



THE WORLD'S FIRST ALL-ELECTRONIC OPEN-ACCESS TOLL HIGHWAY

12th Annual BMO Infrastructure & Utilities Conference
February 5, 2015
(as at Q3 2014)



AGENDA FOR DISCUSSION

- » Background
- » Growth, Expansion and Capacity
- » Trips, Toll Setting and Tolls
- » Key Traffic and Financial Indicators
- » Bonds
- » Traffic and Revenue Forecasting
- » Litigations Update
- » 407 East Extension Phases 1 & 2

DISCLAIMER/DISCLOSURE

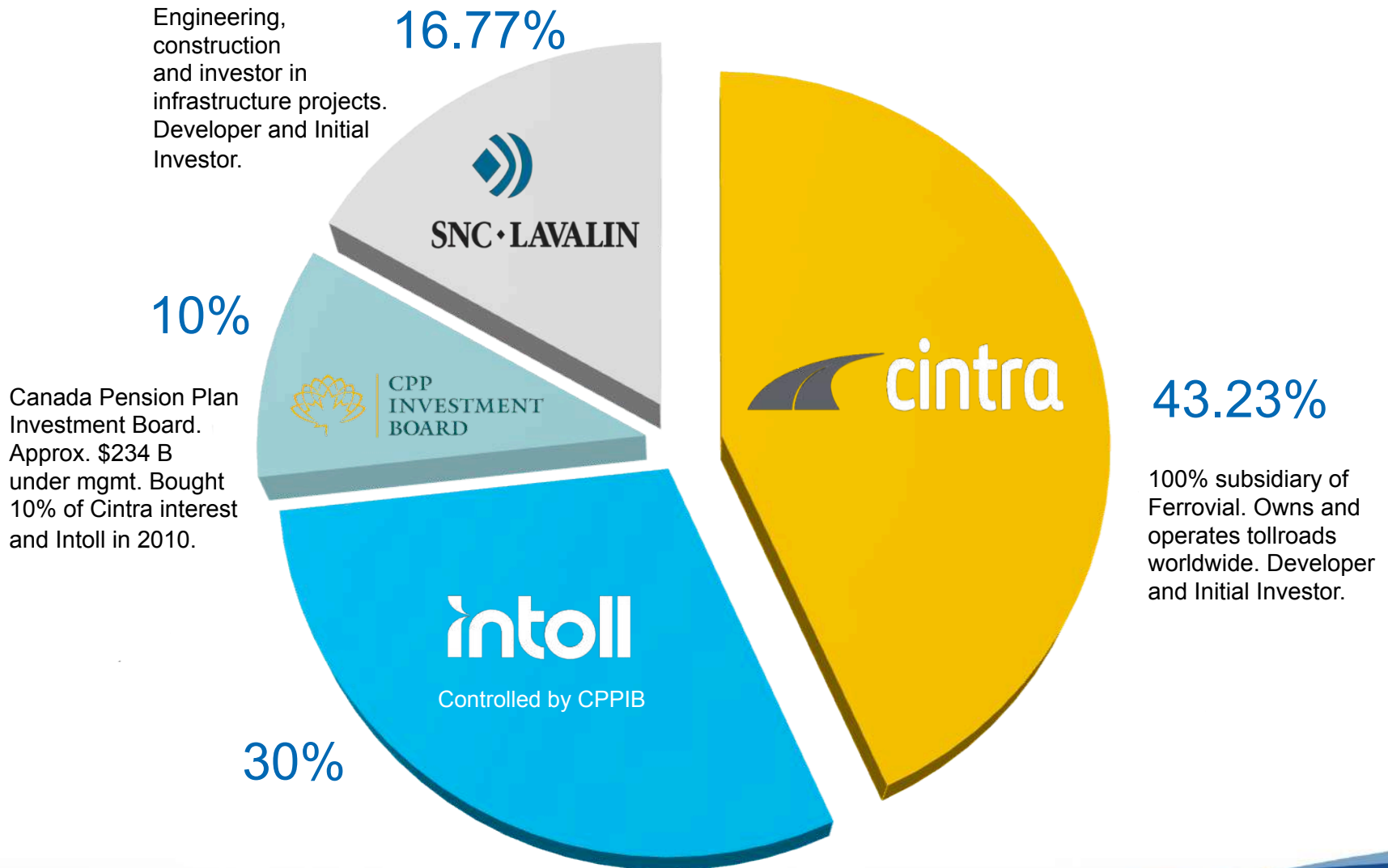
- » This presentation has been prepared by 407 ETR.
- » The financial information presented is taken from quarterly and year-end statistics that have been disclosed publicly.
- » All financial amounts are shown in Canadian dollars unless otherwise indicated.
- » Additional information relating to 407 ETR and / or 407 International, including the 2013 Annual Information Form dated February 13, 2014, 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.

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BACKGROUND



407 INTERNATIONAL SHAREHOLDERS





2001 Company builds East and West Extensions (40km).

1999 Privatization. Taxpayer's 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

- Over \$1.4 billion invested to extend and expand highway and meet customer demand.
- Over 200 lane-km added.
- Customer satisfaction grows to over 80%.
- New Technology/Customized solutions protect revenues and reduce unreadable/unbillable transactions from 9% to just 2.3%.



TESTED LEGAL/REGULATORY FRAMEWORK

» Highway 407 Act (Royal Assent - Dec 1998):

- » 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
- » Liabilities, expropriation, expansion, etc.
- » Safety standards

» Highway Traffic Act:

- » Plate visibility
- » Powers of police officer (search and seizure)
- » Definition of toll device and transponder mounting
- » Toll evasion, sale of interference devices, etc.



TESTED LEGAL/REGULATORY FRAMEWORK

» Concession and Ground Lease Agreement (CGLA)*:

- » Collection of revenues and tolling regulations
- » Operation standards, highway expansion and extension
- » Reporting, audit rights, electronic data transfer
- » Corridor control, management of 407 lands
- » Police services, enforcement
- » Dispute resolution etc.

» Policing/Enforcement Agreements:

- » Police Services Agreement with Ontario Provincial Police
- » Truck safety and vehicle registration enforcement by MTO

**Available on 407etr.com*



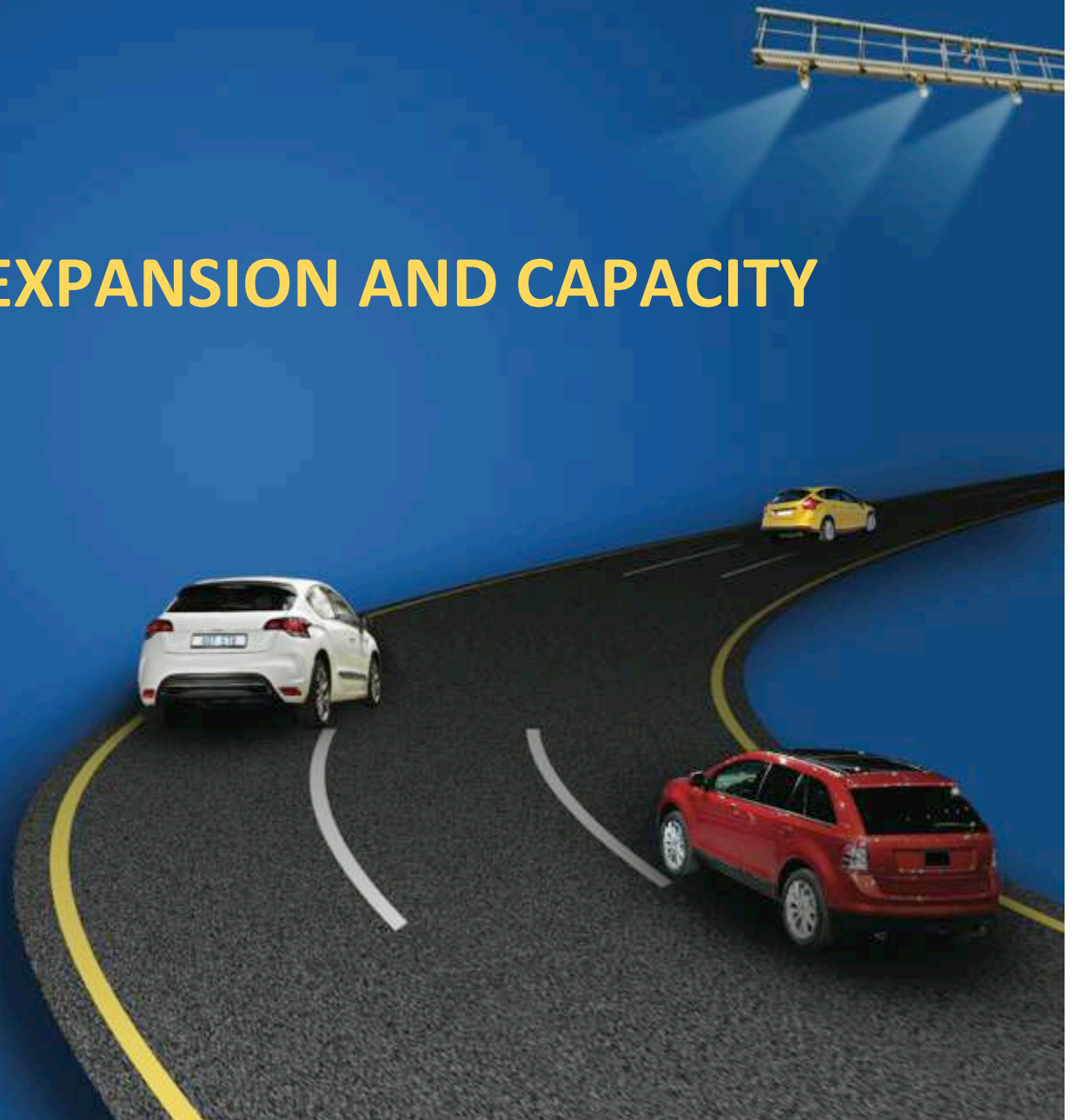
ASSET OVERVIEW

- » Highway 407 mainline is 108 km
- » Pavement inventory 1,128 lane km (including ramps)
- » 208 structures
- » 41 Interchanges:
 - » Freeway - 7
 - » Arterials - 34
- » 198 tolling gantries (entries and exits)
- » Expanded Road Patrol – Summer/Winter
- » 7-24 Traffic Control Center (CCTV Coverage, DMS)
- » Roadside Assistance Program
- » Higher Safety Standards
- » Summer & Winter Maintenance Operation Plans
- » Incident Response Plans
- » Coordination with OPP – regular services & paid duty



