ATCO

ATCO LTD. | **2017** | ANNUAL REPORT

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OUR VISION

Our core vision is to improve the lives of our customers by providing sustainable, innovative and comprehensive energy and housing solutions globally.

OUR OPERATING PRINCIPLES

We believe in well-managed risk and a disciplined approach to growth. We fuel the imagination of our people to drive growth over the long term, ultimately delivering value to our customers and our share owners.

Our strong financial and operating performance reflects our approach to sales and our customers, the strength and determination of our people, a deeply embedded focus on operational excellence with its inherent cost controls, and careful consideration of the environmental and social impact of our actions — now and for the future.

In 2017, we partnered with Clark Builders to provide our expertise in a rooftop solar project at the University of Alberta's Augustana Campus in Camrose, Alberta.

OUR INTEGRATED SOLUTIONS

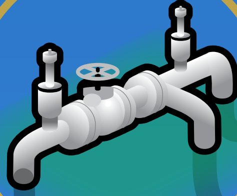
We are privileged to serve more than two million customers around the world, providing integrated, forward-thinking solutions in Structures & Logistics, Electricity, Pipelines & Liquids and Retail Energy. From reliable, sustainable energy for homes and businesses to innovative temporary and permanent structures and everything in between, we build communities, energize industries, and deliver customer-focused infrastructure solutions.

RETAIL ENERGY SALES

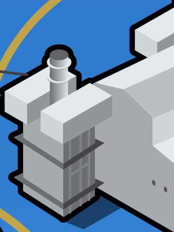
MUNICIPAL

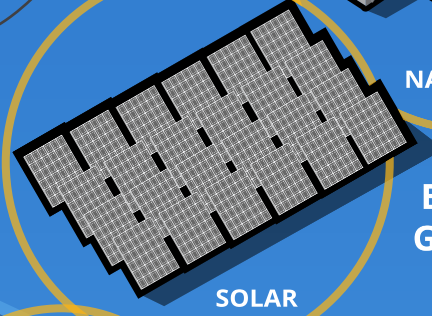
RESIDENTIAL

- HOMES
- SOLAR PANELS
- MICRO COMBINED HEAT & POWER
- HOME ENERGY MANAGEMENT SYSTEM
- BATTERY STORAGE
- ELECTRIC VEHICLE CHARGING

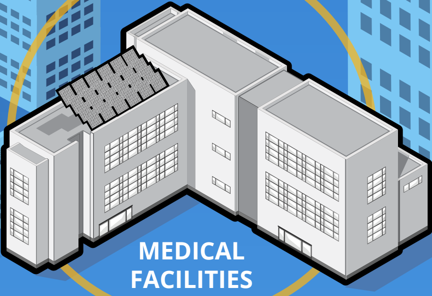

NATURAL GAS
TRANSMISSION
& DISTRIBUTION

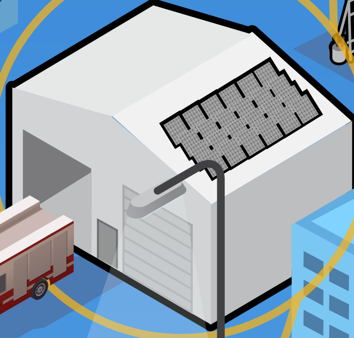
ELECTRICITY
TRANSMISSION
& DISTRIBUTION

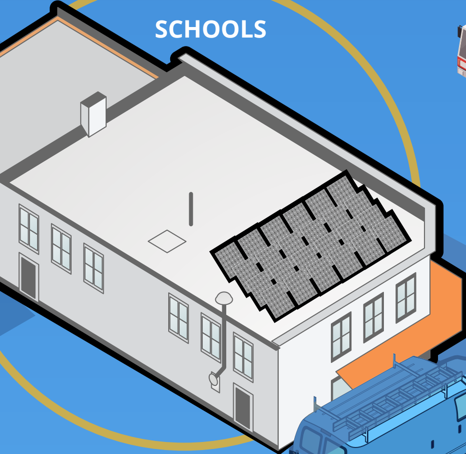



SOLAR

HYDRO

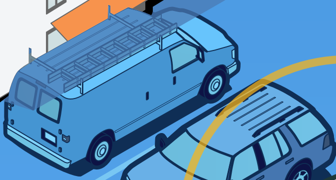

MEDICAL
FACILITIES
MODULAR STRUCTURES

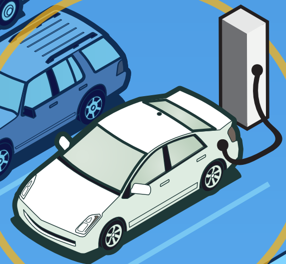

FIREHALLS


SCHOOLS

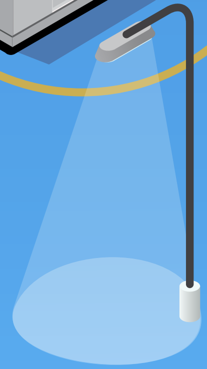
LED STREET LIGHTS

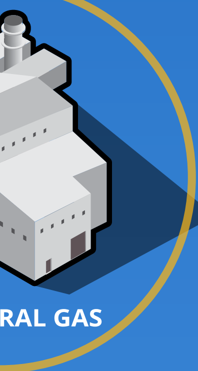
MOBILE OFFICES
ATCO
ATCO





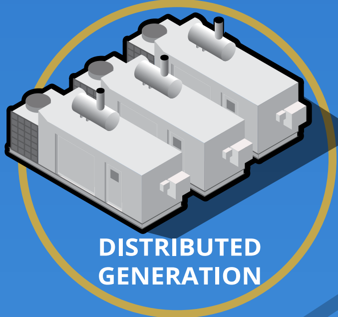
ELECTRIC VEHICLE CHARGING

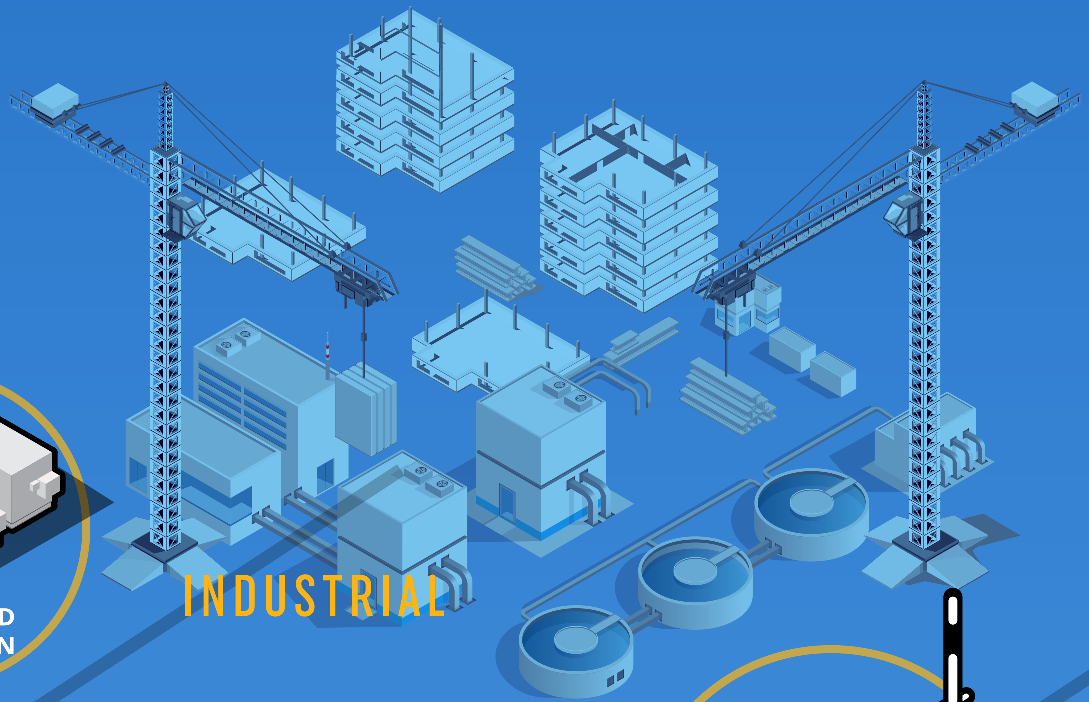


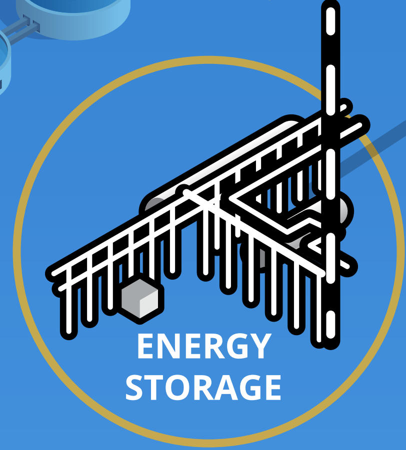


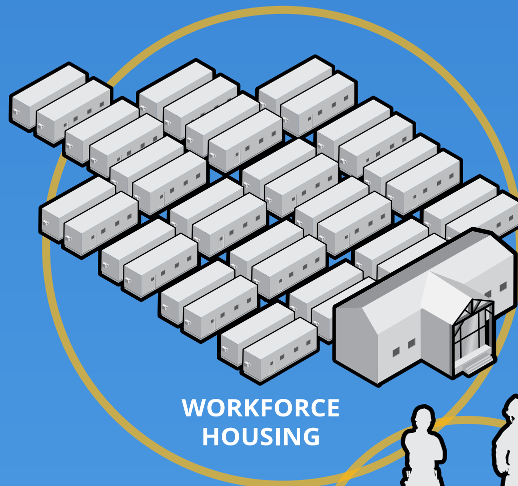
RAL GAS

CTRICITY
IERATION









- OPERATIONS & MAINTENANCE
- LODGING SERVICES
- SITE SERVICES

ATCO LTD. FINANCIAL HIGHLIGHTS

This data (other than funds generated by operations, capital investments and adjusted earnings per share) has been extracted from financial statements which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar.

For further information, please see the ATCO Ltd. Consolidated Financial Statements & Management's Discussion and Analysis.

Consolidated Annual Results

YEAR ENDED DECEMBER 31
(Millions of Canadian dollars except per share data)

	2017	2016
FINANCIAL		
Revenues	**4,541**	4,045
Adjusted earnings	**335**	360
Earnings attributable to Class I & Class II shares	**203**	340
Total assets	**21,775**	19,724
Class I & Class II share owners' equity	**3,593**	3,546
Funds generated by operations	**1,813**	1,912
Capital investments	**1,821**	1,609
CLASS I NON-VOTING & CLASS II VOTING SHARE DATA		
Adjusted earnings per share	**2.93**	3.15
Earnings per share	**1.78**	2.97
Dividends paid per share	**1.31**	1.14
Shares outstanding (thousands)	**114,660**	114,653
Weighted average shares outstanding (thousands)	**114,352**	114,411

FORWARD-LOOKING INFORMATION:

Certain statements contained in this Annual Report constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

$22

BILLION IN ASSETS

2M+

GLOBAL CUSTOMERS

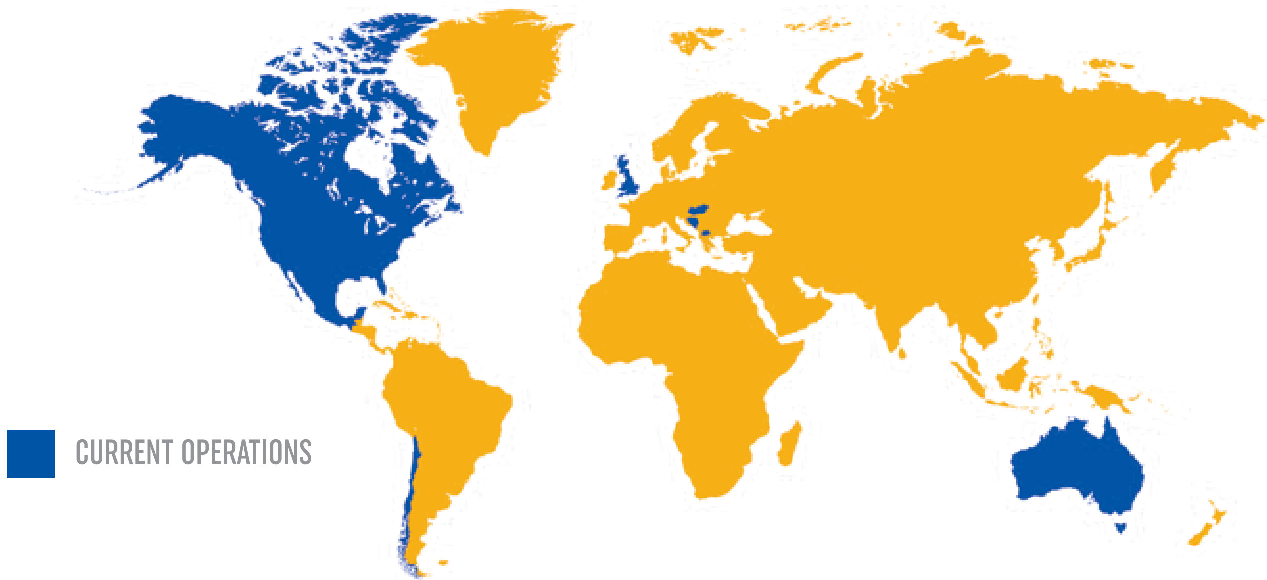
100+

COUNTRIES IN OUR 70-YEAR HISTORY

APPROXIMATELY

7,000

EMPLOYEES



7 MODULAR BUILDING MANUFACTURING FACILITIES

2 CANADA 2 U.S. 2 AUSTRALIA 1 CHILE

200,000 M3

HYDROCARBON STORAGE CAPACITY

64,500 KMS

NATURAL GAS PIPELINES

52 PJ

NATURAL GAS SEASONAL STORAGE CAPACITY*

85,200 M3/D

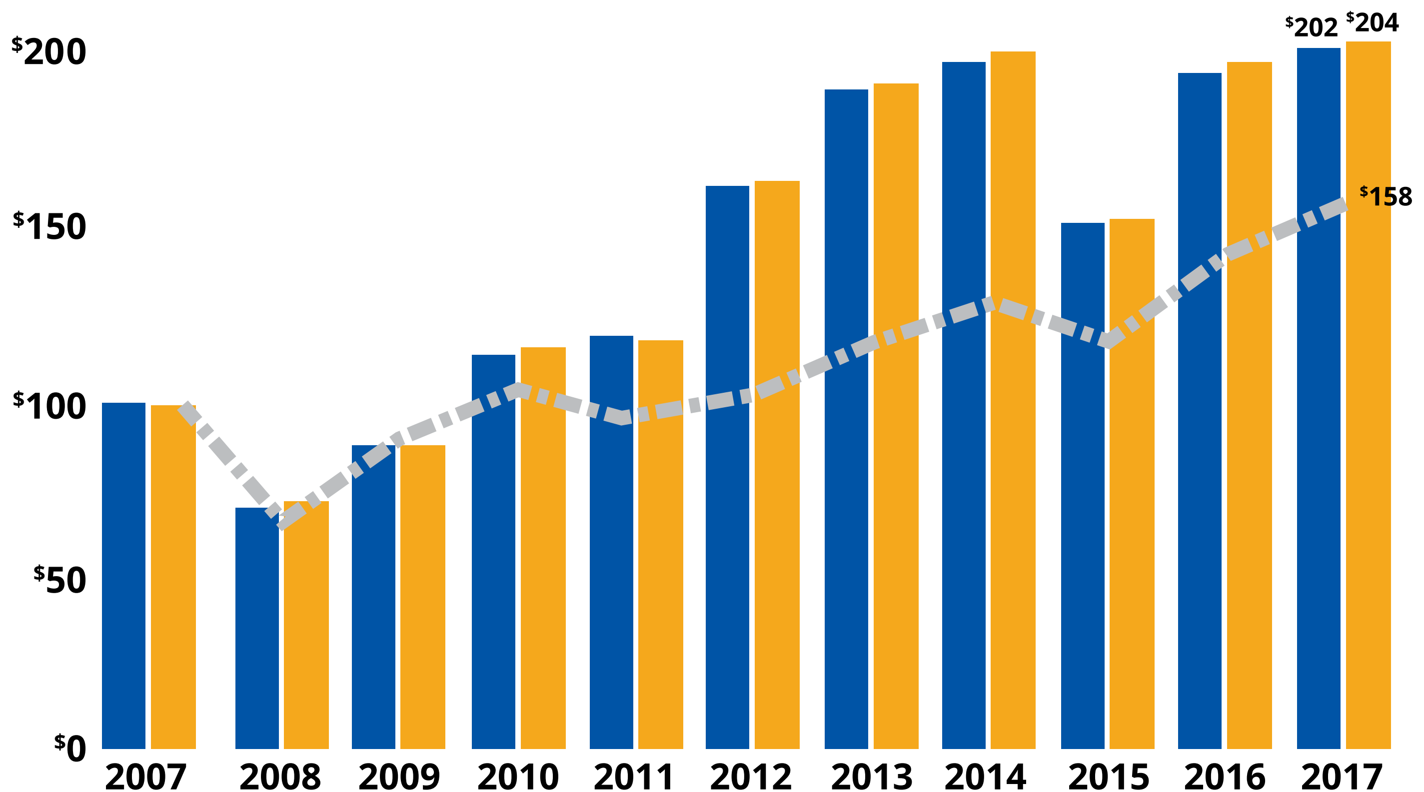
WATER INFRASTRUCTURE CAPACITY**

18 POWER PLANTS WITH A COMBINED GENERATING CAPACITY SHARE OF 2,482 MW***

87,000 KMS ELECTRIC POWERLINES

*petajoules **cubic metres per day ***megawatts

TEN-YEAR TOTAL RETURN ON $100 INVESTMENT



		Compound Growth Rate	Cumulative Return
Class I Non-Voting (ACO.X)	■ (blue)	7.3%	**$202**
Class II Voting (ACO.Y)	■ (orange)	7.4%	**$204**
S&P/TSX Composite	▬ ▬	4.6%	**$158**

This graph compares the cumulative share owner return over the last ten years of the Class I Non-Voting and Class II Voting shares of the Company (assuming reinvestment of dividends) with the cumulative total return of the S&P/TSX composite index.

ATCO SHARE OWNERSHIP FOR PRESENT & PROSPECTIVE OWNERS

It is important for prospective owners of ATCO shares to understand that ATCO is a diversified group of companies principally controlled by Sentgraf, a Southern family holding company. It is also important for present and prospective share owners to understand that the ATCO share registry has both non-voting and voting common shares.

MESSAGE TO

SHARE OWNERS

> "Over the course of 2017, we redoubled our efforts to reinforce your company's resilience and robust operations, while also positioning ourselves to capture the economic promise of a truly disruptive future."

Dear Share Owners,

There's little doubt that 2017 was a tumultuous year for our world – a true case study in dichotomous geopolitical and socioeconomic trends. While consumer spending, employment and trade gained momentum in many countries, geopolitical strife, catastrophic natural disasters and deepening political divisiveness weighed heavily on our collective consciousness. And yet, optimism for our shared economic fortunes endures.

Some business and political leaders may be satisfied with gradually improving prospects, lulled into complacency as the drag of low commodity prices unwinds and labour conditions recover. Not so for your company, nor the 7,000 incredible women and men who have so firmly fixed their eyes to the horizon.

As the economic headwinds of the past several years abate, the industries in which we operate are experiencing more far-reaching, structural changes – disruption of a pace and scale unparalleled in modern history. Whether by reimagining what's possible for utility infrastructure using the Internet of Things, empowering customers with data-driven distributed energy resources, or revolutionizing manufacturing processes using 3D printing, our technological ecosystem is changing at rocket-like speed.

Over the course of 2017, we redoubled our efforts to reinforce your company's resilience and robust operations, while also positioning ourselves to capture the economic promise of a truly disruptive future.

IMAGINATIVE SOLUTIONS FOR A DISRUPTIVE WORLD

Ensuring our success in that uncertain and evolving future requires that we act decisively – and that's exactly what we have done. The transformative changes we began in 2015 have firmly taken root. Our people are now ready to deliver integrated, forward-thinking solutions for our customers around the world.

There are perhaps no better examples of the tremendous capacity of our integrated approach than some of the exciting projects our teams have been piloting around the world – pioneering innovative hybrid energy solutions as a means of not simply lowering emissions, but lowering costs as well.

For example, at Red Deer College in Alberta, our teams provided their exceptional expertise in design, engineering, and the deployment of renewable and natural gas-fired technologies to power the college and its Alternative Energy Lab, providing both clean electricity and a hands-on learning environment for the energy innovators of tomorrow. It's a solution not unlike what we have piloted south of Perth, Australia, with our GasSola project, where we recently finalized the installation of rooftop solar, battery storage and natural gas-fired generation

to provide reliable clean energy to homeowners. Beyond the valuable data we are gathering on how these distributed energy technologies integrate with the grid, these projects provide us with working knowledge of how to develop and commercialize similar projects around the world. You'll find many such examples of this same integrated, imaginative thinking throughout this year's report.

HURRICANE MARIA

Of course, not every example of our holistic approach need be specific to a single product or service. In fact, the true strength of our 'one ATCO' philosophy is drawn from those who personify it, and their herculean ability to rapidly mobilize and respond for our customers. This remarkable agility was on vivid display in the wake of the devastating hurricane that ravaged the island of Puerto Rico in September.

Immediately after Hurricane Maria's landfall, a team from across ATCO travelled to the island to investigate how we could best support the community. Perhaps even more striking than our people's swift deployment was the spirit with which they operated – one team, drawn from across our vast and diverse company, united in their unwavering commitment to our customers. For more on their exceptional efforts, I encourage you to read page 31.

GLOBAL GROWTH

Internationally, we also continued to build momentum in 2017:

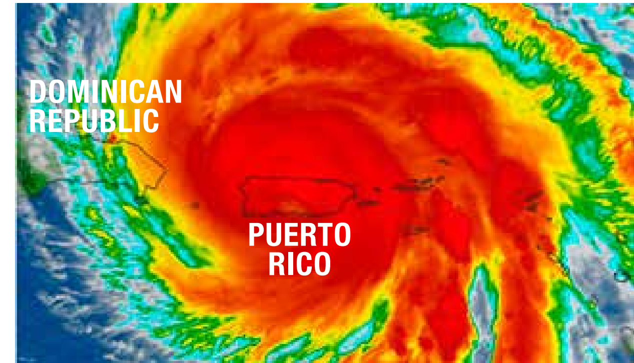
In October, George Opocensky, our Senior Vice President & General Manager for Electricity in Mexico, assumed overall accountability for our Mexico operations. Drawing upon nearly 30 years of operational and leadership experience, George is now focused on further growing our relationships in the promising Mexican market and identifying strategic opportunities for our complementary products and services.

In December, we announced the acquisition of a 35-megawatt hydroelectric facility in the state of Veracruz, Mexico. While modest in size, the facility is an important stepping stone in building our global renewable energy portfolio, and further solidifies our position in Mexico's enormously promising – but largely underdeveloped – energy sector.

To capitalize on the tremendous global progress we have made in recent years, we have deployed some of our most insightful and experienced leaders to steward our continued growth. In May, we appointed Pat Creaghan as our Managing Director for ATCO in Australia. With nearly 30 years of experience in a variety of operational and leadership roles – most recently as our Senior Vice President of Corporate Development – Pat is uniquely suited to further build our growth strategy in Australia.

Also in May, we appointed Ray Boven as Managing Director for our operations in South America, based in Chile. Blessed with abundant natural resources, yet in significant need of modern energy and water infrastructure, the region is ripe with promise for a company such as ours. Ray will draw upon his extensive expertise in the execution of major projects within our Electricity Global Business Unit to help expand our market presence.

As we look to further grow our international portfolio, it is imperative that we fully understand the issues and trends shaping the global landscape. That is why, in June, we issued a call for volunteers from



> "Immediately after Hurricane Maria's landfall, a team from across ATCO travelled to the island to investigate how we could best support the community."

" It is simply not enough for these solutions to exist in isolation. They must be championed by a truly courageous team – standard-bearers for our company, our customers and our Share Owners. "

across our enterprise to join our newly formed Strategic Research & Development Team. Nearly 100 volunteers from across our company offered to lend their expertise – a testament to the incredible passion the people of ATCO have for the future of your company.

The team worked with some of the world's leading academics, strategic thinkers, government departments and international organizations before presenting their findings to our Board of Directors in late 2017. The speed and enthusiasm with which they completed this strategically vital task, and the exceptional insights they uncovered, were truly beyond compare. Now, armed with this extraordinary research, we have begun to devise an even more assertive global growth strategy, one that will open new geographic and industrial frontiers that are uniquely suited to our integrated energy and infrastructure expertise.

ENGAGING OUR PEOPLE

Of course, building an enterprise capable of not simply competing, but winning, in the future depends on much more than innovative products and services. It is simply not enough for these solutions to exist in isolation. They must be championed by a truly courageous team – standard-bearers for our company, our customers and our Share Owners. To that end, over the past year we've done far more than simply harness the power of technology. We've also renewed our efforts to harness the power of our people.

Early in the year, we implemented our first-ever global employee engagement survey. More than 85 per cent of our people participated – a remarkable response rate for a company of our size and geographic diversity. The results provided us with invaluable insight into areas of significant strength, including an overwhelming sense of pride in our company and its commitment to Indigenous communities, and gave voice to the terrific energy for change that resides within our people. Beyond simply improving the agility, speed and decisiveness with which we operate, our people have already begun the dismantling of any unnecessary bureaucracy that stands in the way of providing for our customers.

To support our people in delivering customer-centric solutions, we also undertook a series of leadership changes over the course of the year, appointing some of our most exceptional leaders from across the business to new and expanded roles, while also bidding fond farewell to some long-serving members of our company.

In January 2018, we announced the retirement of a dear friend and long-serving member of our Executive Committee, Erhard Kiefer, after more than 35 years with ATCO. Ever an advocate for our people, Erhard is the epitome of the ATCO 'Heart and Mind' and brought our Founder's definition of Excellence to all he undertook.

Also early this year, to help us capture the opportunities afforded through our ever-evolving technological landscape, we welcomed back George Constantinescu as Senior Vice President & Chief Transformation Officer. George, who previously served our company for nearly 20 years, will draw upon his entrepreneurial experience in energy and non-energy industries to help ensure we are not only well-positioned to play a disruptive role in some of our traditional industries, but to thrive in new and emerging sectors.

In November, we announced the retirement of Steve Lockwood, President & Chief Operating Officer, ATCO Structures & Logistics. With his retirement, we unveiled a new structure within our Structures & Logistics Global Business Unit – one designed to improve the delivery of products and services around the world. Adam Beattie, who was instrumental in the growth and diversification of our Structures & Logistics business in Australia over the last 15 years, assumes the role of Senior Vice President & General Manager, Structures. Concurrently, Jim Landon, who joined our company in May as Vice President, Strategic Research & Development following an illustrious 28-year career with the British Army, was appointed Senior Vice President & General Manager, Frontec.

Finally, in June, Dennis DeChamplain assumed the role of Senior Vice President & Chief Financial Officer, following the retirement of Brian Bale after more than 35 years with our company. Brian's vision, inclusive leadership and inexhaustible courage had long defined our financial success, and he served you, our Share Owners, with extraordinary distinction. Dennis has proven himself a true master of finance and regulatory economics over his 26-year career with ATCO, and in just a few short months has demonstrated exemplary commitment to preserving our financial strength.

A VIEW OF TOMORROW

The people of your company are truly charting a bold course for the future. A course that doesn't simply embrace the disruptive technological and digital trends transforming our industries, but gives shape to them. I thank them for their renewed imagination, exceptional engagement and shared passion for creating a prosperous future for our company and our customers. I would also like to recognize the support provided by our Board of Directors, and thank them for their stalwart guidance and counsel.

To all our Share Owners, on behalf of our entire leadership team, thank you for your continued trust. It is truly an exciting time for your company, and we have only just begun.

Sincerely,

Nancy Southern
Chair & Chief Executive Officer

CORPORATE GOVERNANCE

Ensuring that our business operates in a transparent, ethical and accountable manner is critical in creating strong and sustainable value for our share owners and in promoting the company's well-being over the long-term.

We don't believe in a one-size-fits-all approach to governance. Our Board of Directors has designed and implemented a unique and effective system of checks and balances that recognize the need to provide autonomy to our various business units, while accommodating the requirements of our regulated and non-regulated businesses.

This fit-for-purpose approach to governance has worked exceedingly well over the years, providing our Board of Directors and senior management team with the foundation to create long-term value for our share owners.

Following are some of the highlights of our model for corporate governance. For a more complete picture, please see the Governance section of the Management Proxy Circular.

OUR BOARD OF DIRECTORS

The role of our Board of Directors has evolved alongside our business, providing oversight to an organization with a growing global footprint and a diverse, yet complementary suite of premier products and services. The Board strives to ensure that its corporate governance practices provide for the effective stewardship of the company, and it regularly evaluates those practices to ensure they are keeping with the highest standards.

Key elements of our corporate governance system include the oversight and diligence provided by the Board, the Lead Director, the Audit & Risk Committee and our Corporate Governance – Nomination, Compensation and Succession Committee (GOCOM). Although not required by securities laws, some of our governance tools, such as the use of Designated Audit Directors, also reinforce the effectiveness and rigour of our governance model.

Much like our business operations, the strength of our Board of Directors is due in no small part to the diverse nature of skills, talent and experience each member brings to the Board's deliberations.

OUR LEAD DIRECTOR

In 1995, ATCO was among the first public companies in Canada to introduce the concept of a Lead Director. Mr. Charles W. Wilson is the current Lead Director for ATCO, and was appointed to this position on April 1, 2003. The Lead Director provides the Board with the leadership necessary to ensure independent oversight of management. The Lead Director is an independent director and must be a member of GOCOM.

DESIGNATED AUDIT DIRECTORS

Distinctly unique to ATCO are the Designated Audit Directors (DADs) who are directors of either ATCO or Canadian Utilities. Each DAD is assigned to one of our Global Business Units to provide oversight based on their strengths and experience in various industry sectors.

Each DAD meets quarterly with the relevant leadership of the Global Business Unit, and holds annual meetings with internal and external auditors. In addition, they review the financial statements and operating results of their respective Global Business Unit, discuss risks with management, and report on both operating results and risks to our Audit & Risk Committee.

DIRECTORS

From left to right:

Denis M. Ellard *Corporate Director*

Robert T. Booth, Q.C. *Partner, Bennett Jones LLP*

Michael R.P. Rayfield *Corporate Director*

Charles W. Wilson *Lead Director*

Nancy C. Southern *Chair & Chief Executive Officer*

Roger J. Urwin, PhD, C.B.E. *Corporate Director*

Robert J. Routs, PhD *Chair of the Supervisory Boards of AEGON N.V. and Royal DSM N.V.*

Linda A. Southern-Heathcott *Vice Chair, ATCO Ltd. and President & Chief Executive Officer, Spruce Meadows Ltd.*

Susan R. Werth *Corporate Director*

C. Anthony Fountain *Chair of Essar Oil Limited*

Our new state-of-the-art campus, ATCO Park, supports our people in being productive, creative and connected to their colleagues and the Calgary community.

LEADERSHIP TEAM

From the field to the office, our people have always been our greatest competitive advantage. The incredible strength of our team around the world has enabled us to assemble an exceptionally experienced Executive Team. Comprised of talented business leaders from a diverse range of industries, our team brings decades of operational excellence and a shared, unwavering commitment to our customers.

From left to right:

Adam Beattie *Senior Vice President & General Manager, Structures*

Wayne Stensby *Managing Director, Electricity*

George Lidgett *Managing Director, Pipelines & Liquids*

Dennis DeChamplain *Senior Vice President & Chief Financial Officer*

Nancy Southern *Chair & Chief Executive Officer*

Siegfried Kiefer *President & Chief Strategy Officer*

Jim Landon *Senior Vice President & General Manager, Frontec*

Sett Policicchio *Managing Director, Customer Services*

George Constantinescu *Senior Vice President & Chief Transformation Officer*

MESSAGE FROM THE

PRESIDENT & CHIEF STRATEGY OFFICER

> "Time and time again, our company has demonstrated that it learns, adapts and brings its collective best in delivering integrated, innovative solutions that far exceed the expectations of our customers."

It will come as no surprise to our Share Owners that the world is changing – perhaps more rapidly today than at any time since the Industrial Revolution of the late 18th and early 19th centuries. A confluence of major global trends has upended entire industries, reshaped democracies and redefined what is possible for businesses, customers and governments.

TRENDS SHAPING OUR WORLD

Emerging economies have risen to the fore, spurred by a combination of population growth, urbanization and technological development. Some have gone so far as to characterize the experience of these emerging markets as a simultaneous industrial and urban revolution. And, with 70 per cent of the world's population expected to live in these increasingly modern cities by mid-century, demand for essential infrastructure – such as high-quality affordable housing and sustainable electricity – will grow substantially.

Simultaneously, the need for all forms of natural resources is mounting. The availability of food, energy, water and raw materials will determine the continued prosperity of developed economies and enable emerging markets to attain the same standard of living as enjoyed by the developed world. Even today, the availability of food and fresh water is insufficient to support those in the developing world, and providing the energy and infrastructure needed to meet these basic human needs will be a monumentally important task.

Finally, we'll need to contend with those disruptive trends that are both difficult to predict and colossal in their impact. Increasing mass migration, geopolitical conflict and catastrophic natural disasters are already placing significant strain on people, businesses and governments. Increasingly, countries will need to expand their efforts to prepare for, and respond to, the impacts of these events, and ensure that robust humanitarian and disaster relief programs are at the ready.

OPPORTUNITIES FOR YOUR COMPANY

The common thread that links each of these global trends is your company's ability to respond. In fact, there are few, if any, better-suited enterprises in the world to meet the growing demand for integrated and scalable disaster response, logistics support, housing, energy and infrastructure solutions than ATCO, and our incredible team of nearly 7,000 people around the world.

Our Structures and Frontec divisions, with an extraordinary shared global history spanning more than 100 countries, are uniquely positioned to respond rapidly to the needs of our customers, establishing a beachhead in jurisdictions in immediate need of disaster relief, humanitarian support, infrastructure and affordable housing. From these foundations, we can begin to introduce the full breadth of our integrated expertise – a combination of energy, water and infrastructure products and services. And it is through that holistic lens that we have intensified our focus on jurisdictions, projects and opportunities that lend themselves to

our complementary capabilities. From large resource development projects within emerging markets in need of energy, workforce accommodations and industrial water solutions to communities suffering from significant electricity and housing infrastructure deficits, our company can deliver the solutions our customers require.

A HOLISTIC POLICY PERSPECTIVE

While we have redoubled our efforts to find opportunities for growth abroad, we continue to work diligently to create value within our existing portfolio in Canada. We are working actively to support our Indigenous partners in ensuring access to safe, clean and reliable electricity, developing innovative modular housing solutions for new customers and pioneering innovative distributed energy solutions for industrial, residential and commercial customers.

However, charting a course for continued growth in Canada has become a more challenging prospect. The impacts of multiple and compounding government policies and regulations are layering considerable costs on businesses and individuals alike, undermining the confidence of investors, eroding the attractiveness of our industries and weakening the confidence of consumers. It goes without saying that, in our increasingly globalized economy, capital flows will continue to seek certainty.

To that end, we are working earnestly with governments at all levels, advocating for a holistic perspective on policy and its subsequent impacts to our economic competitiveness. Because, while none of these measures are implemented with ill intent, it's vital that we appreciate the long-term, cumulative consequences to our communities, businesses and customers.

INDIGENOUS PARTNERSHIPS

The enduring strength of our relationships with Canada's Indigenous Peoples has long been a hallmark of our approach to business, and we must make every effort to increasingly include our Indigenous communities in our changing economy.

