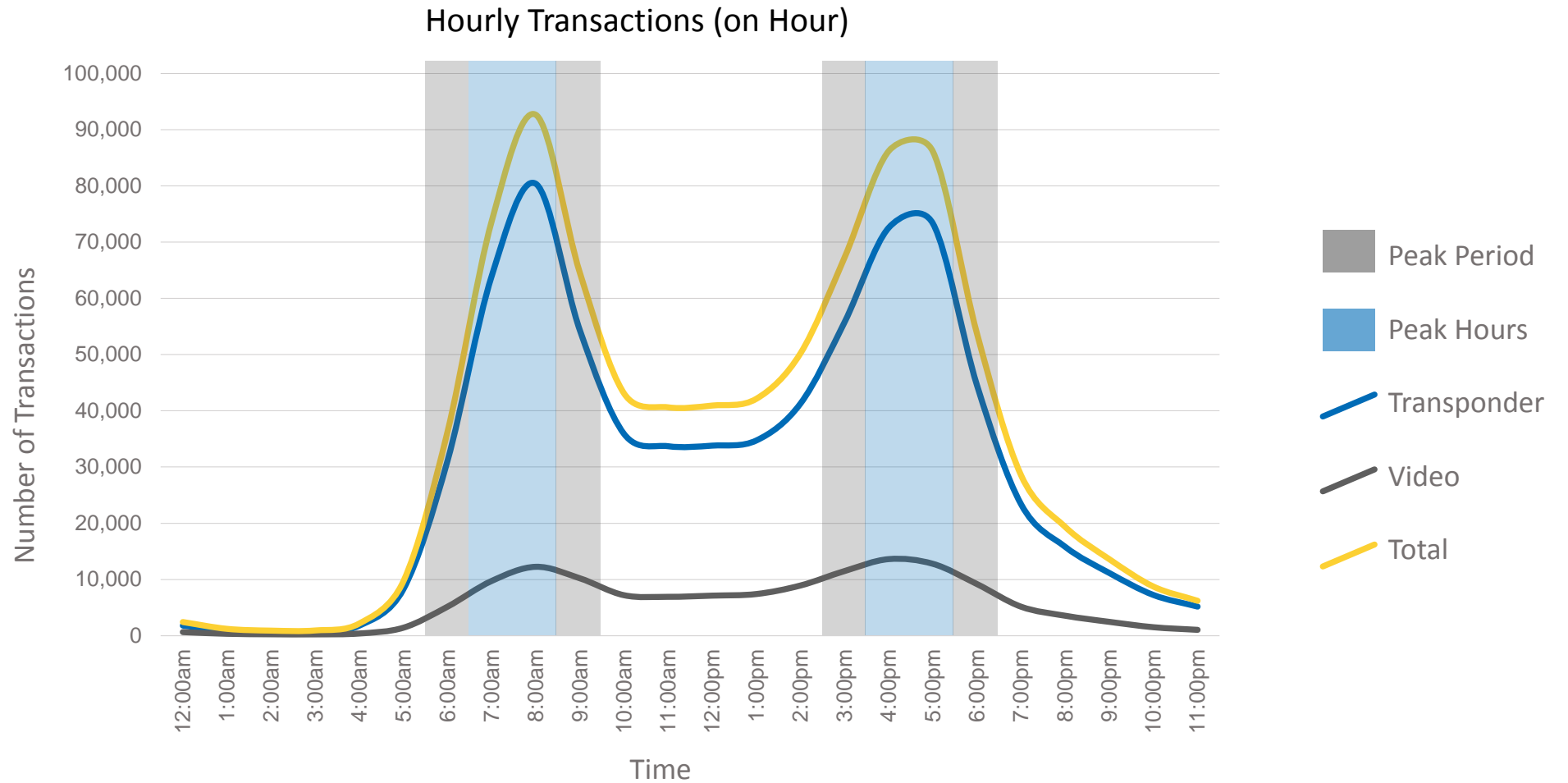
1950s Government acquires (reserves) lands.



### Since Privatization

- ◆ 108 kilometres (67 miles), 41 Interchanges with 7 major highway to highway interchanges
- ◆ Open-access, all-electronic tolling with 198 entry-exit points
- ◆ 99-year concession
- ◆ Over \$1.6 billion invested to extend and expand highway and meet customer demand
- ◆ Over 200 lane-km added

# Typical Workday Traffic Distribution



## Regulatory Framework

Well-defined regulatory framework. 407 ETR is not subject to periodic regulatory reviews as the Concession Agreement applies for the full concession term (i.e. until 2098) and can only be changed by mutual agreement.