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GROWTH, EXPANSION AND CAPACITY



Highway Capacity

C3
1999: 3+3 Lanes
2014: 4+4 Lanes
Ultimate: 5+5 Lanes

C7
1999: 3+3 Lanes
2014: 4+4 Lanes
Ultimate: 5+5 Lanes

C4 to C6 NOW ULTIMATE
1999: 3+3 Lanes
2014: 5+5 Lanes

C2
1999: 2+2 Lanes
2014: 4+4 Lanes
Ultimate: 5+5 Lanes

C1
1999: 2+2 Lanes
2014: 3+3 Lanes
Ultimate: 4+4 Lanes

W1 to W3
1999: 0+0 Lanes
2014: 3+3 Lanes
Ultimate: 4+4 Lanes

Phase 1
Brock-WDL: 3+3 (2015)
WDL-Harmony: 2+2 (2015)
Ultimate: Brock-Harmony 5+5 Lanes
Ultimate: Harmony-EDL 4+4 Lanes

E2
1999: 0+0 Lanes
2014: 2+2 Lanes
Ultimate: 5+5 Lanes

E1
1999: 0+0 Lanes
2014: 3+3 Lanes
Ultimate: 5+5 Lanes

Phase 2
2020: TBD
Ultimate: 3+3 Lanes

Year	Expansion	Length
2004	401 - 410	18 km
2006	427 - 404	46 km
2006	McCowan Road - Markham Road	4 km
2007	401 - 427	47 km
2009	Markham Road - York Durham Line	13 km
2010	404 - Markham Road	19 km
2011	401 - Trafalgar Road	26 km
2012	400 - 404	32 km
2014	400 - 427	16 km
Total lane kilometres added		221 km

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407 ETR: 108km, with 41 interchanges and 198 on/off ramps.

Phase One (20km): Highway 407 East to Harmony Road in Whitby/Oshawa, including the West Durham Link (WDL) to 401 (10km) and a realignment of Highway 401 (5km). Three lanes in each direction up to the WDL and then two lanes in each direction to Harmony Road.

Phase Two (23km): Extension of Highway 407 East from Harmony Road to Highway 35/115, including the East Durham Link (EDL) to 401 (10km) through Clarington by 2020. By 2017, there will be an interim interchange at Taunton Road for the EDL.

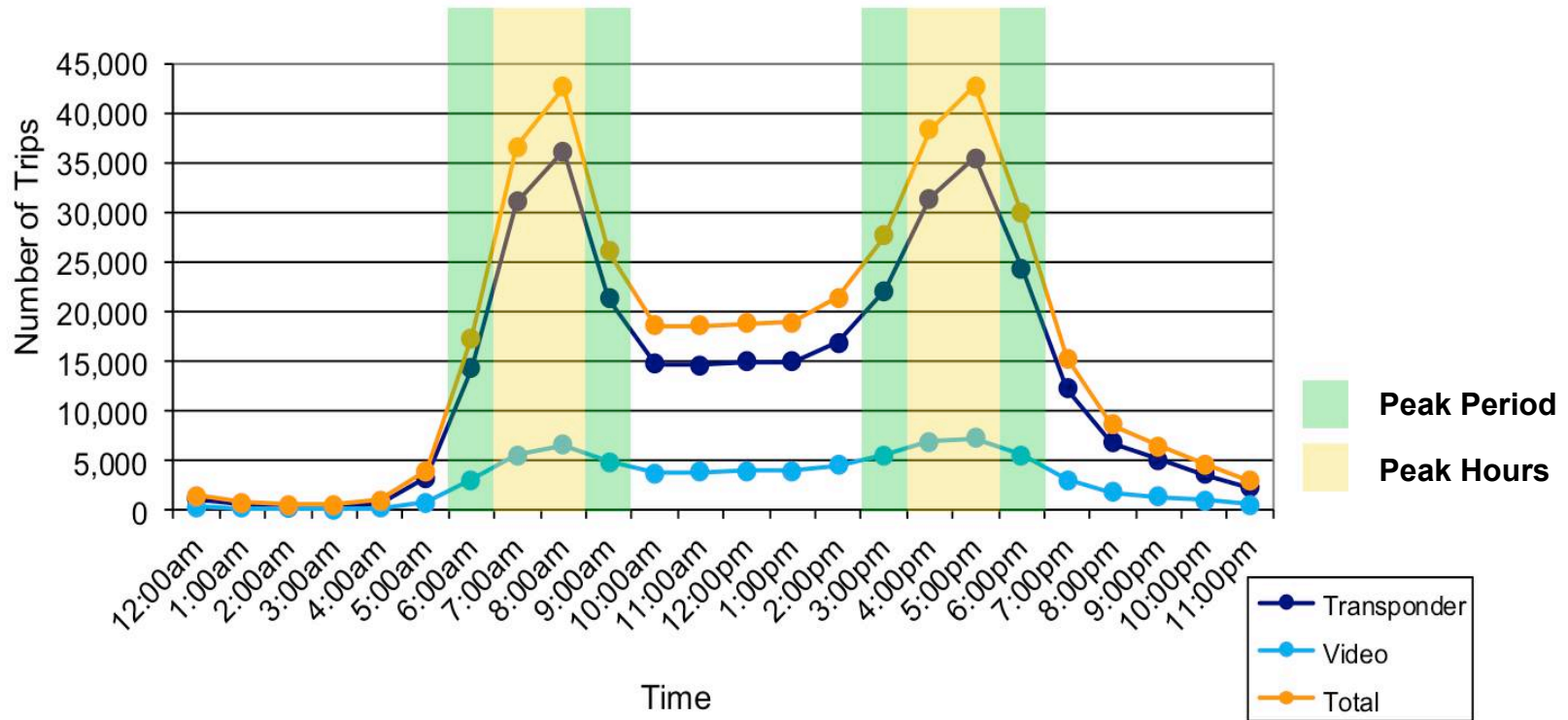
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TRIPS, TOLL SETTING AND TOLLS



AVERAGE WEEKDAY HOURLY TRIPS

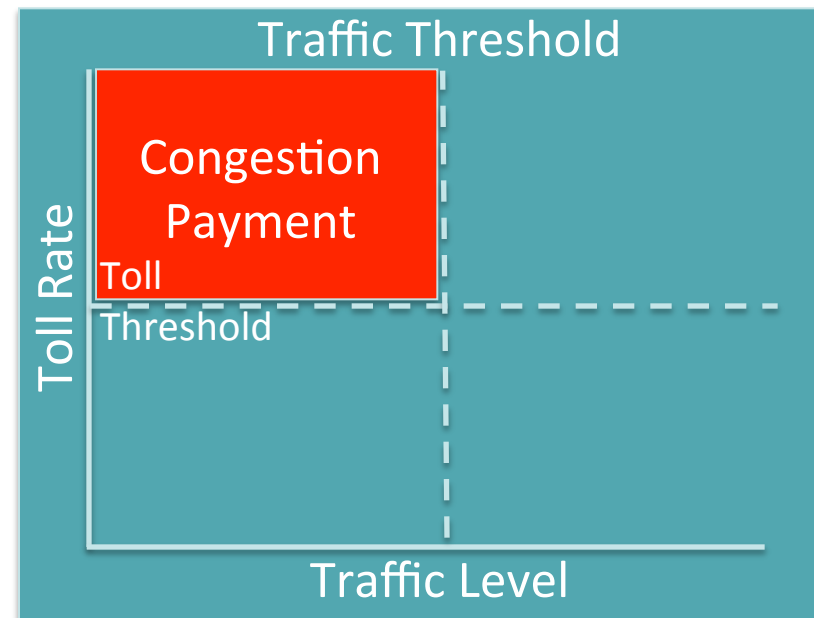
Average of over 380,000 trips each work day



TOLL SETTING “CONSTRAINT”

» CGLA – Schedule 22

- » 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, based 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.
 - » The Toll Threshold also increases, up to 30% in real terms from 1999 level.
- » A Congestion Payment may be due if:
 - » Applicable rate > Toll Threshold **and** Average Segment Flow Rate (ASFR) is less than the Traffic Threshold.
 - » The congestion payment is twice the traffic shortfall times the toll rate overage.
 - » Only one Congestion Payment made (\$28.7k for 2003).
 - » As Traffic Threshold increases, the likelihood of a “Traffic Shortfall” increases on some segments.