From transmission projects to power generation and community infrastructure, our Indigenous partners are taking on an increased role in project development and ownership – opportunities which contribute to sustained economic and social development. Undoubtedly, this collaborative approach will be even more important in the years and decades ahead, as we continue to forge new partnerships with these vibrant and diverse communities.

THE NEXT 70 YEARS AND BEYOND

Over the course of our 70-year history, ATCO has demonstrated that it is more than the sum of its parts. Time and time again, our company has demonstrated that it learns, adapts and brings its collective best in delivering integrated, innovative solutions that far exceed the expectations of our customers.

We've taken great care to cultivate the expertise, resources and relationships needed to thrive, wherever we operate, and I have great confidence that – drawing upon our collective capabilities – ATCO will play a leading role in building and shaping the industries, communities and economies emerging in the decades ahead.

Sincerely,

Siegfried Kiefer
President & Chief Strategy Officer

STRATEGIC PRIORITIES

Innovation, growth and financial strength provide the foundation from which we have built our company. Our long-term success depends on our ability to expand into new markets and lines of business, while offering our customers premier, comprehensive and integrated solutions to meet their needs.

These strategic imperatives are supported by our unwavering commitment to operational excellence, our people and the customers and communities we are privileged to serve around the world.

For detailed information on our strategic priorities see pg. 53.

PIPELINES & LIQUIDS
STRUCTURES & LOGISTICS
ELECTRICITY
1
INNOVATION
2
GROWTH
3
OPERATIONAL EXCELLENCE
4
COMMUNITY INVOLVEMENT
5
FINANCIAL STRENGTH

1 2017 PERFORMANCE

INNOVATION

To help address demand for vocational education and training, we partnered with the NSW Technical and Further Education Department to develop a state-of-the-art learning facility in Annandale, New South Wales.

14
WEEKS
to manufacture and install our learning facility in New South Wales

From innovative modular structures for homes and communities to solar projects and edge-of-grid solutions, our people are continuously pioneering new products and services around the world. In 2017, we completed a variety of imaginative projects and initiatives, equipping our customers with solutions designed to improve environmental performance, save energy and reduce costs.

MODULAR SOLUTIONS FOR THE EDUCATION SECTOR

Around the world, industry and governments experiencing rapid growth are seeking affordable, easily installed and flexible modular structures. This is particularly true in the education sector, where the ebb and flow in class sizes and limited available space in existing facilities can strain schools and educators alike. Fortunately, our innovative modular construction techniques are perfectly suited for creating state-of-the-art, world-class learning environments.

State of Victoria Classrooms

In April 2017, we announced that we had been engaged by the State of Victoria's Department of Education and Training in Australia to construct 57 classrooms – part of a larger opportunity to supply and install new classrooms, refurbish existing classrooms, demolish and remove redundant buildings and transfer buildings from one school to another.

This program enables the Victoria Department of Education and Training to manage fluctuations in enrollment growth throughout the state school system.

New South Wales Learning Facility
Earlier in the year, we were also awarded a contract with the New South Wales (NSW) Technical and Further Education Department to design and construct a two-storey 5,400 sq. ft. permanent modular learning facility at its inner-city campus in Annandale, NSW. Manufactured and installed onsite in just 14 weeks, the cutting-edge building includes multipurpose training rooms, conference rooms and offices – providing an exceptional learning environment for the organization's many vocational and training programs.

Ermineskin Cree Nation Modular School
We frequently seek opportunities to go beyond simply engaging with our Indigenous partners, and instead look to develop infrastructure solutions that deliver lasting community benefits. One such example occurred in the second quarter of 2017, when we partnered with the Ermineskin Cree Nation to build a modular school to support the growing number of students at the Ehpewapahk Alternative School in Maskwacis, Alberta.

To help the community better serve its people, we built a facility that includes four classrooms, study rooms, a library, a fitness centre, a commercial kitchen, a staff lounge, offices and open areas for students to gather and socialize. The school was also fitted with the latest technology, including smart boards and solar panels.

Trinity Western Dormitory
In September, we celebrated the completion of a modern dormitory complex that's home to more than 130 students at Trinity Western University in Langley, British Columbia.

Skidmore Hall is a 33,000 sq. ft., three-storey residence that was constructed from 47 of our modular units. Designed specifically for student living, the apartment-style suites include a kitchen, enclosed bathroom, extra storage space and shared laundry facilities. Students also have access to a common lounge area to gather, study and relax. Maximizing the advantages of modular construction, Skidmore Hall was delivered in just nine months – including only 3.5 months of onsite construction – compared to the 12 to 14 months required for traditional construction.

Skidmore Hall is a 33,000 sq. ft., three-storey dormitory that is home to more than 130 students at Trinity Western University in Langley, B.C.

Knox Grammar School Music Centre
In 2017, we designed and built a new permanent 6,400 sq. ft. music centre for Knox Grammar School in Wahroonga, Australia. Engineering the acoustics just right was a top priority. This meant using high-quality soundproofing techniques applied to each of the doors and windows, enabling their students to hone their craft without interruption from the rest of the school.

Blending the centre's aesthetics with the surrounding challenging environment played a significant factor. In total, the building houses two band rehearsal areas, two music classrooms and six individual tutoring rooms, creating a comfortable practice space for the students.

Our blended offsite manufacturing and construction program at the Knox Grammar School enabled us to develop an innovative structure that fits seamlessly with the surrounding buildings.

Our Managing Director of Electricity, Wayne Stensby, and President and CEO of FLO, Louis Tremblay, at the launch of the first electric vehicle fast-charging corridor in Alberta.

Our Australian Structures & Logistics team also secured an arrangement with the Queensland State Government to provide rental modular classrooms for public schools across the state. We began building and installing relocatable classrooms last year, with more facilities slated for 2018.

FRONTEC'S GLOBAL SOLUTIONS

Our Frontec division has a long history of providing services to private, government and military customers in some of the world's most challenging and hostile environments. Frontec continues to exemplify the spirit of the ATCO motto 'Always There. Anywhere.'

Today's global landscape is shaped by a range of technological, economic and social trends including mass migration and urbanization. The effects of climate change are also playing a role, resulting in an increase in the frequency, duration and intensity of natural disasters. Frontec has the agility, expertise and capabilities to respond to such emergencies to support our customers.

Frontec's evolving and innovative global strategy includes the routine delivery of a range of site services, facilities maintenance and workforce camp operations, and in times of crisis, the rapid mobilization of holistic solutions in life support services, energy and structures.

To see this innovative strategy in action, read about our holistic emergency response effort in the aftermath of Hurricane Maria in Puerto Rico (See pg. 31).

CLEAN ENERGY TECHNOLOGIES

Our energy landscape is changing, which is why we are investing in infrastructure that empowers our customers to take full advantage of these emerging technologies. Our solutions are diverse, ranging from supporting electric vehicle (EV) charging infrastructure to combining innovative low-carbon technologies for use in residential and commercial applications.

EV Charging Corridor

In November, we unveiled Alberta's first EV fast-charging corridor – an exciting project designed to help catalyze the electrification of Alberta's

transportation sector. The project, completed in partnership with FLO, Canadian Tire and Natural Resources Canada, saw the deployment of three charging stations in Calgary, Red Deer and the Edmonton area. Each location is equipped with a Level 3 fast-charging station and a dual Level 2 charging station to accommodate all types of electric vehicles.

Our people provided their local expertise in connecting the cutting-edge charging stations to the grid, while our retail energy business provides the cost-effective, reliable electricity required to give our customers peace of mind as they commute between Alberta's three largest cities. This project is just one of the many ways we are empowering our customers to embrace a cleaner energy future.

Clean Carbon Capture

Beyond enabling our customers to thrive in a low-carbon future, we're also exploring creative ways to improve our own environmental performance. In October, we were among the first in the world to install a new commercial carbon capture device at our Whitehorn Operations Centre in Calgary.

The device, called CARBiNX, helps reduce both the heating costs and carbon footprint of the facility. The unit is expected to deliver energy savings and greenhouse gas reductions of approximately 8 to 10 per cent in the winter and 21 to 24 per cent in the summer.

Intelligent Street Light Systems

Municipalities around the world are increasingly looking to harness light-emitting diode (LED) street lights to reduce energy use and maintenance costs. In October, we partnered with the City of Lloydminster to deploy LED street lights and pilot an Intelligent Street Light System.

We replaced outdated, high-pressure sodium street lights with LED bulbs and simultaneously installed an intelligent street light system. This technology provides remote monitoring and "light on demand" that dims street lights during off-peak hours, and automatically brightens them when pedestrians, cyclists or cars are detected. With this combination of technologies, we can reduce street light energy consumption by up to 80 per cent, while also reducing maintenance costs and lowering greenhouse gas emissions.

By partnering with the City of Lloydminster to showcase this pilot at the annual Alberta Urban Municipalities Association conference, we were able to generate significant interest in this technology among other communities around Alberta.

With these novel technologies, we can ensure our municipal customers are on the leading edge in providing environmentally efficient – and affordable – services to their communities.

In Lloydminster, we converted outdated street lights to LED bulbs and installed intelligent street lighting sensors. The combined technologies reduce costs, maintenance

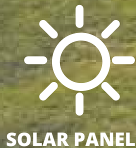
Up to

80%

reduction in street light energy consumption as a result of LED and intelligent street lighting

We continue to pioneer new ways of reducing our direct and indirect environmental impacts, as well as enabling our customers to reduce their impacts. For more information, see the Environmental Stewardship section of our 2017 Sustainability Report, to be released in June.

Edge-of-Grid Technology



Our hybrid house in Mannville, Alberta, combines solar panels, battery storage and a mCHP unit that allows the home to completely disconnect from the grid. We are also pairing our own modular structures with innovative distributed energy technologies. For example, read about our Clean Energy Innovation Hub in Australia on pg. 24.

Up to

55%

decrease in home emissions compared to a standard built home with mCHP

Some of the most innovative developments in the energy sector are occurring at the grid's edge, downstream of generation and transmission infrastructure – sometimes, right in our customers' backyards. Distributed generation, storage and digital technologies are changing the electricity landscape, and we are enabling our customers to take part.

Mannville Hybrid House

It's the ideal combination of three low-carbon technologies with the capability to fully energize a 1,200 sq. ft. home.

Located in Mannville, Alberta, this exciting project consists of a 1.5 kilowatt micro combined heat and power (mCHP) unit, solar panels and onsite battery storage to allow the residence to completely disconnect from the grid. There's also no need for supplementary heat, as the mCHP unit is the sole source.

A mCHP unit runs on natural gas or propane, and has the potential to reduce a customer's home emissions by up to 55 per cent compared to a standard built home. This is just one edge-of-grid technology that helps our customers play a more active role in managing their energy use.

GasSola Advancement
In Australia, we continued to make headway with our GasSola Pilot Project, which combines rooftop solar panels, battery storage and a natural gas-fired generator to provide reliable, low-cost and flexible energy to nine homes south of Perth.

Over the course of the year, we finalized the installation of the hybrid energy technology at all nine homes in the trial. We also gathered data on energy usage from each home to understand the impacts of the hybrid technology mix and how natural gas can be an enabler to smooth the peaks and troughs of increased renewable generation into the grid.

The valuable learnings we gain from this project will help us to improve the reliability and versatility of our products to customers in Australia and around the world.

In recognition of this imaginative approach, our GasSola Project was recognized as a finalist in the 2017 Western Australian Energy Awards.

The key technical learnings will be applied to the ATCO Clean Energy Innovation Hub (below), while peak winter and summer energy production and usage data from the project is being used to optimize the system and determine a value proposition for this type of edge-of-grid hybrid energy solution.

Clean Energy Innovation Hub
In an extension of our GasSola Project, we have also begun development of a commercial-scale hybrid energy centre known as the Clean Energy Innovation Hub – a unique project being undertaken in Australia. Located at our Jandakot Operations Centre in Perth, the Clean Energy Innovation Hub integrates hydrogen production, natural gas electricity generation, solar photovoltaic, battery storage and associated control systems to sustainably energize a commercial-scale micro-grid.

In addition, a modular residential home built by our Structures division has been transported and installed onsite at Jandakot. The home is being fitted with a GasSola system, as well as the latest natural gas appliances, providing a working demonstration of ATCO ingenuity.

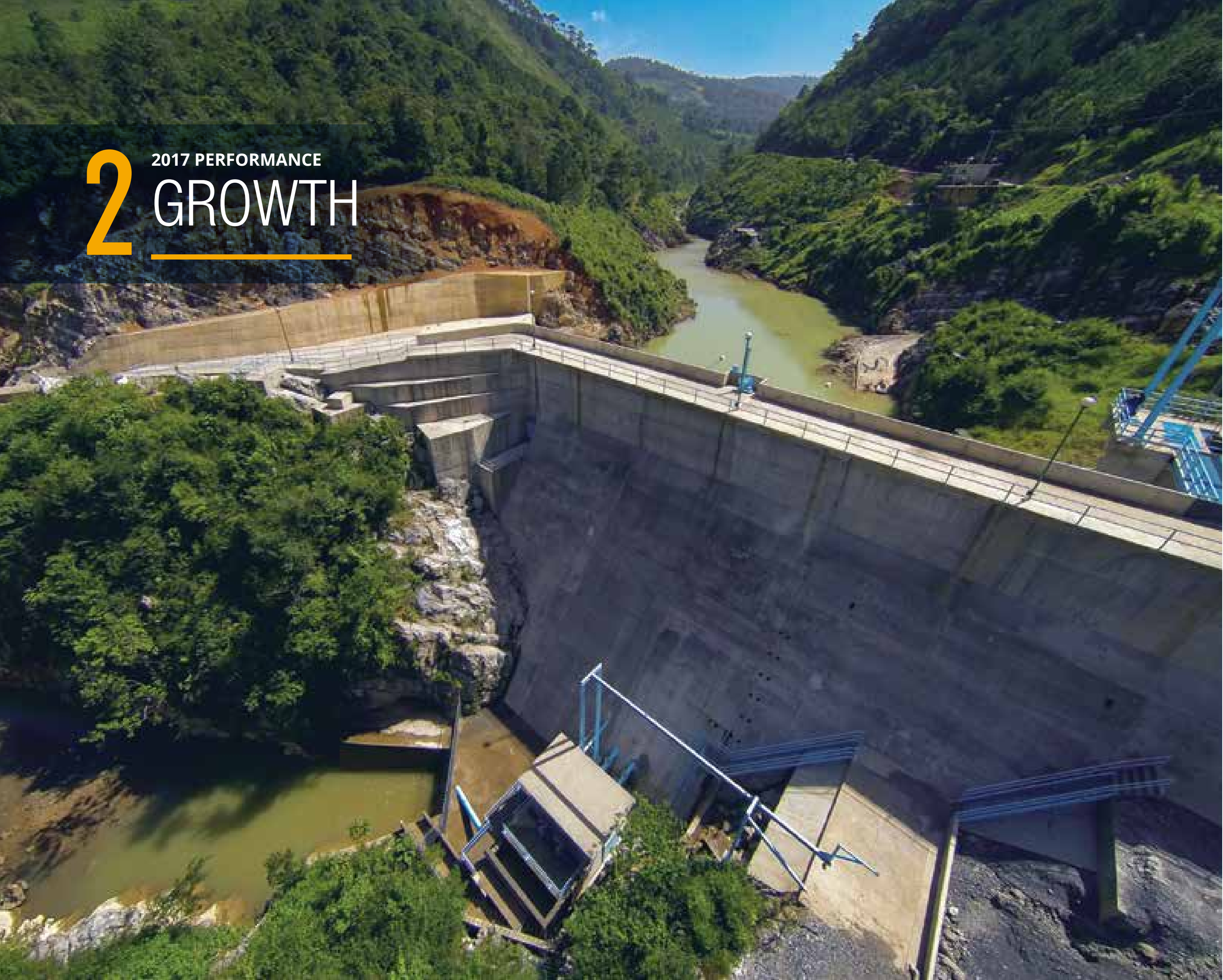
We are using this facility as a live-testing facility that will analyze the energy supply needs of the Jandakot site and allow for flexibility in testing and optimizing micro-grid technology configurations from 5 kW to 1,000 kW in size.

Our modular home being installed at the Clean Energy Hub in Australia is outfitted with the latest in cutting-edge energy technologies and showcases the integrated, customer-centric solutions we can deliver for customers around the world.

The Clean Energy Innovation Hub is a unique commercial-scale facility in Australia.

2 2017 PERFORMANCE

GROWTH



The acquisition of a 35-megawatt hydroelectric power station in Veracruz, Mexico, marks the latest milestone in our continued growth in the region.

$1.8B* capital investment in 2017

Whether in Mexico, Chile, Australia or Canada's North, our strategy for sustainable growth is underpinned by a firm commitment to our customers and communities, the pioneering spirit of our people and the continuous development of new products and services. We continue to invest in vital community-enabling energy infrastructure today, while also looking to the evolving mix of industries, technologies and trends that will define the needs of our customers in the decades ahead.

In 2017, we delivered against our long-term growth strategy with a diverse assortment of projects and initiatives.

GLOBAL EXPANSION

Pursuing growth in new and existing jurisdictions around the world has continued to be a priority for our company. We continuously evaluate opportunities to enter new markets and explore ways we can offer the full breadth of our capabilities to our global customers. In 2017 and into the early months of 2018, we made several strides building momentum on this strategy.

Continued Growth In Mexico

We solidified our position in the recently reformed Mexican energy market with the $114 million acquisition of a 35-megawatt (MW) hydroelectric power station in the state of Veracruz.

* For a complete definition of capital investment, please see pg. 101.

The acquisition, which closed in February 2018, advances our flexible and diverse portfolio of electricity assets and marks the latest milestone in our growth within Mexico, where we continue to expand our integrated offering of energy and infrastructure solutions.

During the same month, we signed a Memorandum of Understanding with CYDSA S.A.B. de C.V. to collaborate, explore and develop midstream opportunities in Mexico's oil and gas industry. The initial focus will be on underground hydrocarbon storage in both salt cavern formations and depleted reservoirs, and will also include opportunities in gas gathering and processing, as well as natural gas liquids extraction and fractionation.

In early 2018, we also announced we're building, in partnership with RANMAN Energy, the La Laguna Cogeneration Facility, a new 26-MW cogeneration project on the site of a Chemours Company chemical facility. Located near the city of Gómez Palacio in the northern state of Durango, the project will consume excess gas and reuse steam produced by the host facility's chemical processes, making it a highly efficient and low-carbon means of generating onsite energy. The project is expected to be operational in the second quarter of 2019.

In addition, we are actively evaluating opportunities for our Structures business to enter the Mexican market and further continue our growth.

Building Momentum in Chile
2017 saw strong economic growth in Chile, which continues into the early months of 2018. To further solidify our foothold in this South American market, we've designed and are constructing a new manufacturing facility through our partnership in ATCO Sabinco S.A.

The facility, which is projected to be completed in May 2018, is approximately 100,000 sq. ft and has the capacity to rapidly produce approximately five to six modular units per day. Since entering the country in 2016, this step further cements a strong foundation in South America and paves the way for future growth opportunities.

INVESTING IN CAPITAL INFRASTRUCTURE

In 2017, we invested $1.8 billion*, driven largely by capital investments made by our Electricity and Pipelines & Liquids Global Business Units. Combined, these two business units invested nearly $1.7 billion in projects designed to improve the accessibility, reliability and sustainability of energy in the communities we are privileged to serve, while also delivering strong capital growth for the company. The projects were abundant and diverse, including the Fort McMurray West 500-kilovolt (kV) Transmission Project, our Urban Pipeline Replacement Program and the Steel and Plastic Mains Replacement Programs, all located in Alberta.

The Fort McMurray West 500-kV Transmission Project, valued at $1.6 billion, was financed in part through the largest public-private-partnership bond in Canadian history.

As we transition to a lower-emitting energy system, access to secure, reliable energy must be balanced with customer satisfaction and affordability. For more information, please see the Energy Stewardship section of the 2017 Sustainability Report, to be released in June.

Our new manufacturing facility in Chile will enable us to continue to grow our fleet of flexible, innovative modular solutions in this vibrant market.

In December, we announced that our Frontec division was selected to support Canadian Armed Forces sites across the North. NATO, the United Nations, and the Canadian and U.S. defense departments rely on our proven capability to deliver solutions that keep military camps operating efficiently.

PROJECT HIGHLIGHTS

From modernizing Alberta's electricity grid to exploring new frontiers in our modular structures business, our people delivered a variety of exceptional projects over the course of 2017.

Fort McMurray West 500-kV Transmission Project

In February 2017, the preferred route for our Fort McMurray West 500-kV Transmission Project (WFMAC) was approved by the Alberta Utilities Commission. The project, valued at $1.6 billion, was financed in part through the largest public-private-partnership (P3) bond in Canadian history. It's also the first transmission line to be procured in Canada via a P3 process.

This tremendous achievement attracted the attention of two of the top global publications in project finance: Project Finance International (PFI) and IJ Global. Both organizations named the WFMAC project the "P3 Deal of the Year" and honoured Alberta PowerLine (APL), along with its partners, in early 2018.

APL, a partnership owned 80 per cent by Canadian Utilities and 20 per cent by Quanta Services Inc., was selected in late 2014 by the Alberta Electric System Operator through a competitive global process to develop, design, build, finance, own, operate and maintain the 500-km project that runs from Wabamun, Alberta to Fort McMurray.

The public engagement process for the project was extensive and included engagement with 27 Indigenous communities and more than 3,000 face-to-face meetings. This important project allows us to not only create and build upon meaningful relationships with communities in the region, but also support the continued modernization of Alberta's electricity grid. Construction began in August 2017 and will conclude when the line goes into service in 2019.

Continuing Our Relationship with The National Research Council of Canada

Over our 70-year history, our customers have come to rely on our ability to consistently deliver premier products and services.

In early 2018, we unveiled yet another example of the tremendous level of trust our customers have in our company. The National Research Council (NRC) of Canada selected ATCO to provide facility maintenance, renovation and capital construction services to its buildings in the Ottawa, Ontario region.

We have been the incumbent contractor since 2003, and our familiarity with NRC sites, facilities and equipment means the NRC can rely on a proven facility maintenance plan to accommodate their changing needs, while minimizing any disruption to its operations.

The five-year contract commences on March 1, 2018 and is valued at approximately $38 million, with an option to renew for up to five additional years. We look forward to building upon our longstanding relationship with the NRC, and to enabling this exceptional organization to focus on its core business.

Supporting the Canadian Forces in the North

Our people understand the unique challenges and opportunities associated with working in the North, where we've been supporting, partnering and providing innovative solutions to customers and communities for decades.

In December, we announced the latest milestone in our continued growth in the region after being chosen by Defence Construction Canada, the procurement partner of Canada's Department of National Defence, to provide facility maintenance and support services at Canadian Armed Forces (CAF) sites across the Canadian North.

The initial five-year contract, valued at $79 million, will see us provide facility inspection, maintenance and repair, new construction and upgrades, trade services and environmental services to CAF sites in Yellowknife, Whitehorse, Inuvik, Rankin Inlet and Iqaluit.

Continued on pg. 29

Expanding Our Solar Footprint

Solar projects produce clean, reliable electricity for our customers in Alberta and across the globe. In 2017, we continued to grow our solar energy expertise with a variety of renewable energy projects. Two of those projects were developed in partnership with Clark Builders.

The first involved the delivery of a three-part Alternative Energy Initiative at Red Deer College (RDC). A key part of the project was the construction of a state-of-the-art lab that allows students to learn about renewable energies by being immersed in a hands-on classroom environment. Students can look at real data, examine solar panels in multiple configurations and use onsite equipment, such as a combined heat and power (CHP) demo unit, to feed into their designs.

To support this exciting project, our people provided their exceptional expertise in design, engineering and the deployment of various solar and cogeneration technologies.

More than 1,000 RDC students will benefit from the lab each year, particularly those in the fields of Engineering Technology and Carpentry, as well as those studying to practice as Electricians and Instrumentation Technicians.

RDC is also converting all exterior lighting to LED bulbs and will generate alternative energy on their main campus through solar panels and a CHP unit. The project is slated for completion in April 2018.

In addition to the RDC project, we also provided our expertise and commissioning services to a rooftop solar project with Clark Builders at the University of Alberta's Augustana Campus in Camrose, Alberta.

Our solar efforts are not only paying off on the energy side. In 2017, our Saddle Hills project was a finalist in the 26th Annual Alberta Emerald Awards, which recognizes and celebrates outstanding environmental achievements across all sectors. Located in northwestern Alberta, the Saddle Hills project is the largest off-grid solar installation in Western Canada, and is uniquely designed to provide reliable electricity in a remote northern environment.

Our people worked collaboratively with Clark Builders to deliver a commercial-scale rooftop solar project at the University of Alberta's Augustana Campus in Camrose, Alberta.

1,000

Red Deer College students per year will study renewable energy technologies in the hands-on lab

Red Deer College's Alternative Energy Lab

In Montreal, we diversified our portfolio with the construction of a highly specialized, 30,000 sq. ft. temporary emergency facility that integrates the technical and operational requirements of a busy emergency room.

This project also builds upon our legacy of support for the brave men and women of our armed forces. We provide operations and maintenance services at 15 strategic radar sites that form the Alaska Radar System for the North American Aerospace Defense Command, manage and maintain services at the NATO Flying Training Centre in Moose Jaw, Saskatchewan, and provide computer information systems support on behalf of NATO and European Union Forces in Boznia-Herzegovina.

Inter Pipeline Water Service Project
In the fourth quarter of 2017, we were selected by Inter Pipeline Ltd. to provide essential industrial water services to the company's propane dehydrogenation and polypropylene plant. Located in Strathcona County, Alberta, the Heartland Petrochemical Complex will be the first-ever propane-to-plastics petrochemical plant in Canada.

Over the last six years, we have invested more than $70 million in Alberta's Industrial Heartland to develop a multi-user industrial water system that provides a range of services including transportation, storage and clarification to customers in the region. By tapping into our infrastructure instead of constructing their own, customers can free up valuable space at their facilities and minimize disruption to the river ecosystem.

DIVERSIFYING OUR BUSINESS

Temporary Modular Hospital Facility
In Montreal, we pursued an opportunity to diversify our business with the manufacturing and installation of a temporary emergency building for the Montreal Heart Institute, as it undergoes a four-year expansion project. The nearly 30,000 sq. ft., highly specialized complex is comprised of 42 modular units spanning two floors.

The temporary facility was entirely designed for the hospital from the ground up, and integrates the needs of different medical equipment, medical gases and specialized healthcare technology. Several important factors were considered to meet the technical and operational requirements of running a busy emergency room. Extra width was added to corridors to allow for the two-way traffic of hospital beds, two nurse stations and doctor offices were installed, as well as a nurse call system for each of the 30 emergency bed locations and bathrooms.

Through our renewed focus on innovation, we've identified additional opportunities for growth, such as non-traditional uses for our modular structures like seniors housing, police and fire stations and jails.

Operational Service Agreements
Growth and innovation don't always involve new technologies. Sometimes, it's about using expertise you already have in a novel way. Our Pipelines & Liquids team did just that by translating seven of our core capabilities into more than 20 operational service contracts with customers across Alberta.

Our Operational Services portfolio consists of operations and maintenance, meter management, gas analysis services, operational training, electronics and instrumentation, pipeline integrity and combined heat and power.

Although we've provided third-party services in the past, approaching the market with a distinct portfolio offering is a new venture for our company – and one that represents a more focused commitment.

A Disruptive Force In Retail Energy

Increase in market share **187%** retail natural gas **160%** retail electricity

6,100+ Home-On-The-Go visitors participated in hands-on cooking classes

30 community events

93% of retail customers want more BFK perks

RETAIL ENERGY

Since re-entering the retail energy market in Alberta, we've focused on finding new ways to add value and provide choices to the customers and communities we serve. This has meant increasing engagement and empowering all Albertans to make informed decisions about how they manage and buy their energy.

With our customer outreach, competitive rates and exclusive offers, we've cemented ATCOenergy as a truly disruptive force in Alberta's retail energy market. Leading up to the holidays, our highly successful "Neighbours" campaign influenced our competitors across the province, prompting numerous copycat campaigns trying to emulate our customer-centric philosophy.

Our disruptive approach is working. As of June 2017, our retail natural gas market share had grown by 187 per cent compared with the previous year, while our retail electricity market share grew by more than 160 per cent.

GRASSROOTS ENGAGEMENT

Thriving in the highly competitive retail energy industry requires that we reframe the value we provide to our customers, while also fostering new relationships. Last year, we undertook a host of grassroots initiatives to help grow our product offering – many in partnership with ATCO Blue Flame Kitchen (BFK), which has more than 90 years of customer service excellence in Alberta.

Home-On-The-Go

Developed with BFK's expert guidance, the Home-On-The-Go is equipped with a fully functioning kitchen and is designed for year-round use, providing hands-on cooking classes and demonstrations in markets across Alberta. Coupled with pop-up ATCOenergy booths, the Home-On-The-Go's debut summer tour connected us with more than 100,000 Albertans. Approximately 6,100 visitors participated in exclusive cooking classes hosted in the Home-On-The-Go at 30 community events across the province.

Online Cooking Classes

Beyond reaching people in their communities, we've also found new ways to connect with them in their homes. This past holiday season, BFK piloted its first-ever online cooking class, an exclusive offer for ATCOenergy customers granting them access to cooking video tutorials. For four weeks, home-grown sous chefs followed along with our instructors to learn how to host memorable Christmas feasts. The appetite for this level of engagement was strong, with 93 per cent of surveyed respondents welcoming more BFK-related perks.

The success of the pilot paves the way for future digital initiatives and exclusives for our retail energy customers.

> "Ms. Southern — Thank you so much to you and your organization for your free energy offer these past two years. It's generous and much appreciated, especially after this past year!"
>
> The Goodwins

Safety is top of mind in everything that we do. Whether it's through our frequent public awareness campaigns or our robust emergency response training, we are committed to ensuring our people, customers and communities are safe.

Our deeply embedded focus on operational excellence is at the core of who we are. We strive to provide exceptional service and premier solutions to our customers across the globe, while ensuring the safety and well-being of our people and the communities we have the privilege to serve.

RESPONDING FOR OUR CUSTOMERS

East-Central Alberta Snowstorm
In October, a powerful snowstorm descended on east-central Alberta, knocking out power to more than 5,000 of our customers. The storm brought blizzard conditions with 30 centimetres of heavy, wet snow and fierce winds that gusted up to 100 km/h, causing power poles to snap in half and main highways to completely shut down.

Two helicopters and dozens of our crew members from across the province were brought in to respond. For four days, more than 120 of our people worked around the clock to repair power lines and poles, and safely restore electricity to our customers.

Puerto Rico Response
On September 20, Hurricane Maria, a powerful Category 4 hurricane, made direct landfall in Puerto Rico, causing catastrophic damage. Immediately following, we deployed a team of

our people from across the company to support response efforts in the aftermath. With local infrastructure in disarray, we partnered with a large pharmaceutical company to provide services and accommodations to enable their people to remain on the island in the wake of the devastating storm.

During emergencies, accommodations, sanitation and hygiene are urgent priorities. We quickly erected accommodation tents to provide a clean and comfortable place for people to sleep, and provided around-the-clock laundry services, personal shower facilities, washroom tents and a potable water and septic system. We also established an ice production facility, capable of generating 30,000 lbs. of ice per day, and distributed 10 lb. bags to those people not staying at the camp, to help refrigerate food at home while the island's electrical system was being repaired.

These combined services were vital in ensuring the continuity of our partner's operations, while also offering a sense of normalcy for workers.

In the wake of the storm, the safety of our people on the ground was a top priority. Our team exemplified the spirit of operational excellence upon which our company was founded – working nearly 28,000 exposure hours with zero recordable or lost-time injuries.

Rebuilding Fort McMurray

One year later, much has happened to help heal the community of Fort McMurray following the devastating wildfire of 2016, which was named one of the largest natural disasters in Canadian history.

Since day one, our people were there to offer shelter, rebuild infrastructure and safely restore electricity and natural gas services. In 2017, we continued our support, focusing our efforts on small businesses, construction work, education and community events to help families and businesses move forward. We also partnered with Habitat for Humanity to rebuild homes and held special events like Christmas hay rides and kids curling bonspiels to bring some much-needed family fun to the community.

We remain committed to the people of Fort McMurray and ensuring their community emerges stronger and more vibrant than ever before.

Our team responded in Puerto Rico with an extraordinary commitment to safety, working nearly 28,000 exposure hours without a recordable or lost-time injury.

Our Site C Workforce Housing project was recognized for operational excellence, receiving a top score of 99 per cent in a safety maintenance audit conducted by safety association, Enform.

ATCO Site C Workforce Housing Project

99%

Enform safety maintenance score

Whether we are developing a new project, maintaining or expanding existing infrastructure or decommissioning our facilities, the safety of our people, customers and communities is paramount. For more on our approach to safety and emergency preparedness, see the Safety section of the 2017 Sustainability Report, to be released in June.

SAFETY

Employee Health & Safety

A robust safety culture not only provides a healthy and safe work environment for our people, it also drives innovation and continuous improvement in how we operate.

Whether it's through our frequent public awareness campaigns or comprehensive emergency response training, we are committed to continually improving our safety and operational integrity programs to protect our people and the public.

In 2017, our Electricity Generation division was presented the 2017 President's Award from the Canadian Electricity Association for our committment to excellence in employee safety. The award is given to the best performing corporate utilities for all-injury/illness frequency and lost-time severity rates in generation, transmission or distribution operations.

Supporting Mental Health Awareness

In recognition of the tremendous importance of mental health, our Pipelines & Liquids Global Business Unit rolled out an internal awareness program in an effort to bring an increased focus on mental health and reduce the stigma associated with mental illness.

The Not Myself Today® campaign is a public engagement campaign created by Partners for Mental Health. More than 100 of our people stepped up to champion the movement, providing various educational materials to employees across Alberta on topics such as emotional intelligence, mental health resolution and workplace bullying.

Our Electricity Global Business Unit is also getting into the spirit of the Not Myself Today movement and is rolling out the campaign in 2018.

Public Safety

We take a proactive approach to public safety and are actively engaged with municipalities, governments, first responders and the communities we serve to promote the importance of energy safety. Through our annual safety campaigns, we work to raise awareness around safe digging, the risks associated with powerlines and the threat of carbon monoxide (CO) in homes.

In 2017, our crews distributed approximately 4,000 free CO detectors to Albertans. To help engage new Canadians who might be less familiar with CO safety risks, we had all of our CO safety material translated into eight different languages.

We also worked closely with the Government of Alberta to ensure important electrical safety information was added to the province's Farm Safety Booklet and helped educate more than 600 children about farm safety at our interactive display during Ag for Life's Safety Days in Grande Prairie, Alberta.

Site C Workforce Housing Project Wins Safety Recognition Award

Built to house 1,600 workers involved in the construction of BC Hydro's Site C Clean Energy project, our workforce housing facility was one of the largest Structures projects ever completed in our 70-year history. Completed on-time and on-budget, the project in Fort St. John, British Columbia, has set a high standard for safety excellence in its operation.

In 2017, Enform, a national safety association, conducted a safety maintenance audit on the project that received a remarkable score of 99 per cent, the highest ever to be given by the auditor. The report cites management involvement and commitment, hazard identification and assessment and communications as key areas of strength, all of which received a score of 100 per cent.

In addition, our dedicated onsite Health, Safety & Environment supervisor received a prestigious international award for "Quality Professional in a New Project," from the Chartered Quality Institute (CQI) for his work establishing a new quality system for the project. CQI is a global professional body that advances the practice of quality management across all industry sectors.

The 757-unit, 650,000 sq. ft. facility involved nearly 1.4 million man hours during construction without a single lost-time injury. Over the next seven years, our team will remain onsite to provide operational support, including food service, janitorial maintenance and site services.