### Highway 407 Act:

- Powers of Concessionaire (collection of tolls, exemption of tolls, etc.)
- Plate denial, enforcement of tolls, dispute process
- Collection and use of personal information
- Highway closure, emergency planning

### Highway Traffic Act:

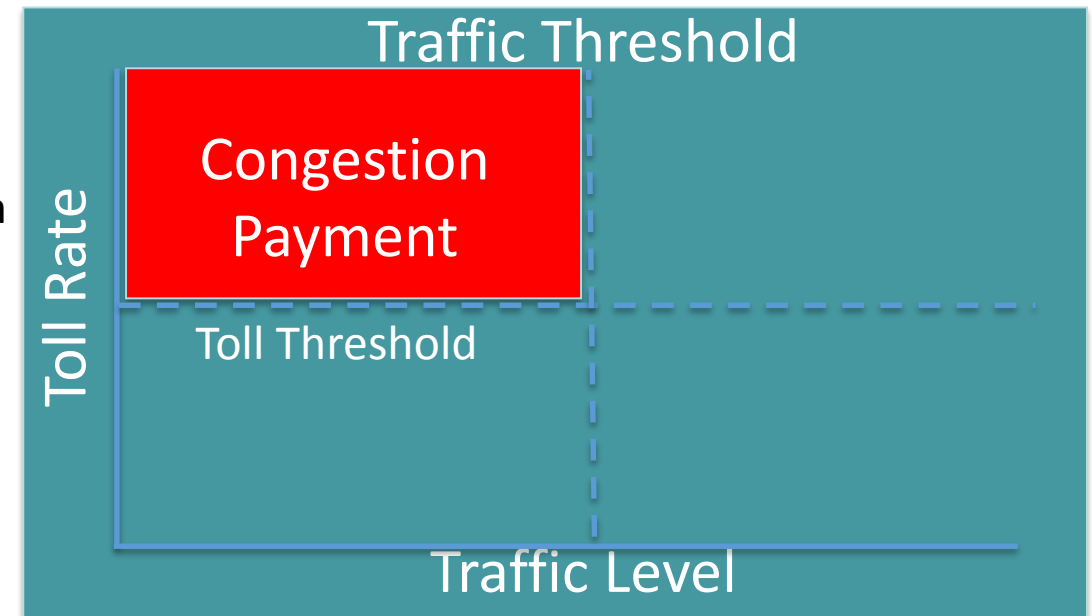
- Plate visibility
- Powers of police officers (search and seizure)
- Definition of toll device and transponder mounting
- Toll evasion, sale of interference devices, etc.
- Compulsory use of transponders for heavy vehicles

# Current and Ultimate Number of Lanes



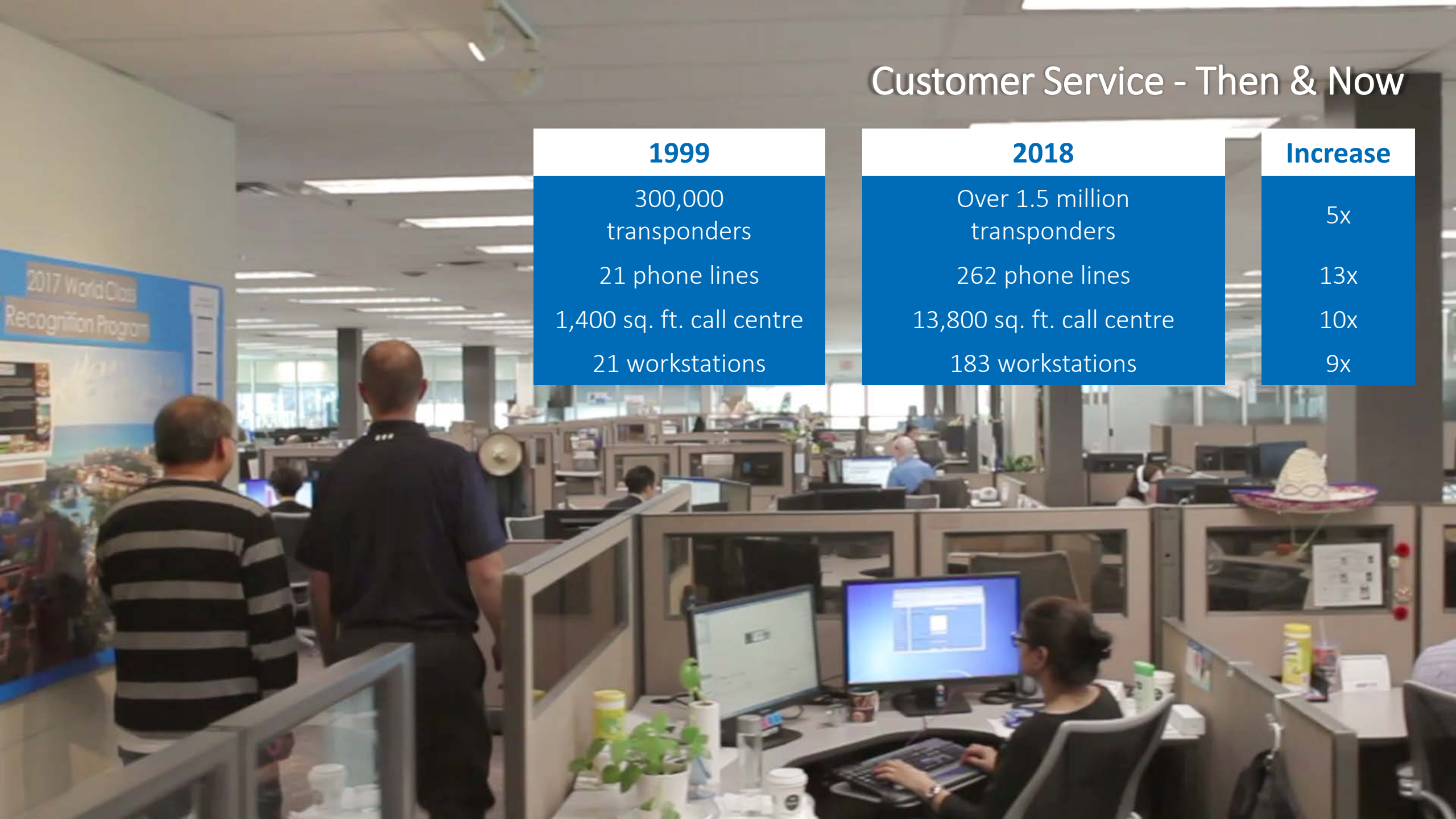
## Schedule 22 of the Concession and Ground Lease Agreement