2015 ZONE/PEAK TOLLING – AM/PM DIFFERENTIAL

Effective February 1, 2015



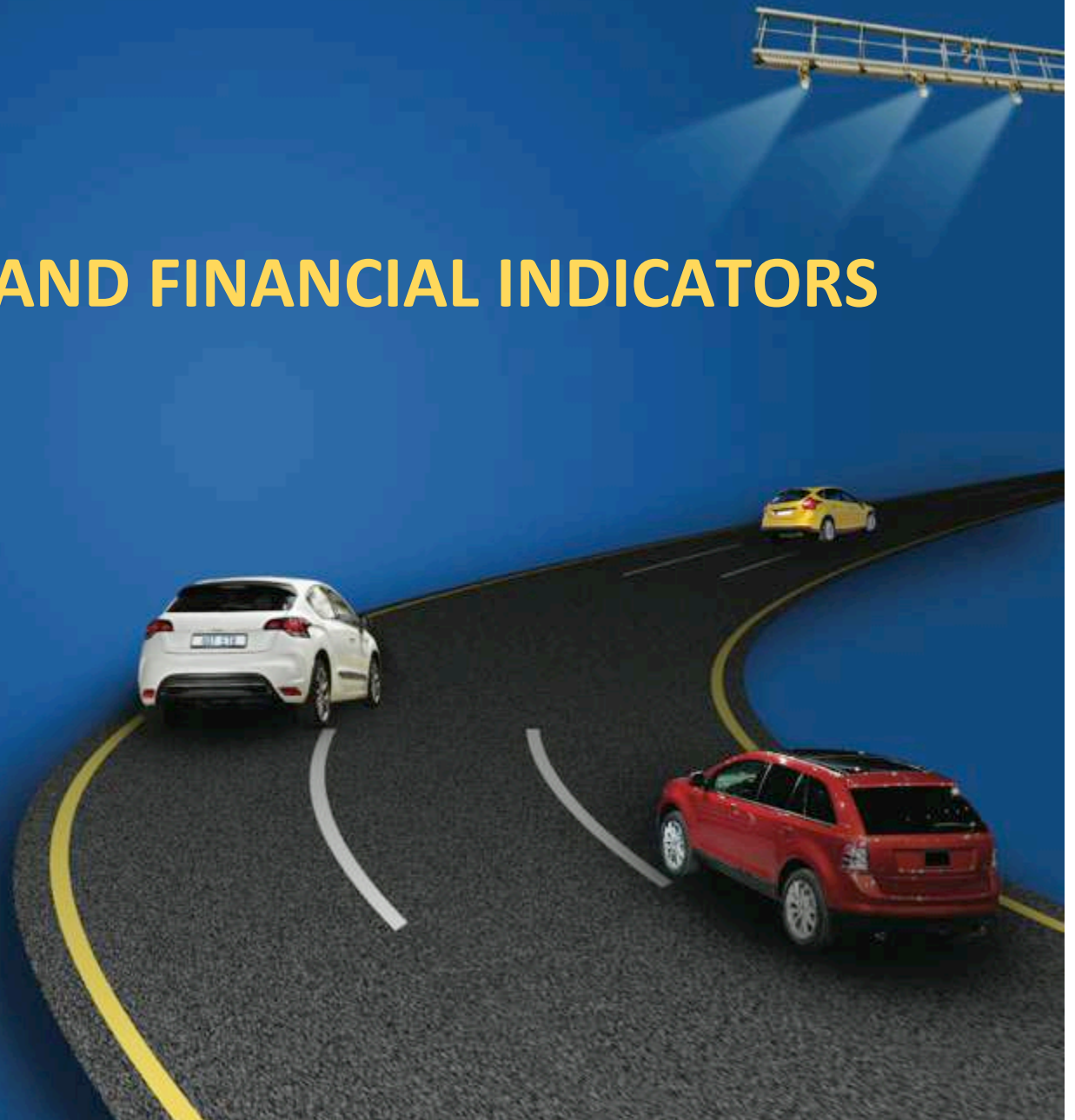
VEHICLE CLASS	Regular Zone QEW to Highway 410 Highway 427 to Brock Road		Light Zone Highway 410 to Highway 427		Entire Highway		
	PEAK PERIOD Weekdays: 6am - 7am & 9am - 10am 3pm - 4pm & 6pm - 7pm	PEAK HOURS Weekdays: 7am - 9am & 4pm - 6pm	PEAK PERIOD Weekdays: 6am - 7am & 9am - 10am 3pm - 4pm & 6pm - 7pm	PEAK HOURS Weekdays: 7am - 9am & 4pm - 6pm	MIDDAY Weekdays: 10am - 3pm	MIDDAY Weekends & Holidays: 11am - 7pm	OFF PEAK PERIOD Weekdays: 7pm - 6am Weekends & Holidays: 7pm - 11am
Light Vehicles* (Cars/Minivans/SUVs)	AM RATE: 30.56¢/km PM RATE: 31.13¢/km	AM RATE: 34.13¢/km PM RATE: 34.73¢/km	AM RATE: 29.05¢/km PM RATE: 29.59¢/km	AM RATE: 32.43¢/km PM RATE: 33.01¢/km	25.75¢/km	23.59¢/km	19.74¢/km
Heavy Vehicles** (Large Trucks/Buses)	AM RATE: 61.12¢/km PM RATE: 62.26¢/km	AM RATE: 68.26¢/km PM RATE: 69.46¢/km	AM RATE: 58.10¢/km PM RATE: 59.18¢/km	AM RATE: 64.86¢/km PM RATE: 66.02¢/km	51.50¢/km	47.18¢/km	39.48¢/km
Heavy Multiple Unit Vehicles** (Tractor trailers)	AM RATE: 91.68¢/km PM RATE: 93.39¢/km	AM RATE: 102.39¢/km PM RATE: 104.19¢/km	AM RATE: 87.15¢/km PM RATE: 88.77¢/km	AM RATE: 97.29¢/km PM RATE: 99.03¢/km	77.25¢/km	70.77¢/km	59.22¢/km

- » Rates vary by time of day, day of week and zone of highway
- » Average revenue per trip: **2013** \$6.96, **2012** \$6.39, **2011** \$5.89, **2010** \$5.44
- » 2015 toll rate changes reflect differences in AM and PM values

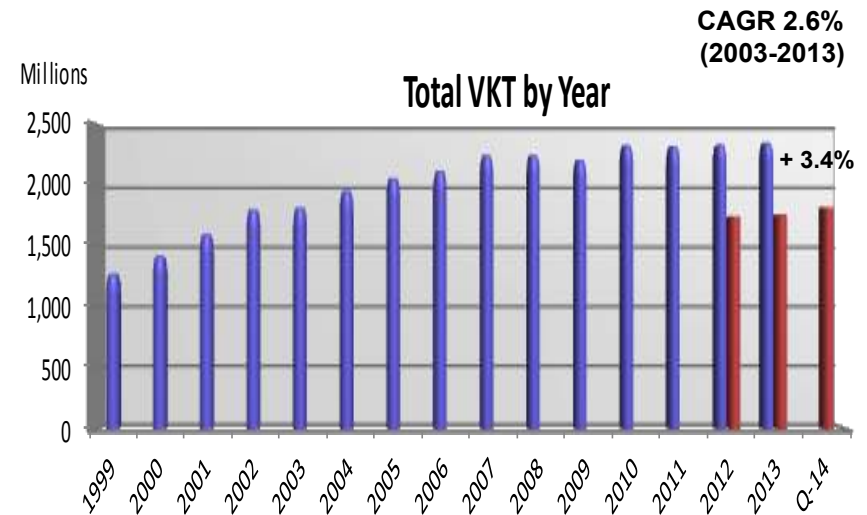
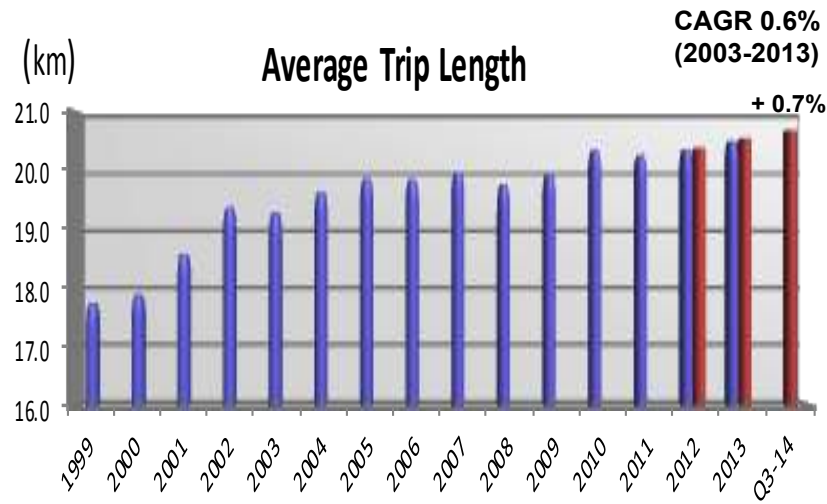
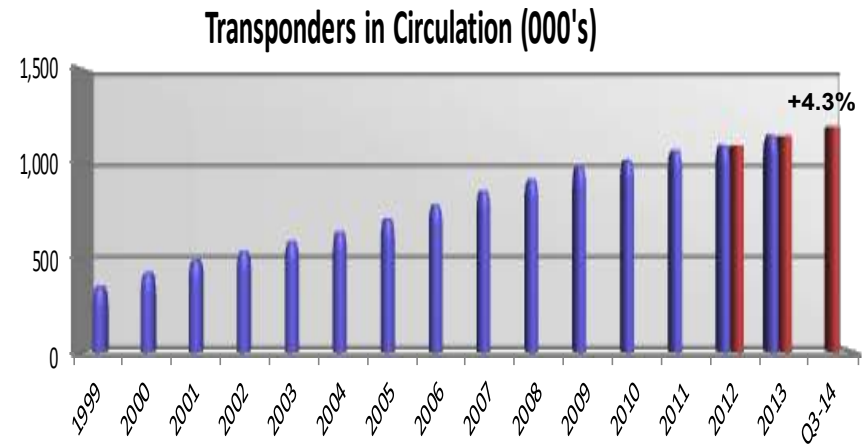
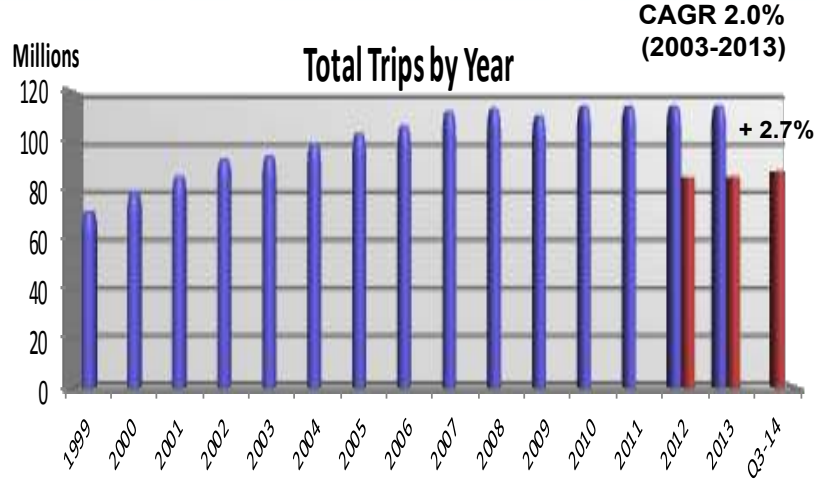