Alberta PowerLine Project

503,383

HOURS

without a lost-time injury in 2017

2017 SAFETY BY THE NUMBERS

Carbon Monoxide Awareness

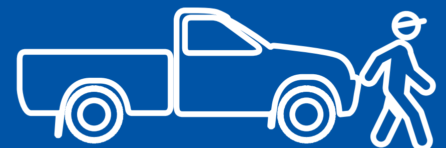
4,000 Free CO detectors given to Albertans

Electricity Distribution

Responded to service calls **90,394**

Natural Gas Distribution

Responded to service calls **119,856**



Natural Gas Transmission

15 years or **9,500,000** hours without a lost-time injury

4

2017 PERFORMANCE

COMMUNITY & INDIGENOUS PARTNERSHIPS

Our Chair & CEO, Nancy Southern (centre), meets with migrant students during a natural gas safety class at our ATCO Blue Flame Kitchen in Western Australia.

Our relationships with Indigenous communities continue to evolve as we pioneer new models of collaboration and partnership. You'll find more on our approach to Indigenous relations in the Community & Indigenous Relations section of our 2017 Sustainability Report, which will be available on our website in June.

As a long-term provider of essential energy and infrastructure services in hundreds of communities around the world, we understand that no two communities are alike. That's why our community investment programs are designed to support the unique needs of every community we serve.

Natural Gas Safety

In Australia, our ATCO Blue Flame Kitchen (BFK) welcomed a group of new migrant students to partake in our school program that teaches students about the safe use of natural gas in the home and how to cook tasty and nutritious meals. The students come from diverse backgrounds, some spending time in refugee camps and others fleeing warzones before arriving in Australia.

The hands-on practical training ensures the students and their extended families understand how to use natural gas appliances safely. In 2017, more than 30 schools participated in BFK Australia's "Adventures with Natural Gas" school program.

INDIGENOUS ENGAGEMENT

Jasper Interconnection Transmission Project

In the Canadian Rockies, our Jasper Interconnection project is adding 45 km of transmission line and a

new substation in Jasper National Park to connect the community to Alberta's electrical grid. Throughout the project, we worked closely with 23 Indigenous organizations through Parks Canada's Indigenous Forum. We also held 88 consultation meetings, six Elders mapping sessions, 24 site visits, one fly-over and committed to three traditional ceremonies, with ongoing engagement and community involvement planned through project construction and reclamation.

Clean Energy in Canada's North

Across Canada's North, communities are investigating ways to reduce the use of diesel-generated power and cut greenhouse gas emissions. Over the course of 2017, we agreed to three Memorandums of Understanding with Indigenous communities in the Yukon to partner on the development of renewable energy and battery storage solutions. These partnerships will enable each community to become a direct participant in the local energy sector by owning the renewable energy technology (like solar or wind), while we provide and operate the energy storage and control systems.

Partnering for Clean Water

With some of Canada's Indigenous communities facing boil water advisories, we are taking action and applying our water management and infrastructure expertise to support communities in need. In 2017, we engaged Indigenous communities to look at addressing this critical infrastructure and public health issue. Currently, we are working with several communities to develop partnership agreements to jointly build, operate and maintain the water infrastructure necessary to solve their immediate water needs, while also supporting the growth of their communities in the long-term.

Indigenous Education Awards

Our Indigenous Education Awards Program offers students from First Nations and Métis communities the opportunity to apply for scholarships, bursaries and awards for demonstrating leadership capabilities and pursuing higher education. In previous years, these awards were given to students from communities near our natural gas transmission operations, but this year we expanded the awards to all Indigenous students across Alberta.

In 2017, 30 Indigenous students enrolled in a variety of fields including Engineering, Education and Economics were chosen to receive awards.

Through our Structures & Logistics Scholarship Program, we also awarded $1,000 scholarships to eight Indigenous students in British Columbia for demonstrating a commitment to education, leadership and community involvement.

Fifteen Indigenous scholarships and bursaries were also awarded to students enrolled with Aurora College, NAIT, the University of Alberta, Grande Prairie Regional College, the University of Lethbridge and the Aboriginal Veterans Society of Alberta as part of our longstanding academic partnerships.

ATCO Indigenous Awareness Training

Building partnerships that stand the test of time requires understanding from both parties. To ensure our people recognize the unique culture and history of Canada's Indigenous Peoples, we partner with the University of Calgary to offer the Indigenous Relations Training program. Through this four-day program, participants gain a better understanding of the current issues facing Canada's Indigenous population and how to effectively build relationships with those communities going forward.

In 2017, we also launched a Corporate Indigenous Training program focused on educating all our employees on the history of Canada's Indigenous Peoples, current issues facing their communities, trends in education and employment and building strong community relations.

2017 Indigenous Education Awards recipients in Edmonton, Alberta. Since 2011, our company has provided 190 awards to Indigenous students pursuing a brighter future.

INVESTING IN OUR COMMUNITIES

ATCO EPIC combines fundraising events, auctions, friendly team competitions and employee pledges that support more than 500 charities around the world.

ATCO EPIC

One way our people give back is through our award-winning fundraising campaign, ATCO EPIC (Employees Participating in Communities). Our employee-driven program rallies the spirit of our people all over the world, combining fundraising events, volunteerism and individual donations.

Launched more than a decade ago, the program leverages the combined efforts of our people to create a positive impact in the communities where we live and work.

Our people are encouraged to donate directly to the charities that matter most to them, and our company enhances their generosity by matching those donations made to human health and wellness charities.

In 2017, our people pledged an astounding $3.4 million to more than 800 charities worldwide. Our people also gave generously of their personal time through our ATCO EPIC Time to Give program, volunteering more than 8,500 hours in our communities. Over the past five years our people have volunteered nearly 95,000 hours of their time.

Inaugural Mexico Campaign

Members of the ATCO family in Mexico came together to support families displaced by the September 19 earthquake in Mexico City. Our team raised enough money to build two new homes for families impacted by the devastating event. We are planning to welcome these families into their new homes soon.

Soccer Centre - Edmonton

Fire Cadet Graduation - Calgary

Community Barbecue - Yellowknife

Energy Education Mobile - St. Albert

Win Ferguson Elementary School - Fort Saskatchewan

Nulsen Art Day - Perth, Australia

Spirit North Ski Program - Canmore

2,000

organizations supported in 281 communities around the world

Playground Donation - Hanna

Junior Achievement Economics For Success - Calgary

Oilers Hockey Clinic - Grande Prairie

Eagle Release - Saddle Lake Cree Nation

Blind Cricket Program - Perth, Australia

Habitat for Humanity - Edmonton

Jasper In January - Jasper

OUR APPROACH TO SUSTAINABILITY

As a trusted global provider of housing, logistical support, and energy and infrastructure services, we have a unique role to play in developing solutions that not only solve our customers' challenges, but benefit the communities in which we operate, the environment and the economy.

WE FOCUS ON

ENERGY STEWARDSHIP

Access to secure, reliable and affordable energy underpins the vitality of our communities. It is our responsibility to understand the evolving energy needs of our customers, and to develop efficient and effective energy solutions that support the transition to a lower-carbon energy system.

ENVIRONMENTAL STEWARDSHIP

Beyond working to minimize our environmental footprint and the impact associated with our operations, we look for opportunities to improve the environmental performance of our customers and the communities we are privileged to serve.

SAFETY

Safety is the first consideration in everything we do. We are committed to providing a safe work environment for our people, and we actively engage with municipalities, governments, first responders, and the communities we serve to promote the importance of energy safety.

COMMUNITY & INDIGENOUS RELATIONS

We engage in an open, transparent and honest manner and, where possible, seek opportunities to create lasting partnerships that contribute to sustained economic and social development. Along with our Indigenous and community partners, we are pioneering new models of collaboration.

Throughout our 2017 Annual Report, you'll find many examples of projects that demonstrate our commitment to sustainability. These imaginative solutions are marked with the icons above.

For more information on our sustainability performance, see our 2017 Sustainability Report, to be released in June.

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2017 PERFORMANCE

FINANCIAL STRENGTH

Since 2009, we have experienced remarkable balance sheet growth. Spurred by sustained organic growth in our regulated utilities and the acquisition of our gas distribution network in Australia, we have doubled in size, improved the reliability of our earnings and enhanced the predictability of both our earnings and cash flows. Perhaps most importantly, this high-quality earnings base has provided a solid foundation for continued dividend growth for our share owners.

2017 EARNINGS PERFORMANCE

We experienced exceptional growth within our regulated utilities in 2017. Continued capital investment and strong rate base growth helped our regulated businesses deliver community-enabling energy to more customers than ever before – while also delivering more than 7 per cent earnings growth for our company.

However, across our enterprise, the year was not without its challenges. Our Independent Power Plant businesses were adversely impacted by lower realized electricity prices, which offset the sustained and reliable growth we experienced in our regulated utilities.

Within our Structures & Logistics business, a significant reduction in planned customer capital spending limited opportunities for major workforce housing projects, while fierce competition put downward pressure on profit margins across all of our Structures & Logistics business lines. This persistent profit margin compression and low major project activity level also led to an impairment recorded for Structures & Logistics assets in Canada and the United States.

Despite these challenges, with continued investment in regulated and long-term contracted assets, a renewed focus on our customers and the extraordinary commitment of nearly 7,000 people around the globe, our company achieved strong adjusted earnings of $335 million in 2017.

STREAMLINING OWNERSHIP OF STRUCTURES & LOGISTICS

In late 2017, we announced that Canadian Utilities sold its 24.5 per cent ownership in ATCO Structures & Logistics Ltd. to ATCO Ltd. With the transaction, ATCO now owns 100 per cent of ATCO Structures & Logistics.

The transaction, valued at $140 million, simplifies Structures & Logistics' ownership structure and enables Canadian Utilities to redeploy the funds to support its large investment program in core regulated and long-term contracted energy infrastructure assets. For example, in December 2017 we announced the acquisition of a long-term contracted 35-MW hydroelectric power station based in Veracruz, Mexico. The $114 million transaction closed on February 20, 2018. We continue to look for these kinds of investments to expand and diversify our asset base.

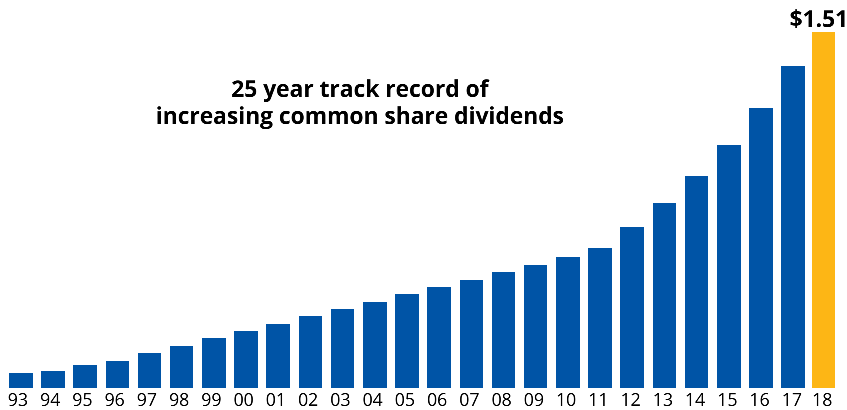
CAPITAL INVESTMENT PLANS

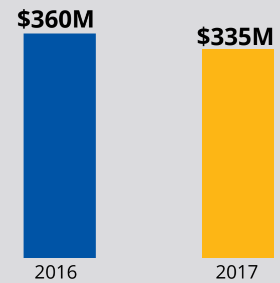
In Canada and around the world, continued infrastructure investment will be vital in ensuring sustainable, reliable and affordable energy is available when and where our customers need it. To that end, in 2017 we set a target to invest $1.8 billion in both our regulated utilities and long-term contracted assets – a target we nearly achieved, with combined investment of $1.7 billion in regulated and long-term contracted assets and more than $1.8 billion in total capital investment.

Moving forward, we expect to invest approximately $4.4 billion in regulated utility and commercially secured capital growth projects between 2018 and 2020. This investment is expected to contribute significant earnings and cash flow, create long-term value for share owners and ensure our company plays an increasingly prominent role in the modernization of our global energy infrastructure.

Our three-year plan includes $3.5 billion of planned capital investment in our regulated utilities, which will continue to ensure the safe, reliable and efficient delivery of energy to our customers around the world. We also intend to invest nearly $1 billion in long-term contracted capital, including our Fort McMurray West 500-kV Transmission Project and contracted hydrocarbon storage in northern Alberta.

In addition to our anticipated capital growth plans, we continue to assess various opportunities to expand our premier, integrated offering of products and services in new global markets.





QUARTER CENTURY OF DIVIDEND GROWTH

Whether in the form of capital appreciation or dividend growth, sustained value creation is a top priority.

In 2017, our Board of Directors increased the quarterly dividends paid per Class I and Class II Share for the four quarters of 2017 from 28.50 cents per share to 32.75 cents per share. On January 11, 2018, the Board of Directors declared a first quarter dividend of 37.66 cents per share, or $1.51 per share annualized. This is a 15 per cent increase over the 2017 dividend.

With this most recent dividend declaration, we have increased our common share dividend each year since 1993 – a noteworthy quarter-century track record of value creation for our share owners.

UNSHAKABLE COMMITMENT TO FINANCIAL STRENGTH

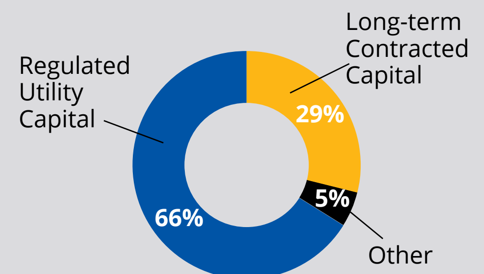
Our financial strength and flexibility are crucial to our success. They not only ensure we have the financial capacity to fund our existing and future capital investment plans, but also allow us to sustain our planned growth through the ups and downs of global economic cycles.

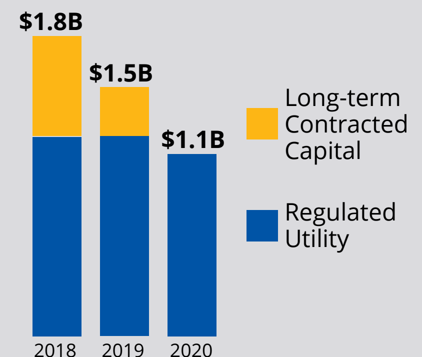
In 2017, DBRS maintained its ‘A’ low credit rating on Canadian Utilities with a stable outlook. Unfortunately, Standard & Poor’s (S&P) revised its long-term corporate credit rating from ‘A’ with a negative outlook to ‘A-’ with a stable outlook.

While we are disappointed in the outcome from S&P, our commitment to sound fiscal stewardship is unshaken, capital markets remain open and demand for our debentures continues unabated. Which is why, despite the downgrade, in 2017 we successfully raised $430 million in debentures at 3.548 per cent – the lowest long-term interest rate in our history. We also successfully completed the largest public-private partnership debt financing in Canadian history with the issuance of $1.4 billion of bonds to finance the Fort McMurray West 500-kV Transmission Project.

LOOKING FORWARD

As we move into 2018 and beyond, we are firmly committed to maintaining our durable balance sheet and our unwavering focus on continued value creation for you, our investors.





ATCO LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of ATCO Ltd. (ATCO, our, we, us, or the Company) during the past year.

This MD&A was prepared as of February 21, 2018, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2017 (2017 Consolidated Financial Statements). Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family. The Company includes controlling positions in Canadian Utilities Limited (52.6 per cent ownership) and in ATCO Structures & Logistics Ltd. (100 per cent ownership). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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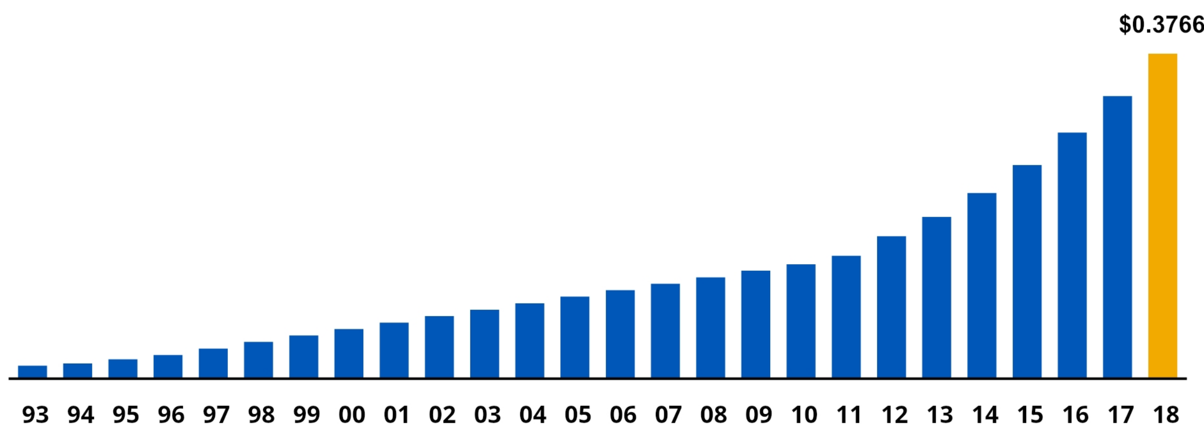
ATCO: WHAT SETS US APART

TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 25 years, a track record we are very proud of. On January 11, 2018, we declared a first quarter dividend of 37.66 cents per share or $1.51 per share on an annualized basis.



GROWING A HIGH QUALITY EARNINGS BASE

Over the past five years, we have invested over $9 billion in Regulated Utility and long-term contracted operations. The Regulated Utility portion of our total adjusted earnings has grown from 45 per cent in 2012 to 93 per cent in 2017. Our highly contracted and regulated earnings base provides the foundation for continued dividend growth.

FUTURE CAPITAL INVESTMENT

We will continue to grow our business in the years ahead. In the period 2018 to 2020, we expect to invest $4.4 billion in Regulated Utility and long-term contracted assets, which will continue to strengthen our high quality earnings base. Of the $4.4 billion planned spend, $3.5 billion will be on Regulated Utilities, and $0.9 billion will be on long-term contracted assets.

FINANCIAL STRENGTH

Financial strength is fundamental to our current and future success. It ensures we have the financial capacity to fund our existing and future capital investment. We are committed to maintaining our strong, investment grade credit ratings, which allow us to access capital at attractive rates.

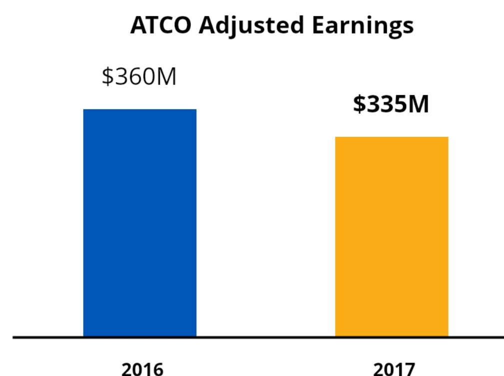
25 year	93%	$4.4B	A
track record of dividend increases	regulated earnings	3 year capital investment	range credit rating

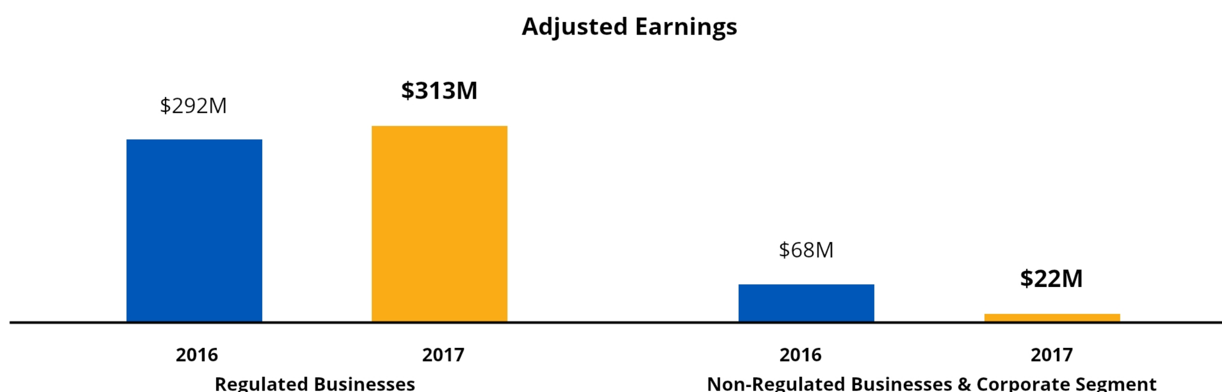
COMPANY OVERVIEW AND OPERATING ENVIRONMENT

ATCO Ltd. is a diversified global enterprise with assets of $22 billion and approximately 7,000 employees engaged in Structures & Logistics, Electricity, Pipelines & Liquids, and Retail Energy. We carefully monitor market opportunities and challenges in each of our Global Business Units to best position the Company for long-term success, while continuing to deliver value to share owners.

The long-term success of ATCO is dependent upon our ability to grow the business by expanding into new markets and into new business lines. To achieve this, we are expanding our sales and customer focus in all of our businesses. At the same time, we continue to pursue cost-savings and efficiencies in every part of our organization to ensure we deliver the most competitive solutions to our customers.

2017 was another banner year for ATCO's utility businesses with more than 7 per cent earnings growth. Continued investment and rate base growth helped our regulated businesses deliver more energy to more customers than ever before. However, 2017 was not without its macroeconomic challenges. Persistent weak commodity prices impacted financial results in our non-regulated Structures & Logistics and Independent Power Plant businesses. Demand for Structures & Logistics' workforce housing products is directly related to capital spending cycles and levels of development activity in the natural resources sector. A significant reduction in customer capital expenditure programs limited our opportunities for major workforce housing projects, and increased competition put downward pressure on profit margins across all Structures & Logistics' business lines. Our Independent Power Plant business was adversely impacted by lower realized prices. However, with continued investment in regulated and long-term contracted assets, and a renewed sales and customer focus in all of our businesses, ATCO achieved strong adjusted earnings of $335 million in 2017.





STRUCTURES & LOGISTICS

The Structures & Logistics Global Business Unit is made up of three diversified, complementary businesses to meet the needs of our customers and communities around the world: Modular Structures, Logistics and Facility Operations & Maintenance Services and Lodging & Support Services. Together these businesses offer workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management.

BUSINESS STRATEGY

Structures & Logistics' business strategy is to grow a stable base of earnings through its customer service-related segments, while continuing to pursue business-wide cost reduction initiatives to increase its competitive position globally across all business lines.

MARKET OPPORTUNITIES

Non-traditional modular markets such as public education facilities, high density urban residential housing and correctional facilities offer development opportunities. Our goal is to continue improving space rental utilization and securing additional long-term services contracts with customers outside of the natural resource sectors. Expansion will be focused in select global markets, including Canada, Australia, South America, Mexico and the U.S. We target markets with rule of law, excellent long-term growth potential and strategic fit with our existing asset base.

MARKET CHALLENGES

The global economic slow-down in natural resource-based economies has continued to result in decreased private sector capital investment programs, and increased competition for major modular structures projects.

ELECTRICITY

The Electricity Global Business Unit's activities are conducted through two regulated businesses: ATCO Electric Distribution and ATCO Electric Transmission, and three non-regulated businesses: ATCO Power, ATCO Power Australia and Alberta PowerLine (APL). Together these businesses provide electricity distribution, transmission, and generation, and related infrastructure services.

BUSINESS STRATEGY

Electricity's strategy is to grow its businesses through: investing in regulated electricity distribution and transmission, and capitalizing on opportunities to provide renewable and firm supply electricity generation. Electricity will continue expanding its businesses geographically in select global markets to meet the evolving needs of our global customer base through the development of innovative infrastructure solutions.

MARKET OPPORTUNITIES

The Government of Alberta's plan to eliminate emissions from coal-fired electricity generation by 2030 has created a need for renewable electricity generation and firm capacity, such as gas-fired and hydroelectric power generation, as well as energy storage, to backstop the renewable power supply. Additional electricity distribution and transmission investment opportunities may result from this changing power market in addition to ongoing investment opportunities for customer growth and system replacements. Expansion will be focused in select global markets, including Canada, Australia, South America, Mexico and the U.S. We target markets with stable regulatory environments and rule of law, excellent long-term growth potential and strategic fit with our existing asset base.

MARKET CHALLENGES

Near term, power market challenges related to the Alberta energy-only market put downward pressure on market pricing until surplus supply and additional clarity on capacity market design are resolved.

PIPELINES & LIQUIDS

The Pipelines & Liquids Global Business Unit activities are conducted through three regulated businesses: ATCO Gas, ATCO Pipelines, and ATCO Gas Australia, and one non-regulated business: ATCO Energy Solutions. These companies offer complementary products and services that enable them to deliver comprehensive natural gas distribution and transmission services, energy storage, and industrial water solutions to existing and new customers.

BUSINESS STRATEGY

Pipelines & Liquids' strategy is to grow its businesses through: investing in regulated natural gas distribution and transmission, and to become a premier hydrocarbon liquids storage and industrial water infrastructure provider. Pipelines & Liquids will continue expanding geographically to meet the evolving needs of our global customer base through the development of innovative infrastructure solutions.

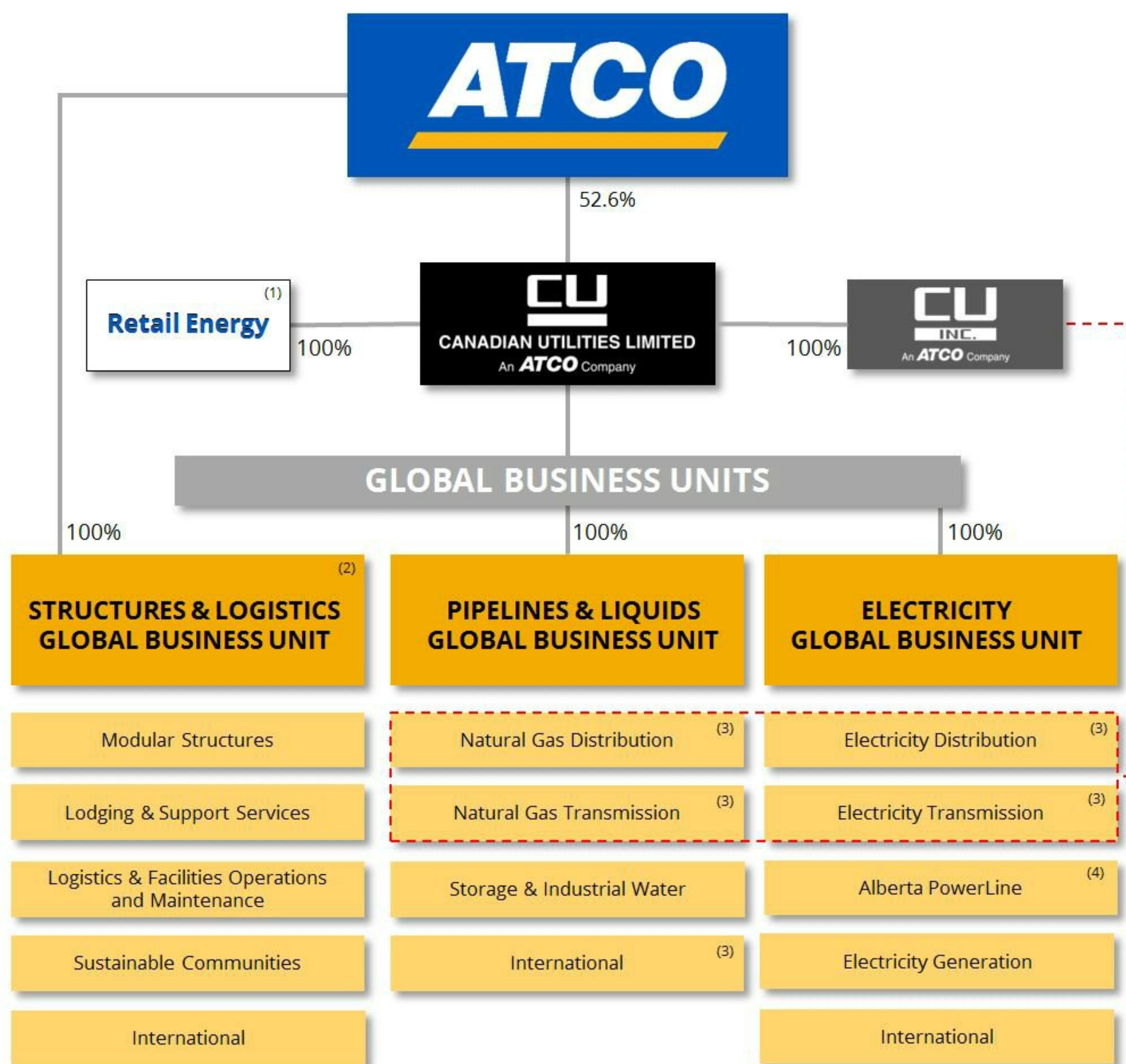
MARKET OPPORTUNITIES

The development of pipelines in Alberta is expected to increase the need for energy storage to manage supply and demand, and the industry trend toward sustainability is expected to increase demand for industrial water solutions. The regulated businesses expect to see continued growth based on projected customer growth and system replacements. Expansion will be focused in select global markets, including Canada, Australia, South America, Mexico and the U.S. We target markets with stable regulatory environments and rule of law, excellent long-term growth potential and strategic fit with our existing asset base.

MARKET CHALLENGES

Potential changes in macroeconomic conditions could slow the growth trajectory of these businesses.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



(1) Retail Energy was launched in early 2016 to provide retail, commercial and industrial electricity and natural gas service in Alberta.

(2) In December 2017, ATCO Ltd. purchased Canadian Utilities' 24.5 per cent interest in ATCO Structures & Logistics Ltd.

(3) Regulated businesses include ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Electric Distribution, and ATCO Electric Transmission.

(4) Alberta PowerLine General Partner Ltd. is the general partner of Alberta PowerLine Limited Partnership (Alberta PowerLine or APL), a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent).

The 2017 Consolidated Financial Statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments. Principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 52.6 per cent (38.8 per cent of the Class A non-voting shares and 89.5 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owned 75.5 per cent of the Common Shares. On December 31, 2017, ATCO purchased Canadian Utilities' 24.5 per cent ownership interest in ATCO Structures & Logistics for $140 million and now owns 100 per cent.

The 2017 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

ATCO's website, www.ATCO.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

ATCO CORE VALUES AND VISION

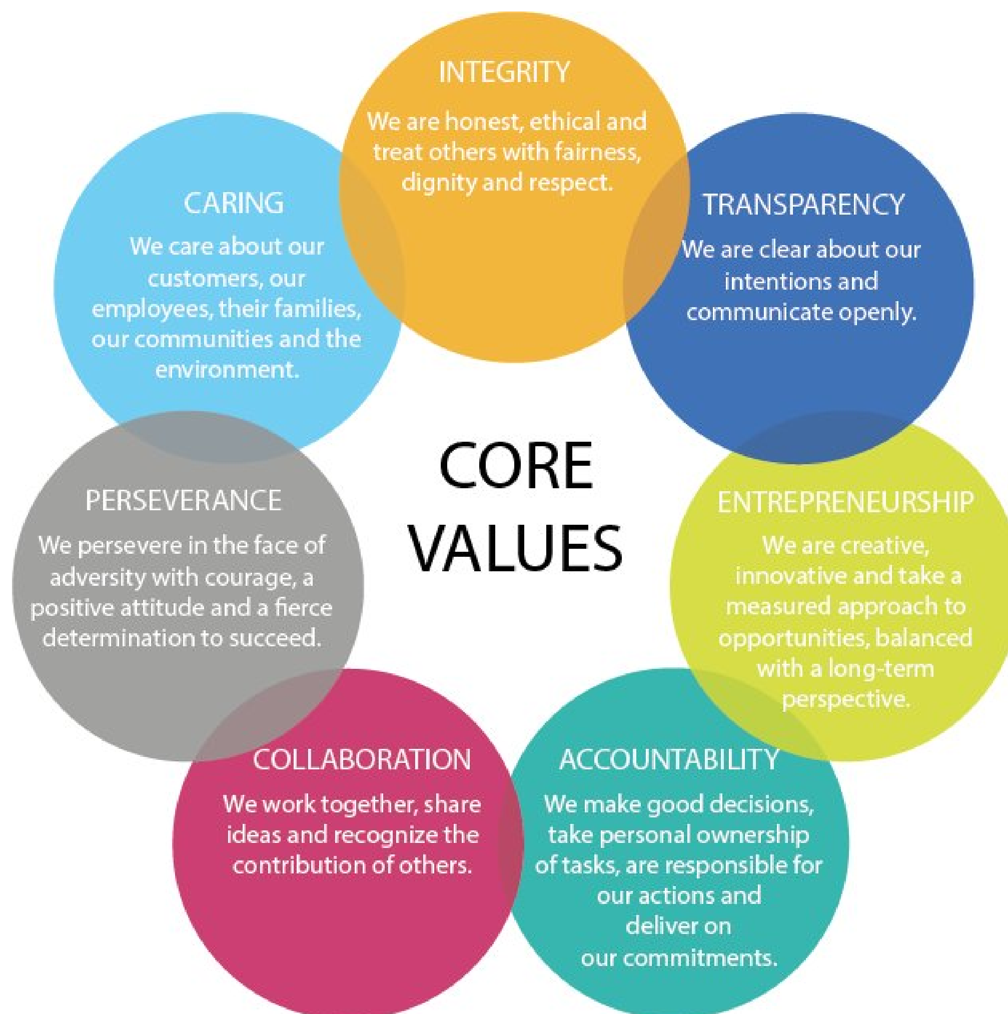
EXCELLENCE: THE HEART & MIND OF ATCO

"Going far beyond the call of duty. Doing more than others expect. This is what excellence is all about. It comes from striving, maintaining the highest standards, looking after the smallest detail and going the extra mile. Excellence means caring. It means making a special effort to do more."