- A Congestion Payment may be due if:
  1. Applicable rate > Toll Threshold and Average Segment Flow Rate (ASFR) is less than the Traffic Threshold.
  2. The congestion payment is twice the traffic shortfall times the toll rate overage.
- Only one Congestion Payment made (\$30,000 for 2003).
- As Traffic Threshold increases, the likelihood of a “Traffic Shortfall” increases on some segments.
- Schedule 22 includes the concept of a Congestion Payment to ensure traffic relief in the corridor.
- Sets minimum traffic levels (Traffic Thresholds) for each segment and direction, base on 2002 levels, and a minimum Toll Threshold.
- The Traffic Threshold grows by 1%-3% per year after the Base Year, up to a maximum of 1,500 vehicles per hour per lane.



# Customer Service - Then & Now

1999	2018	Increase
300,000 transponders	Over 1.5 million transponders	5x
21 phone lines	262 phone lines	13x
1,400 sq. ft. call centre	13,800 sq. ft. call centre	10x
21 workstations	183 workstations	9x



## Current Customer Base

> 500,000

electronic bills distributed each month

< 1 million

paper bills produced each month

604,000

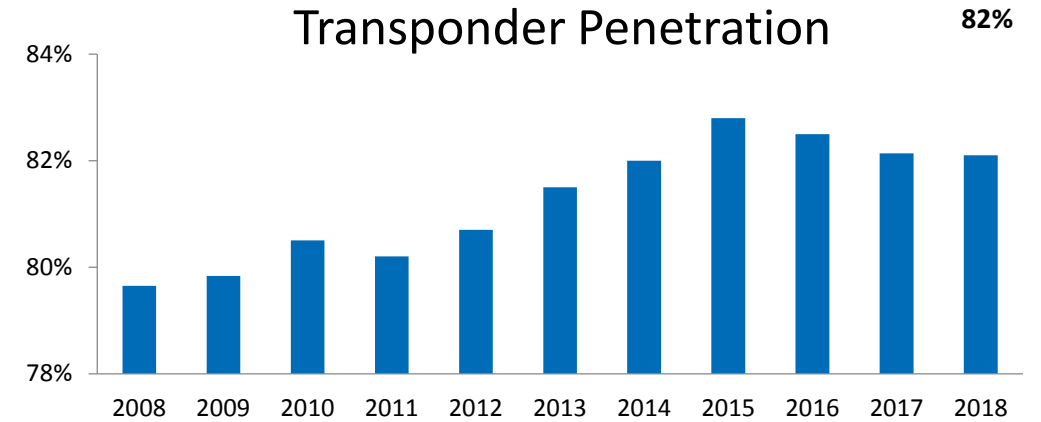
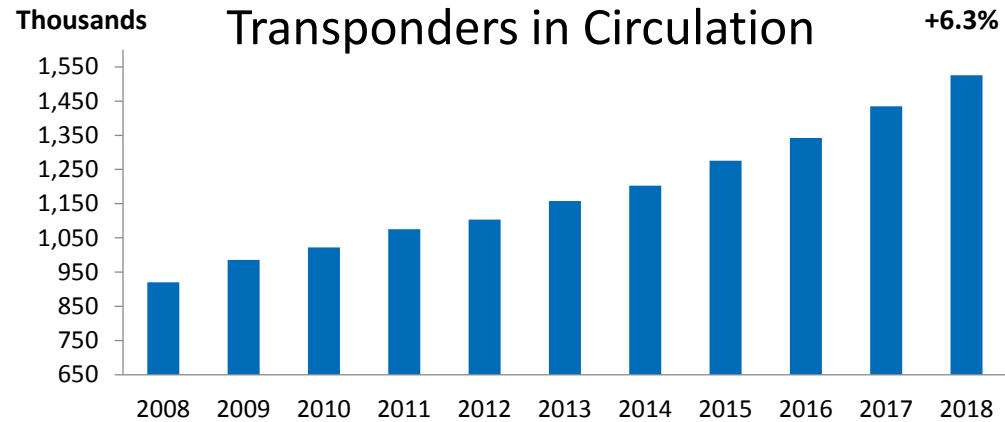
calls received in 2018,  
0.0048% of all trips made