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KEY TRAFFIC AND FINANCIAL INDICATORS



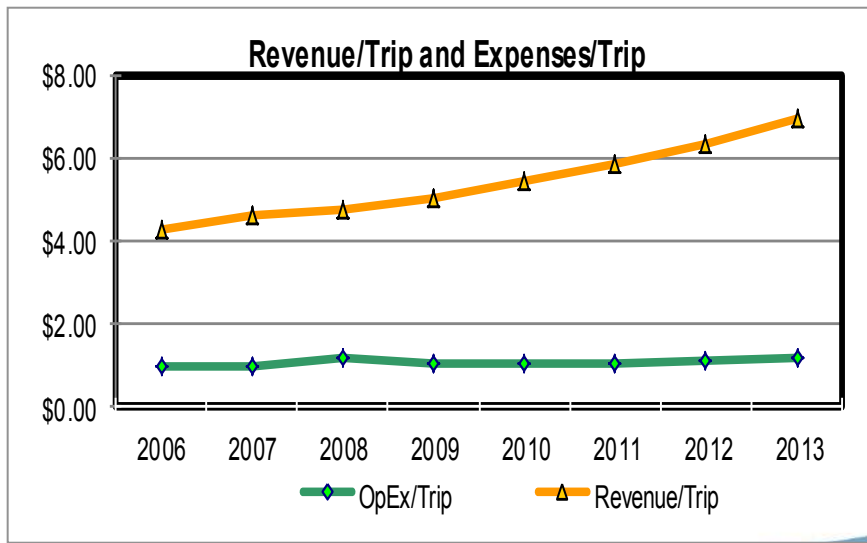
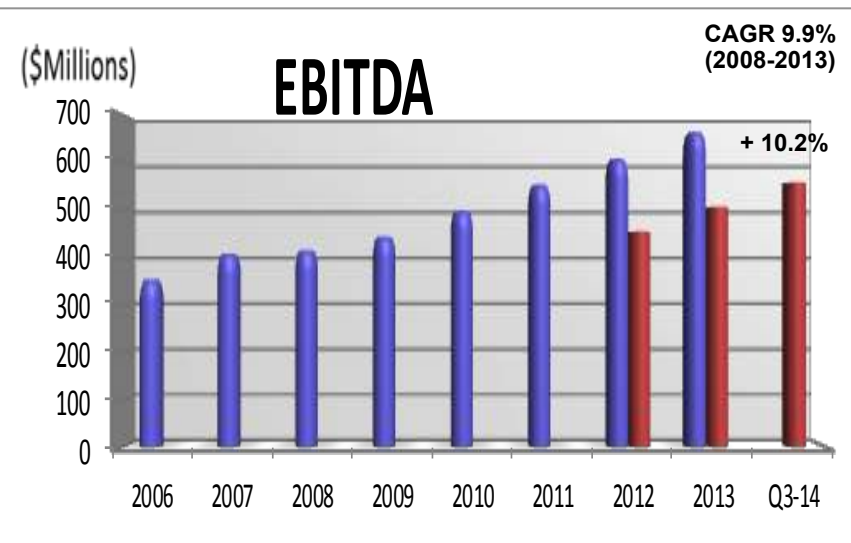
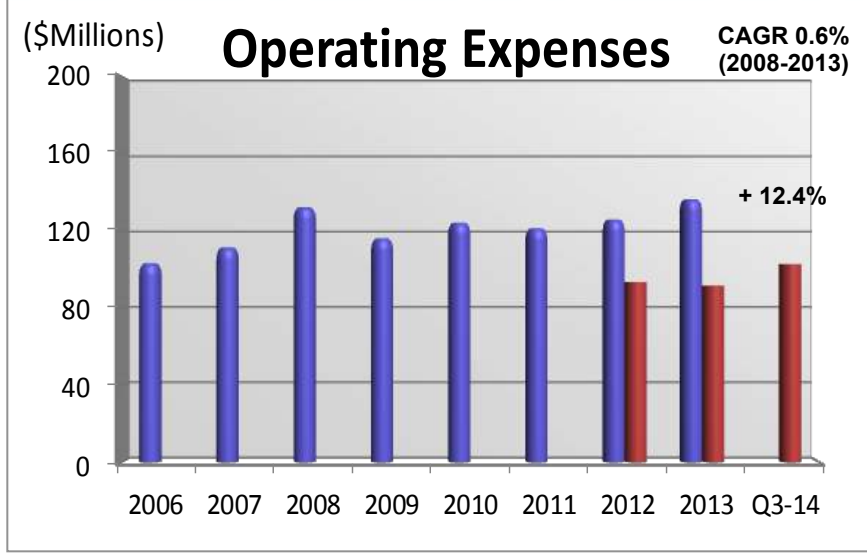
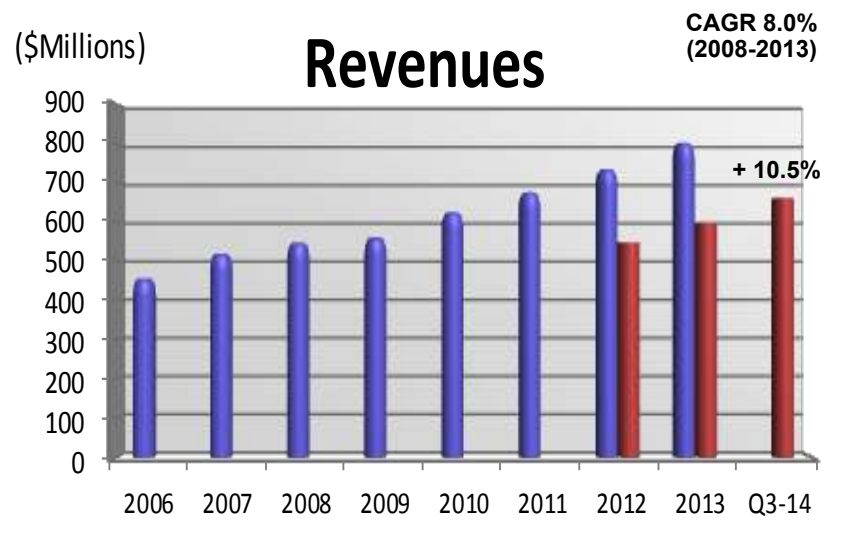
KEY TRAFFIC INDICATORS