R.D. Southern, Founder, ATCO

CORE VALUES

It is ATCO's Heart and Mind that drives the Company's approach to service reliability and product quality; employee, contractor and public safety; and environmental stewardship. Our pursuit of excellence governs the way we act and make decisions. At ATCO we strive to live by the following values:

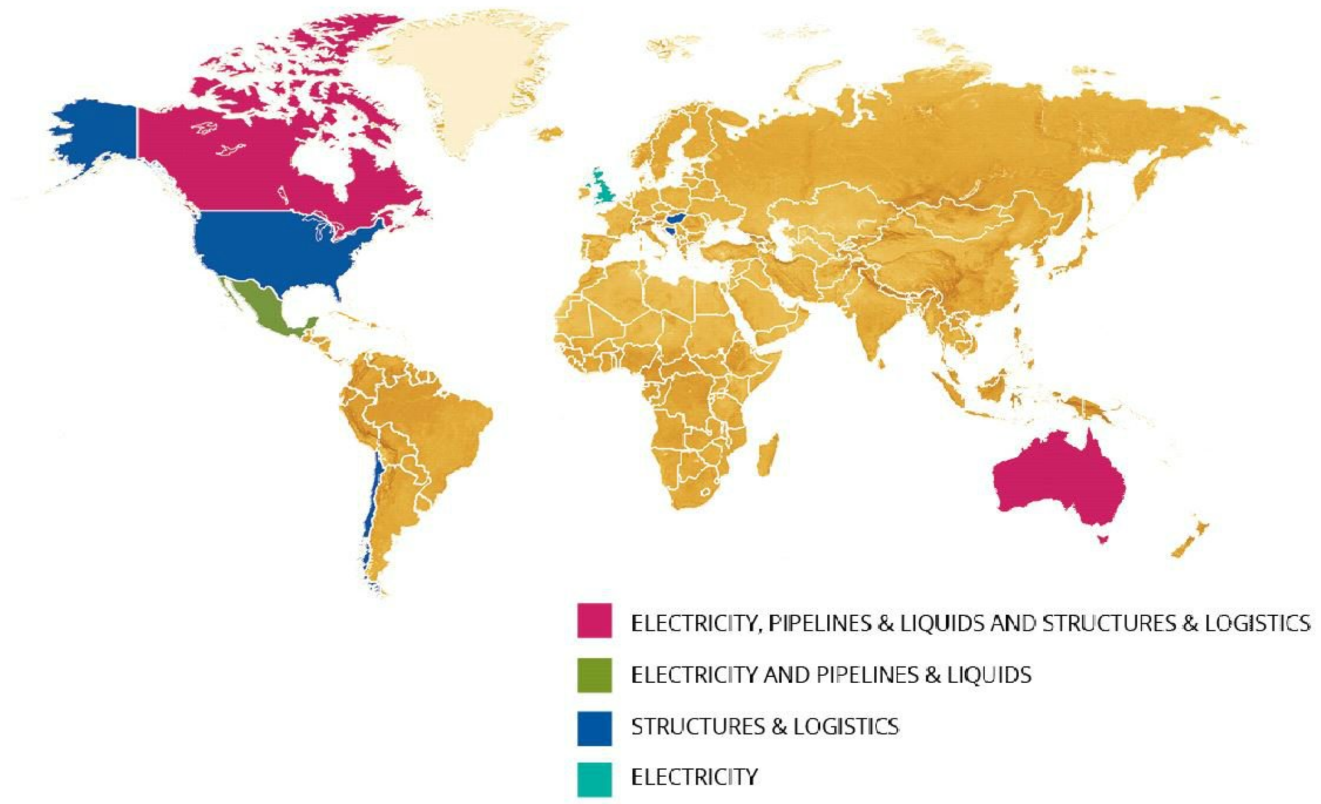


CORE VISION

Our core vision is to improve the lives of our customers by providing sustainable, innovative and comprehensive solutions globally. We believe in well-managed risk and a disciplined approach to growth. We fuel the imagination of our people to drive growth over the long-term, ultimately delivering value to our customers and our share owners.

Our strong financial and operating performance reflects our approach to sales and our customers, the strength and determination of our people, a deeply embedded focus on operational excellence with its inherent cost controls, and careful consideration of the environmental and social impact of our actions - now and for the future.

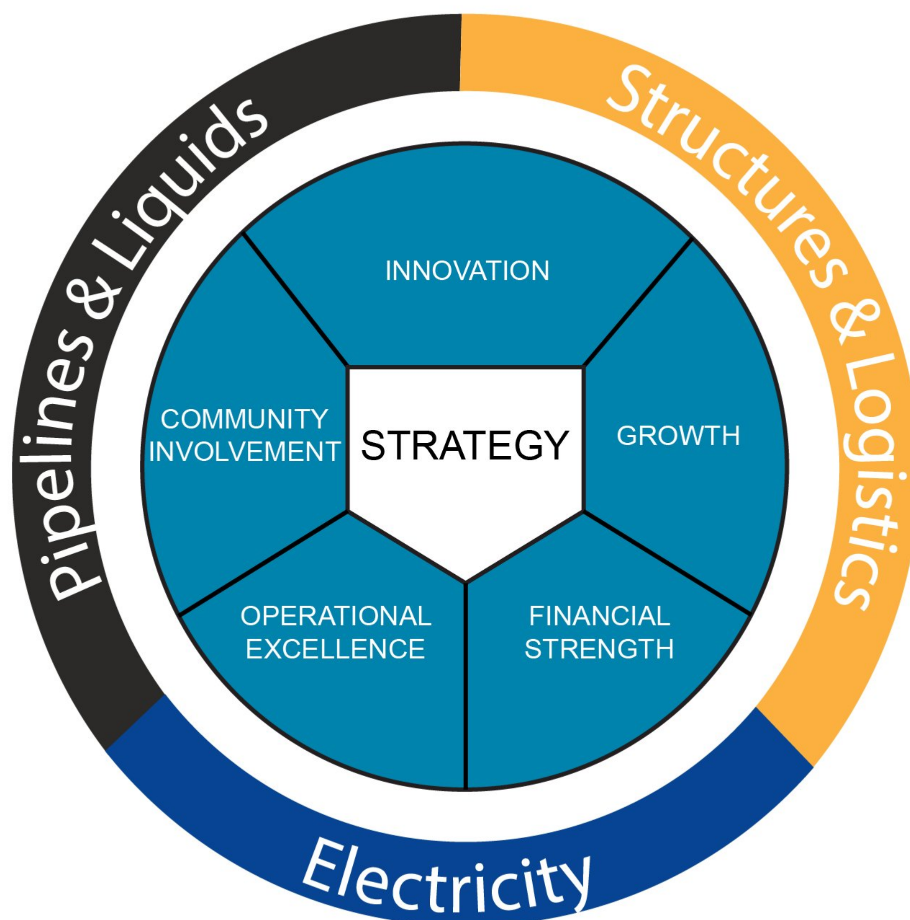
GLOBAL OPERATIONS



ATCO STRATEGIES

Innovation, growth and financial strength provide the foundation from which we have built our company. Our long-term success depends on our ability to expand into new markets and lines of business, while offering our customers premier, comprehensive and integrated solutions to meet their needs.

These strategic imperatives are supported by our unwavering commitment to operational excellence, our people and the customers and communities we are privileged to serve around the world.



Making life easier for our customers by offering vertically integrated infrastructure solutions around the world.

INNOVATION

The Company seeks to create a work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to research and development, the Company is able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

GROWTH

Long-term sustainable growth is paramount. The Company approaches this strategy by: expanding geographically to meet the global needs of customers; developing significant, value-creating greenfield projects; and fostering continuous improvement and innovation through research and development.

The ongoing exploration of opportunities to acquire assets provides the Company with additional growth potential. The Company will pursue the acquisition and development of complementary assets that have future growth potential and provide long-term value for share owners.

FINANCIAL STRENGTH

Financial strength is fundamental to the Company's current and future success. It ensures the Company has the financial capacity to fund existing and future capital investments through a combination of predictable cash flow from operations, cash balances on hand, committed credit facilities and access to capital markets. It enables the Company to sustain its operations and to grow through economic cycles, thereby providing long-term financial benefits.

The Company continuously reviews its holdings to evaluate opportunities to sell mature assets and redeploy the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across the Company.

OPERATIONAL EXCELLENCE

The Company approaches operational excellence by achieving high service, reliability, and product quality for our customers and the communities we serve. We are uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize environmental impact. We ensure the timely supply of goods and services that are critical to a company's ability to meet its core business objectives.

COMMUNITY INVOLVEMENT

ATCO maintains a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement involves developing partnerships with Indigenous and community groups that may be affected by projects and operations worldwide, and building ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. The Company also engages with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization and at all levels that will serve to benefit non-profit organizations through volunteer efforts, providing products and services in-kind.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

ATCO's financial and operational achievements in 2017 relative to the strategies outlined above are included in the Company's MD&A, 2017 Consolidated Financial Statements and AIF. Further commentary regarding strategies and commitments to growth, financial strength, innovation, operational excellence, and community involvement will be provided in the forthcoming 2017 Annual Report, Management Proxy Circular and Sustainability Report. The 2017 Management Proxy Circular also contains discussion of the Company's corporate governance practices.

ATCO's website, www.atco.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

ATCO SCORECARD

The following scorecard outlines our performance in 2017.

STRATEGIC PRIORITIES	2017 TARGET	2017 PERFORMANCE
INNOVATION		
New and existing products and services	Exploring and testing new products and methods of energy delivery to meet customers' future needs. Continuous improvement of existing products and services.	Deployed three electric vehicle fast-charging stations in Calgary, Red Deer and Edmonton. Partnered with the City of Lloydminster to employ a LED Conversion and Intelligent Street Lighting Pilot Project which included replacing more than 60 outdated, high-pressure sodium streetlights with LEDs and installing intelligent street lighting sensors. Participated in the development of a hybrid house - a micro combined heat and power (mCHP) unit which runs on natural gas or propane, and has the potential to reduce a customer's home emissions by up to 75 per cent compared with a standard built home.
GROWTH		
Regulated and long-term contracted capital investment	Invest $1.8 billion across our Regulated Utilities and in long-term contracted assets.	Invested $1.7 billion in regulated and long-term contracted assets.
Geographic expansion	Asset expansion into select global markets including Canada, Australia, South America, Mexico and the U.S.	Announced acquisition of a long-term contracted 35 MW hydroelectric generation asset in Veracruz, Mexico. The $114 million transaction closed on February 20, 2018. Installed an additional 7 MW of capacity at a distributed generation facility in San Luis Potosí, Mexico.
FINANCIAL STRENGTH		
Credit rating	Maintain investment grade credit rating.	Maintained 'A (low)' credit rating with stable outlook with DBRS Ltd. Standard & Poor's revised its issuer rating from 'A' with a negative outlook to 'A-' with a stable outlook.
Access to capital markets	Access to capital at attractive rates.	Raised $430 million in debentures at 3.548 per cent, the lowest long-term interest rate in the Company's history. Successfully completed the largest public-private partnership (P3) debt financing in Canadian history with a $1.4 billion bond financing for Alberta PowerLine. Awarded P3 Deal of the Year for the Americas by Project Finance International.

STRATEGIC PRIORITIES	2017 TARGET	2017 PERFORMANCE
OPERATIONAL EXCELLENCE		
Lost-time injury rate: employees	Compare favourably with Alberta Occupational Health and Safety rates of 1.25 cases/200,000 hours worked.	Lost time injury rate of 0.25 cases/200,000 hours worked.
Customer satisfaction	Achieving high service for the customers and communities we serve.	Within our Alberta electricity and natural gas distribution businesses, more than 95 per cent of our customers agreed we provide good service. Within our energy retail operations, 76 per cent of customers report who interact with our call centres are "very satisfied" compared with an industry average of 71 per cent.
Organizational transformation	Streamline and gain operational efficiencies	Simplified ATCO's ownership structure by selling Canadian Utilities' 24.5 per cent interest in ATCO Structures & Logistics Ltd. to ATCO Ltd for $140 million. At the same time, Canadian Utilities acquired a long-term contracted hydroelectric generation asset in Mexico for $114 million.
COMMUNITY INVOLVEMENT		
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.	Worked closely with 23 Indigenous organizations through Parks Canada's Indigenous Forum for our Jasper Interconnect Transmission Project; this project is adding 45 km of transmission line and a new substation in Jasper National Park. Signed several Memorandums of Understanding with Indigenous communities in the Yukon to partner on the development of renewable energy and battery storage solutions, enabling each community to become a direct participant in the local energy sector by owning renewable electricity sources (solar or wind) while we provide the energy storage and control systems. Began working with several Indigenous communities to develop partnership agreements to jointly build, operate and maintain the water infrastructure necessary to solve their immediate water needs, while also supporting the growth of their communities in the long-term.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.	Donated $3.3 million and more than 8,500 hours to more than 800 charities to make our communities better places to live and work in 2017.

STRATEGIC PRIORITIES FOR 2018

The following table outlines our strategic priorities and targets for 2018.

STRATEGIC PRIORITIES	2018 TARGET
INNOVATION	
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs. Demonstrate continuous improvement of existing products and services.
GROWTH	
Regulated and long-term contracted capital investment	Invest $1.8 billion across our Regulated Utilities and in long-term contracted assets.
Global expansion	Continue asset expansion into select global markets including: Canada, Australia, South America, Mexico and the U.S.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Access capital at attractive rates.
OPERATIONAL EXCELLENCE	
Lost-time injury rate: employees	Reduce lost-time injury rate from 2017 amount of 0.25 cases/200,000 hours worked.
Total recordable injury frequency: employees	Continue improvement in our safety performance, in addition to comparing favourably to benchmark rates such as Alberta Occupational Health and Safety, US Private Industry, and industry best practice rates for each of our global operating units.
Customer satisfaction	Achieving high service for the customers and communities we serve. Establish company-wide customer satisfaction measurement.
Organizational transformation	Streamline and gain operational efficiencies.
COMMUNITY INVOLVEMENT	
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.

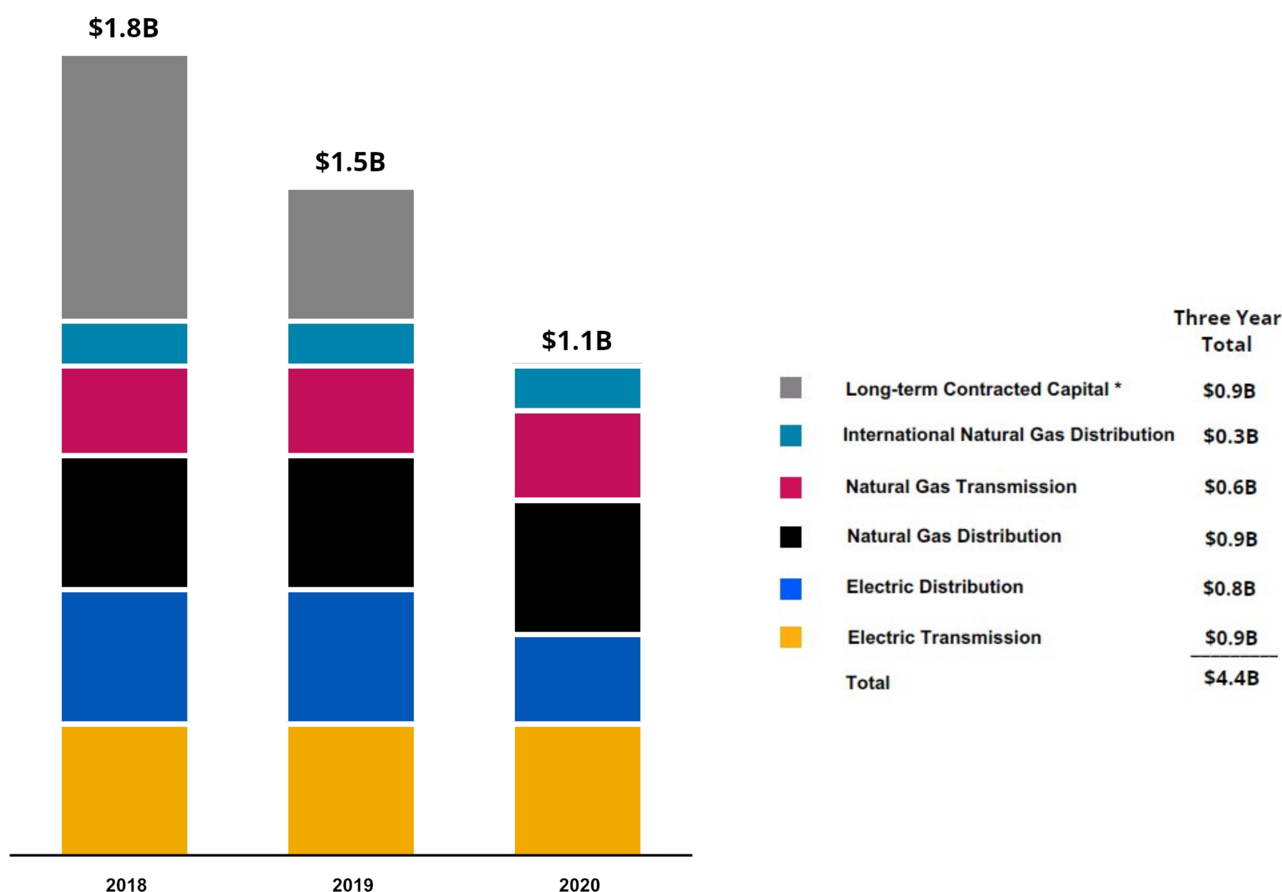
CAPITAL INVESTMENT PLANS

In the 2018 to 2020 period, ATCO expects to invest $4.4 billion in Regulated Utility and commercially secured capital growth projects. This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

This three year plan includes $3.5 billion of planned capital investment in the Regulated Utilities. Electric Distribution and Electric Transmission are planning to invest $1.7 billion, and Natural Gas Distribution, Natural Gas Transmission and International Natural Gas Distribution are planning to invest $1.8 billion from 2018 to 2020.

In addition to capital investments in the Regulated Utilities, the Company intends to invest a further $0.9 billion in long-term contracted capital from 2018 to 2020 in the APL Fort McMurray West 500-kV Project, contracted hydrocarbon storage in northern Alberta, and the first quarter of 2018 acquisition of a long-term contracted 35 MW hydroelectric power station in Veracruz, Mexico. ATCO also continues to pursue various business development opportunities with long-term potential, such as the hydrocarbon storage midstream opportunities in Mexico, which are not included in these capital growth investment estimates.

Future Regulated Utility and Contracted Capital Investment



** Includes the Company's proportionate share of investment in partnership interests and cash used for service concession arrangements.*

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with our financial performance.

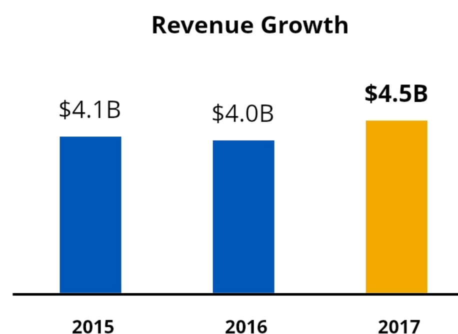
($ millions, except per share data and outstanding shares)	Year Ended December 31 2017	2016	2015
Key Financial Metrics			
Revenues	**4,541**	4,045	4,131
Adjusted earnings [(1)]	**335**	360	293
Structures & Logistics	**6**	43	27
Electricity	**210**	213	171
Pipelines & Liquids	**144**	136	101
Corporate & Other	**(25)**	(33)	(7)
Intersegment Eliminations	**–**	1	1
Adjusted earnings ($ per share)	**2.93**	3.15	2.55
Earnings attributable to Class I and Class II Shares	**203**	340	154
Earnings attributable to Class I and Class II Shares ($ per share)	**1.78**	2.97	1.34
Total assets	**21,775**	19,724	19,055
Long-term debt and non-recourse long-term debt	**9,973**	8,318	8,055
Class I and Class II Share owners' equity	**3,593**	3,546	3,356
Cash dividends declared per Class I and Class II Share ($ per share)	**1.31**	1.14	0.99
Funds generated by operations [(1)]	**1,813**	1,912	1,589
Capital investment [(1)]	**1,821**	1,609	1,919
Other Financial Metrics			
Weighted average Class I and Class II Shares outstanding *(thousands):*			
Basic	**114,352**	114,411	114,832
Diluted	**114,822**	114,846	115,300

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

REVENUES

Revenues in 2017 were $4,541 million, $496 million higher than the same period in 2016.

These increases were mainly due to revenue recorded for Alberta PowerLine (APL), higher flow-through revenues in natural gas distribution, rate base growth in our Regulated Utilities, and higher revenues from a growing customer portfolio in retail energy. This was partially offset by decreased revenues in Structures & Logistics due to the completion of Modular Structures major projects in 2016.



ADJUSTED EARNINGS

Our adjusted earnings for 2017 were $335 million, or $2.93 per share, compared to $360 million, or $3.15 per share, in 2016. The primary drivers of adjusted earnings results were as follows:

- Structures & Logistics - Adjusted earnings in 2017 were lower than in 2016 mainly due to the completion of major projects in our Modular Structures business and lower profit margins across all business lines, partially offset by cost reduction initiatives.
- Electricity - Adjusted earnings in 2017 were lower than in 2016 mainly due to lower contributions from forward sales, increased business development expenses and a planned major outage at the Sheerness Thermal PPA plant, partially offset by continued capital investment and growth in rate base within Regulated Electricity.
- Pipelines & Liquids - Adjusted earnings in 2017 were higher than in 2016 mainly due to continued capital investment and growth in rate base within Regulated Pipelines & Liquids.
- Corporate & Other - Higher earnings were mainly due to improved results in Retail Energy from a growing customer portfolio.

Our adjusted earnings for the fourth quarter of 2017 were $92 million, or $0.80 per share, compared to $94 million, or $0.82 per share, in the same period of 2016. Lower earnings were mainly due to lower contributions from our non-regulated businesses as persistent weak commodity prices impacted financial results in Structures & Logistics and Electricity.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were $203 million in 2017 compared to $340 million in 2016. Earnings attributable to Class I and Class II Shares includes significant impairments, timing adjustments related to rate-regulated activities, and unrealized losses on mark-to-market forward commodity contracts that are not included in adjusted earnings. The net impact of these items was a reduction of $132 million to earnings attributable to Class I and Class II Shares in 2017.

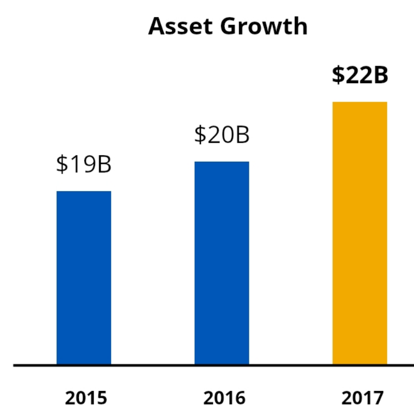
In 2017, timing adjustments made in rate-regulated accounting lowered earnings attributable to Class I and Class II shares by $61 million. Unrealized losses on mark-to-market forward commodity contracts lowered earnings attributable to Class I and Class II shares by $48 million. Impairment charges of $23 million after tax and non-controlling interests were recorded relating to certain Structures & Logistics' workforce housing assets in Canada and the U.S.

More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares section of this MD&A.

ASSETS, DEBT & EQUITY

Our total assets, long-term debt and Class I and Class II Share owners' equity reflect the significant growth achieved during 2017 and how that growth was financed. Total assets grew from $20 billion at the beginning of 2017 to $22 billion at year end. That growth occurred mainly as a result of continued capital investment in APL and the Regulated Utilities.

Class I and Class II Share owners' equity increased over the prior year mainly as a result of 2017 earnings, partially offset by higher dividends paid to share owners.

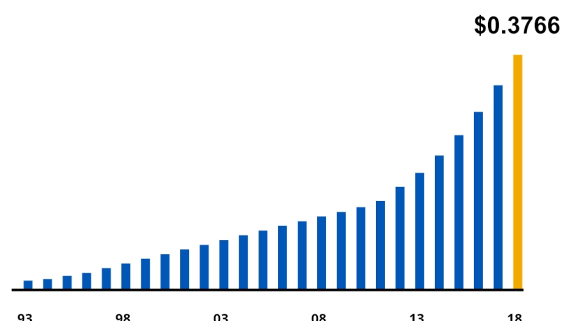


COMMON SHARE DIVIDENDS

In 2017, the Board of Directors increased the quarterly dividends paid per Class I and Class II Share for the four quarters of 2017 from 28.50 cents per share to 32.75 cents per share. Dividends paid to Class I and Class II Share owners totaled $150 million in 2017.

On January 11, 2018, the Board of Directors declared a first quarter dividend of 37.66 cents per share, a 15 per cent increase over the 2017 dividend.

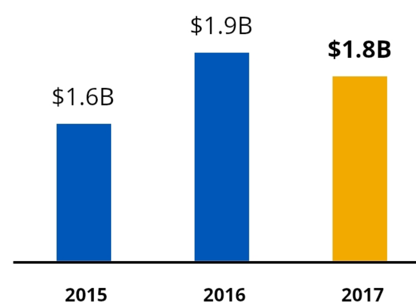
We have increased our common share dividend each year since 1993.



FUNDS GENERATED BY OPERATIONS

Funds generated by operations were $1.8 billion in 2017, compared to $1.9 billion in 2016.

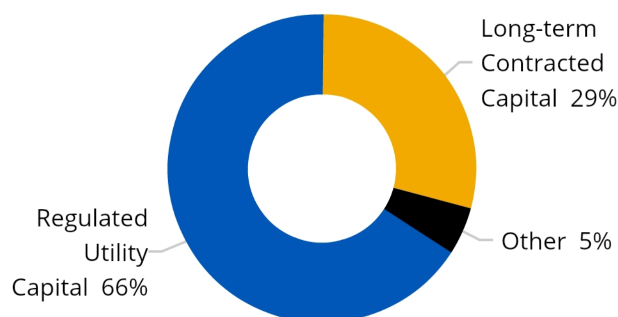
The decrease was mainly due to lower earnings and lower customer contributions received for utility capital expenditures.



CAPITAL INVESTMENT

Capital investment includes additions to property, plant and equipment, intangibles, capital expenditures in joint ventures and service concession arrangements. Total capital investment in the fourth quarter and full year of 2017 were $586 million and $1,821 million.

Capital spending in our Regulated Utilities and on long-term contracted capital assets accounted for $556 million of capital spending in the fourth quarter, and $1,725 million in the full year of 2017. These investments either earn a return under a regulated business model or are under commercially secured long-term contracts.



GLOBAL BUSINESS UNIT PERFORMANCE

REVENUES

Structures & Logistics revenues of $136 million in the fourth quarter and $515 million in the full year of 2017 were $18 million higher and $132 million lower than the same periods in 2016. Higher revenues in the fourth quarter of 2017 were mainly due to the sale of used fleet and Modular Structures project activity in the education, health, correctional facility and construction sectors. Revenues for the full year 2017 were lower than 2016 mainly due to decreased Modular Structures project activity from the completion of the Wheatstone and BC Hydro Site C projects in the first and third quarters of 2016. Lower Modular Structures major project activity revenue was partially offset by revenues from the LNG Modular Structures rental project, the sale of used fleet, and project activity in the education, health, correctional facility and construction sectors.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Modular Structures	**7**	14	(7)	**17**	52	(35)
Frontec						
Logistics and Facility O&M Services	**1**	1	–	**6**	10	(4)
Lodging & Support Services	**–**	–	–	**3**	6	(3)
Total Frontec Adjusted Earnings	**1**	1	–	**9**	16	(7)
Other [(1)]	**(6)**	(9)	3	**(20)**	(25)	5
Total Structures & Logistics Adjusted Earnings	**2**	6	(4)	**6**	43	(37)

(1) Other includes financial results for Structures & Logistics' corporate office.

Adjusted earnings achieved by Structures & Logistics in the fourth quarter and full year of 2017 were $4 million and $37 million lower than the same periods in 2016. The decreases were mainly due to the completion of major projects in our Modular Structures business and lower profit margins across all business lines, partially offset by cost reduction initiatives.

Detailed information about the activities and financial results of Structures & Logistics' businesses is provided in the following sections.

MODULAR STRUCTURES

Modular Structures manufactures, sells and leases transportable workforce housing and space rental products. Space Rentals sells and leases mobile office trailers in various sizes and floor plans to suit our customers' needs. Workforce Housing delivers modular workforce housing worldwide, including short-term and permanent modular camps, pre-fabricated and relocatable modular buildings.

Adjusted earnings in the fourth quarter of 2017 were $7 million lower than in the same period of 2016. Lower adjusted earnings were mainly due to lower profit margins, partially offset by the sale of used fleet.

For the full year 2017, adjusted earnings were $35 million lower than 2016 mainly due to decreased major project activity due to the completion of the Wheatstone and BC Hydro Site C projects in the first and third quarters of 2016 and lower profit margins, partially offset by earnings from the LNG Modular Structures rental project, the sale of used fleet, and project activity in the education, health, correctional facility and construction sectors. Modular Structures will continue with strategic initiatives to improve space rental utilization, diversify the customer base, lower operating costs, and expand operations in select geographic markets, which may include bolt-on acquisitions.

Rental Fleet Statistics

The following table compares Structures & Logistics' manufacturing hours and rental fleet for the fourth quarter and full year of 2017 and 2016.

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
North America						
Manufacturing hours *(thousands)*	**97**	34	185%	**296**	564	(48%)
Global Space Rentals						
Number of units	**13,456**	13,629	(1%)	**13,456**	13,629	(1%)
Average utilization *(%)*	**72**	65	7%	**70**	64	6%
Average rental rate *($ per month)*	**473**	455	4%	**466**	500	(7%)
Global Workforce Housing						
Number of units	**3,708**	4,974	(25%)	**3,708**	4,974	(25%)
Average utilization *(%)*	**41**	32	9%	**37**	38	(1%)
Average rental rate *($ per month)*	**1,864**	2,580	(28%)	**1,966**	1,962	–

Increased manufacturing hours in the fourth quarter of 2017 were mainly due to education, health, correctional facility, and construction project activity. Decreased manufacturing hours in the full year of 2017 were mainly due to the completion of major project activity at the BC Hydro Site C and LNG Modular Structures projects in 2016, partially offset by an increase in manufacturing hours in 2017 primarily due to education, health, correctional facility and construction sector project activity.

The increase in Space Rental utilization was due to higher construction sector customer activity in North America and Australia. The increase in the average rental rate for Space Rentals in the fourth quarter of 2017 was mainly due to strengthening rental rates in Australia from increased construction activity on the eastern seaboard. The decrease in the average rental rate for Space Rentals in 2017 was due to weakened demand from customers whose business activity is exposed to commodity price declines. The decrease in Space Rental units was due to the sale of used fleet.

The decrease in the Workforce Housing units and the increase in the utilization rate in the fourth quarter were primarily due to sales of non-utilized units in Canada, the U.S. and Australia. In the fourth quarter, the decrease in the Workforce Housing rental rates was mainly due to the impact of foreign exchange on the rental rates relating to the LNG Modular Structures rental project and overall weakened demand from customers whose business activity is exposed to commodity price declines.

FRONTEC

Logistics and Facility O&M Services

Logistics and Facility O&M Services delivers facilities operations and maintenance services, including end-to-end supply chain management, to our clients in the resources, defence and telecommunications sectors.

Adjusted earnings for the fourth quarter of 2017 were comparable to the same period in 2016. Adjusted earnings for the full year of 2017 were $4 million lower when compared to the same period in 2016. Lower earnings were mainly due to a lower profit margin on the Alaska Radar System contract renewal effective October 1, 2016 and the completion of the Kandahar - First Responders contract with NATO Support Agency at the end of the third quarter of 2016. We continue with strategic initiatives to lower operating costs and bid on project opportunities to provide Logistics and Facility O&M Services.

Project Award

In the fourth quarter of 2017, Structures & Logistics was selected by Defence Construction Canada, the procurement partner of Canada's Department of National Defence, to provide facility maintenance and support services at Canadian Armed Forces (CAF) sites across the Canadian North commencing March 1, 2018 for a period of five years. The initial contract is valued at $79 million, with an option for a five-year extension. We will provide facility inspection, maintenance and repair, new construction and upgrades, trade services and environmental services to CAF sites in Yellowknife, Whitehorse, Inuvik, Rankin Inlet and Iqaluit.

Lodging & Support Services

Lodging & Support Services provides lodging, catering, waste management, and maintenance services to meet the demands of major, remote resource projects.

Adjusted earnings for the fourth quarter of 2017 were comparable to the same period in 2016. Earnings of $3 million in the full year of 2017 were $3 million lower than the same period in 2016 mainly due to lower profit margins at the BC Hydro Site C workforce housing camp in 2017, the completion of our contract at the end of the second quarter of 2017 to provide services at the K+S Potash Canada Legacy Lodge during the construction of the K+S Potash mine in Saskatchewan, and higher lodging activity and food services provided in the second quarter of 2016 resulting from the 2016 Fort McMurray wildfires. We continue with strategic initiatives to lower operating costs and bid on contract opportunities to provide Lodging & Support Services.

REVENUES

Electricity revenues of $698 million in the fourth quarter and $2,341 million in the full year of 2017 were $147 million and $464 million higher than the same periods in 2016, mainly due to revenue recorded for planning, design and construction activities at Alberta PowerLine.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2017	2016	Change	2017	2016	Change
Regulated Electricity						
Electricity Distribution	**16**	15	1	**71**	69	2
Electricity Transmission	**27**	26	1	**104**	100	4
Total Regulated Electricity Adjusted Earnings	**43**	41	2	**175**	169	6
Non-regulated Electricity						
Independent Power Plants	**2**	8	(6)	**4**	15	(11)
Thermal PPA Plants	**(1)**	6	(7)	**14**	19	(5)
International Power Generation	**2**	1	1	**9**	8	1
Alberta PowerLine	**1**	2	(1)	**8**	2	6
Total Non-regulated Electricity Adjusted Earnings	**4**	17	(13)	**35**	44	(9)
Total Electricity Adjusted Earnings	**47**	58	(11)	**210**	213	(3)

In the fourth quarter, our Electricity business earned $47 million, $11 million lower than the same period of 2016. Lower earnings were due to a planned major outage at the Sheerness Thermal PPA plant, lower contributions from forward sales and increased business development expenses, and lower earnings from APL, partially offset by continued capital investment and growth in rate base within Regulated Electricity.

In the full year of 2017, our Electricity business earned $210 million, $3 million lower than the same period of 2016. Lower earnings were due to a planned major outage at the Sheerness Thermal PPA plant, lower contributions from forward sales and increased business development expenses, partially offset by continued capital investment and growth in rate base within Regulated Electricity and higher earnings from Alberta PowerLine.

Detailed information about the activities and financial results of Electricity's businesses is provided in the following sections.

REGULATED ELECTRICITY

Our Regulated Electricity activities are conducted by ATCO Electric Distribution and ATCO Electric Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife). These businesses provide regulated electricity distribution, transmission and distributed generation mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

Electricity Distribution

Our electricity distribution business earned $16 million in the fourth quarter and $71 million in the full year of 2017, $1 million and $2 million higher than the same periods in 2016. Higher earnings resulted mainly from continued capital investment and growth in rate base.

Electricity Transmission

Our electricity transmission business earned $27 million in the fourth quarter, $1 million higher than the same period in 2016. Higher earnings were primarily due to an increase in the approved return on equity from 8.3 per cent in 2016 to 8.5 per cent in 2017.

Our electricity transmission business earned $104 million in the full year of 2017, $4 million higher than the same period in 2016. Higher earnings were primarily due to an increase in the approved return on equity from 8.3 per cent in 2016 to 8.5 per cent in 2017, partially offset by the net impact of regulatory decisions received in 2017 that related to prior years.

NON-REGULATED ELECTRICITY

Our non-regulated electricity activities are conducted by ATCO Power, ATCO Power Australia and Alberta PowerLine. These businesses supply electricity from natural gas, coal-fired and hydroelectric generating plants in Western Canada, Ontario, Australia and Mexico and non-regulated electricity transmission in Alberta.

Generating Plant Availability

Our generating availability for the fourth quarter and full year of 2017 and 2016 is shown in the table below. Generating plant capacity fluctuates with the timing and duration of outages.

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Independent Power Plants	**95%**	93%	2%	**94%**	92%	2%
Thermal PPA Plants	**88%**	99%	(11%)	**93%**	95%	(2%)
International Power Generation	**96%**	64%	32%	**98%**	88%	10%

Higher availability in our Independent Power Plants in the fourth quarter and full year of 2017 was primarily due to fewer outages in 2017.

Lower availability in our Thermal PPA Plants in the fourth quarter and full year 2017 was primarily due to a planned major outage at the Sheerness plant.

Higher availability in our International Power Generation in the fourth quarter and full year of 2017 was largely due to the major outage commencing in late September 2016 at our Osborne facility in Australia.

Alberta Power Market Summary

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the fourth quarter and full year 2017 and 2016 are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**22.46**	22.03	2%	**22.19**	18.28	21%
Average natural gas price *($/GJ)*	**1.64**	2.94	(44%)	**2.05**	2.06	_
Average market spark spread *($/MWh)*	**10.16**	(0.02)	_	**6.84**	2.84	141%

The average Alberta Power Pool prices for the fourth quarter of 2017 were comparable to the same period in 2016.

For the full year 2017, the average Alberta Pool Price was $3.91 per MWh higher mainly due to the impact of increased carbon prices, continued demand growth, and modestly improved market fundamentals related to supply and demand. The continued low prices and low volatility were a result of an increased supply of electricity in recent years, the Balancing Pool offering coal-fired generation into the merchant energy market at variable cost, and continued low natural gas prices.