Reasons  
people call:



# Transponder Usage



**1.5 million**  
transponders in  
circulation

Light



Heavy





## Regulatory Framework: Plate Denial

When a customer does not pay their bill within a prescribed period of time, the Ontario Government will not allow the person to renew the license plate sticker required by law

- Targeted at people who refuse to pay their bills
- Necessary because there are no toll booths or barriers
- Cannot restrict use, cut off service, etc. like other companies
- Used by Government before the sale, key part of sale agreement



**NOT UNIQUE TO ONTARIO**  
SIMILAR PLATE DENIAL SYSTEMS IN PLACE IN OTHER JURISDICTIONS TO MAINTAIN OPEN ACCESS ROAD AND FAIRNESS TO ALL DRIVERS.

# Bond Portfolio

## Three levels of priority

- Senior bonds are ranked first in priority; bondholders enjoy the protection of a series reserve account that equals 12 months of principal and interest.
- Many different structures of senior bonds: nominal bullet, nominal amortizer, bullet real return bond (RRB), amortizing real return bond (ARRB), synthetic inflation protection securities (SIPS).
  - Since 2005, the Company has only issued plain, “vanilla”, nominal bullet bonds.
- Junior bonds are ranked second in priority; bondholders also enjoy the protection of a series reserve account that equals 12 months of principal and interest.
- Senior and junior bondholders enjoy the protection of the dividend distributions tests.
- Subordinated bonds are ranked behind senior and junior bonds and do not have the protection of a series reserve account. The Company must satisfy the distribution test prior to any payment of interest to subordinated bondholders.

# Key Features of the Indenture

## **Dividend Distribution and Subordinated Interest Payment**

- Prior to a dividend distribution or payment of interest on subordinated debt, the Company must provide an Officer's Certificate to the Trustee certifying the following:
  - Net Revenues for the 12 calendar months most recently ended were at least equal to 135% of the Annual Senior Debt Service for such 12 month period.
  - Projected Net Revenues for the next 12 calendar months will be at least equal to 135% of the Annual Senior Debt Service for such 12 month period.

## **Additional Indebtedness**

- Prior to issuing additional debt, the Company must provide an Officer's Certificate to the Trustee certifying that Net Revenues during any consecutive 12 month period during the most recently completed 18 month period was not less than 135% of the Annual Senior Debt Service.

## **Ratings Affirmation Covenant ("RAC")**

- For all bonds issued prior to June 2010, ratings affirmation letters must be issued by both rating agencies affirming the existing credit ratings of all of the Company's existing bonds.
- Bondholders whose bonds were issued post-June 2010 do not have the same protection as the RAC is not attached to these bonds. However, these bondholders can "piggy-back" off of the pre-June 2010 bond issuances; the last of which remain outstanding until 2040.

## Summary of the Capital Structure Plan

- In May 2012, Management developed the Capital Structure Plan.
- The Capital Structure Plan was approved by the Shareholders and Board of Directors in July 2012.
- The Capital Structure Plan is performance based. The quantum of additional leverage is relative to the performance of the Company.
- Key features of the Capital Structure Plan:
  - Issue senior bonds (with 12-month reserves) for gradual additional leverage and maintain coverage ratios:
    - Senior indenture coverage ratios of greater than 1.70x. (indenture requirement: 1.35x). Indenture coverage ratios include 30-year shadow principal amortization on bullet maturities.
    - Senior and junior cash coverage ratios of greater than 2.00x.
  - In addition to minimum indenture cash requirement of \$10 million and reserves of approximately \$615 million (as at December 31, 2018) , the Company will maintain additional cash balance (current level of \$105 million), equal to the sum of:
    - 3 months of budgeted cash annual operating expenses (excluding provision for doubtful accounts)
    - 3% of budgeted annual revenues
  - Excess cash balance would be paid to shareholders as dividends.