 = Q3 YTD DATA



KEY FINANCIAL INDICATORS

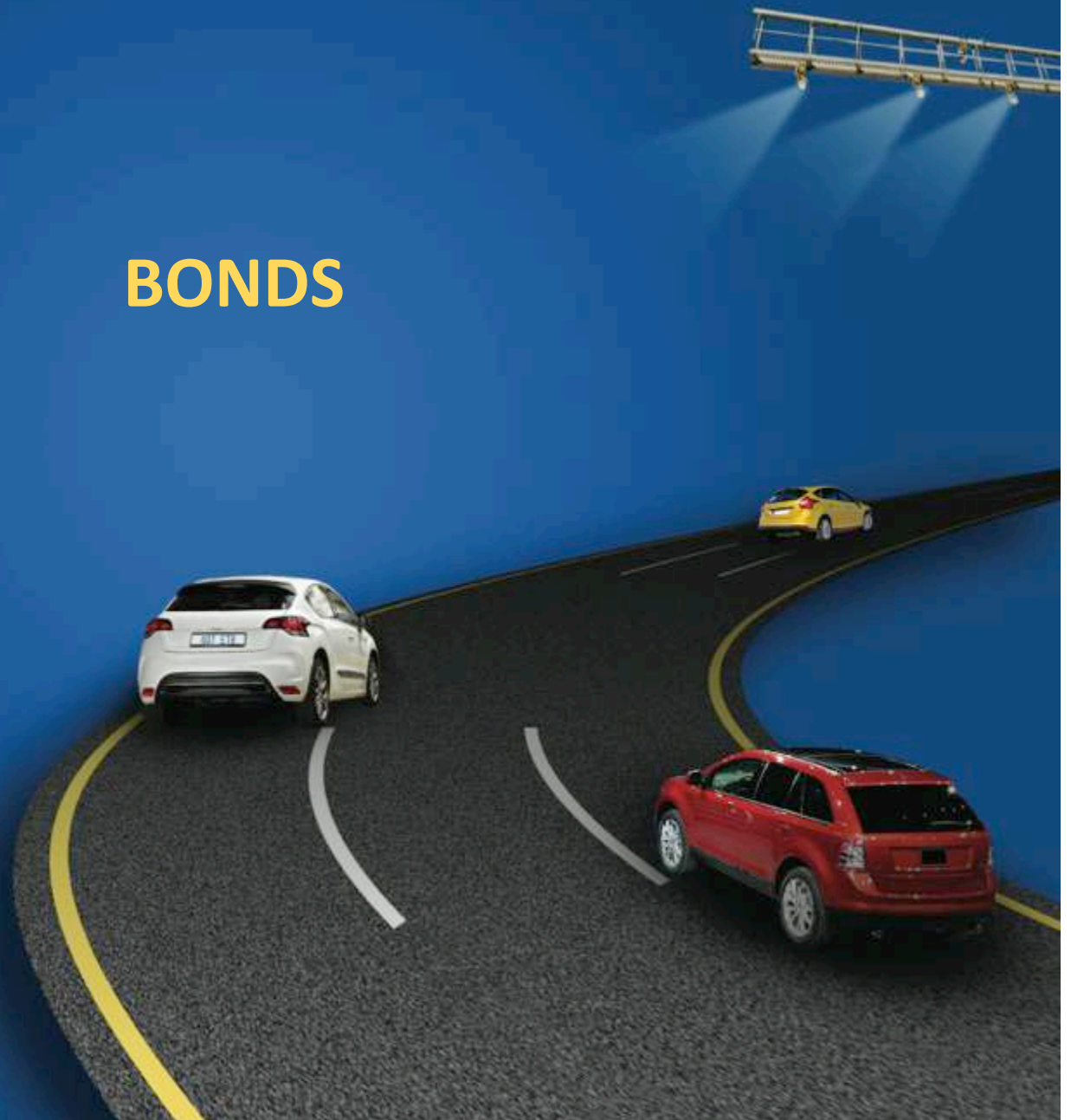


 = Q3 YTD DATA

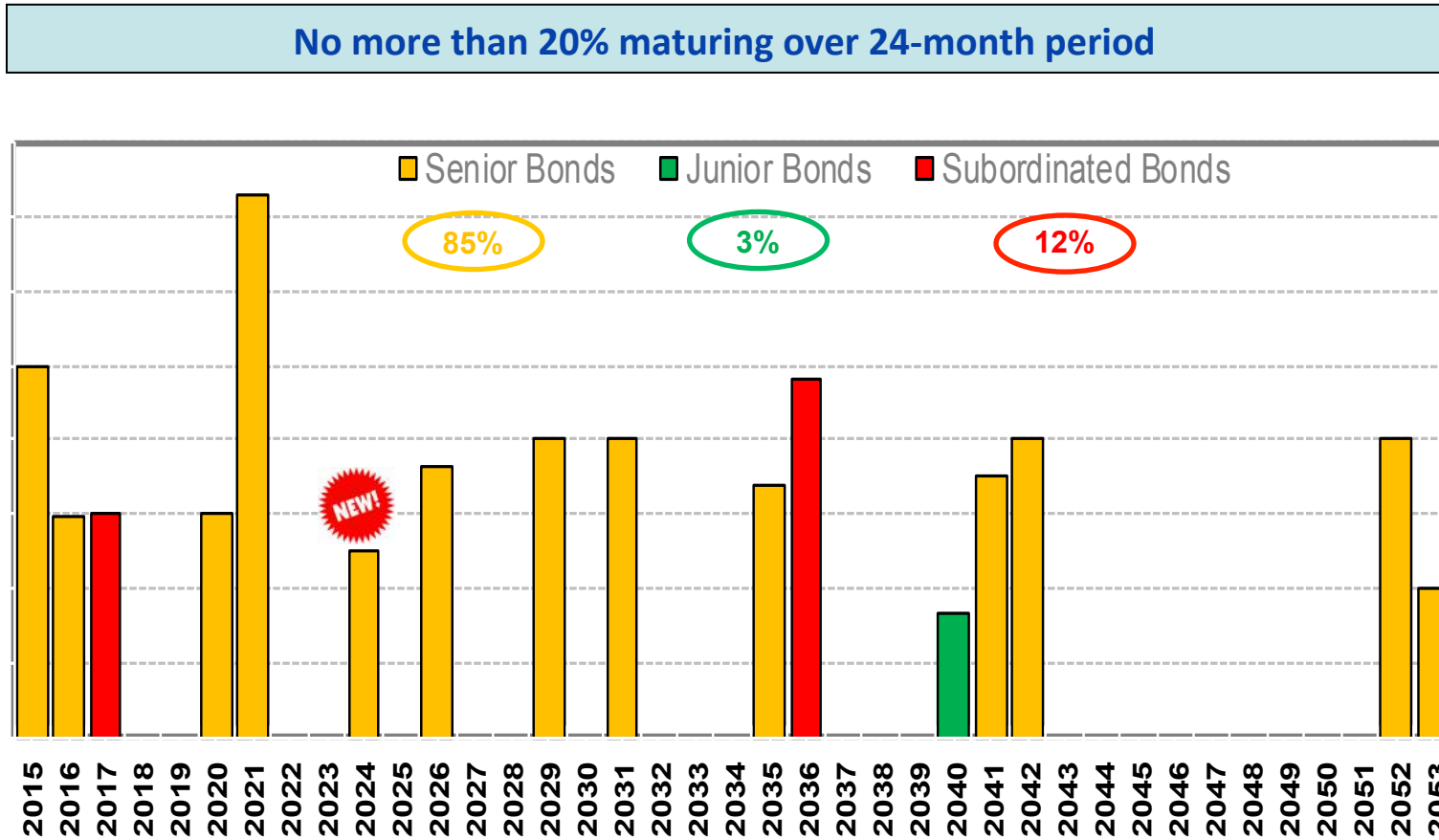


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BONDS



BOND MATURITY PROFILE



» Total long-term debt as at September 30, 2014: \$6.7 billion



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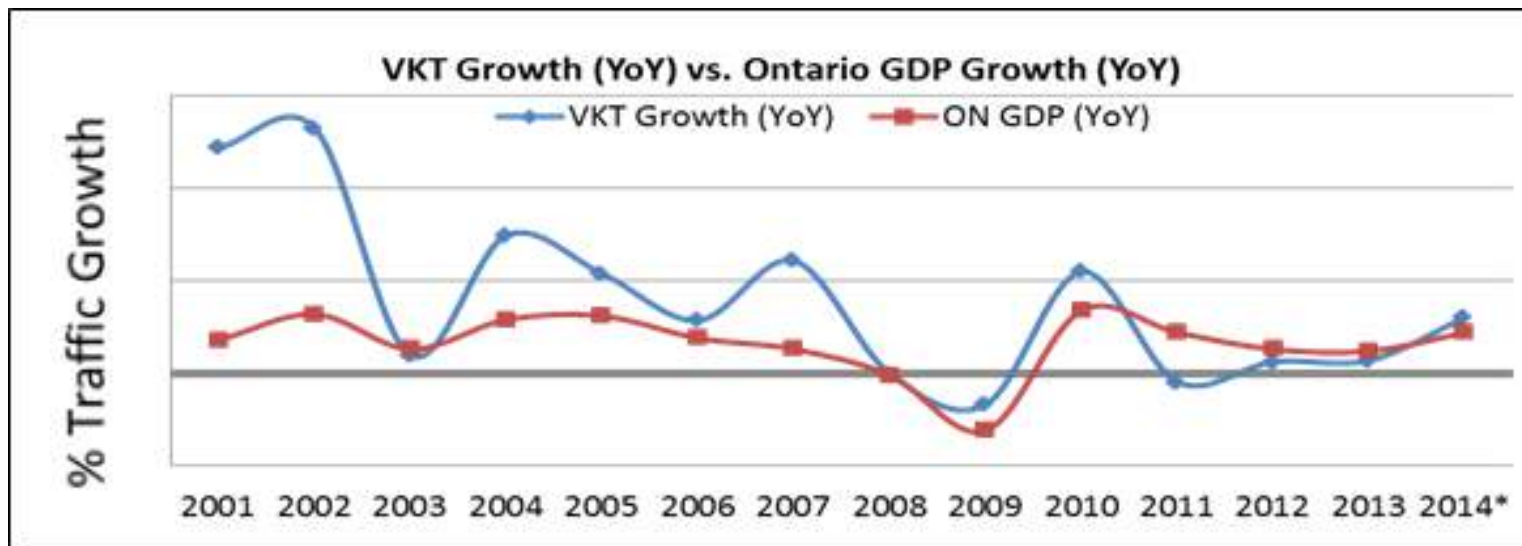
TRAFFIC AND REVENUE FORECASTING