Independent Power Plants

In the fourth quarter of 2017, earnings from our Independent Power Plants were $2 million compared to $8 million in the same period in 2016. Full year 2017 earnings from our Independent Power Plants were $4 million compared to $15 million in 2016. Lower earnings generated by our Independent Power Plants in the fourth quarter and full year of 2017 were mainly due to lower contributions from realized forward sales, increased business development expenses and one-time cost-savings recognized in 2016.

Realized Forwards Sales Program

	Three Months Ended December 31			Year Ended December 31		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Average volumes settled *(MW)*	**305**	255	20%	**216**	214	1%
Average realized spark spread *($/MWh)*	**12.56**	15.32	(18%)	**11.67**	16.40	(29%)

In the fourth quarter of 2017, 305 MW of power forward settled at an average realized spark spread of $12.56 per MWh compared to 255 MW settled at an average of $15.32 in 2016. Due to the decrease in the realized spark spread, earnings from forward sales in the fourth quarter of 2017 were lower than the same period in 2016.

In 2017, 216 MW of power forward settled at an average realized spark spread of $11.67 per MWh compared to 214 MW settled at an average of $16.40 in 2016. Due to the decrease in the realized spark spread, earnings from forward sales in 2017 were lower than in the previous year.

Thermal PPA Plants

The electricity generated by the Battle River unit 5 and Sheerness plants is sold through PPAs. Under the PPAs, we must make the generating capacity for each generating unit available to the PPA purchaser of that unit. These arrangements entitle us to recover our forecast fixed and variable costs from the PPA purchaser.

In the fourth quarter of 2017, earnings from our Thermal Power Plants were $7 million less than the same period in 2016. Lower earnings were caused by a planned maintenance outage at the Sheerness plant and lower availability incentive revenue compared to the same period in 2016.

Full year 2017 earnings of $14 million were $5 million less than 2016. Lower earnings were caused by a planned maintenance outage at the Sheerness plant and lower availability incentive revenue, partially offset by compensation for the early retirement of coal-fired electricity generation at the Sheerness power plant.

The legal action filed by the Government of Alberta in 2016 regarding the determination on the validity and interpretation of certain terms within the coal PPAs and related regulations remains outstanding and, at this point, only involves Enmax as a Buyer and its purported termination of the Battle River unit 5 and Keephills PPAs. Previously, the Balancing Pool had reported that they were unable to make decisions to accept or terminate the PPAs until this legal action was resolved. In late 2017, Enmax sought injunctive relief on the outstanding decision by the Balancing Pool to accept the Keephills PPA termination. In November 2017, a Court of Queen's Bench (Alberta) decision instructed the Balancing Pool to finalize their assessment of the Keephills PPA and make its acceptance decision. This court decision provided legal precedence that the Government of Alberta's legal action should not encumber the Balancing Pool from making decisions in regards to the PPAs. The originating application on this legal action from the Government of Alberta is expected to be heard by the Court of Queen's Bench (Alberta) in November 2018.

In 2017, the Balancing Pool continued to assess the commercial management of the five PPAs which it held (Battle River unit 5, Genesee, Keephills, Sheerness and Sundance) through its mandate requiring it to manage its generation assets in a commercial manner and to conduct itself in a fashion that is not contrary to a fair, efficient, and openly competitive market. The Company owns 100 per cent of Battle River unit 5 and 50 per cent of Sheerness. On September 18, 2017, the Balancing Pool issued notice of PPA termination of the Sundance unit B and unit C no later than March 31, 2018. In addition, on January 12, 2018, the Balancing Pool announced that it will begin consultation on the return of the Battle River unit 5 PPA as proceeding with this PPA termination decision is no longer encumbered by the Government of Alberta legal action.

The Balancing Pool may terminate a PPA if it:

- Consults with representatives of customers and the Minister about the reasonableness of the termination;
- Gives to the owner of the generating unit to which the PPA applies six months' notice, or any shorter period agreed to by the owner, of its intention to terminate; and
- Pays the owner or ensures that the owner receives an amount equal to the remaining closing net book value of the generating unit, determined in accordance with the power purchase arrangement, as if the generating unit had been destroyed, less any insurance proceeds.

ATCO continues to operate Battle River unit 5 and Sheerness units 1 and 2 under the terms of their respective PPAs. Termination of the Battle River unit 5 by the Balancing Pool would result in the cessation of the PPA and the control of the underlying PPA unit returning to ATCO.

International Power Generation

Our international power generation activities are conducted by ATCO Power Australia. These businesses supply electricity from two natural gas-fired electricity generation plants, the Osborne plant in South Australia and the Karratha plant in Western Australia.

Our international power generation business earned $2 million in the fourth quarter and $9 million in the full year of 2017, $1 million and $1 million higher than the same periods in 2016 due to the impact of the major outage at our Osborne facility in 2016.

Alberta PowerLine

Alberta PowerLine (APL) is a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent), with a 35-year contract from the Alberta Electric System Operator (AESO) to design, build, own, and operate the 500 km, Fort McMurray West 500-kV Transmission project, running from Wabamun, near Edmonton to Fort McMurray, Alberta.

APL's adjusted earnings were $1 million in the fourth quarter and $8 million in the full year of 2017. Earnings were $1 million lower in the fourth quarter of 2017 when compared to the same period in 2016 mainly due to interest on bonds issued in October 2017 to finance construction activities. Earnings for the full year were $6 million higher when compared to the prior year as a result of the commencement of construction activities in August 2017.

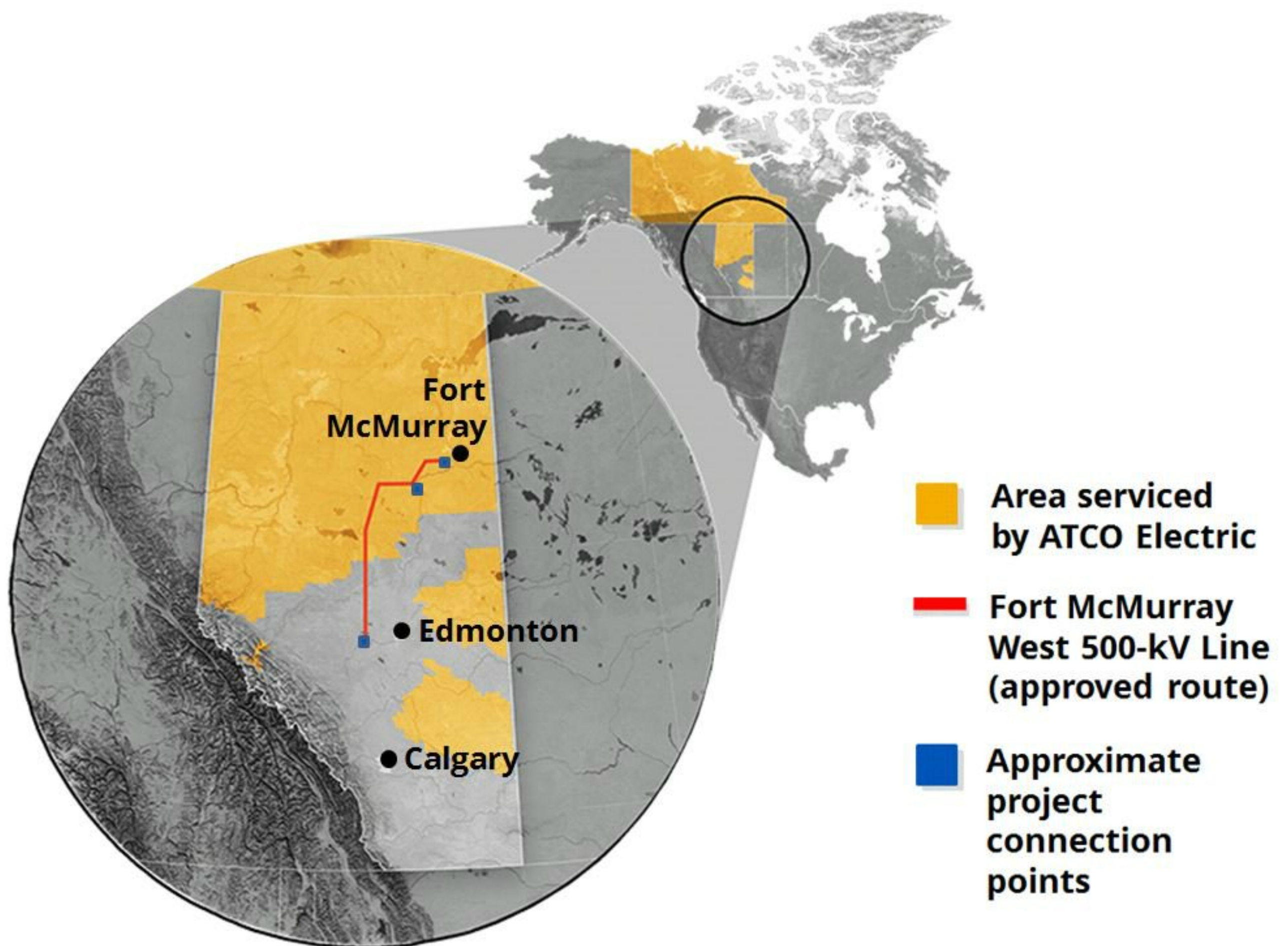
ELECTRICITY MAJOR PROJECT UPDATES

Alberta PowerLine

The design and planning phases of the approximately 500 km, Fort McMurray West 500-kV Project have been completed and construction commenced in August 2017, keeping the target energization of June 2019 on track.

On October 2, 2017, APL closed the issuance of an aggregate of $1.4 billion of bonds with maturities from June 2032 to March 2054. This represents the largest public-private partnership debt financing ever completed in Canada. As a result, APL has been awarded the P3 Deal of the Year for the Americas by Project Finance International.

On November 30, 2017, APL submitted a tariff application as owner of the project. On January 23, 2018, the AUC approved the application.



Distributed Generation

Distributed Generation aligns with ATCO's strategy of taking a creative and innovative approach to meeting our customers' needs by building a fleet of portable natural gas-fired units that can be deployed for temporary or permanent projects.

In 2017, ATCO Mexico continued to advance distributed generation projects in Mexico. ATCO and its Mexican partner, Grupo Ranman, installed 7 MW of distributed generation to increase the total capacity installed to 11 MW at a distributed generation facility located in the World Trade Centre industrial park in San Luis Potosí, Mexico.

Mexico Tula Cogeneration

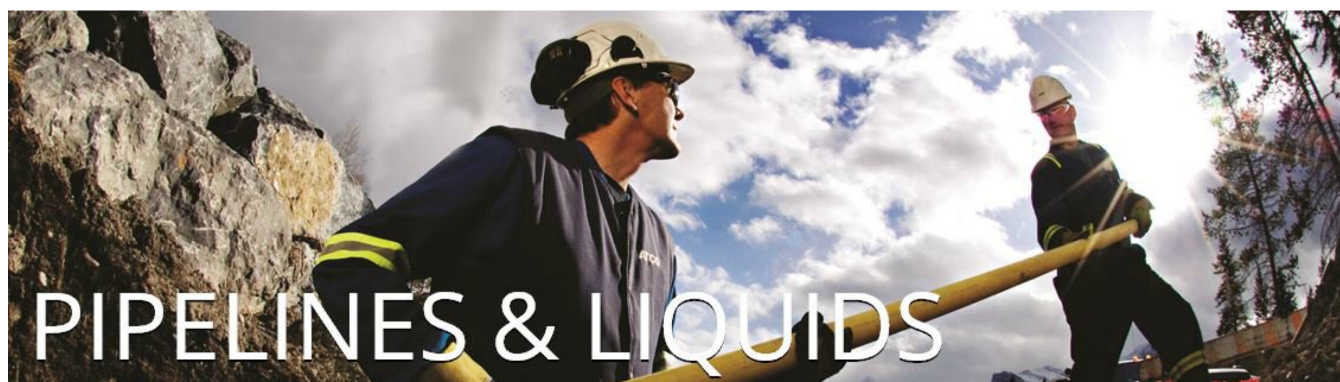
In October 2014, ATCO Mexico and its Mexican partner, Grupo Hermes S.A. de C.V., were selected by PMX Cogeneracion S.A.P.I de C.V., an affiliate of Mexico's state-owned petroleum company Pemex, to commence the project development and approval process for a natural gas cogeneration plant at the Miguel Hidalgo refinery near the town of Tula in the state of Hidalgo, Mexico. ATCO continues discussions with Pemex on commercial terms.

Mexico Hydro Facility

In December 2017, Canadian Utilities Limited, an ATCO company, announced the acquisition of a long-term contracted, 35 MW hydroelectric power station based in Veracruz, Mexico. The $114 million transaction closed on February 20, 2018.

Alberta Electricity Market Reform

On November 23, 2016, the Government of Alberta announced its intention to change the existing energy-only electricity market to a capacity market in 2021. A capacity market includes a market component for the provision of capacity, or the ability to produce electricity, in addition to the market for the production of electricity. The Government of Alberta indicated that it will work closely with industry, consumer groups and other stakeholders to establish the framework and implement the capacity market in 2021. The first version of the Comprehensive Market Design for the capacity market was released on January 26, 2018. The proposed first capacity auction will start in November 2019, for an obligation from November 2021, for a one year term. Multiple aspects of the capacity market design remain under discussion and consultation. The AESO plans to release its second version of the Comprehensive Market Design in March 2018, with a final version expected mid-year 2018.



REVENUES

Pipelines & Liquids revenues of $447 million in the fourth quarter were $7 million lower than the same period in 2016. Lower revenues in the fourth quarter were mainly due to the sale of excess natural gas in our storage & industrial water business in 2016. Revenues of $1,630 million in the full year of 2017 were $134 million higher than the same period in 2016, mainly due to growth in rate base and higher flow-through franchise fees paid to municipalities, which are recovered from customers.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Regulated Pipelines & Liquids						
Natural Gas Distribution	**32**	26	6	**76**	65	11
Natural Gas Transmission	**7**	7	–	**34**	31	3
International Natural Gas Distribution	**6**	4	2	**28**	27	1
Total Regulated Pipelines & Liquids Adjusted Earnings	**45**	37	8	**138**	123	15
Non-regulated Pipelines & Liquids						
Storage & Industrial Water	**4**	7	(3)	**6**	13	(7)
Total Pipelines & Liquids Adjusted Earnings	**49**	44	5	**144**	136	8

Pipelines & Liquids earnings of $49 million in the fourth quarter of 2017 and $144 million in the full year of 2017 were $5 million and $8 million higher than the same periods in 2016, mainly due to continued capital investment and growth in rate base within Regulated Pipelines & Liquids.

Detailed information about the activities and financial results of Pipelines & Liquid's businesses is provided in the following sections.

REGULATED PIPELINES & LIQUIDS

Natural Gas Distribution

Our natural gas distribution activities throughout Alberta and in the Lloydminster area of Saskatchewan are conducted by ATCO Gas. It services municipal, residential, business and industrial customers.

Our natural gas distribution business earned $32 million in the fourth quarter of 2017, $6 million higher than the same period of 2016. Increased earnings for the fourth quarter of 2017 were mainly due to growth in rate base and customers. The earnings variance was also impacted by higher fourth quarter 2016 operations and maintenance costs. Our natural gas distribution business earned $76 million in 2017, $11 million higher than in 2016. Increased earnings for the period resulted primarily from growth in rate base and customers.

Natural Gas Transmission

Our natural gas transmission activities in Alberta are conducted by ATCO Pipelines. This business receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province or to other pipeline systems, primarily for export out of the province.

Our natural gas transmission business earned $7 million in the fourth quarter of 2017, comparable to the same period of 2016. Our natural gas transmission business earned $34 million in the full year of 2017, $3 million higher than in 2016, mainly due to growth in rate base.

International Natural Gas Distribution

Our international natural gas distribution activities are conducted by ATCO Gas Australia. It is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

Our international natural gas distribution business earned $6 million in the fourth quarter and $28 million in the full year of 2017, $2 million and $1 million higher than the same periods in 2016. Higher earnings in the quarter were mainly due to continued growth in rate base. Higher earnings in the full year of 2017 were mainly due to continued growth in rate base, partially offset by warmer weather in 2016 and the favourable impact of a regulatory appeal decision in 2016.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Our industrial water services and non-regulated natural gas and hydrocarbon storage, processing and transmission activities are conducted by ATCO Energy Solutions.

Our storage & industrial water business earned $4 million in the fourth quarter of 2017, $3 million lower than the same period in 2016, mainly due to sales of excess natural gas in 2016. Our storage & industrial water business earned $6 million in the full year of 2017, $7 million lower when compared to the same period of 2016. Earnings were lower in 2017 because the prior year included cost savings due to the sale of under-performing assets and sales of excess natural gas. Earnings for the full year of 2017 include contributions from the hydrocarbon storage facilities that commenced in the fourth quarter of 2016.

PIPELINES & LIQUIDS MAJOR PROJECT UPDATES

Mexico Midstream Opportunities

As part of our geographic expansion in select global markets, we are pursuing midstream opportunities in Mexico. In the fourth quarter of 2017, ATCO and CYDSA S.A.B. de C.V. (CYDSA) announced the signing of a Memorandum of Understanding that will see the two companies work together to explore and develop midstream opportunities in Mexico's oil and gas industry. The initial focus will be on underground hydrocarbon storage in salt cavern formations and depleted reservoirs, and will also include opportunities in gas gathering and processing, natural gas liquids (NGL) extraction and fractionation.

Urban Pipelines Replacement Program

The Urban Pipelines Replacement (UPR) project is replacing and relocating aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth. Construction is expected to be complete in 2020 and the total cost of the UPR project is estimated to be $850 million. Natural gas distribution and natural gas transmission invested $205 million in the UPR project in 2017 and $653 million since the program's inception.

Mains Replacement Program

Natural gas distribution has 8,000 km of plastic pipe and 9,000 km of steel pipe that have been identified for replacement. The Plastic Mains Replacement program commenced in 2011 and is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. Natural gas distribution replaced 286 km of plastic pipe in 2017 and 1,727 km since the program's inception.

The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. Natural gas distribution replaced 57 km of steel pipe in 2017 and 288 km since the program's inception.

Hydrocarbon Storage

Together with our partner, we are developing four salt caverns with capacity to store approximately 400,000 cubic metres of hydrocarbons at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta. Long-term contracts have been secured for all four salt caverns. The total partnership investment is approximately $200 million. We are the facility operator and have a 60 per cent partnership interest.

The first two caverns are in service with earnings starting in the fourth quarter of 2016. The two remaining caverns are expected to be completed in the first quarter of 2018.

Industrial Water

In the fourth quarter of 2017, we entered into a long-term commercial agreement with Inter Pipeline Ltd. to provide water services to Inter Pipeline's newly authorized integrated propane dehydrogenation and polypropylene plant to be known as the Heartland Petrochemical Complex. The water services contract will commence by 2021 with final determination of timing subject to customer notice, which is expected in the first quarter of 2018.

With the addition of these services, we continue to grow the Company’s suite of water and wastewater services for industrial customers throughout Alberta’s Industrial Heartland.

International Natural Gas Transmission - Mexico Tula Pipeline

In 2014, ATCO was awarded a 25-year Transportation Services Agreement with the Comisión Federal De Electricidad (CFE) to design, build, own and operate a 16 km natural gas pipeline near the town of Tula in the state of Hidalgo, Mexico. ATCO has completed applications for all required permits and continues to work with the Government of Mexico regarding land access and the completion of construction.

CORPORATE & OTHER

Our Corporate & Other segment includes Retail Energy through ATCOenergy, launched in 2016 to provide retail electricity and natural gas services in Alberta, and the commercial real estate we own in Alberta. Corporate & Other also includes our global corporate head office in Calgary, Canada and our Australia corporate head office in Perth, Western Australia.

Including eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2017 were $8 million and $7 million higher than the same periods in 2016, mainly due to improved results in Retail Energy from a growing customer portfolio.

REGULATORY DEVELOPMENTS

REGULATED BUSINESS MODELS

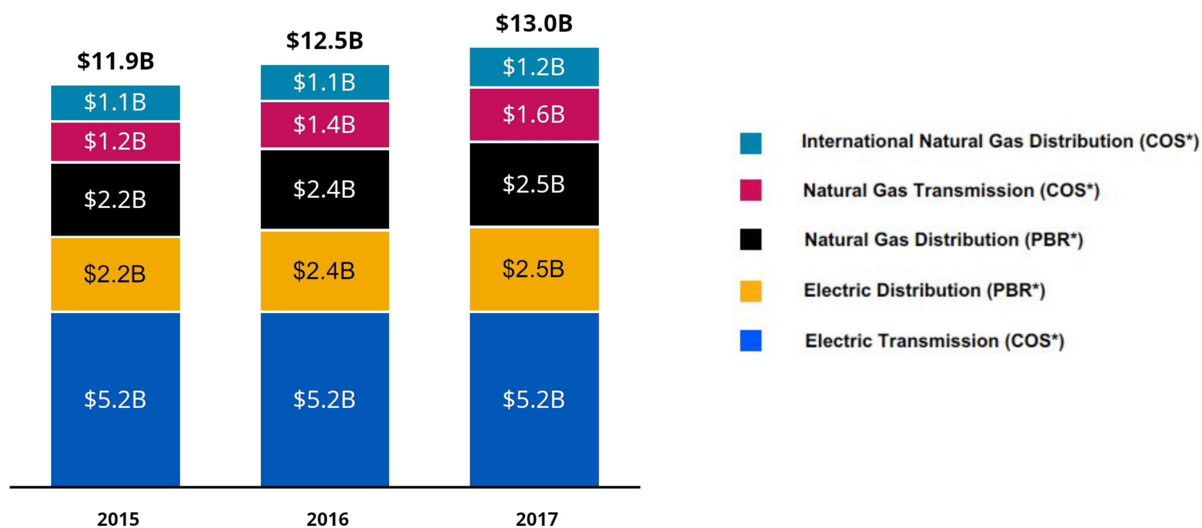
The business operations of electric distribution, electric transmission, natural gas distribution and natural gas transmission are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural gas transmission and electric transmission operate under a cost of service regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as Mid-Year Rate Base. Growth in Mid-Year Rate Base is a leading indicator of the business' earnings trend, depending on the equity ratio of the Mid-Year Rate Base and the Rate of Return on Common Equity.

Natural gas distribution and electric distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation and expected productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To do these calculations, the AUC reviews Mid-Year Rate Base. For this reason, growth in Mid-Year Rate Base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based mainly on the formula that adjusts rates for inflation and productivity improvements.

International natural gas distribution is regulated mainly by the Economic Regulation Authority (ERA) of Western Australia. International natural gas distribution operates under cost of service regulation under which the ERA establishes the revenues for each year to recover a return on projected rate base, including income taxes, depreciation on the projected rate base, and projected operating costs. For this reason, growth in rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs within approved limits along with several other annual adjustments.

Regulated Utilities Mid-Year Rate Base



** COS means Cost of Service Regulation; PBR means Performance Based Regulation*

GENERIC COST OF CAPITAL (GCOC)

On July 5, 2017, the AUC established a full proceeding schedule for a 2018, 2019 and 2020 GCOC proceeding. Submissions were filed October 31, 2017 with a hearing set for March 2018. The AUC has indicated its intention to issue a decision prior to the end of 2018.

The following table contains the ROE and deemed common equity ratios resulting from the most recent GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date. The table also contains the mid-year rate base for each Alberta utility.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
Electric Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,476 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,361 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,228 (5)
Electric Transmission	**2017**	**2016 GCOC (3)**	**8.50 (7)**	**37.0**	**5,227 (8)**
	2016	2016 GCOC (3)	8.30 (7)	37.0	5,236 (5)
	2015	2013 GCOC (6)	8.30	36.0	5,198 (5)
Natural Gas Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,537 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,369 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,189 (5)
Natural Gas Transmission	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**1,633 (9)**
	2016	2016 GCOC (3)	8.30	37.0	1,407 (5)
	2015	2013 GCOC (6)	8.30	37.0	1,206 (5)

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The AUC released its GCOC decision for the periods 2016 to 2017 on October 7, 2016.

(4) The mid-year rate base for 2017 is based on the 2018 to 2022 PBR Rebasing Application filed on August 16, 2017 and includes estimated mid-year work in progress of $86 million for Electric Distribution and $73 million for Natural Gas Distribution.

(5) The mid-year rate base for 2015 and 2016 is based on the Rule 005 Actuals Package and includes mid-year work in progress.

(6) The ROE and common equity ratio were based on the AUC GCOC decision of March 23, 2015.

(7) The ROE and common equity ratio for Electric Transmission were approved on an interim basis on October 7, 2016, and were approved on a final basis on December 16, 2016.

(8) The mid-year rate base for 2017 is based on the 2018 to 2019 GTA application filed on June 16, 2017 and includes mid-year work in progress.

(9) The mid-year rate base for 2017 is based on the 2017 to 2018 General Rate Application filed on October 2, 2017 and includes mid-year work in progress.

International Natural Gas Distribution Access Arrangement Decision

International natural gas distribution's current Access Arrangement period (AA4) is in place from July 2014 to December 2019.

The following table contains the ROE and deemed common equity ratios from the current Access Arrangement. The table also contains the mid-year rate base.

	Year	ERA Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
International Natural Gas Distribution	**2017**	**2016 AA4 (3)**	**7.21**	**40.0**	**1,177**
	2016	2016 AA4 (3)	7.21	40.0	1,111
	2015	2016 AA4 (3)	7.21	40.0	1,083

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The ERA released its AA4 Amended Final Decision on September 10, 2015. This was superseded when the ERA released its AA4 Revised Final Decision on October 25, 2016.

NEXT GENERATION OF PERFORMANCE BASED REGULATION

On December 16, 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. On February 5, 2018, the AUC released a regulatory decision that provides determinations for the going-in rates and incremental capital funding for the second generation of PBR.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's February 5, 2018 decision.

	PBR First Generation	PBR Second Generation
Timeframe	2013 to 2017	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indexes (AWE and CPI) adjusted annually	Inflation indexes (AWE and CPI) adjusted annually
Productivity Adjuster (X Factor)	1.16%	0.30%
O&M	Based on approved 2012 forecast O&M levels; inflated by I-X thereafter over the PBR term	Based on the lowest annual actual O&M level during 2013-2016, adjusted for inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Costs	• Recovered through going-in rates inflated by I-X • Significant capital costs not fully recovered by the I-X formula and meeting certain criteria recovered through a K Factor	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual WACC • Significant capital costs that are extraordinary, not previously incurred and required by a third party recovered through a “Type I” K Factor
ROE Used for Going-in Rates	8.75%	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2018 and 2019 based on certain criteria	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
Reopener	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	2013 to 2016: 8.3% 2017: 8.5%	• 8.5% Placeholder • At approved ROE pending future GCOC proceeding decisions

ALBERTA UTILITIES REGULATORY DEVELOPMENTS

Utility Asset Disposition

On October 11, 2017, the Alberta Department of Energy commenced its Utility Asset Disposition Stakeholder Engagement process to review the allocation of gains and losses associated with utility assets that are no longer used or useful for utility service. This includes assets that are sold to third parties, transferred to non-utility use, or stranded by unforeseen events or obsolescence. Following the engagement process, a policy recommendation will be made to the Government of Alberta with any legislative changes expected be made in the spring of 2018.

ELECTRIC TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Electric Transmission 2013 to 2014 Deferral Accounts Application

On September 20, 2017, the AUC issued a decision on Electric Transmission's 2013 to 2014 Deferral Accounts Application. The application included $824 million of capital expenditures for the 35 direct-assigned AESO projects that went into service in 2013 and 2014. While the decision approved the inclusion of the vast majority of the capital expenditures into rate base, it resulted in a decrease to third quarter 2017 adjusted earnings of $4 million, mainly due to lower taxes that will be refunded to customers, all of which related to years prior to 2017.

ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA)

Review and Variance

On March 16, 2017, the AUC issued a decision on the Review and Variance Application relating to the 2015 to 2017 GTA. The application requested that the AUC review and vary the 2015 to 2017 GTA decision findings for severance costs, line insurance, head office allocations, 2015 capital maintenance costs and 2013-2014 tax deductions. While the decision denied the review and vary request for the tax deductions, line insurance and head office allocations, the AUC agreed with our positions on 2015 capital maintenance costs and a variety of calculation errors. The impact of this decision was an increase to first quarter 2017 adjusted earnings of $2 million, most of which related to prior years.

Compliance Filing

On June 19, 2017, the AUC issued a decision on Electric Transmission's Compliance Filing relating to its 2015 to 2017 GTA. The decision adjusted Electric Transmission's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital, which resulted in a decrease to second quarter 2017 adjusted earnings of $4 million, of which $3 million related to prior years.

ATCO Electric Transmission 2018 to 2019 General Tariff Application (GTA)

On June 16, 2017, Electric Transmission filed a GTA for its operations for 2018 and 2019. The application requests, among other things, additional revenues to recover higher depreciation, operating costs and financing associated with increased rate base in Alberta. The application also requests approval to refund amounts collected from 2013-2016 for Construction Work in Progress (CWIP), which will result in a reduction in applied-for revenues for 2018 and 2019 as compared to 2017. This request, if approved, will also result in an increase to 2018 and 2019 rate base of approximately $130 million per year. On December 18, 2017, the AUC issued its decision on the interim tariff for 2018 which set an interim tariff based on a continuation of the 2017 revenue requirement. The proposed CWIP in rate-base refund will be addressed with the final approved tariff. This decision is expected in the fourth quarter of 2018.

Electric Transmission Asset Utilization Proceeding

On June 20, 2017, the AUC publicly announced its intention to commence a proceeding to consider the issue of asset utilization for electric transmission infrastructure, and how the corporate and property law principles referenced in the 2013 Utility Asset Disposition decision may relate. The AUC has not yet commenced this proceeding.

NATURAL GAS TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Pipelines 2017 to 2018 General Rate Application (GRA)

On August 29, 2017, ATCO Pipelines received a decision from the AUC regarding its 2017 to 2018 GRA. The decision largely approved the application as filed, with the exception of some changes to property, plant and equipment depreciation rates. ATCO Pipelines rates are in place on a prospective basis until the end of 2018.

SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

ATCO has been publishing external sustainability reports since 2008. Reporting is based upon the internationally recognized Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, covering a broad spectrum of metrics.

Priority has been placed on reporting core non-financial indicators to provide meaningful efficient and transparent disclosure in priority areas for customers of our sustainability reporting, namely investors, business partners, customers, communities, Indigenous groups, employees and government.

Our 2017 Sustainability Report, expected to be released in June 2018, will focus on key material topics including:

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous Relations.

The 2017 Sustainability Report will be available on our website, at www.ATCO.com.

CLIMATE CHANGE AND THE ENVIRONMENT

Carbon Competitiveness Incentive Regulation

The details of the Carbon Competitiveness Incentive Regulation (CCIR) were released by the Government of Alberta on December 6, 2017. The CCIR outlines the carbon obligation for Large Final Emitters including those in the Electricity Sector. The carbon price and Output-based Allocation (OBA) of 0.37 Tonnes CO2e/MWh were in the range that ATCO anticipated. The carbon cost to thermal generators (including coal) is expected to be largely recovered as a result of associated higher prices in Alberta's electricity market.

Phasing in of Renewable Electricity

As part of its Climate Leadership Plan, the Government of Alberta has published a firm target that 30 per cent of electricity used in Alberta will come from renewable sources such as wind, hydro and solar by 2030. The Government will support 5,000 MW of additional renewable energy capacity. Support will be provided to projects that are based in Alberta, are new or expanded, are greater than five MW in size, and meet the definition of renewable sources as defined by Natural Resources Canada. In December 2017, the Government of Alberta announced the contracts awarded for the first phase auction of the renewable electricity program, totaling 600 MW. On February 5, 2018, the Government of Alberta announced the next two auctions totaling 700 MW; further details are expected at the end of February 2018.

On May 10, 2017, the Government of Alberta issued a Negotiated Request for Proposal (NRFP). This proposal aims to spur the development of approximately 75 MW of solar generation through the purchase of Renewable Energy Credits from new solar facilities. ATCO is participating in the proposal in partnership with Samsung in the form of three 25 MW solar projects. ATCO is awaiting a final decision on the NRFP.

Tax on Carbon Emissions

The Government of Alberta is phasing in a carbon tax across all sectors. An economy-wide carbon tax of $20 per tonne was implemented in 2017, increasing to $30 per tonne carbon tax in 2018, $40 per tonne in 2021 and $50 per tonne in 2022.

Our natural gas distribution business is impacted by the Alberta economy-wide tax on carbon or carbon levy implemented in 2017. ATCO calculates consumption from the meter and applies the levy to the tariff bill file for retailers to bill customers. The retailers pay ATCO and ATCO is responsible for monthly remittance to the Government of Alberta. This is the same process ATCO carries out on behalf of the Government for collecting and remitting GST.

For ATCO Thermal PPA Plants, Battle River unit 5 and Sheerness units 1 and 2, the PPAs allow the Company to recover costs of compliance with Government of Alberta regulations through the term of the PPAs. If the costs are for operations after the PPA term, the plant owner, not the PPA counterparty, bears the burden of these costs. Longer term, we anticipate the carbon taxes that electricity generation plants incur will be largely recovered through the Alberta capacity and energy market.

Methane Emissions

The Government of Alberta's plan is to reduce methane emissions by 45 per cent from oil and gas operations by 2025 by applying new emissions design standards to new Alberta facilities, and developing a five-year voluntary Joint Initiative on Methane Reductions and Verification.

Future provincial regulations or reduction targets for methane emissions predominantly affect the Company's fugitive or venting emissions from natural gas pipeline-related operations. Fugitive and venting emissions typically account for less than four per cent of ATCO's greenhouse gas emissions, and ATCO has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions.

In addition, the Government of Canada has announced a target to reduce methane to 40 per cent below 2012 levels by 2025.

The Company's exposure is limited for the Alberta Utilities because requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2017 and 2016 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Operating costs	**784**	527	257	**2,407**	2,088	319
Service concession arrangement costs	**132**	69	63	**456**	69	387
Gain on sale of joint operation	–	–	–	–	18	(18)
Earnings from investment in joint ventures	**7**	9	(2)	**23**	22	1
Depreciation, amortization and impairment	**195**	153	42	**670**	615	55
Net finance costs	**114**	96	18	**406**	380	26
Income taxes	**20**	92	(72)	**163**	258	(95)

OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation and amortization, increased by $257 million in the fourth quarter and $319 million in the full year of 2017 compared to the same periods in 2016. Increased costs were mainly due to higher unrealized losses on mark-to-market forward commodity contracts, an accounting reclassification of a finance lease, and higher operating costs associated with the ramp up of the retail energy business, commensurate with higher revenues in this business.

SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs in the fourth quarter and full year of 2017 are costs Alberta PowerLine has recorded on third party design, planning and construction activities for the Fort McMurray West 500-kV Project.

GAIN ON SALE OF JOINT OPERATION

In 2016, we sold our 51.3 per cent ownership interest in the Edmonton Ethane Extraction Plant, which resulted in a gain of $18 million.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of our ownership position in several electricity generation plants, the Strathcona Storage Limited Partnership which operates hydrocarbon storage facilities near Fort Saskatchewan, Alberta, ATCO-Sabinco S.A which operates a Structures & Logistics business in Chile, and certain lodge assets in Structures & Logistics. Earnings in the fourth quarter of 2017 decreased by $2 million when compared to the same period in 2016, mainly due to lower earnings contributions from Creeburn Lake Lodge in Structures and Logistics. Earnings for the full year of 2017 were comparable to the same period in 2016.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

In the fourth quarter and full year of 2017, depreciation, amortization and impairment expense increased by $42 million and $55 million when compared to the same periods in 2016, mainly due to the ongoing capital investment program in our Regulated Utilities and the impairment on workforce housing assets in Structures & Logistics during the fourth quarter of 2017.

NET FINANCE COSTS

Net finance costs increased in the fourth quarter and full year of 2017 when compared to the same periods in 2016, mainly as a result of incremental debt issued to fund the ongoing capital investment program in our Regulated Utilities.

INCOME TAXES

Income taxes decreased in the fourth quarter and full year of 2017 when compared to the same periods in 2016, mainly due to lower earnings before income taxes in the fourth quarter and full year of 2017.

United States of America Tax Reform

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into legislation. As a result of this legislation being enacted during 2017, the Company is required to revalue its U.S. deferred income tax assets and liabilities based on the new 27 per cent effective income tax rate which was previously set at 35 per cent. The change in income tax rates had an immaterial impact on ATCO Structures & Logistics (U.S.A.) Inc.'s deferred income tax liability.

There is expected to be no future impact to ATCO's Adjusted Earnings or Funds Generated by Operations, other than the impact of a lower effective tax rate for ATCO Structures & Logistics (U.S.A.) Inc.'s taxable income.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Regulated Utility and long-term contracted operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations and the debt and preferred share capital markets. An additional source of capital is the Class A non-voting shares Canadian Utilities issues under its Dividend Reinvestment Plan (DRIP).

We consider it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

Credit Ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to ATCO Ltd., Canadian Utilities Limited, CU Inc., and ATCO Gas Australia Limited Partnership.

	DBRS	S&P
ATCO Ltd.		
Issuer	A (low)	A-
Canadian Utilities Limited		
Issuer	A	A-
Senior unsecured debt	A	BBB+
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
ATCO Gas Australia Limited Partnership (1)		
Issuer and senior unsecured debt	N/A	BBB+

(1) ATCO Gas Australia Limited Partnership holds the long-term debt for ATCO Gas Australia Pty Ltd.

DBRS Limited

In July 2017, DBRS Limited (DBRS) affirmed its 'A (high)' issuer rating and stable trend on ATCO Ltd. subsidiary CU Inc. In August 2017, DBRS affirmed its 'A' issuer rating and stable trend on ATCO Ltd. subsidiary Canadian Utilities Limited. In September 2017, DBRS affirmed its 'A (low)' issuer rating and stable trend on ATCO Ltd.

Standard & Poor's

In July 2017, Standard & Poor's (S&P) revised its issuer rating from 'A' with a negative outlook to 'A-' with a stable outlook on ATCO Ltd. and our subsidiaries Canadian Utilities Limited and CU Inc.

In September 2017, S&P revised its rating on Canadian Utilities Limited's senior unsecured debt from 'A-' to 'BBB+'. In the associated publication, S&P clarified that "This rating action stems solely from the application of our revised issue rating criteria and does not reflect any change in our assessment of the 'A-' corporate credit rating on CUL."

In July 2017, S&P revised its issuer rating from 'A-' to 'BBB+' with a stable outlook for Canadian Utilities Limited subsidiary ATCO Gas Australia Limited Partnership as a result of the above noted rating criteria change.

Alberta PowerLine Limited Partnership

In September 2017, Alberta PowerLine Limited Partnership's senior secured bonds received an 'A (low)' rating with a stable trend from DBRS and an 'A2' rating with a stable outlook from Moody's Investors Service.

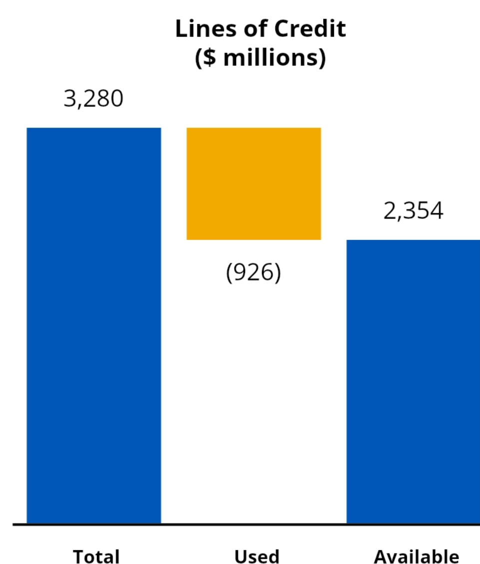
LINES OF CREDIT

At December 31, 2017, ATCO and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,540**	563	1,977
Short-term committed	**165**	17	148
Uncommitted	**575**	346	229
Total	**3,280**	926	2,354

Of the $3,280 million in total credit lines, $575 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,705 million in credit lines were committed, with $165 million maturing in 2018. The remaining credit lines mature between 2019 and 2021 and may be extended at the option of the lenders.

Of the $926 million credit line usage, approximately half related to letter of credit issuances, with the majority of the remaining usage pertaining to ATCO Gas Australia Limited Partnership. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Limited Partnership's term debt financing needs. Credit lines for ATCO Gas Australia Limited Partnership are provided by Australian banks, with the majority of all other credit lines provided by Canadian banks.



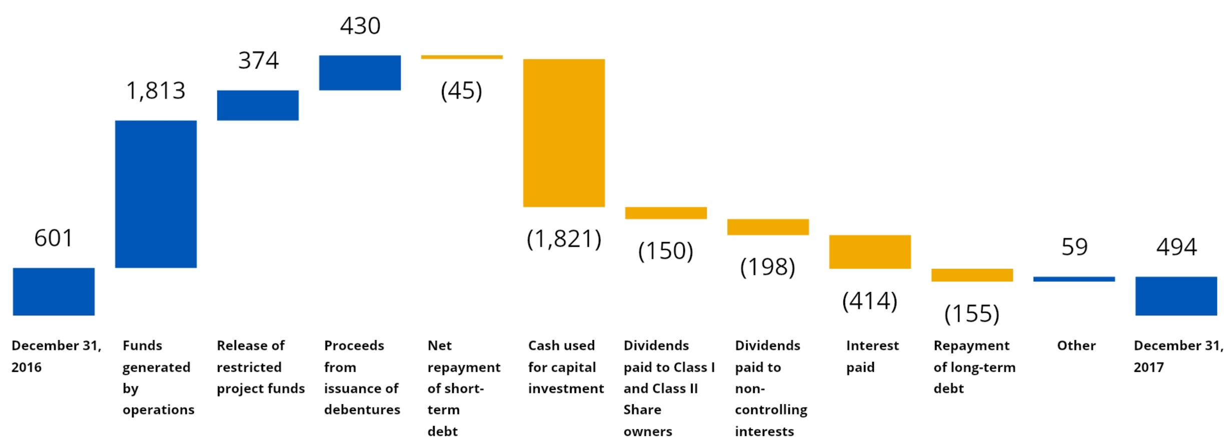
CONSOLIDATED CASH FLOW

At December 31, 2017, the Company's cash position was $494 million, an decrease of $107 million compared to December 31, 2016. Major movements are outlined in the following table:

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Funds generated by operations	**463**	600	(137)	**1,813**	1,912	(99)
Release of restricted project funds [(1)]	**374**	–	374	**374**	–	374
Proceeds on sales of operations	**–**	–	–	**–**	21	(21)
Proceeds from issuance of debentures (long-term debt)	**430**	375	55	**430**	375	55
Net (repayment) issue of short-term debt	**(515)**	(320)	(195)	**(45)**	55	(100)
Cash used for capital investment	**(586)**	(467)	(119)	**(1,821)**	(1,609)	(212)
Dividends paid to Class I and Class II Share owners	**(37)**	(33)	(4)	**(150)**	(131)	(19)
Dividends paid to non-controlling interests	**(50)**	(46)	(4)	**(198)**	(187)	(11)
Interest paid	**(116)**	(107)	(9)	**(414)**	(394)	(20)
Repayment of long-term debt	**(152)**	(3)	(149)	**(155)**	(144)	(11)
Other	**(37)**	(98)	61	**59**	(96)	155
Increase (decrease) in cash position	**(226)**	(99)	(127)	**(107)**	(198)	91

(1) On October 2, 2017, Alberta PowerLine (APL), a partnership in which our subsidiary, Canadian Utilities, has an 80 per cent ownership interest, issued non-recourse long-term debt consisting of $1.385 billion Senior Secured Nominal Amortizing Bonds. At December 31, 2017, Alberta PowerLine (APL) had $965 million of funds restricted under the terms of APL's non-recourse long-term debt financing agreement. The restricted project funds are considered not available for general use by the Company. Refer to Note 10 of the 2017 Consolidated Financial Statements for additional information regarding Restricted Project Funds.

Changes in Consolidated Cash Flow in 2017
($ millions)



Funds Generated by Operations

Funds generated by operations were $463 million in the fourth quarter of 2017 and $1,813 million in the full year of 2017, $137 million and $99 million lower than the same periods in 2016. The decrease was mainly due to lower earnings and lower customer contributions received for utility capital expenditures.

Cash Used for Capital Investment

Cash used for capital investment was $586 million in the fourth quarter and $1,821 million in the full year of 2017, $119 million and $212 million higher than the same periods in 2016, mainly due to increased spending in Alberta PowerLine, the replacement of aging infrastructure, system upgrades, and growth projects for new customers.

Capital investment for the fourth quarter and full year of 2017 and 2016 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Electricity						
Electricity Distribution	**66**	83	(17)	**227**	267	(40)
Electricity Transmission	**83**	43	40	**211**	203	8
Electricity Generation	**10**	24	(14)	**24**	108	(84)
Alberta PowerLine	**132**	26	106	**456**	69	387
Total Electricity	**291**	176	115	**918**	647	271
Pipelines & Liquids						
Natural Gas Distribution	**113**	92	21	**372**	336	36
Natural Gas Transmission	**109**	115	(6)	**297**	252	45
International Natural Gas Distribution	**27**	27	–	**92**	90	2
International Natural Gas Transmission and Storage & Industrial Water	**5**	17	(12)	**21**	112	(91)
Total Pipelines & Liquids	**254**	251	3	**782**	790	(8)
Structures & Logistics	**11**	15	(4)	**37**	97	(60)
Corporate & Other	**30**	25	5	**84**	75	9
Total (1) (2)	**586**	467	119	**1,821**	1,609	212

(1) Includes capital expenditures in joint ventures of $6 million and $17 million (2016 - $14 million and $89 million) for the fourth quarter and full year of 2017.

(2) Includes additions to property, plant and equipment, intangibles and $4 million and $19 million (2016 - $4 million and $18 million) of interest capitalized during construction for the fourth quarter and full year of 2017.

Debt Issuances and Repayments

On October 2, 2017, Alberta PowerLine (APL), a partnership in which our subsidiary Canadian Utilities has an 80 per cent ownership interest, issued non-recourse long-term debt consisting of $1.385 billion Senior Secured Amortizing Bonds. The financing was completed by way of a private placement and is comprised of $549 million of 4.065 per cent Series A Bonds due December 1, 2053, $548 million of 4.065 per cent Series B Bonds due March 1, 2054, $144 million of 3.351 per cent Series C Bonds due September 1, 2032, and $144 million of 3.340 per cent Series D Bonds due June 1, 2032. The net proceeds of the financing will be used to fund the construction of APL's Fort McMurray West 500-kV Project.

On November 22, 2017, CU Inc. issued $430 million of 3.548 per cent 30-year debentures. Proceeds from this issuance were used to fund capital investments, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

CU Inc. also repaid $150 million of 6.145 per cent debentures at maturity on November 22, 2017.

Base Shelf Prospectuses

CU Inc. Debentures

On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of February 21, 2018, aggregate issuances of debentures were $805 million, with $375 million issued in 2016 and $430 million issued in 2017.

Canadian Utilities Debt Securities and Preferred Shares

On April 12, 2016, Canadian Utilities filed a base shelf prospectus that permits it to issue up to an aggregate of $2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

Dividends and Common Shares

We have increased our common share dividend each year since 1993, a 25 year track record. Dividends paid to Class I and Class II Share owners totaled $37 million in the fourth quarter and $150 million in the full year of 2017.

On January 11, 2018 the Board of Directors declared a first quarter dividend of 37.66 cents per share, a 15 per cent increase over the dividend paid in each of the previous four quarters. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.

25 year
track record of increasing common share dividends

Normal Course Issuer Bid

We believe that, from time to time, the market price of our Class I Shares may not fully reflect the value of our business, and that purchasing our own Class I Shares represents an attractive investment opportunity and desirable use of available funds.

On March 1, 2016, we commenced a normal course issuer bid to purchase up to 3,043,884 outstanding Class I Shares. The bid expired on February 28, 2017. On March 8, 2017 we commenced a normal course issuer bid to purchase up to 3,037,065 outstanding Class I Shares. The bid will expire on March 7, 2018.

During the year ended December 31, 2017, 35,000 shares were purchased for $2 million.

Canadian Utilities Dividend Reinvestment Plan

In the fourth quarter of 2017, Canadian Utilities issued 367,059 Class A non-voting shares under its DRIP in lieu of cash dividend payments of $14 million.

During the year ended December 31, 2017, Canadian Utilities issued 2,388,770 (2016 - 1,484,241) Class A non-voting shares under its DRIP in lieu of cash dividend payments of $90 million (2016 - $52 million). ATCO Ltd. elected to receive 862,822 Class A non-voting shares in lieu of cash dividends of $32 million in 2017. ATCO did not participate in the DRIP in 2016.

SHARE CAPITAL

ATCO's equity securities consist of Class I Shares and Class II Shares.

At February 20, 2018, we had outstanding 101,336,273 Class I Shares, 13,323,455 Class II Shares, and options to purchase 725,950 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

Each Class II Share may be converted into one Class I Share at any time at the share owner's option. If an offer to purchase all Class II Shares is made, and such offer is accepted and taken up by the owners of a majority of the Class II Shares, and, if at the same time, an offer is not made to the Class I Share owners on the same terms and conditions, then the Class I Shares will be entitled to the same voting rights as the Class II Shares. The two share classes rank equally in all other respects, except for voting rights.

Of the 10,200,000 Class I Shares authorized for grant of options under our stock option plan, 2,632,550 Class I Shares were available for issuance at December 31, 2017. Options may be granted to our officers and key employees at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

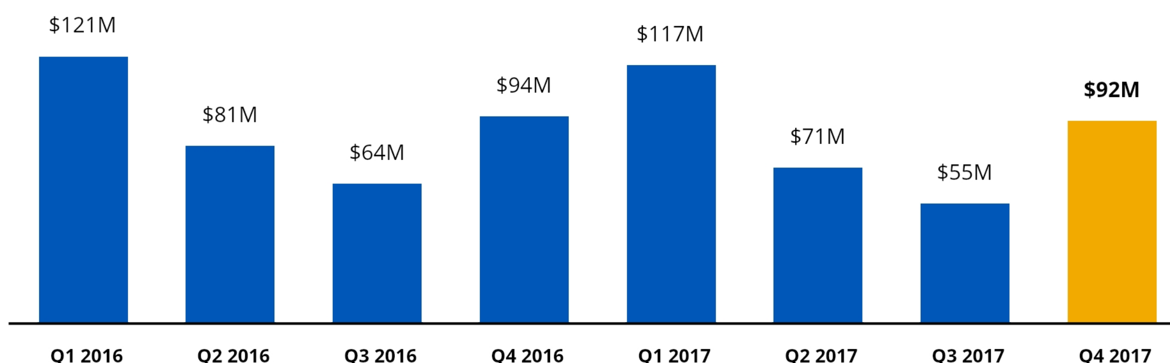
The following table shows financial information for the eight quarters ended January 1, 2016 through December 31, 2017.

($ millions, except for per share data)	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenues	1,115	1,065	1,067	**1,294**
Earnings attributable to Class I and Class II Shares	101	44	46	**12**
Earnings per Class I and Class II Share *($)*	0.88	0.39	0.40	**0.11**
Diluted earnings per Class I and Class II Share *($)*	0.87	0.39	0.40	**0.11**
Adjusted earnings				
Structures & Logistics	–	3	1	**2**
Electricity	63	53	47	**47**
Pipelines & Liquids	59	23	13	**49**
Corporate & Other and Intersegment Eliminations	(5)	(8)	(6)	**(6)**
Total adjusted earnings	117	71	55	**92**

($ millions, except for per share data)	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenues	1,058	932	923	1,132
Earnings attributable to Class I and Class II Shares	109	61	70	100
Earnings per Class I and Class II Share *($)*	0.95	0.53	0.61	0.88
Diluted earnings per Class I and Class II Share *($)*	0.95	0.53	0.61	0.87
Adjusted earnings				
Structures & Logistics	12	13	12	6
Electricity	54	55	46	58
Pipelines & Liquids	56	22	14	44
Corporate & Other and Intersegment Eliminations	(1)	(9)	(8)	(14)
Total adjusted earnings	121	81	64	94

Adjusted Earnings

Our financial results for the previous eight quarters reflect continued growth in our Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas storage operations. In addition, interim results will vary due to the seasonal nature of demand for electricity and natural gas, the timing of utility regulatory decisions and the cyclical demand for workforce housing and space rental products and services.

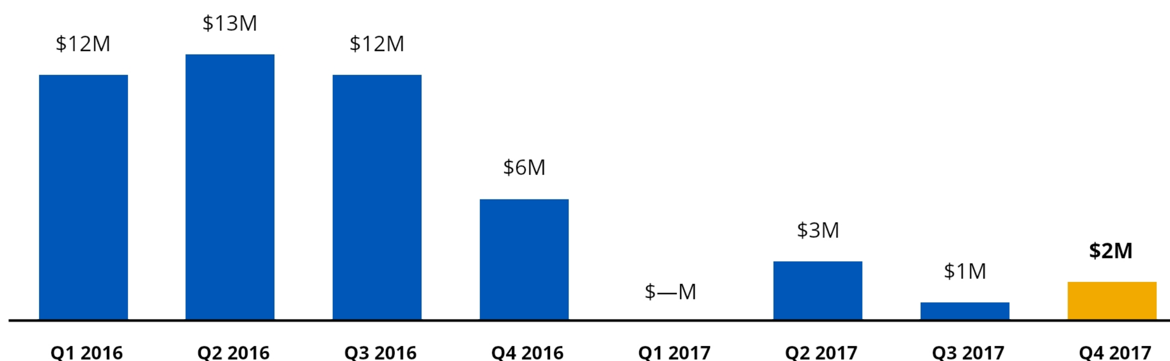


Structures & Logistics

Structures & Logistics' adjusted earnings are reflective of the cyclical nature of large natural resource project activity.

In the first nine months of 2016, earnings reflected continued strong Modular Structures manufacturing activity and high occupancy levels in the Lodging business. Lower fourth quarter 2016 earnings were mainly due to the completion of major Modular Structures projects.

In 2017, earnings were lower due to lower profit margins across all business lines and decreased Modular Structures major project activity.

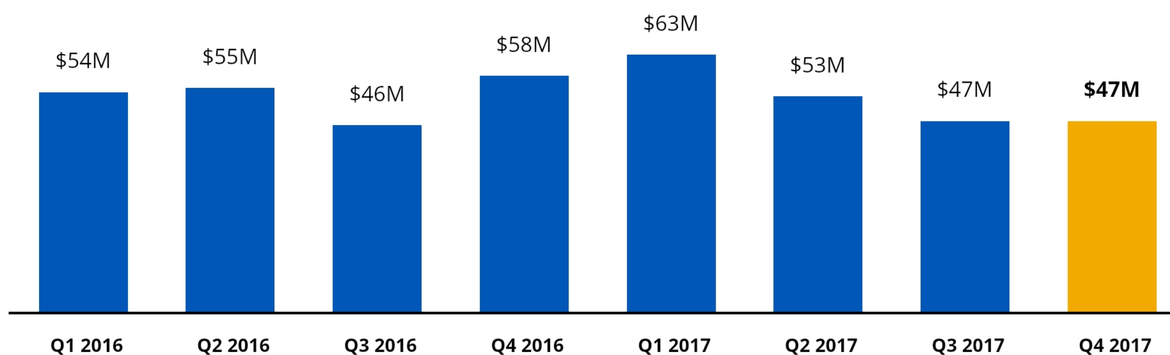


Electricity

Electricity's adjusted earnings reflect the large capital investment made by Regulated Electricity in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads.

In 2016, earnings reflected continued capital investment and rate base growth and business-wide cost reduction initiatives. Lower earnings in the third quarter were due to the financial impact of electricity transmission's 2015 to 2017 General Tariff Application regulatory decision.

In 2017, higher first quarter earnings were mainly due to continued capital investment and rate base growth within Regulated Electricity and lower operating costs. Lower second quarter earnings were mainly due to the timing of operating and other costs in electric distribution, and the impact of the 2015 to 2017 GTA Compliance decision in electric transmission. Lower third quarter earnings were mainly due to the impact of the 2013 to 2014 Deferral Accounts decision in electric transmission. Fourth quarter earnings were lower mainly due to lower contributions in our electricity generation business from forward sales and increased business development expenses.

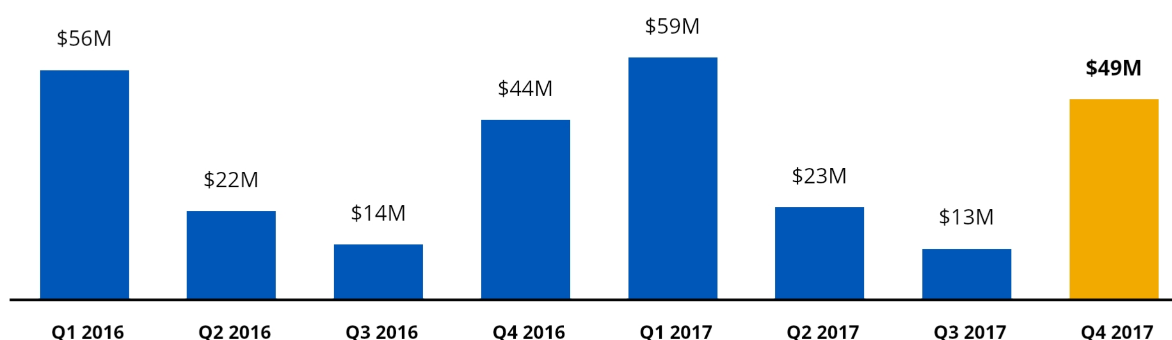


Pipelines & Liquids

Pipelines & Liquids' adjusted earnings reflect the large capital investment made by Regulated Pipelines & Liquids in the previous eight quarters. These investments, which earn a return under a regulated business model, drive growth in adjusted earnings. Adjusted earnings have also been affected by the timing of certain major regulatory decisions, seasonality, and commodity prices.

Earnings in the first quarter of 2016 reflected continued capital investment, growth in rate base and customers, and business-wide cost reduction initiatives. In the second and third quarters of 2016, lower earnings were due to lower seasonal demand in our natural gas distribution business.

In the first quarter of 2017, increased earnings were mainly due to continued capital investment and rate base growth. Lower earnings in the third quarter of 2017 were mainly due to warmer weather and inflation adjustments to rates in our international natural gas distribution business. Higher earnings in the fourth quarter of 2017 were primarily a result of higher rate base and customers.



Earnings Attributable to Class I and Class II Shares

Earnings attributable to Class I and Class II Shares includes timing adjustments related to rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. They also include one-time gains and losses, significant impairments, restructuring charges and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- In the fourth quarter of 2017, impairment charges of $23 million after tax and non-controlling interests were recorded relating to Structures & Logistics' workforce housing assets.
- Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. The adjustments of less than $1 million in 2017 and $5 million in 2016 are due to a difference between the tax base currency, which is the Mexican peso, and the U.S. dollar functional currency.
- In the first quarter of 2016, we recorded a gain on sale of joint operations of $7 million for the sale of our 51.3 per cent interest in the Edmonton Ethane Extraction Plant.

BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors (Board) is responsible for understanding the principal risks of the businesses in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to share owners. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has an Audit & Risk Committee, which reviews significant risks associated with future performance and growth. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

We have an established enterprise risk management process that allows us to identify and evaluate our risks by both severity of impact and probability of occurrence. Materiality thresholds are reviewed annually by the Audit & Risk Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. The following table outlines our current significant risks and associated mitigations.

Business Risk: Capital Investment	
Businesses Impacted: • All businesses	**Associated Strategies:** • Growth • Financial Strength
Description and Context	***Risk Management Approach***
The Company is subject to the normal risks associated with major capital projects, including cancellations, delays and cost increases.	The Company attempts to reduce the risks of project delays and cost increases by careful planning, diligent procurement practices and entering into fixed price contracts when possible. International Natural Gas Distribution's capital investment is planned and approved by the regulator. Planned capital investments for the Alberta Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the Alberta Utilities' service areas; regulatory approval for capital projects can be obtained in a timely manner; and access to capital market financings can be maintained. The Company believes these assumptions are reasonable.

<table>
<tr><td colspan="2">Business Risk: Climate Change</td></tr>
<tr><td>Businesses Impacted:
• Non-regulated Electricity
• Modular Structures</td><td>Associated Strategies:
• Operational Excellence
• Innovation</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>Legislative Risks

In November 2015, the Government of Alberta announced its Climate Leadership Plan, a framework which includes the phasing out of coal-fired electricity, the accelerated phasing in of renewable energy, an economy-wide tax on carbon emissions starting in 2017, and the reduction of methane emissions.

ATCO's Modular Structures' rental fleet has historically played an important role in servicing the oil & gas industry in Alberta. Provincial climate policies that adversely impact the economic viability of oil & gas operations present a stranded asset risk to rental fleet assets in the short to medium term.

Physical Risks

Physical risks associated with climate change may include an increase in extreme weather events such as heavy rainfall, floods, wildfires, extreme winds and ice storms, or changing weather patterns that cause on-going impacts to seasonal temperatures.</td><td>Legislative Risks

Compensation for the early phase out of any coal units was resolved with the Alberta provincial government in the fourth quarter of 2016. ATCO is evaluating the business case regarding a coal-to-gas conversion of its coal-fired electricity. This conversion would involve capital expenditures and would potentially extend the life span of the units. Broader coal-to-gas conversions present an opportunity for increased demand for natural gas transmission and distribution infrastructure investment in the near to medium term.

ATCO estimates that charges assessed to its gas-fired generation will be largely recovered through the market.

The Company’s exposure is limited for the Alberta Utilities because future GHG emission charges are expected to be recovered in rates, and because future requirements to upgrade equipment to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

The Modular Structures business is making plans to repurpose its Alberta rental fleet for other uses and dispatch underutilized portions of the rental fleet to jurisdictions outside of Alberta.

Physical Risks

The majority of the Company's pipeline network is in the ground, making it less susceptible to extreme weather events. Assets above ground or on water crossings are exposed to extreme weather events. The Company follows regulated engineering code and, where appropriate, submits regulatory applications for capital expenditures aimed at creating greater system reliability and resiliency consistent with the code. The Company maintains in-depth emergency response measures for extreme weather events.</td></tr>
</table>

Business Risk: Credit Risk	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Derivative, lease receivable and receivable under service concession arrangement credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.	Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in federal government issued short-term instruments. The Company minimizes other credit risks by dealing with credit-worthy counterparties, following established credit-approval policies, and requiring credit security, such as letters of credit. A significant portion of loans and receivables are from the Company's operations in Alberta, except for the lease receivable for the Karratha plant in Australia. The Alberta Utilities are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from retailers beyond the retailer security mandated by provincial regulations.

Business Risk: Cybersecurity	
Businesses Impacted: • All businesses	**Associated Strategies:** • Operational Excellence • Innovation
Description and Context	***Risk Management Approach***
The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyber attacks including unauthorized access of confidential information and outage of critical infrastructure.	ATCO has an enterprise wide cybersecurity program that covers all technology assets. The cybersecurity program includes the utilization of layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized information technology response centre. The Company's cybersecurity management is consolidated under a common organizational structure to increase effectiveness and compliance across the entire enterprise.

Business Risk: Energy Commodity Price	
Businesses Impacted: • Non-regulated Electricity • Non-regulated Pipelines & Liquids • Retail Energy	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Independent Power Plant's and Retail Energy's earnings are affected by short-term price volatility. Changes to the power reserve margin (electricity supply relative to demand) and natural gas prices can result in volatility in Alberta Power Pool Prices and spark spreads. A number of key factors contribute to price volatility including electricity demand and electricity supply, primarily from Alberta's coal and wind generation. Storage & Industrial Water's natural gas storage facility in Carbon, Alberta, is also exposed to storage price differentials.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in commodity prices. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Under IFRS accounting, entering into hedging instruments may result in mark-to-market adjustments that are recorded as unrealized gains or losses on the income statement. Realized gains or losses are recognized in adjusted earnings and IFRS earnings when the commodity contracts are settled. In addition, Retail Energy monitors forward curves in order to ensure it is not promoting product offerings that are unfavourable to the Company.

Business Risk: Financing	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company's financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and also the relevant financing costs.	To address this risk, the Company manages its capital structure to maintain strong credit ratings which allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flow from operations and supported by appropriate levels of cash and available committed credit facilities.

Business Risk: Foreign Currency Exchange Rate	
Businesses Impacted: • Non-regulated Electricity • Regulated Pipelines & Liquids • Structures & Logistics	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
The Company's earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. The Company is also exposed to transactional foreign exchange risk through transactions denominated in a foreign currency.	In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options, to manage the risks arising from fluctuations in exchange rates. All such instruments are used only to manage risk and not for trading purposes. This foreign exchange impact is partially offset by foreign denominated financing and by hedging activities. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company may utilize foreign currency forward contracts to manage the risk.

Business Risk: Generation Equipment and Technology	
Businesses Impacted: • Non-regulated Electricity	**Associated Strategies:** • Financial Strength • Operational Excellence
Description and Context	***Risk Management Approach***
Our electricity generating plants are exposed to operational risks which can cause outages due to issues such as boiler, turbine, and generator failures. An extended outage could negatively impact earnings and cash flows. If a generating plant does not meet availability or production targets specified in a PPA or another long-term agreement, the Company may need to compensate the purchaser for the loss of production availability.	To reduce this risk, a proactive maintenance program is regularly carried out with scheduled outages for major overhauls and other maintenance. The Company also carries property insurance and some business interruption insurance for its power plants to protect against extended outages. PPAs are designed to provide force majeure relief for thermal plant outages beyond specified time periods and certain circumstances.

<table>
<tr><td colspan="2">Business Risk: Interest Rate</td></tr>
<tr><td>Businesses Impacted:
• All businesses</td><td>Associated Strategies:
• Financial Strength</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>The interest rate risk faced by the Company is largely a result of its recourse and non-recourse long-term debt at variable rates as well as cash and cash equivalents. The Company also has exposure to interest rate movements that occur beyond the term of maturity of the fixed-rate investments.</td><td>In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in interest rates. All such instruments are used only to manage risk and not for trading purposes. The Company has converted certain variable rate long-term debt and non-recourse long-term debt to fixed rate debt through interest rate swap agreements. At December 31, 2017, the Company had fixed interest rates, either directly or through interest rate swap agreements, on 99 per cent (2016 - 100 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in future cash flows, with respect to debt, from changes in market interest rates was limited. The Company's cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature.</td></tr>
</table>

<table>
<tr><td colspan="2">Business Risk: Natural Gas Supply</td></tr>
<tr><td>Businesses Impacted:
• Non-regulated Electricity
• Non-regulated Pipelines & Liquids</td><td>Associated Strategies:
• Financial Strength</td></tr>
<tr><td>Description and Context</td><td>Risk Management Approach</td></tr>
<tr><td>An Alberta natural gas transportation provider's curtailment protocol in 2017, along with increased supply, contributed to on-going low natural gas prices and presents operational risk of natural gas supply for ATCO's Alberta natural gas fired power plants and natural gas storage facilities. Further curtailments and maintenance are scheduled for multiple years into the future, which may result in outages and system constraints to natural gas transmission systems in Alberta.</td><td>Our electricity generation natural gas supply management approach is to obtain firm natural gas transport service for our downstream natural gas assets so that the risk of future gas supply curtailments or restrictions are minimized.

To reduce the impact to storage operations, we plan to structure our natural gas storage portfolio around the natural gas transportation provider's planned maintenance schedules to minimize the impact of natural gas supply curtailments.</td></tr>
</table>

Business Risk: Natural Resource Sector Business Cycles	
Businesses Impacted: • Structures & Logistics	**Associated Strategies:** • Growth • Financial Strength • Operational Excellence
Description and Context	***Risk Management Approach***
Demand for Structures & Logistics’ products and services is directly related to capital spending cycles and levels of development activity in various industries, primarily in the natural resources sector. Several key factors influence customers’ decision-making on whether or not to purchase products and services offered by the Company. These factors include expected commodity prices, global economic and political conditions, and access to debt financing and equity capital. Any adverse impact on these key decision factors for a prolonged period could affect demand for the Company’s products and services.	Modular Structures' cost structure is weighted to variable costs which provides flexibility in moderating costs when project activity slows. The Structures & Logistics business is not a capital intensive business so market entry and exit costs are relatively low. A base of more stable earnings and cash flows exists within the space rentals business and the Logistics and O&M services contracts that provide support when Modular Structures natural resource sector customers are going through commodity cycle downturns.

Business Risk: Pipeline Integrity	
Businesses Impacted: • Regulated Pipelines & Liquids	**Associated Strategies:** • Operational Excellence • Community Involvement
Description and Context	***Risk Management Approach***
The Pipelines & Liquids Global Business Unit has significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.	Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required to address safety, reliability, and future growth. These programs include Natural Gas Distribution's and Natural Gas Transmission's UPR programs and Natural Gas Distribution's and International Natural Gas Distribution's mains replacement programs. The Company also carries property and liability insurance.

Business Risk: Regulated Operations	
Businesses Impacted: • Regulated Pipelines & Liquids • Regulated Electricity	**Associated Strategies:** • Growth • Financial Strength • Operational Excellence
Description and Context	***Risk Management Approach***
The Regulated Utilities are subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base. These risks also include the regulator's potential disallowance of costs incurred. Electric Distribution and Natural Gas Distribution operate under a performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery.	The Regulated Utilities file forecasts in the rate-setting process to recover the costs of providing services and earn a fair rate of return. The determination of a fair rate of return on the common equity component of rate base is determined in a generic cost of capital proceeding in Alberta and an Access Arrangement proceeding in Australia. The Regulated Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of prudent costs. The Regulated Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.

Business Risk: Liquidity	
Businesses Impacted: • All businesses	**Associated Strategies:** • Financial Strength
Description and Context	***Risk Management Approach***
Liquidity risk is the risk that the Company will not be able to meet its financial obligations.	Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. The Company does not invest any of its cash balances in asset-backed securities. At December 31, 2017, the Company's cash position was $494 million and there were available committed and uncommitted lines of credit of approximately $2.4 billion which can be utilized for general corporate purposes.

Liquidity Risk includes contractual financial obligations which the Company will meet with cash flow from operations, existing cash balances and external financing, if necessary. These contractual obligations for the next five years and thereafter are shown below.

($ millions)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**
Financial Liabilities						
Bank indebtedness	7	–	–	–	–	–
Accounts payable and accrued liabilities	891	–	–	–	–	–
Short-term debt	10	–	–	–	–	–
Long-term debt:						
Principal	5	1,150	220	160	325	6,740
Interest expense [(1)]	399	380	344	331	315	6,423
Non-recourse long-term debt:						
Principal	15	20	35	32	33	1,335
Interest expense	58	59	58	56	54	1,009
Derivatives [(2)]	84	52	19	3	–	–
	1,469	1,661	676	582	727	15,507
Commitments						
Operating leases	22	17	15	11	6	38
Purchase obligations:						
Coal purchase contracts	64	66	68	71	27	117
Operating and maintenance agreements	303	277	132	130	129	298
Construction activities related to Fort McMurray West 500-kV Transmission project	543	221	–	–	–	–
Capital expenditures	56	–	–	–	–	–
Other	12	–	–	2	–	–
	1,000	581	215	214	162	453
Total	2,469	2,242	891	796	889	15,960

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2017. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2017.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

Adjusted earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to Class I and Class II Shares is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of the 2017 Consolidated Financial Statements.