TRAFFIC AND REVENUE FORECASTING

» Econometric Model

- » A calibrated model is used to support traffic and revenue forecasts
- » The model incorporates the traffic demand response to: the economy, fuel costs, operating speed advantage of Highway 407, and toll price
- » Economic Growth – Highway 407 traffic growth linked to GDP growth

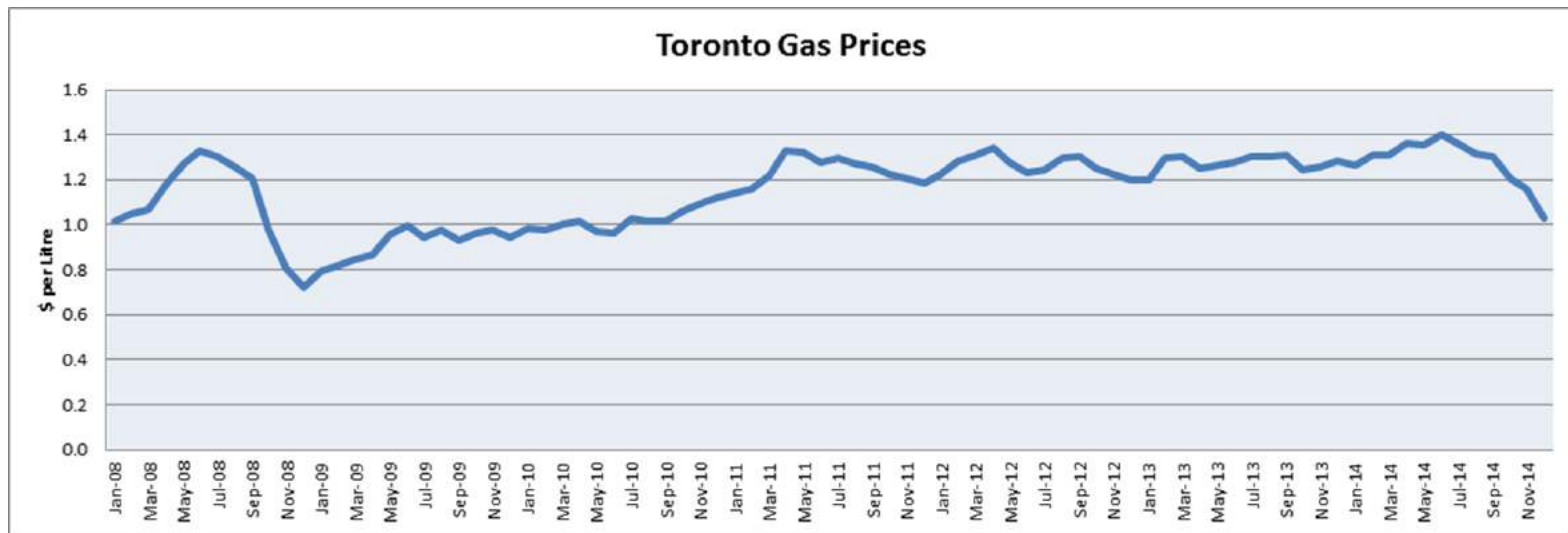


* Estimated

TRAFFIC AND REVENUE FORECASTING

» Econometric Model

- » A calibrated model is used to support traffic and revenue forecasts
- » The model incorporates the traffic demand response to: the economy, fuel costs, operating speed advantage of Highway 407, and toll price
- » Fuel Costs – Gas Prices have modest impact on Highway 407 demand

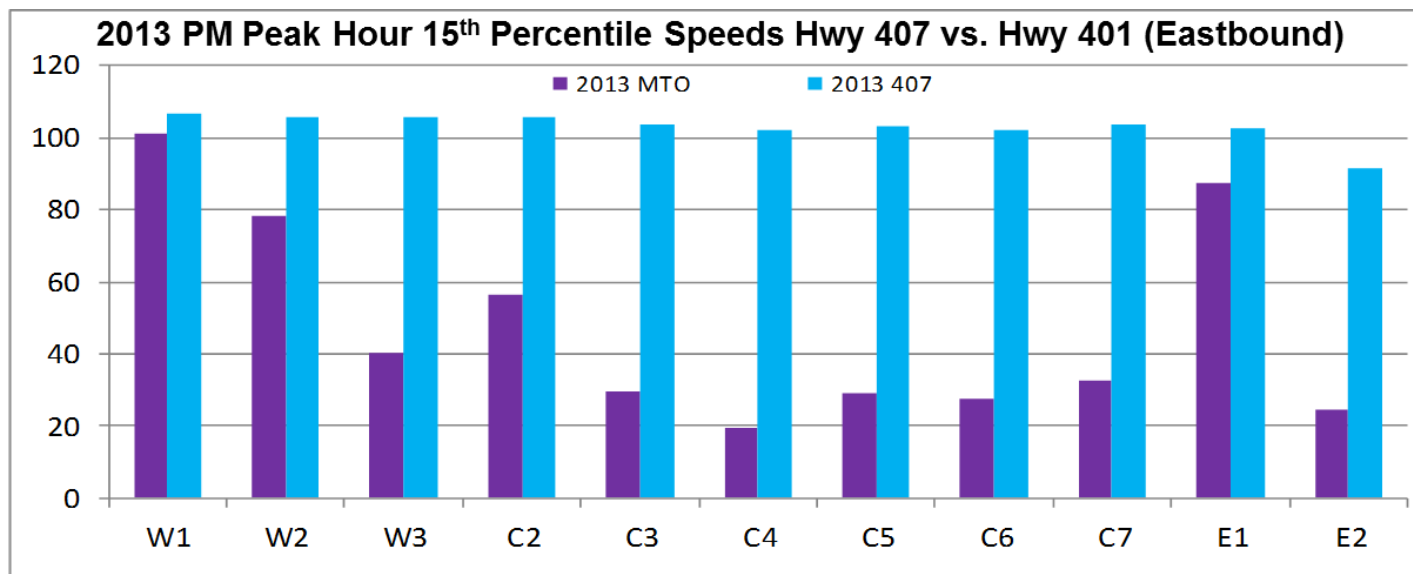


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TRAFFIC AND REVENUE FORECASTING

» Econometric Model

- » A calibrated model is used to support traffic and revenue forecasts
- » The model incorporates the traffic demand response to: the economy, fuel costs, operating speed advantage of Highway 407, and toll price
- » Highway 407 Speed – Significant advantage to alternative routes



Source: TomTom Data **TOMTOM**



TRAFFIC AND REVENUE FORECASTING

» Econometric Model

- » A calibrated model is used to support traffic and revenue forecasts
- » The model incorporates the traffic demand response to: the economy, fuel costs, operating speed advantage of Highway 407, and toll price
- » Toll Price – Effect less than economic growth and speed advantage



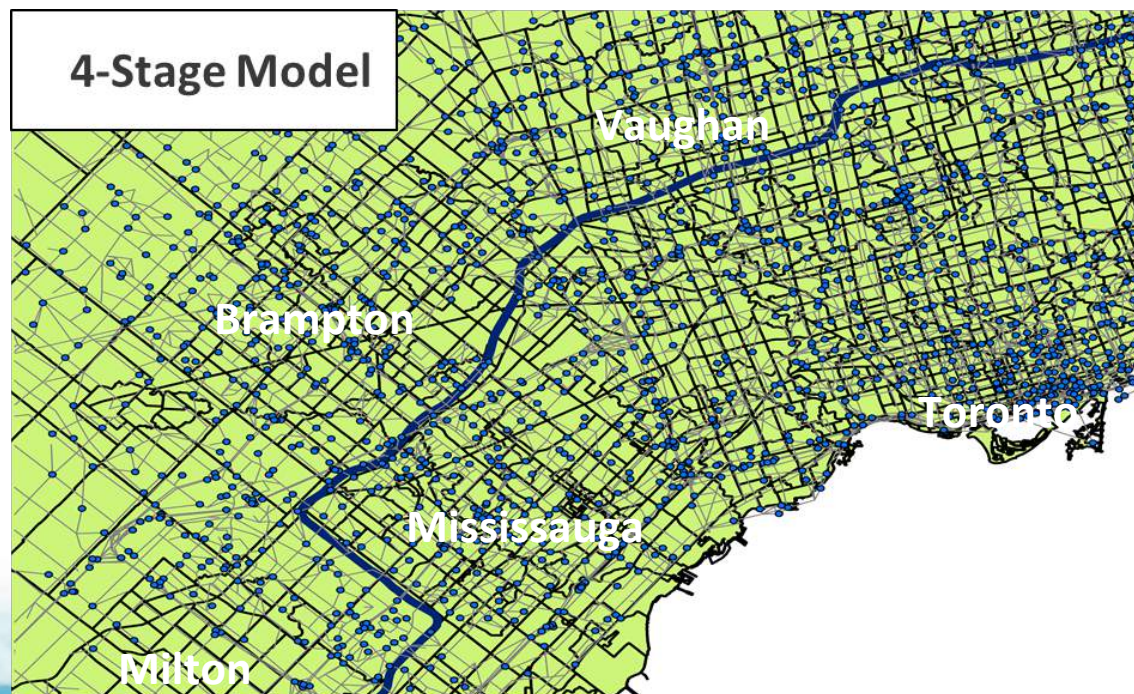
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TRAFFIC AND REVENUE FORECASTING

» Travel Demand Forecasting Model (4-Stage Model)

» The effect of speed change from improvements to alternative routes are projected using traditional 4-stage transportation model of the GTHA:

1. Project total trips to/from each community (population, employment).
2. Estimate trips between communities based on extensive travel surveys.
3. Identify the percentage of trips that are by auto.
4. Replicate major road network capacity (& tolls) and predicts routes chosen.
The change in trips is projected for improvements to alternative routes.



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TRAFFIC AND REVENUE FORECASTING

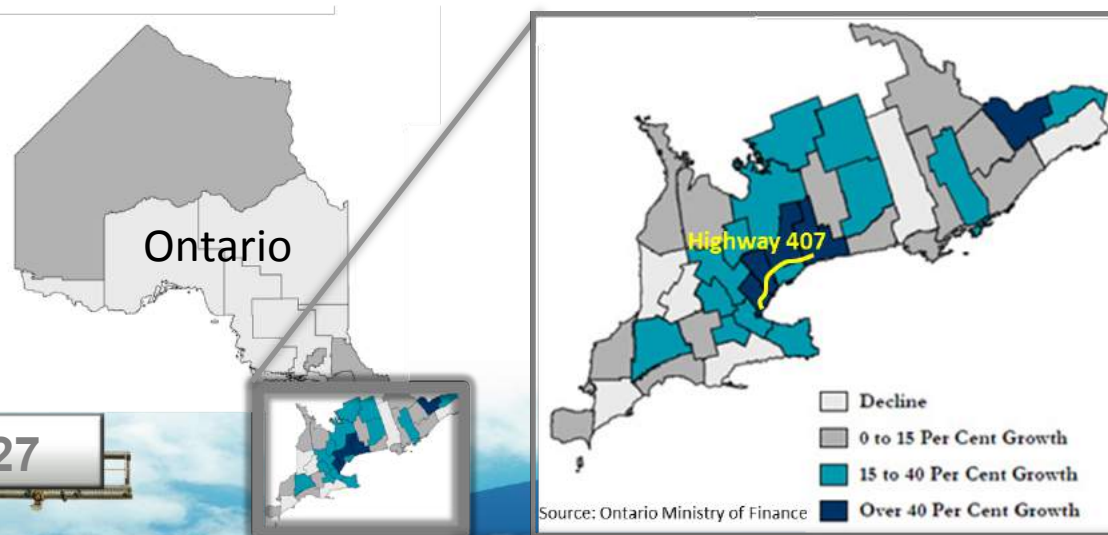
» Long-term Outlook

- » Sustained long-term GDP growth supported by population growth plans within the Highway 407 catchment (Provincial Growth Plan)
- » Very few improvements planned for alternative routes
- » Concession agreement allows flexibility in pricing strategies

Table 2.1 Ontario's Long-Term Economic Outlook

Average Growth (Per Cent)	Actual (Average)	Projection (Average)					
	1982–2013	2014–17	2018–22	2023–27	2028–32	2033–35	2014–35
Real GDP	2.6	2.5	2.1	1.9	2.1	2.1	2.1
Nominal GDP	5.3	4.2	4.1	3.8	4.0	4.1	4.0

Source: Ontario Ministry of Finance (2014)

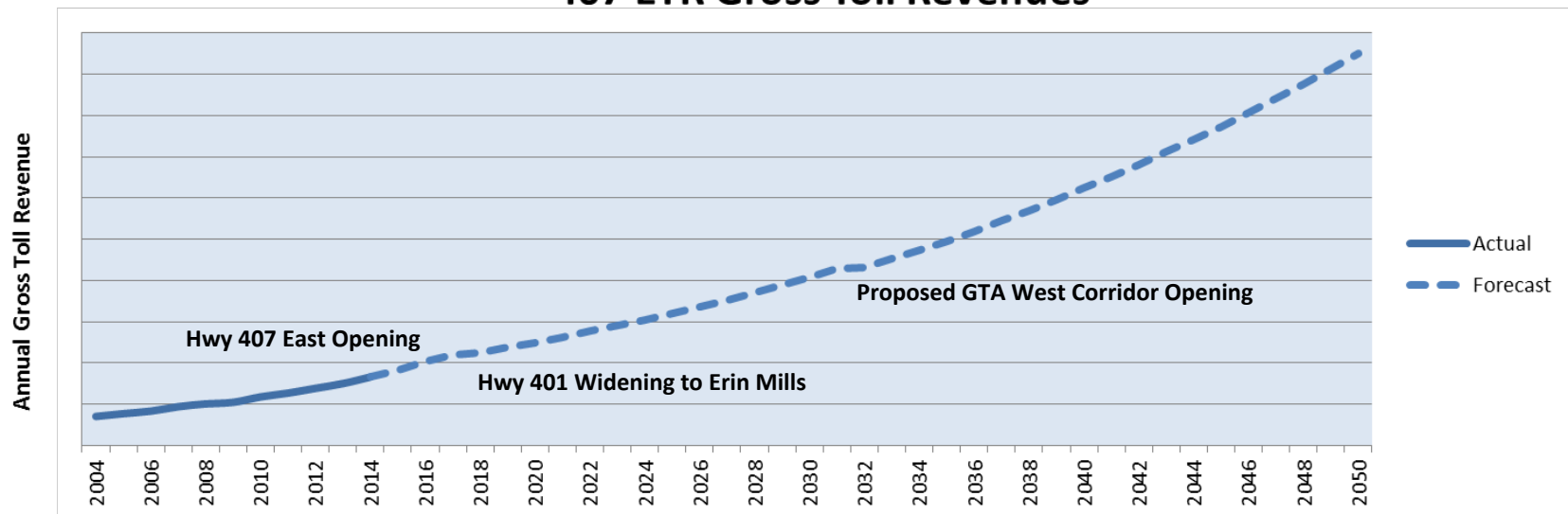


TRAFFIC AND REVENUE FORECASTING

» Long-Term Outlook – Projected Revenue Growth

- » Projections reflect econometric model and projections of GDP, fuel costs and efficiency and anticipated toll pricing
- » Projections take into account network changes on alternative routes
- » Year-over-year change in revenue anticipated to remain positive
- » Increasing revenues even in years of traffic reduction

407 ETR Gross Toll Revenues



Annual Gross Toll Revenue

— Actual
- - Forecast

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TRAFFIC AND REVENUE FORECASTING

» Long-Term Outlook – Price Elasticity

- » How long can rates increase without a reduction in traffic?
- » Toll price has proven to be inelastic over time
- » Effect of toll price on the use of Hwy 407 different for each customer:
 - » Toll price elasticity is linked to household travel expenditure budgets, but also linked to household travel time budgets
 - » Each customer has a different price threshold for reducing toll use
- » 407 ETR is tracking price elasticity and will moderate price increases accordingly:
 - » Track historical customer response to price changes
 - » Track percentage of business trips (less price sensitive)
 - » Survey of customers' travel budgets
 - » Track and survey of customers' opinions and attitudes
- » Traffic and Revenue forecasts include conservative assumptions about:
 - » Future toll price elasticity
 - » Future price increases

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LITIGATIONS UPDATE



LITIGATION UPDATE 1 - PLATE DENIAL / DISCHARGED BANKRUPTS

- » In October 2011, 407 ETR successfully litigated the Moore case in Superior Court, which confirmed that plate denial applies to pre-bankruptcy amounts owed by a discharged bankrupt customer.
- » The Moore case was appealed by the Federal Superintendent of Bankruptcy to the Ontario Court of Appeal, with two matters at issue:
 1. “Fresh Start” principal envisioned by the federal *Bankruptcy and Insolvency Act*.
 2. Operational conflict between provincial law (regarding vehicle licensing) and federal law (the *Bankruptcy and Insolvency Act - BIA*).
- » In December 2013, the Ontario Court of Appeal found in favour of the Superintendent of Bankruptcy, setting aside the lower court decision and deciding that plate denial does not apply to discharged bankrupts since that would deny them the ability to have a “fresh start”.
- » In January 2014, 407 ETR was successful in obtaining a stay of the Court of Appeal decision pending the outcome of 407 ETR’s application seeking leave to appeal to the Supreme Court of Canada.
- » In May 2014, 407 ETR was granted leave to appeal and several provinces participated as interveners as the question of provincial powers vs. BIA was at issue
- » Hearing took place in January 2015 and decision is pending.