Adjusted earnings per Class I and Class II Share is calculated by dividing adjusted earnings by the weighted average number of shares outstanding for the period.

Capital investment is defined as cash used for capital expenditures and service concession arrangements. Capital expenditures include additions to property, plant and equipment, intangibles and the Company's proportional share of capital expenditures in joint ventures, as well as interest capitalized during construction. In management's opinion, capital investment reflects the Company's total cash investment in assets.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada and Australia than IFRS earnings.

($ millions)						**Three Months Ended December 31**
2017						
2016	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**136**	**698**	**447**	**65**	**(52)**	**1,294**
	118	551	454	39	(30)	1,132
Adjusted earnings	**2**	**47**	**49**	**(6)**	–	**92**
	6	58	44	(14)	–	94
Unrealized losses on mark-to-market forward commodity contracts	–	**(29)**	–	–	–	**(29)**
	–	–	–	–	–	–
Impairment	**(23)**	–	–	–	–	**(23)**
	–	–	–	–	–	–
Rate-regulated activities	–	**(26)**	**(2)**	–	**2**	**(26)**
	–	3	7	–	1	11
Other	–	–	**(2)**	–	–	**(2)**
	–	–	(5)	–	–	(5)
Earnings attributable to Class I and Class II Shares	**(21)**	**(8)**	**45**	**(6)**	**2**	**12**
	6	61	46	(14)	1	100

($ millions)						Year Ended December 31
2017 2016	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**515**	**2,341**	**1,630**	**214**	**(159)**	**4,541**
	647	1,877	1,496	114	(89)	4,045
Adjusted earnings	**6**	**210**	**144**	**(25)**	**–**	**335**
	43	213	136	(33)	1	360
Gain on sale of joint operation	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	7	–	–	7
Unrealized losses on mark-to-market forward commodity contracts	**–**	**(48)**	**–**	**–**	**–**	**(48)**
	–	–	–	–	–	–
Impairment	**(23)**	**–**	**–**	**–**	**–**	**(23)**
	–	–	–	–	–	–
Rate-regulated activities	**–**	**(69)**	**3**	**–**	**5**	**(61)**
	–	(4)	(22)	–	4	(22)
Other	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	(5)	–	–	(5)
Earnings attributable to Class I and Class II Shares	**(17)**	**93**	**147**	**(25)**	**5**	**203**
	43	209	116	(33)	5	340

GAIN ON SALE OF JOINT OPERATION

In 2016, as a result of an ongoing review of economic conditions and prospects, the Company sold its 51.3 per cent interest in the Edmonton Ethane Extraction Plant. Proceeds from the sale totaled $21 million, resulting in a one-time gain of $7 million. The proceeds were deployed for continued capital growth in industrial water infrastructure and hydrocarbon storage in Alberta's Industrial Heartland region.

UNREALIZED GAINS/(LOSSES) ON MARK-TO-MARKET FORWARD COMMODITY CONTRACTS

In order to optimize the available merchant capacity and manage exposure to electricity market price movements for our Independent Power Plants, we enter into forward contracts. The MW capacity limits on forward commodity contracts were increased in 2016 which heightens the potential for higher unrealized gains or losses in advance of the settlement of the contract.

Effective first quarter 2017, adjusted earnings do not include unrealized gains or losses on mark-to-market forward commodity contracts. Removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of the operating results of the Independent Power Plants and more closely aligns us with our electricity generation and utility company peer disclosure. Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

Unrealized losses of $48 million in 2017 resulted from a rise in the forward spark spread which caused our unsettled power positions to be out of the money. The spark spread expansion is a result of changes in both the electricity generation and natural gas markets.

The forward power market significantly increased due to: Balancing Pool announcements that the Sundance unit B and unit C PPAs would be returned in 2018; as well as subsequent announcements that some of those coal-fired generation units will be retired and mothballed in 2018. In addition, on January 1, 2018, a carbon tax was fully implemented through the Carbon Competitiveness Incentive Regulation resulting in a significant increase in variable costs for coal-fired generation of approximately $15 per MWh.

Changes in the Alberta natural gas market were related to supply and demand fundamentals, natural gas transportation provider curtailment methodology, unplanned transportation outages, and other factors. Additional natural gas transportation curtailments and maintenance are scheduled in 2018 and beyond, resulting in potential outages and system constraints to the natural gas transmission system in Alberta.

IMPAIRMENT

In the fourth quarter of 2017, the Company recorded an impairment of $23 million after tax and non-controlling interest relating to certain Structures & Logistics' workforce housing assets in Canada and space rental assets in the U.S. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were impaired due to a reduction in utilization, sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key customers.

RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

As a result, the Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of GAAP to account for rate-regulated activities in its internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of regulators' decisions on revenues.

Earnings adjustments to reflect rate-regulated accounting are shown in the following table.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**3**	5	(2)	**32**	32	–
Revenues to be billed in future periods						
Deferred income taxes [2]	**(14)**	(11)	(3)	**(54)**	(48)	(6)
Impact of warmer temperatures [3]	–	–	–	**(2)**	(15)	13
Impact of inflation on rate base [4]	**(3)**	–	(3)	**(8)**	(5)	(3)
Regulatory decisions received	–	2	(2)	**9**	6	3
Settlement of regulatory decisions and other items [5]	**(12)**	15	(27)	**(38)**	8	(46)
	(26)	11	(37)	**(61)**	(22)	(39)

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) Income taxes are billed to customers when paid by the Company.

(3) Natural Gas Distribution's customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(4) The inflation-indexed portion of International Natural Gas Distribution's rate base is billed to customers through the recovery of depreciation in subsequent periods based on the actual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current period for the inflation component of rate base when it is earned. Differences between the amounts earned and the amounts billed to customers are deferred and recognized in revenues over the service life of the related assets.

(5) In 2017, Electric Transmission recorded an increase in adjusted earnings of $17 million in relation to settlement of the final 2015-2017 General Tariff Application rate and $14 million in relation to a refund of previously collected capitalized pension costs.

Rate-regulated accounting differs from IFRS in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the 2017 Consolidated Financial Statements.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

For further details on additional revenues billed in the current period, revenues to be billed in future periods, and settlement of regulatory decisions and other items, refer to the Segmented Information presented in Note 3 of the 2017 Consolidated Financial Statements.

OTHER

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. The adjustments of less than $1 million in 2017 and $5 million in 2016 are due to a difference between the tax base currency, which is the Mexican peso, and the U.S. dollar functional currency.

RECONCILIATION OF FUNDS GENERATED BY OPERATIONS TO CASH FLOWS FROM OPERATING ACTIVITIES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

($ millions)

2017 2016	Three Months Ended December 31	Year Ended December 31
Funds generated by operations	**463**	**1,813**
	600	1,912
Changes in non-cash working capital	**(20)**	**34**
	(61)	(45)
Change in receivable under service concession arrangement	**(156)**	**(516)**
	(77)	(77)
Cash flows from operating activities	**287**	**1,331**
	462	1,790

OTHER FINANCIAL INFORMATION

OFF BALANCE SHEET ARRANGEMENTS

ATCO Ltd. does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

CONTINGENCIES

The Company is party to a number of disputes and lawsuits in the normal course of business. The Company believes the ultimate liability arising from these matters will have no material impact on its consolidated financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 28 of the 2017 Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an ongoing basis; changes to accounting estimates are recognized prospectively.

ACCOUNTING CHANGES

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not need to be adopted in the current period. The standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements are described below. For further information, see note 37 of the 2017 Consolidated Financial Statements.

- IFRS 9 (2014) Financial Instruments - this standard replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments. The Company early adopted two out of three components of this standard (*Classification and Measurement and Hedge Accounting*) on January 1, 2015. This standard was effective on January 1, 2018, at which time the Company adopted the final component, *Impairments*. This component includes a new expected credit loss model for calculating impairment on financial assets and replaces the current incurred loss impairment model. The new standard will increase bad debt provisioning for all trade receivables, however the impact is not expected to be material due to current provisioning procedures, the low credit risk with current counterparties, and collateral and parental guarantee arrangements in place for the Company's significant receivables.
- IFRS 15 Revenue from Contracts with Customers - this standard replaces IAS 18 Revenue and related interpretations and is effective on or after January 1, 2018. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not completed as of the effective date. The Company has applied the full retrospective transition method. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing of revenue recognition for certain contracts are impacted by the new revenue recognition model.
- IFRS 16 Leases - this standard replaces IAS 17 Leases and related interpretations and is effective on or after January 1, 2019. It requires a lessee to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. Lessor accounting remains substantially unchanged. The Company is currently assessing the impact and will not early adopt the standard.

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2017, management evaluated the effectiveness of the Company’s disclosure controls and procedures as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure this information is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions on required disclosure.

Management, including the CEO and the CFO, does not expect the Company's disclosure controls and procedures will prevent or detect all errors. The inherent limitations in all control systems are that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Company’s disclosure controls and procedures were effective at December 31, 2017.

Internal Control Over Financial Reporting

As of December 31, 2017, management evaluated the effectiveness of the Company’s internal control over financial reporting as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Company’s internal control over financial reporting was effective at December 31, 2017.

There was no change in the Company’s internal control over financial reporting that occurred during the period beginning on January 1, 2017, and ended on December 31, 2017, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “will”, “intend”, “should”, and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

The Company’s actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company’s expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

ADDITIONAL INFORMATION

ATCO has published its audited consolidated financial statements and its MD&A for the year ended December 31, 2017. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

Alberta Utilities means Electric Distribution (ATCO Electric Distribution), Electric Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Class I Shares means Class I Non-Voting Shares of the Company.

Class II Shares means Class II Voting Shares of the Company.

CODM means Chief Operating Decision Maker, and is comprised of the Chair, President and Chief Executive Officer, and the other members of the Executive Committee.

Company means ATCO Ltd. and, unless the context otherwise requires, includes its subsidiaries and joint arrangements.

DRIP means the dividend reinvestment plan of Canadian Utilities (refer to the Canadian Utilities Dividend Reinvestment Plan section of this MD&A).

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

Gigajoule (GJ) is a unit of energy equal to approximately 948.2 thousand British thermal units.

IFRS means International Financial Reporting Standards.

LNG means liquefied natural gas.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) is a measure of electricity consumption equal to the use of 1,000,000 watts of electricity over a one-hour period.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electric utility business in Alberta. PPAs are legislatively mandated and approved by the AUC.

Regulated Utilities means Electric Distribution (ATCO Electric Distribution), Electric Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas), Natural Gas Transmission (ATCO Pipelines) and International Natural Gas Distribution (ATCO Gas Australia).

Spark spread is the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, spark spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2017 and 2016 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars except per share data)	**2017**	**2016**
Revenues	**1,294**	1,132
Costs and expenses		
Salaries, wages and benefits	**(147)**	(164)
Energy transmission and transportation	**(67)**	(51)
Plant and equipment maintenance	**(70)**	(76)
Fuel costs	**(43)**	(36)
Purchased power	**(29)**	(25)
Service concession arrangement costs	**(132)**	(69)
Materials and consumables	**(75)**	(44)
Depreciation, amortization and impairment	**(195)**	(153)
Franchise fees	**(55)**	(60)
Property and other taxes	**(28)**	(23)
Unrealized (losses) gains on mark-to-market forward commodity contracts	**(73)**	3
Cost of sale of electricity generation asset on transition to finance lease	**(115)**	–
Other	**(82)**	(51)
	(1,111)	(749)
Earnings from investment in joint ventures	**7**	9
Operating profit	**190**	392
Interest income	**9**	5
Interest expense	**(123)**	(101)
Net finance costs	**(114)**	(96)
Earnings before income taxes	**76**	296
Income taxes	**(20)**	(92)
Earnings for the period	**56**	204
Earnings attributable to:		
Class I and Class II Shares	**12**	100
Non-controlling interests	**44**	104
	56	204
Earnings per Class I and Class II Share	**$0.11**	$0.88
Diluted earnings per Class I and Class II Share	**$0.11**	$0.87

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2017	2016
Operating activities		
Earnings for the period	**56**	204
Adjustments to reconcile earnings to cash flows from operating activities	**407**	396
Changes in non-cash working capital	**(20)**	(61)
Change in receivable under service concession arrangement	**(156)**	(77)
Cash flows from operating activities	**287**	462
Investing activities		
Additions to property, plant and equipment	**(412)**	(339)
Proceeds on disposal of property, plant and equipment	–	1
Additions to intangibles	**(32)**	(41)
Investment in joint ventures	–	(12)
Changes in non-cash working capital	**39**	(37)
Other	**(10)**	2
Cash flows used in investing activities	**(415)**	(426)
Financing activities		
Net repayment of short-term debt	**(515)**	(320)
Issue of long-term debt	**488**	375
Repayment of long-term debt	**(152)**	(3)
Release of restricted project funds	**374**	–
Repayment of non-recourse long-term debt	**(3)**	(5)
Issue of shares by subsidiary companies	–	12
Net (purchase) issue of Class I Shares	**(2)**	2
Dividends paid to Class I and Class II Share owners	**(37)**	(33)
Dividends paid to non-controlling interests	**(50)**	(46)
Interest paid	**(116)**	(107)
Debt issue costs	**(11)**	(3)
Other	**(77)**	(6)
Cash flows used in financing activities	**(101)**	(134)
Decrease in cash position	**(229)**	(98)
Foreign currency translation	**3**	(1)
Beginning of period	**720**	700
End of period	**494**	601

ATCO LTD.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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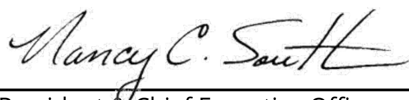
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the consolidated financial statements in accordance with International Financial Reporting Standards, which include amounts based on estimates and judgments. Management is also responsible for the preparation of the Management's Discuss and Analysis and other financial information contained in the Company's Annual Report, and ensures that it is consistent with the consolidated financial statements.

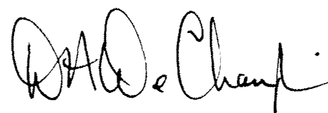
Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Company's internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Company's operating, reporting and risk management activities.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the Audit & Risk Committee. The Audit & Risk Committee is comprised entirely of independent Directors. The Audit & Risk Committee meets regularly with management and the independent auditors to review significant accounting and financial reporting matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to perform an audit of the consolidated financial statements and expresses a professional opinion on the results. The Independent Auditor's Report to the Share Owners appears on the following page. PricewaterhouseCoopers LLP have full and independent access to the Audit & Risk Committee and management to discuss their audit and related matters.



Chair, President & Chief Executive Officer



Senior Vice President & Chief Financial Officer

February 21, 2018

Independent Auditor's Report

To the Share Owners of ATCO Ltd.

We have audited the accompanying consolidated financial statements of ATCO Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATCO Ltd. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Year Ended December 31 2017	2016
Revenues	4	**4,541**	4,045
Costs and expenses			
Salaries, wages and benefits		**(514)**	(581)
Energy transmission and transportation		**(269)**	(216)
Plant and equipment maintenance		**(213)**	(244)
Fuel costs		**(149)**	(130)
Purchased power		**(100)**	(81)
Service concession arrangement costs	16	**(456)**	(69)
Materials and consumables		**(276)**	(315)
Depreciation, amortization and impairment	13,14	**(670)**	(615)
Franchise fees		**(229)**	(205)
Property and other taxes		**(124)**	(101)
Unrealized (losses) gains on mark-to-market forward commodity contracts		**(123)**	7
Cost of sale of electricity generation asset on transition to finance lease	11	**(115)**	–
Other	5	**(295)**	(222)
		(3,533)	(2,772)
Gain on sale of joint operation	6	**–**	18
Earnings from investment in joint ventures	30	**23**	22
Operating profit		**1,031**	1,313
Interest income		**25**	16
Interest expense	7	**(431)**	(396)
Net finance costs		**(406)**	(380)
Earnings before income taxes		**625**	933
Income taxes	8	**(163)**	(258)
Earnings for the year		**462**	675
Earnings attributable to:			
Class I and Class II Shares		**203**	340
Non-controlling interests		**259**	335
		462	675
Earnings per Class I and Class II Share	9	**$1.78**	$2.97
Diluted earnings per Class I and Class II Share	9	**$1.77**	$2.96

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	Year Ended December 31 2017	2016
Earnings for the year		**462**	675
Other comprehensive loss, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [(1)]	21	**(21)**	(16)
Items that are or may be reclassified subsequently to earnings:			
Cash flow hedges [(2)]		**(30)**	6
Cash flow hedges reclassified to earnings [(3)]		**(2)**	1
Foreign currency translation adjustment [(3)]		**(13)**	(49)
Share of other comprehensive income of joint ventures [(3)]	30	**–**	1
		(45)	(41)
Other comprehensive loss		**(66)**	(57)
Comprehensive income for the year		**396**	618
Comprehensive income attributable to:			
Class I and Class II Shares		**167**	305
Non-controlling interests		**229**	313
		396	618

(1) Net of income taxes of $8 million for the year ended December 31, 2017 (2016 - $3 million).

(2) Net of income taxes of $11 million for the year ended December 31, 2017 (2016 - $(3) million).

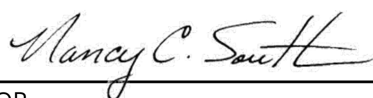
(3) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	2017	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents	24	**501**	606
Accounts receivable		**710**	603
Finance lease receivables	11	**15**	12
Inventories	12	**70**	56
Income taxes receivable	8	**51**	49
Restricted project funds	10	**861**	–
Prepaid expenses and other current assets		**67**	58
		2,275	1,384
Non-current assets			
Property, plant and equipment	13	**17,343**	16,941
Intangibles	14	**587**	546
Goodwill	15	**71**	71
Investment in joint ventures	30	**245**	239
Finance lease receivables	11	**395**	302
Deferred income tax assets	8	**65**	67
Receivable under service concession arrangement	16	**593**	77
Restricted project funds	10	**104**	–
Other assets		**97**	97
Total assets		**21,775**	19,724
LIABILITIES			
Current liabilities			
Bank indebtedness	24	**7**	5
Accounts payable and accrued liabilities		**891**	694
Asset retirement obligations and other provisions	18	**38**	48
Other current liabilities		**68**	18
Short-term debt	17	**10**	55
Long-term debt	19	**5**	155
Non-recourse long-term debt	20	**15**	14
		1,034	989
Non-current liabilities			
Deferred income tax liabilities	8	**1,261**	1,199
Asset retirement obligations and other provisions	18	**130**	134
Retirement benefit obligations	21	**368**	332
Deferred revenues	22	**1,676**	1,689
Other liabilities		**126**	33
Long-term debt	19	**8,552**	8,065
Non-recourse long-term debt	20	**1,401**	84
Total liabilities		**14,548**	12,525
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	23	**167**	167
Contributed surplus		**10**	11
Retained earnings		**3,418**	3,345
Accumulated other comprehensive (loss) income		**(2)**	23
		3,593	3,546
Non-controlling interests	31	**3,634**	3,653
Total equity		**7,227**	7,199
Total liabilities and equity		**21,775**	19,724

See accompanying Notes to Consolidated Financial Statements.



DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive (loss) income	Total	Non-Controlling Interests	Total Equity
December 31, 2015		165	11	3,130	50	3,356	3,537	6,893
Earnings for the year		–	–	340	–	340	335	675
Other comprehensive loss		–	–	–	(35)	(35)	(22)	(57)
Losses on retirement benefits transferred to retained earnings	21	–	–	(8)	8	–	–	–
Shares issued, purchased and canceled	23,31	(1)	–	(17)	–	(18)	63	45
Dividends	23,31	–	–	(131)	–	(131)	(239)	(370)
Share-based compensation	32	3	–	–	–	3	5	8
Changes in ownership interest in subsidiary company [(1)]		–	–	31	–	31	(31)	–
Other		–	–	–	–	–	5	5
December 31, 2016		167	11	3,345	23	3,546	3,653	7,199
Earnings for the year		–	–	**203**	–	**203**	**259**	**462**
Other comprehensive loss		–	–	–	**(36)**	**(36)**	**(30)**	**(66)**
Losses on retirement benefits transferred to retained earnings	21	–	–	**(11)**	**11**	–	–	–
Shares issued, purchased and canceled	23,31	–	–	**(2)**	–	**(2)**	**58**	**56**
Dividends	23,31	–	–	**(150)**	–	**(150)**	**(256)**	**(406)**
Share-based compensation	32	–	**(1)**	**(1)**	–	**(2)**	**(1)**	**(3)**
Changes in ownership interest in subsidiary company [(1)]		–	–	**45**	–	**45**	**(45)**	–
Other		–	–	**(11)**	–	**(11)**	**(4)**	**(15)**
December 31, 2017		**167**	**10**	**3,418**	**(2)**	**3,593**	**3,634**	**7,227**

(1) The changes in ownership interest in subsidiary company are due to Canadian Utilities Limited's dividend reinvestment plan and share-based compensation plans.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Year Ended December 31 2017	2016
Operating activities			
Earnings for the year		**462**	675
Adjustments to reconcile earnings to cash flows from operating activities	24	**1,351**	1,237
Changes in non-cash working capital	24	**34**	(45)
Change in receivable under service concession arrangement	16	**(516)**	(77)
Cash flows from operating activities		**1,331**	1,790
Investing activities			
Additions to property, plant and equipment		**(1,231)**	(1,338)
Proceeds on disposal of property, plant and equipment		**40**	15
Additions to intangibles		**(98)**	(95)
Proceeds on sale of joint operation	6	**–**	21
Investment in joint ventures		**(18)**	(85)
Changes in non-cash working capital	24	**4**	(137)
Other		**3**	8
Cash flows used in investing activities		**(1,300)**	(1,611)
Financing activities			
Net (repayment) issue of short-term debt	17	**(45)**	55
Issue of long-term debt		**488**	450
Repayment of long-term debt		**(155)**	(144)
Release of restricted project funds	10, 20	**374**	–
Repayment of non-recourse long-term debt		**(14)**	(15)
Issue of shares by subsidiary companies	31	**4**	15
Net purchase of Class I Shares		**(1)**	(15)
Dividends paid to Class I and Class II Share owners	23	**(150)**	(131)
Dividends paid to non-controlling interests	31	**(198)**	(187)
Interest paid		**(414)**	(394)
Debt issue costs		**(11)**	(3)
Other		**(6)**	2
Cash flows used in financing activities		**(128)**	(367)
Decrease in cash position [(1)]		**(97)**	(188)
Foreign currency translation		**(10)**	(10)
Beginning of year		**601**	799
End of year	24	**494**	601

(1) Cash position includes $55 million which is not available for general use by the Company (2016 - $40 million).

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

ATCO Ltd. was incorporated under the laws of the province of Alberta and is listed on the Toronto Stock Exchange. Its head office and registered office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

ATCO Ltd. is engaged in the following business activities:

- Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management);
- Electricity (electricity generation, distributed generation, and electricity distribution, transmission and infrastructure development); and
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions).

The consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries (see Note 29). The statements also include the accounts of a proportionate share of the Company's investments in joint operations and its equity-accounted investments in joint ventures (see Note 30). In these financial statements, "the Company" means ATCO Ltd., its subsidiaries and joint arrangements.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 21, 2018.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 37.

Certain comparative figures have been reclassified to conform to the current presentation.

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars. Each entity within the Company determines its own functional currency based on the primary economic environment in which it operates.

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, assumptions and estimates are described in Note 28.

3. SEGMENTED INFORMATION

The Company's operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM is comprised of the Chair, President and Chief Executive Officer, and the other members of the Executive Committee.

The accounting policies applied by the segments are the same as those applied by the Company, except for those used in the calculation of adjusted earnings. Intersegment transactions are measured at the exchange amount, as agreed to by the related parties.

Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such, they have been aggregated.

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

Structures & Logistics	The Structures & Logistics segment includes ATCO Structures & Logistics. This company offers workforce housing, modular facilities, site support services and logistics and operations management.
Electricity	The Electricity segment includes ATCO Electric, ATCO Power, Alberta PowerLine, and ATCO Power Australia. Together these businesses provide electricity generation, transmission, distribution and related infrastructure solutions in Western Alberta, Ontario, the Yukon, the Northwest Territories, Australia and Mexico.
Pipelines & Liquids	The Pipelines & Liquids segment includes ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Energy Solutions and ATCO Pipelines Mexico. These businesses provide integrated natural gas transmission, distribution and storage, industrial water solutions and related infrastructure development throughout Alberta, the Lloydminster area of Saskatchewan, Western Australia and Mexico.
Corporate & Other	The Corporate & Other segment includes commercial real estate owned by the Company in Alberta and ATCO Energy, a retail electricity and natural gas business in Alberta.

Results by operating segment for the year ended December 31 are shown below.

2017 / 2016	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**514**	**2,290**	**1,567**	**170**	**–**	**4,541**
	646	1,852	1,474	73	–	4,045
Revenues - intersegment	**1**	**51**	**63**	**44**	**(159)**	**–**
	1	25	22	41	(89)	–
Revenues	**515**	**2,341**	**1,630**	**214**	**(159)**	**4,541**
	647	1,877	1,496	114	(89)	4,045
Operating expenses [1]	**(470)**	**(1,461)**	**(871)**	**(222)**	**161**	**(2,863)**
	(545)	(735)	(829)	(138)	90	(2,157)
Depreciation, amortization and impairment	**(71)**	**(373)**	**(226)**	**(11)**	**11**	**(670)**
	(40)	(357)	(220)	(11)	13	(615)
Gain on sale of joint operation	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	18	–	–	18
Earnings from investment in joint ventures	**3**	**17**	**3**	**–**	**–**	**23**
	5	17	–	–	–	22
Net finance costs	**–**	**(270)**	**(146)**	**12**	**(2)**	**(406)**
	(1)	(249)	(142)	13	(1)	(380)
Earnings before income taxes	**(23)**	**254**	**390**	**(7)**	**11**	**625**
	66	553	323	(22)	13	933
Income taxes	**4**	**(71)**	**(107)**	**13**	**(2)**	**(163)**
	(17)	(151)	(100)	14	(4)	(258)
Earnings for the year	**(19)**	**183**	**283**	**6**	**9**	**462**
	49	402	223	(8)	9	675
Adjusted earnings	**6**	**210**	**144**	**(25)**	**–**	**335**
	43	213	136	(33)	1	360
Total assets	**625**	**12,993**	**7,489**	**751**	**(83)**	**21,775**
	790	11,506	6,919	600	(91)	19,724
Capital expenditures [2]	**33**	**454**	**777**	**84**	**–**	**1,348**
	70	572	734	75	–	1,451

(1) Includes total costs and expenses, excluding depreciation, amortization and impairment expense.

(2) Includes additions to property, plant and equipment and intangibles and $19 million of interest capitalized during construction for the year ended December 31, 2017 (2016 - $18 million).

GEOGRAPHIC SEGMENTS

Financial information by geographic area is summarized below.

Revenues - external

	2017	2016
Canada	**4,082**	3,598
Australia	**369**	364
Other	**90**	83
Total	**4,541**	4,045

Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets [1]		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Canada	**15,820**	15,405	**567**	531	**268**	247	**16,655**	16,183
Australia	**1,298**	1,278	**20**	15	**32**	35	**1,350**	1,328
Other	**225**	258	**–**	–	**38**	31	**263**	289
Total	**17,343**	16,941	**587**	546	**338**	313	**18,268**	17,800

(1) Other assets exclude financial instruments, deferred income tax assets and goodwill.

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class I and II Shares after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- one-time gains and losses,
- unrealized gains and losses on mark-to-market forward commodity contracts,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings used by the CODM to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the year ended December 31 is shown below.

2017 **2016**	**Structures & Logistics**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**6**	**210**	**144**	**(25)**	**–**	**335**
	43	213	136	(33)	1	360
Gain on sale of joint operation (*Note 6*)	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	7	–	–	7
Unrealized losses on mark-to-market forward commodity contracts	**–**	**(48)**	**–**	**–**	**–**	**(48)**
	–	–	–	–	–	–
Impairment	**(23)**	**–**	**–**	**–**	**–**	**(23)**
	–	–	–	–	–	–
Rate-regulated activities	**–**	**(69)**	**3**	**–**	**5**	**(61)**
	–	(4)	(22)	–	4	(22)
Other	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	(5)	–	–	(5)
Earnings attributable to Class I and Class II Shares	**(17)**	**93**	**147**	**(25)**	**5**	**203**
	43	209	116	(33)	5	340
Earnings attributable to non-controlling interests						**259**
						335
Earnings for the year						**462**
						675

Unrealized gains and losses on mark-to-market forward commodity contracts

The Company enters into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power Plants. The MW capacity limits on forward commodity contracts were increased in 2016 which heightens the potential for higher unrealized gains or losses in advance of the settlement of the contract. The forward contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts are recognized in earnings where hedge accounting is not applied. The CODM believes that removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of operating results for the Company's Independent Power Plants. Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

Impairment

In the fourth quarter of 2017, the Company recognized an impairment of $34 million ($23 million, after-tax and non-controlling interests) relating to certain workforce housing assets in Canada and space rentals assets in the U.S. (see Note 13).

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to in the consolidated financial statements as utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Future removal and site restoration costs.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	2017	2016
Additional revenues billed in current period		
Future removal and site restoration costs [(1)]	**32**	32
Revenues to be billed in future periods		
Deferred income taxes [(2)]	**(54)**	(48)
Impact of warmer temperatures [(3)]	**(2)**	(15)
Impact of inflation on rate base [(4)]	**(8)**	(5)
Regulatory decisions received	**9**	6
Settlement of regulatory decisions and other items [(5)]	**(38)**	8
	(61)	(22)

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) Income taxes are billed to customers when paid by the Company.

(3) ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(4) The inflation-indexed portion of ATCO Gas Australia's rate base is billed to customers through the recovery of depreciation in subsequent periods based on the actual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current period for the inflation component of rate base when it is earned. Differences between the amounts earned and the amounts billed to customers are deferred and recognized in revenues over the service life of the related assets.

(5) In 2017, ATCO Electric recorded an increase in adjusted earnings of $17 million in relation to settlement of final 2015-2017 General Tariff Application rate and $14 million in relation to refund of previously collected capitalized pension costs.

Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2017 and 2016 are provided below.

	Decision	Timing	Amount	Description
1.	2013-2014 Deferral Accounts Application	September 2017	(4)	The Alberta Utilities Commission (AUC) issued a decision on ATCO Electric Transmission's 2013 to 2014 Deferral Accounts Application. The Application included $824 million of capital expenditures for the 35 direct-assigned AESO projects that went into service in 2013 and 2014. While the decision approved the inclusion of the vast majority of the capital expenditures into rate base, it resulted in a decrease to adjusted earnings, which relates to years prior to 2017.
2.	ATCO Electric General Tariff Application (GTA) Compliance Filing	June 2017	(5)	The AUC issued a decision on ATCO Electric's Compliance Filing relating to its 2015 to 2017 General Tariff Application. The decision adjusted ATCO Electric's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital.
3.	ATCO Electric GTA	August 2016	(10)	The GTA decision covers the operations of ATCO Electric Transmission for 2015 to 2017 and resulted in final rates that were lower than the approved interim rates from 2015, mainly due to lower approved operating costs.
4.	2016-2017 Generic Cost of Capital Decision (GCOC)	August 2016	1	The GCOC decision established the return on equity (ROE) and deemed common equity ratios for the Alberta utilities for 2016 and 2017. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to the K factor mechanism and does not apply to the base performance based regulation formula.
5.	ATCO Gas Australia Access Arrangement Decision	July 2016	3	An appeal application was lodged with the Australian Competition Tribunal as a result of the decision received from the Economic Regulation Authority (ERA). The appeal application decision resulted in an improvement in the recoverability of certain expenses.

Other

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. The adjustment of less than $1 million in 2017 (2016 - $5 million) is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

4. REVENUES

The significant categories of revenues recognized during the year are as follows:

	2017	2016
Sale of goods	**533**	415
Rendering of services	**3,050**	3,232
Operating lease income	**293**	288
Service concession arrangement income	**516**	77
Sale of electricity generation asset on transition to finance lease (*Note 11*)	**116**	_
Finance lease income	**33**	33
	4,541	4,045

5. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, realized gains and losses on derivative financial instruments, goods and services such as professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

6. SALE OF JOINT OPERATION

On January 1, 2016, the Company sold its 51.3 per cent ownership interest in the Edmonton Ethane Extraction Plant for cash proceeds of $21 million, resulting in a gain of $18 million ($7 million after-tax and non-controlling interests). Commencing January 1, 2016, the Company no longer recognizes these assets in its financial position, results of operations and cash flows in the consolidated financial statements. These assets were previously reported in the Pipelines & Liquids segment.

7. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debentures. The components of interest expense are summarized below.

	2017	2016
Long-term debt	**396**	385
Non-recourse long-term debt	**21**	8
Retirement benefits net interest expense	**6**	6
Amortization of deferred financing charges	**3**	3
Accretion of asset retirement obligations	**2**	4
Short-term debt	**11**	4
Other	**11**	4
	450	414
Less: interest capitalized *(Note 13)*	**(19)**	(18)
	431	396

Borrowing costs capitalized to property, plant and equipment during 2017 were calculated by applying a weighted average interest rate of 4.82 per cent to expenditures on qualifying assets (2016 - 4.89 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2017	2016
Current income tax expense		
Canada	**64**	57
Australia	**5**	15
United States	**8**	2
Adjustment in respect of prior years	**2**	(12)
	79	62
Deferred income tax expense		
Reversal of temporary differences	**84**	187
Adjustment in respect of prior years	**–**	9
	84	196
	163	258

The reconciliation of statutory and effective income tax expense is as follows:

	2017		2016	
Earnings before income taxes	**625**	**%**	933	%
Income taxes, at statutory rates	**169**	**27.0**	252	27.0
International financing	**(8)**	**(1.3)**	(9)	(1.0)
Foreign tax rate variance	**3**	**0.5**	4	0.4
Foreign exchange on deferred tax asset	**–**	**–**	9	1.0
Equity earnings	**(4)**	**(0.6)**	(8)	(0.8)
Unrecognized deferred income tax assets	**5**	**0.8**	6	0.6
Non-taxable (gains) losses	**(5)**	**(0.8)**	2	0.2
Tax cost of preferred share financings	**2**	**0.3**	2	0.2
Other	**1**	**0.2**	–	–
	163	**26.1**	258	27.6

INCOME TAX ASSETS AND LIABILITIES

Income tax assets and liabilities in the consolidated balance sheet at December 31 are summarized below.

	Balance Sheet Presentation	2017	2016
Income tax assets			
Current	Income taxes receivable	**51**	49
Deferred	Deferred income tax assets	**65**	67
		116	116
Income tax liabilities			
Current	Other current liabilities	**17**	16
Deferred	Deferred income tax liabilities	**1,261**	1,199
		1,278	1,215

DEFERRED INCOME TAXES

The changes in deferred income tax assets are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2015	40	–	36	2	2	2	82
(Charge) credit to earnings	(6)	(3)	(10)	7	–	–	(12)
Charge to other comprehensive income	–	–	–	–	(1)	–	(1)
Other	(1)	–	–	1	–	(2)	(2)
December 31, 2016	33	(3)	26	10	1	–	67
(Charge) credit to earnings	**1**	**1**	**(6)**	**4**	–	–	–
Other	**(2)**	–	–	–	–	–	**(2)**
December 31, 2017	**32**	**(2)**	**20**	**14**	**1**	–	**65**

The Company expects approximately $1 million of its deferred income tax assets to reverse within the next twelve months.