LITIGATION UPDATE 2 - PLATE DENIAL / DISCHARGED BANKRUPTS - PROPOSED CLASS ACTION

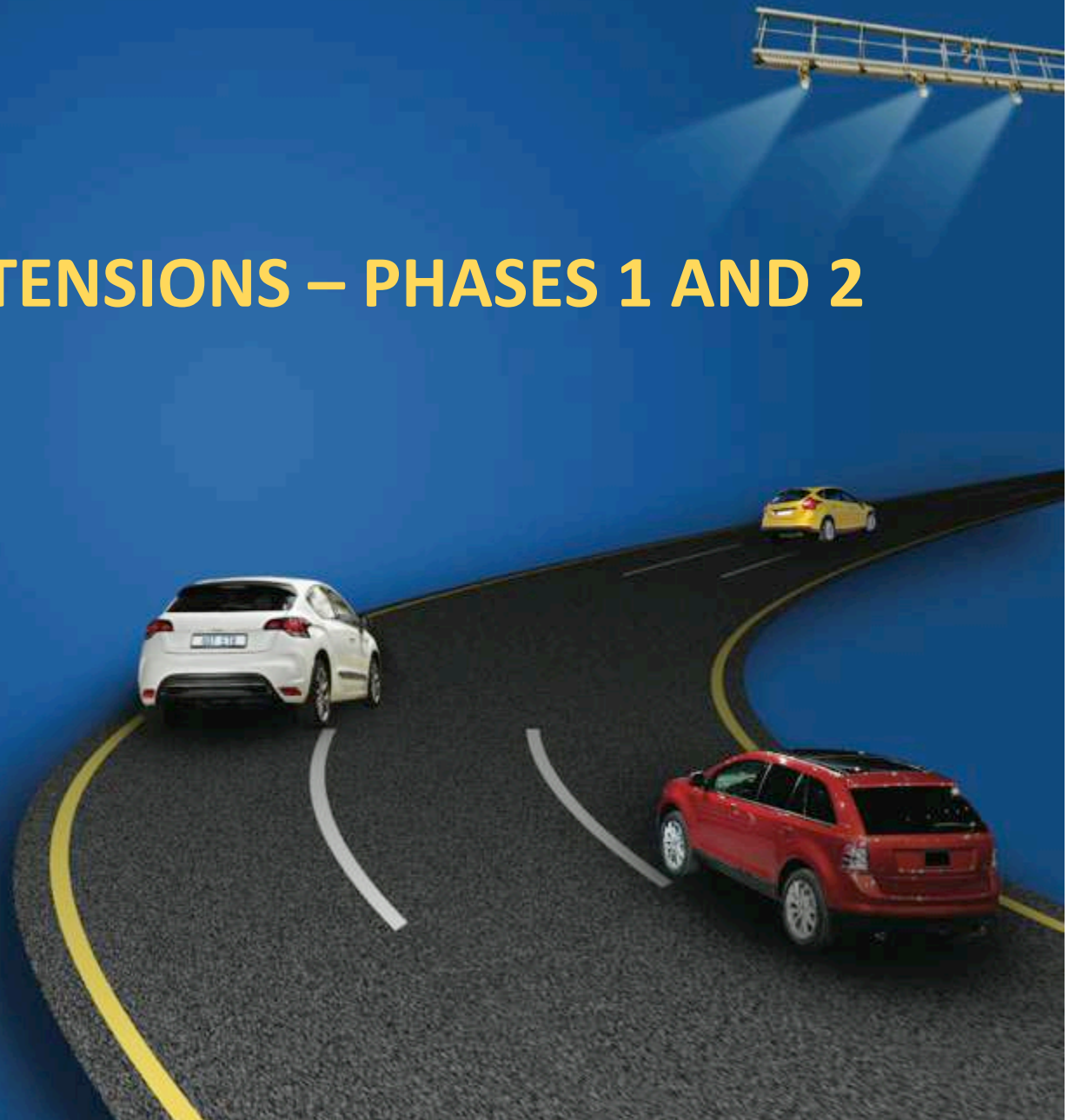
- » In April 2012, a proposed class action commenced against 407 ETR based on the same key issues as in the Moore case (e.g. application of plate denial to pre-bankruptcy amounts owed by discharged bankrupt customers).
- » 407 ETR intends to vigorously oppose the class action, which remains at an early stage.
- » The outcome of the class action will depend on various factors, including the outcome of the Moore case at the Supreme Court of Canada, the class certification process, and potential class settlement and/or trial.
- » It is not expected that the final outcome of either the Supreme Court of Canada decision or the final determination of the proposed class action will materially affect the Company's financial position.

LITIGATION UPDATE 3 - LIMITATIONS ACT - COLLECTIONS

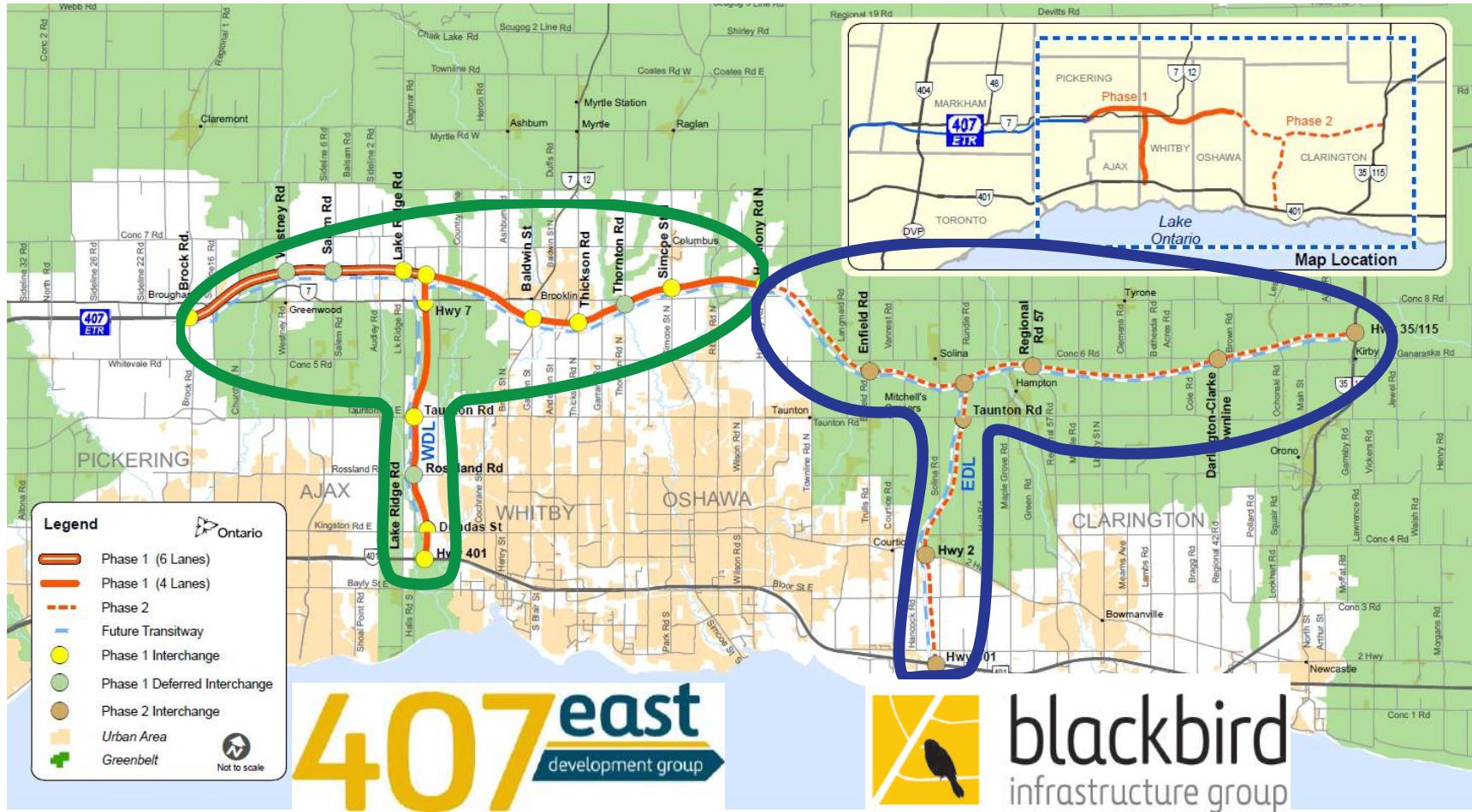
- » 407 ETR Transponder lease and invoice noted a 15-year period was in effect.
- » November 2014 - Ontario Superior Court determined that, under the Ontario *Limitations Act*, 407 ETR has two years from the date of licence plate denial to commence legal proceedings for toll debts owed by personal transponder or video customers.
- » 407 ETR is seeking clarification as to exactly when the two-year period begins (invoice date or notice of plate denial or date plate denial begins) and will consider an appeal upon reviewing the clarification.
- » 15-year collection period still in place for Transponder leases related business customers.
- » It is not expected that the final outcome of this decision or any appeal outcome will materially affect the Company's financial position as 407 ETR will adjust processes to optimize collections within the timeframes prescribed. Financial statements will reflect any expected changes to net accounts receivable as a result.

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407 EAST EXTENSIONS – PHASES 1 AND 2



407 EAST : PHASE 1 407 EDG and PHASE 2 BLACKBIRD



Cantoll

Phase 1 - (Sub of 407 International) installs, updates and manages seamless tolling and backoffice system, customer service and collection. Customer gets one bill / one Transponder.



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THANK YOU



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