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2015	1,123	102	(43)	(91)	(114)	30	1,007
Charge (credit) to earnings	127	15	37	15	(1)	(9)	184
Charge (credit) to other comprehensive income	–	–	3	–	(4)	–	(1)
Consolidation of Barking [(1)]	11	–	–	–	–	–	11
Other	(2)	–	–	–	2	(2)	(2)
December 31, 2016	1,259	117	(3)	(76)	(117)	19	1,199
Charge (credit) to earnings	**140**	**(13)**	**(27)**	**(22)**	**(8)**	**14**	**84**
Charge (credit) to other comprehensive income	–	–	**(11)**	–	**(8)**	–	**(19)**
Other	**(2)**	–	**(1)**	–	**(1)**	**1**	**(3)**
December 31, 2017	**1,397**	**104**	**(42)**	**(98)**	**(134)**	**34**	**1,261**

(1) In March 2016, the Company increased its ownership in Barking Power Limited (Barking), an entity that holds land assets in the U.K., from 51 per cent to 100 per cent. Barking was previously accounted for as a joint venture and is now consolidated.

The Company expects approximately $19 million of its deferred income tax liabilities to reverse within the next twelve months.

At the end of 2017, the Company had $448 million of non-capital tax losses and credits which expire between 2024 and 2037 and $31 million of tax losses which do not expire. The Company recognized deferred income tax assets of $112 million for losses and credits that expire. No deferred income tax assets were recorded for losses that do not expire.

The Company had $116 million of aggregate temporary differences for investments in subsidiaries, branches and joint ventures for which deferred income tax liabilities were not recognized (2016 - $114 million).

9. EARNINGS PER SHARE

Earnings per Class I Non-Voting (Class I) and Class II Voting (Class II) Share are calculated by dividing the earnings attributable to Class I and Class II Shares by the weighted average shares outstanding. Diluted earnings per share are calculated using the treasury stock method, which reflects the potential exercise of stock options and vesting of shares under the Company's mid-term incentive plan (MTIP) on the weighted average Class I and Class II Shares outstanding.

The earnings and average number of shares used to calculate earnings per share are as follows:

	2017	2016
Average shares		
Weighted average shares outstanding	**114,351,929**	114,410,703
Effect of dilutive stock options	**147,586**	132,814
Effect of dilutive MTIP	**322,606**	302,359
Weighted average dilutive shares outstanding	**114,822,121**	114,845,876
Earnings for earnings per share calculation		
Earnings for the year	**462**	675
Non-controlling interests	**(259)**	(335)
	203	340
Earnings and diluted earnings per Class I and Class II Share		
Earnings per Class I and Class II Share	**$1.78**	$2.97
Diluted earnings per Class I and Class II Share	**$1.77**	$2.96

10. RESTRICTED PROJECT FUNDS

At December 31, 2017, Alberta PowerLine (APL), a partnership between Canadian Utilities Limited and Quanta Services Inc., had $965 million of funds restricted under the terms of APL's non-recourse long-term debt financing agreement signed in October 2017 (see Note 20). The restricted project funds are released as the project progresses (see Note 16), subject to satisfaction of certain performance conditions under the financing agreement.

Restricted project funds are comprised of:

	Year Ended December 31, 2017
Current assets	
Restricted cash	**351**
Restricted funds invested in structured deposit note [(1)]	**510**
	861
Non-current assets	
Restricted cash	**69**
Restricted funds for construction holdbacks [(2)]	**35**
	104
	965

(1) At December 31, 2017, the Company had $510 million of funds invested in a structured deposit note, which pays interest at a fixed rate of 1.707 per cent per annum, and will mature by the end of 2018.

(2) At December 31, 2017, the Company had $35 million of restricted funds for construction lien holdbacks.

11. LEASES

THE COMPANY AS LESSOR

The Company is party to certain arrangements that convey the right to use electricity generation and non-regulated electricity transmission assets. These arrangements are classified as finance leases, with the Company as the lessor. Certain assets under power purchase agreements (PPA) are classified as operating leases as the Company (as lessor) still retains substantially all the risks and rewards of ownership. Operating leases also include rentals of modular structures.

Finance leases

The total net investment in finance leases is shown below. Finance lease income is recognized in revenues.

	2017	2016
Net investment in finance leases		
Finance lease - gross investment	**737**	622
Unearned finance income	**(329)**	(310)
Unguaranteed residual value	**2**	2
	410	314
Current portion	**15**	12
Non-current portion	**395**	302
	410	314
Gross receivables from finance leases		
In one year or less	**52**	45
In more than one year, but not more than five years	**238**	197
In more than five years	**447**	380
	737	622
Net investment in finance leases		
In one year or less	**15**	12
In more than one year, but not more than five years	**95**	65
In more than five years	**300**	237
	410	314

During the year ended December 31, 2017, $4 million of contingent rent was recognized as income from these finance leases (2016 - $3 million).

Sale of electricity generation asset on transition to finance lease

In December 2017, ATCO Power signed a contract amendment that triggered a reassessment of the accounting treatment of the Muskeg River generating plant (Muskeg). Due to the nature of the contract amendment, IFRS requires that this agreement is accounted for as a finance lease. As this lease is considered a manufacturer's type lease for accounting purposes, $100 million and $16 million, respectively, was recorded in revenues to recognize the fair value of the lease receivable (see Note 4) and the derecognition of related customer contributions. The revenues were offset by $115 million of cost of sale of electricity generation asset representing the net book value of Muskeg property, plant and equipment. The transaction resulted in a gain of less than $1 million after tax and non-controlling interests.

Operating leases

The aggregate future minimum lease payments receivable under non-cancellable operating leases are:

	2017	2016
Minimum lease payments receivable		
In one year or less	**215**	189
In more than one year, but not more than five years	**330**	671
In more than five years	**3**	3
	548	863

During the year ended December 31, 2017, $10 million of contingent rent was recognized as income from these operating leases (2016 - $16 million).

THE COMPANY AS LESSEE

Operating leases

The Company has entered into long-term operating leases for office premises and equipment. During the year ended December 31, 2017, $35 million was recognized as an expense for these operating leases (2016 - $35 million).

12. INVENTORIES

Inventories at December 31 are comprised of:

	2017	2016
Natural gas and fuel in storage	**16**	17
Raw materials and consumables	**34**	25
Work-in-progress	**9**	5
Finished goods	**11**	9
	70	56

For the year ended December 31, 2017, inventories recognized as an expense were $280 million (2016 - $320 million).

Inventories with a carrying value of $10 million were pledged as security for liabilities at December 31, 2017 (2016 - $7 million).

13. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Electricity Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2015	16,601	2,034	802	794	1,665	21,896
Additions	422	26	119	859	68	1,494
Transfers	701	10	24	(823)	88	–
Retirements and disposals	(153)	(15)	(5)	(45)	(148)	(366)
Changes to asset retirement costs	–	(3)	–	–	(5)	(8)
Foreign exchange rate adjustment	(46)	(1)	(20)	(4)	(7)	(78)
December 31, 2016	17,525	2,051	920	781	1,661	22,938
Additions	**385**	**10**	**85**	**746**	**34**	**1,260**
Transfers	**678**	**1**	**40**	**(760)**	**41**	–
Retirements and disposals [(1)]	**(127)**	**(5)**	**(49)**	**(53)**	**(126)**	**(360)**
Transfer to finance lease (*Note 11*)	–	**(187)**	–	–	–	**(187)**
Changes to asset retirement costs	**(5)**	**(1)**	–	–	–	**(6)**
Foreign exchange rate adjustment	**9**	–	**3**	**(9)**	**(6)**	**(3)**
December 31, 2017	**18,465**	**1,869**	**999**	**705**	**1,604**	**23,642**
Accumulated depreciation and impairment						
December 31, 2015	3,427	1,261	168	85	725	5,666
Depreciation	408	65	19	–	81	573
Retirements and disposals	(101)	(14)	(5)	–	(106)	(226)
Foreign exchange adjustment	(5)	–	(2)	(3)	(6)	(16)
December 31, 2016	3,729	1,312	180	82	694	5,997
Depreciation and impairment	**413**	**68**	**22**	–	**109**	**612**
Retirements and disposals	**(127)**	**(3)**	**(18)**	–	**(81)**	**(229)**
Transfer to finance lease (*Note 11*)	–	**(72)**	–	–	–	**(72)**
Foreign exchange rate adjustment	**1**	–	–	**(6)**	**(4)**	**(9)**
December 31, 2017	**4,016**	**1,305**	**184**	**76**	**718**	**6,299**
Net book value						
December 31, 2016	13,796	739	740	699	967	16,941
December 31, 2017	**14,449**	**564**	**815**	**629**	**886**	**17,343**

(1) Includes $13 million of land held for sale, which was reclassified to prepaid expenses and other current assets.

The additions to property, plant and equipment included $19 million of interest capitalized during construction for the year ended December 31, 2017 (2016 - $18 million).

In 2016, ATCO Pipelines and NOVA Gas Transmission Ltd. exchanged ownership of certain natural gas pipelines and related facilities as part of the integration of natural gas transmission service in Alberta. The net book value of assets disposed of was $51 million compared to assets acquired of $65 million, resulting in an increase in the net book value of utility, transmission and distribution assets of $14 million. The net assets acquired were settled in cash.

Property, plant and equipment with a carrying value of $467 million were pledged as security for liabilities at December 31, 2017 (2016 - $692 million).

IMPAIRMENTS

Structures & Logistics Segment

Workforce housing and space rental assets

In the fourth quarter of 2017, the Company recognized a pre-tax impairment of $34 million ($23 million, after-tax and non-controlling interests) relating to certain workforce housing assets in Canada and space rental assets in the U.S.. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were impaired due to a reduction in utilization, sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients. The expected future cash flows range from 6 to 12 years which represents the assets remaining useful lives, and were discounted at a pre-tax rate of 18.9 per cent. The growth rate used to extrapolate cash flow projections was 2 per cent. After recognizing this impairment, the recoverable amount of these assets was $19 million at December 31, 2017. This amount was determined using value in use. If the utilization rate had decreased by 10 per cent, the impairment would have increased by $4 million.

14. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. Goodwill is also an intangible asset (see Note 15). A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2015	529	302	33	864
Additions	79	24	–	103
Retirements	–	(2)	(6)	(8)
December 31, 2016	608	324	27	959
Additions	**75**	**23**	–	**98**
Retirements	**(21)**	**(1)**	**(1)**	**(23)**
December 31, 2017	**662**	**346**	**26**	**1,034**
Accumulated amortization				
December 31, 2015	315	35	12	362
Amortization	52	4	1	57
Retirements	–	–	(6)	(6)
December 31, 2016	367	39	7	413
Amortization	**51**	**5**	**1**	**57**
Retirements	**(21)**	**(1)**	**(1)**	**(23)**
December 31, 2017	**397**	**43**	**7**	**447**
Net book value				
December 31, 2016	241	285	20	546
December 31, 2017	**265**	**303**	**19**	**587**

15. GOODWILL

The carrying value of goodwill for the Electricity and Pipelines & Liquids segments is shown below.

	2017	2016
Electricity	**38**	38
Pipelines & Liquids	**33**	33
Carrying value	**71**	71

The recoverable amount was measured based on each segment's fair value less costs of disposal, which was calculated using publicly available enterprise values and price-to-earnings multiples of comparable, actively traded companies. Each segment's fair value less costs of disposal was compared to its carrying value and was sufficient to support the carrying value of allocated goodwill.

The Company used an average enterprise value-to-earnings before interest, taxes, depreciation, and amortization of 11.2 and 16.0 (2016 - 9.1 and 17.1) and price-to-earnings value of 18.7 and 22.3 (2016 - 16.8 and 24.3) for the Electricity and Pipelines & Liquids segments, respectively, to calculate fair value less costs of disposal.

The fair value measurements are categorized in Level 3 of the fair value hierarchy.

16. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

In December 2014, Alberta PowerLine (APL), a partnership between Canadian Utilities Limited, a subsidiary of the Company, and Quanta Services Inc., was awarded a 35-year contract by the Alberta Electric System Operator (AESO) to design, build, own, and operate the Fort McMurray 500 kV Transmission project (Transmission Project).

The Transmission Project has been accounted for as a service concession arrangement as the AESO controls the output of the transmission facilities as a part of the greater Alberta network and the ownership of the transmission facilities will transfer to the AESO at the end of the service agreement. Under a service concession arrangement, the Company does not recognize the transmission facilities as property, plant and equipment, instead, a financial asset representing amounts due from the AESO has been recognized as a long-term receivable in the consolidated balance sheet. Revenues and costs relating to the design, planning and construction phases of the Transmission Project are recognized based on percentage of completion and revenues and costs relating to the operating phase will be recognized as the service is rendered.

Design and route planning activities are complete. Construction commenced in 2017 and the Transmission Project is anticipated to be in service in 2019. The receivable due from the AESO was $593 million at December 31, 2017 (2016 - $77 million). Payments will commence once the asset is in service. Contracted undiscounted cash flows from the Transmission Project are expected to be $3.7 billion.

In October 2017, APL issued non-recourse long-term debt to fund the Transmission Project activities (see Note 20).

Revenues, service concession arrangement costs and operating profit for the year ended December 31, 2017, are $516 million, $456 million and $60 million, respectively (2016 - $77 million, $69 million and $8 million).

17. SHORT-TERM DEBT

At December 31, 2017, the Company had borrowed $10 million of short-term debt under its short-term committed credit facilities at an interest rate of 3.20 per cent maturing in June 2018. (2016 - $55 million of commercial paper at an interest rate of 0.89 per cent, maturing in January 2017).

18. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

Asset retirement obligations (AROs) represent the present value of the costs to be incurred to retire the Company's power generation plants, natural gas storage facilities and processing plants. The other provision relates mainly to restructuring costs and expected warranty claims on modular buildings.

The changes in AROs and other provisions are as follows:

	Asset Retirement Obligations	Other	Total
December 31, 2015	162	71	233
Additions	21	5	26
Utilized in the year	(1)	(45)	(46)
Reversals of unused amounts	(12)	(12)	(24)
Accretion expense	4	–	4
Revisions in discount rate	(9)	–	(9)
Foreign exchange rate adjustment	(2)	–	(2)
December 31, 2016	163	19	182
Additions	**1**	**6**	**7**
Utilized in the year	**(5)**	**(11)**	**(16)**
Reversals of unused amounts	–	**(1)**	**(1)**
Accretion expense	**2**	–	**2**
Revisions in discount rate	**(6)**	–	**(6)**
December 31, 2017	**155**	**13**	**168**
Less: current portion	**27**	**11**	**38**
Long-term portion	**128**	**2**	**130**

ASSET RETIREMENT OBLIGATIONS

The Company estimates that the undiscounted amount of cash flows required to settle the AROs is approximately $5.1 billion, which will be incurred between 2018 and 2261. The weighted average pre-tax, risk-free discount rate used to calculate the fair value of the AROs at December 31, 2017 was 2.72 per cent (2016 - 2.71 per cent).

19. LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Effective Interest Rate	2017	2016
CU Inc. debentures - unsecured	4.881% (2016 - 4.982%)	**7,605**	7,325
(Interest is the average effective interest rate weighted by principal amounts outstanding)			
CU Inc. other long-term obligation, due December 2019 - unsecured [1]	3.200%	**3**	3
Canadian Utilities Limited debentures - unsecured, 3.122% due November 2022	3.187%	**200**	200
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY Rates, due February 2020, secured by a pledge of project assets and contracts, $74 million AUD (2016 - $79 million AUD) [2]	Floating [3]	**73**	77
ATCO Gas Australia Limited Partnership credit facility, payable in Australian dollars, at BBSY Rates, due December 2019, $250 million AUD (2016 - $250 million AUD) [2]	Floating [3]	**244**	243
ATCO Gas Australia Limited Partnership revolving credit facility, payable in Australian dollars, at BBSY Rates, due December 2019, $427 million AUD (2016 - $427 million AUD) [2]	Floating [3]	**417**	414
ATCO Structures & Logistics credit facility, at BA Rates, due November 2020 secured by a general assignment of ATCO Structures & Logistics' present and future property, assets, undertakings and equity interests in certain of its restricted subsidiaries and joint ventures [2]	Floating	**58**	–
Less: deferred financing charges		**(43)**	(42)
		8,557	8,220
Less: amounts due within one year		**(5)**	(155)
		8,552	8,065

BBSY - Bank Bill Swap Benchmark Rate

BA - Bankers' Acceptance

(1) During 2017, the expiry date of the CU Inc. other long-term obligation was extended from June 2018 to December 2019.

(2) The above interest rates have additional margin fees at a weighted average rate of 1.28 per cent (2016 - 1.14 per cent). The margin fees are subject to escalation.

(3) Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 25).

DEBENTURE ISSUANCES

During 2017, CU Inc. issued $430 million of 3.548 per cent debentures maturing on November 22, 2047 (2016 - $375 million of 3.763 per cent debentures maturing on November 19, 2046).

PLEDGED ASSETS

The ATCO Power Australia credit facility is guaranteed by Canadian Utilities Limited and is secured by a mortgage on certain assets of the Karratha Power Plant and an assignment of certain contracts and agreements. The Karratha Power Plant is accounted for as a finance lease receivable.

The book value of assets pledged to maintain the Company's long-term credit facilities was $465 million at December 31, 2017 (2016 - $566 million).

20. NON-RECOURSE LONG-TERM DEBT

Non-recourse long-term debt outstanding at December 31 is comprised of project financing received by ATCO Power and Alberta PowerLine, and is as follows:

Project Financing	Effective Interest Rate	2017	2016
ATCO Power:			
Joffre notes, at fixed rate of 8.590%, due to 2020	8.950%	**14**	18
Scotford notes, at fixed rate of 7.930%, due to 2022	8.240%	**15**	17
Muskeg River notes, at fixed rate of 7.560%, due to 2022	7.840%	**12**	14
Cory:			
Notes, at fixed rate of 7.586%, due to 2025	7.870%	**23**	26
Notes, at fixed rate of 7.601%, due to 2026	7.890%	**21**	24
Alberta PowerLine:			
Series A Bonds, at fixed rate of 4.065%, due to 2053	4.277%	**549**	–
Series B Bonds, at fixed rate of 4.065%, due to 2054	4.274%	**548**	–
Series C Bonds, at fixed rate of 3.351%, due to 2032	3.690%	**144**	–
Series D Bonds, at fixed rate of 3.340%, due to 2032	3.679%	**144**	–
Less: deferred financing charges		**(54)**	(1)
		1,416	98
Less: amounts due within one year		**(15)**	(14)
		1,401	84

Alberta PowerLine

In October 2017, Alberta PowerLine issued long-term debt consisting of $1,385 million Senior Secured Nominal Amortizing Bonds. This long-term debt is non-recourse to the Company. The financing was issued by way of a private placement. The net proceeds of $1,332 million will be used to fund the construction of the Fort McMurray 500 kV Transmission Project (see Note 16).

Immediately on completion of the financing, the net proceeds were transferred to an escrow account, and are released as the Transmission Project progresses, subject to satisfaction of certain performance conditions under the financing agreement. Of the net proceeds from the financing, $965 million is included in restricted project funds (see Note 10).

Principal payments on the Bonds will commence in 2019 when the Transmission Project is operational, and will be made on a fixed amortization schedule until the Bonds maturity dates. Interest on Series A and Series D Bonds is due semi-annually in arrears on June 1 and December 1, of each year, commencing on December 1, 2017. Interest on Series B and Series C Bonds is due semi-annually in arrears on March 1 and September 1, of each year, commencing on March 1, 2018.

Pledged assets

ATCO Power's non-recourse long-term debt is secured by charges on the projects' assets and by an assignment of the projects' bank accounts, outstanding contracts and agreements. The book value of the pledged assets at December 31, 2017, was $374 million (2016 - $381 million). The Cory and Muskeg projects are accounted for as finance lease receivables.

Alberta PowerLine's non-recourse long-term debt is secured by charges on the Transmission Project's assets and by an assignment of the Transmission Project's cash flow, bank accounts, outstanding contracts and agreements.

21. RETIREMENT BENEFITS

The Company maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits (OPEB), principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees of Canadian Utilities Limited and its subsidiaries, and, as of 2005, new employees of ATCO Structures & Logistics, automatically participate in the defined contribution pension plans.

The Company also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

The majority of benefit payments are made from trustee-administered funds; however, there are a number of unfunded plans where the Company makes the benefit payments. Plan assets held in trusts are governed by provincial and federal legislation and regulations, as is the relationship between the Company and the trustee. The Pension Committee of the Board of Directors of Canadian Utilities Limited is responsible for governance of the funded plans and policy decisions related to benefit design, liability management, and funding and investment, including selection of investment managers and investment options for the plans.

BENEFIT PLAN ASSETS, OBLIGATIONS AND FUNDED STATUS

The changes in Company's pension and OPEB plan assets and obligations are as follows:

	2017		2016	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Market value of plan assets				
Beginning of year	2,674	–	2,728	–
Interest income	**100**	–	106	–
Employee contributions	**1**	–	1	–
Employer contributions	**27**	–	30	–
Benefit payments	**(113)**	–	(125)	–
TPL [(1)]	–	–	(69)	–
Return on plan assets, excluding amounts included in interest income	**86**	–	12	–
Foreign exchange rate adjustment	–	–	(9)	–
End of year	**2,775**	–	2,674	–
Accrued benefit obligations				
Beginning of year	2,889	117	2,918	117
Current service cost	**29**	**2**	33	2
Interest cost	**111**	**4**	114	4
Employee contributions	**1**	–	1	–
Benefit payments from plan assets	**(113)**	–	(125)	–
Benefit payments by employer	**(7)**	**(5)**	(7)	(4)
TPL [(1)]	–	–	(69)	–
Actuarial losses (gains)	**114**	**1**	33	(2)
Foreign exchange rate adjustment	–	–	(9)	–
End of year [(2)]	**3,024**	**119**	2,889	117
Funded status				
Net retirement benefit obligations	**249**	**119**	215	117

(1) The Company's subsidiary, Thames Power Limited (TPL), has a 100 per cent ownership interest in Thames Power Services Limited, which has a defined benefit plan for employees. In 2015, trustees for the pension plan entered into a policy with Pension Insurance Corporation (PIC) and transferred the majority of plan assets to PIC in order to secure the benefits of the defined benefit plan. The pension plan assets and liabilities were included in the Company's retirement benefit obligations. Individual policies were issued to members in September 2016, discharging TPL's legal obligation for benefits under the defined benefit plan. The pension plan assets and liabilities were removed from the Company's retirement benefit obligations at December 31, 2016.

(2) The non-registered, non-funded defined benefit pension plans accrued benefit obligations increased to $161 million at December 31, 2017 due to a decrease in the liability discount rate partially offset by experience adjustments (2016 - decreased to $145 million due to experience adjustments partially offset by a decrease in the liability discount rate).

BENEFIT PLAN COST

The components of benefit plan cost are as follows:

	2017		2016	
	Pension Benefit Plans	**OPEB Plans**	**Pension Benefit Plans**	**OPEB Plans**
Current service cost	**29**	**2**	33	2
Interest cost	**111**	**4**	114	4
Interest income	**(100)**	**–**	(106)	–
Defined benefit plans cost	**40**	**6**	41	6
Defined contribution plans cost	**32**	**–**	33	–
Total cost	**72**	**6**	74	6
Less: capitalized	**29**	**3**	29	3
Net cost recognized	**43**	**3**	45	3

RE-MEASUREMENT OF RETIREMENT BENEFITS

Re-measurements of the pension and OPEB plans are as follows:

	2017		2016	
	Pension Benefit Plans	**OPEB Plans**	**Pension Benefit Plans**	**OPEB Plans**
Gains on plan assets from:				
Return on plan assets, excluding amounts included in net interest expense	**86**	**–**	12	–
(Losses) gains on plan obligations from:				
Changes in demographic assumptions	**4**	**4**	–	5
Changes in financial assumptions	**(135)**	**(4)**	(54)	(3)
Experience adjustments	**17**	**(1)**	21	–
	(114)	**(1)**	(33)	2
(Losses) gains recognized in other comprehensive income [1]	**(28)**	**(1)**	(21)	2

(1) Losses net of income taxes were $21 million for the year ended December 31, 2017 (2016 - $16 million).

PLAN ASSETS

The market values of the Company's defined benefit pension plan assets at December 31 are as follows:

				2017				2016
Plan asset mix	**Quoted**	**Un-quoted**	**Total**	**%**	**Quoted**	**Un-quoted**	**Total**	**%**
Equity securities								
Public								
Canada	**254**	**–**	**254**		243	–	243	
United States	**313**	**–**	**313**		352	–	352	
International	**221**	**–**	**221**		137	–	137	
Private	**–**	**11**	**11**		–	13	13	
	788	**11**	**799**	**29**	732	13	745	28
Fixed income securities								
Government bonds	**882**	**–**	**882**		862	–	862	
Corporate bonds and debentures	**670**	**–**	**670**		632	–	632	
Securitizations	**53**	**–**	**53**		51	–	51	
Mortgages	**–**	**46**	**46**		–	54	54	
	1,605	**46**	**1,651**	**59**	1,545	54	1,599	60
Real estate								
Land and building [(1)]	**–**	**43**	**43**		–	60	60	
Real estate funds	**–**	**196**	**196**		–	187	187	
	–	**239**	**239**	**9**	–	247	247	9
Cash and other assets								
Cash	**15**	**–**	**15**		35	–	35	
Short-term notes and money market funds	**57**	**–**	**57**		39	–	39	
Accrued interest and dividends receivable	**14**	**–**	**14**		9	–	9	
	86	**–**	**86**	**3**	83	–	83	3
	2,479	**296**	**2,775**	**100**	2,360	314	2,674	100

(1) The land and building are occupied by the Company.

At December 31, 2017, plan assets include Class A non-voting shares of Canadian Utilities Limited having a market value of $8 million (2016 - $8 million) and Class I Shares of the Company having a market value of $9 million (2016 - $10 million).

FUNDING

In 2016, an actuarial valuation for funding purposes as of December 31, 2015 was completed for the registered defined benefit pension plans. The estimated contribution for 2018 is $27 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2018.

WEIGHTED AVERAGE ASSUMPTIONS

The significant assumptions used to determine the benefit plan cost and accrued benefit obligation are as follows:

	2017		2016	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**3.90%**	**3.90%**	4.10%	4.10%
Average compensation increase for the year [1]	**1.50%**	**n/a**	1.50%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.60%**	**3.60%**	3.90%	3.90%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs [2]	**n/a**	**5.43%**	n/a	5.57%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) The assumed average compensation increase is 1.50 per cent for 2017 and 2.50 per cent thereafter.

(2) The Company uses a graded drug cost trend rate which assumes a rate of 4.50 per cent in 2024.

The weighted average duration of the defined benefit obligation is 13.5 years.

RISKS

The Company is exposed to a number of risks related to its defined benefit pension plans and OPEB plans. The most significant risks are described below.

Investment risk

The Company makes investment decisions for its funded plans using an asset-liability matching framework. Within this framework, the Company's objective over time is to increase the proportion of plan assets in fixed income securities with maturities that match the expected benefit payments as they fall due. However, due to the long-term nature of the benefit obligations, the strength of the Company, and the belief that a diversified portfolio offers an appropriate risk-return profile, the Company continues to invest in equity securities, global fixed income and Canadian real estate in addition to Canadian fixed income. The Company has not changed the processes used to manage its risks from previous periods.

Interest rate risk

A decrease in long-term interest rates will increase accrued benefit obligations, which will be partially offset by an increase in the value of the plans' bond holdings. Other things remaining the same, a further decrease in long-term interest rates will cause the funded status to deteriorate, while increases in interest rates will result in gains.

Compensation risk

The present value of the accrued benefit obligations is calculated using the estimated future compensation of plan participants. Should future compensation be higher than estimated, benefit obligations will increase.

Inflation risk

Accrued benefit obligations are linked to inflation, and higher inflation will lead to increased obligations. For the defined benefit pension plans, inflation risk is mitigated because the indexing of benefit payments is capped at an annual increase of 3.0 per cent.

The majority of plan assets are also affected by inflation. As inflation rises, long-term interest rates will likely rise, pushing up bond yields and reducing the value of existing fixed rate bonds. The relationship between equities and inflation is not as clear, but generally speaking, high inflation has a negative impact on equity valuations. Overall, rising inflation will likely reduce a plan surplus or increase a deficit.

Life expectancy

Should pensioners live longer than assumed, benefit obligations and liabilities will be larger than expected.

SENSITIVITIES

The 2017 sensitivities of key assumptions used in measuring the Company's pension and OPEB plans are as follows:

		Accrued Benefit Obligation		Net Benefit Plan Cost	
Assumption	**Percent Change**	**Increase in Assumption**	**Decrease in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	1%	(370)	461	(7)	(5)
Future compensation rate	1%	21	(20)	1	(1)
Long-term inflation rate [(1)]	1%	417	(344)	11	(9)
Health care cost trend rate	1%	11	(9)	–	–
Life expectancy	10%	80	(71)	2	(2)

(1) The long-term inflation rate for pension plans reflects the fact that pension plan benefit payments have historically been indexed annually to increases in the Canadian Consumer Price Index to a maximum increase of 3.0 per cent per annum.

The above sensitivities have been calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously.

22. DEFERRED REVENUES

Deferred revenues from customer contributions and other sources are as follows:

	2017	2016
Customer contributions	**1,676**	1,687
Other	–	2
	1,676	1,689

CUSTOMER CONTRIBUTIONS

Customer contributions for extensions to plant are included in deferred revenues and recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2017	2016
Beginning of year	1,687	1,647
Receipt of customer contributions	**61**	104
Derecognition on transition to finance lease (*Note 11*)	**(16)**	–
Amortization	**(56)**	(64)
End of year	**1,676**	1,687

23. CLASS I AND CLASS II SHARES

A reconciliation of the number and dollar amount of outstanding Class I and Class II Shares at December 31, 2017 is shown below.

AUTHORIZED AND ISSUED

	Class I Non-Voting		Class II Voting		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	300,000,000		50,000,000		350,000,000	
Issued and outstanding:						
December 31, 2015	101,451,223	175	13,573,005	2	115,024,228	177
Purchased and canceled	(460,000)	(1)	–	–	(460,000)	(1)
Stock options exercised	89,000	3	–	–	89,000	3
Converted: Class II to Class I	141,100	–	(141,100)	–	–	–
December 31, 2016	101,221,323	177	13,431,905	2	114,653,228	179
Purchased and canceled	**(35,000)**	–	–	–	**(35,000)**	–
Stock options exercised	**41,500**	**2**	–	–	**41,500**	**2**
Converted: Class II to Class I	**100,450**	–	**(100,450)**	–	–	–
December 31, 2017	**101,328,273**	**179**	**13,331,455**	**2**	**114,659,728**	**181**

Class I and Class II Shares have no par value.

MID-TERM INCENTIVE PLAN

The Company's MTIP trust is considered a special purpose entity which is consolidated in these financial statements. The Class I Shares, while held in trust, are accounted for as a reduction of share capital. The consolidated Class I and Class II Shares outstanding at December 31 is shown below.

	2017		2016	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	**114,659,728**	**181**	114,653,228	179
Shares held in trust for the mid-term incentive plan	**(329,504)**	**(14)**	(300,824)	(12)
Shares outstanding, net of shares held in trust	**114,330,224**	**167**	114,352,404	167

DIVIDENDS

The Company declared and paid cash dividends of $1.3100 per Class I and Class II Share during 2017 (2016 - $1.1400). The Company's policy is to pay dividends quarterly on its Class I and Class II Shares. The payment and amount of any quarterly dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 11, 2018, the Company declared a first quarter dividend of $0.3766 per Class I and Class II Share.

SHARE OWNER RIGHTS

Each Class II Share may be converted into one Class I Share at any time at the share owner's option. If an offer to purchase all Class II Shares is made, and such offer is accepted and taken up by the owners of a majority of the Class II Shares, and if, at the same time, an offer is not made to the Class I Share owners on the same terms and conditions, then the Class I Shares will be entitled to the same voting rights as the Class II Shares. The two share classes rank equally in all other respects.

NORMAL COURSE ISSUER BID

On March 8, 2017, ATCO Ltd. began a normal course issuer bid to purchase up to 3,037,065 outstanding Class I Shares. The bid expires on March 7, 2018. On March 1, 2016, ATCO Ltd. began a normal course issuer bid to purchase up to 3,043,884 outstanding Class I Non-Voting Shares. The bid expired on February 28, 2017.

During the year ended December 31, 2017, 35,000 shares were purchased for $2 million, resulting in no impact to share capital and a decrease to retained earnings of $2 million. (2016 - 460,000 shares were purchased for $18 million, resulting in a decrease to share capital and retained earnings of $1 million and $17 million, respectively).

24. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

	2017	**2016**
Depreciation, amortization and impairment	**670**	615
Gain on sale of joint operation	**–**	(18)
Earnings from investment in joint ventures, net of dividends and distributions received	**2**	(1)
Income taxes	**163**	258
Unearned availability incentives	**(8)**	(14)
Unrealized losses (gains) on mark-to-market forward commodity contracts	**123**	(7)
Contributions by customers for extensions to plant	**61**	104
Amortization of customer contributions	**(56)**	(64)
Net finance costs	**406**	380
Income taxes paid	**(80)**	(63)
Other	**70**	47
	1,351	1,237

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital are summarized below.

	2017	2016
Operating activities		
Accounts receivable	**(114)**	5
Inventories	**(11)**	25
Prepaid expenses and other current assets	**(10)**	2
Accounts payable and accrued liabilities	**133**	(9)
Provisions and other current liabilities	**36**	(68)
	34	(45)
Investing activities		
Accounts receivable	**(1)**	(1)
Inventories	**(3)**	1
Prepaid expenses	**–**	(2)
Accounts payable and accrued liabilities	**8**	(135)
	4	(137)

DEBT RECONCILIATION

The reconciliation of the changes in debt for the year ended December 31 is shown below.

	Short-term debt	Long-term debt	Non-recourse debt	Total
Liabilities from financing activities				
December 31, 2015	–	7,943	112	8,055
Net issue (repayment) of debt	55	306	(15)	346
Foreign currency translation	–	(28)	–	(28)
Debt issue costs	–	(3)	–	(3)
Amortization of deferred financing charges	–	2	1	3
December 31, 2016	55	8,220	98	8,373
Net issue (repayment) of debt	**(45)**	**333**	**1,371**	**1,659**
Foreign currency translation	**–**	**5**	**–**	**5**
Debt issue costs	**–**	**(3)**	**(54)**	**(57)**
Amortization of deferred financing charges	**–**	**2**	**1**	**3**
December 31, 2017	**10**	**8,557**	**1,416**	**9,983**

CASH POSITION

Cash position in the consolidated statement of cash flow at December 31 is comprised of:

	2017	2016
Cash	**443**	563
Short-term investments	**3**	3
Restricted cash [(1)]	**55**	40
Cash and cash equivalents	**501**	606
Bank indebtedness	**(7)**	(5)
	494	601

(1) Cash balances which are restricted under the terms of joint arrangement agreements are considered not available for general use by the Company.

25. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash and cash equivalents, accounts receivable, restricted project funds, bank indebtedness, accounts payable and accrued liabilities and short-term debt	Assumed to approximate carrying value due to their short-term nature.
Lease receivables and receivable under service concession arrangement	Determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts (Level 2).
Long-term debt and non-recourse long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves, with inputs validated by publicly available market providers. The fair values were also determined using extrapolation formulas using readily observable inputs and implied volatility (Level 2).

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The fair values of the Company's financial instruments measured at amortized cost are as follows:

Recurring Measurements	Note	December 31, 2017 Carrying Value	December 31, 2017 Fair Value	December 31, 2016 Carrying Value	December 31, 2016 Fair Value
Financial Assets					
Lease receivables	11	**410**	**568**	314	433
Receivable under service concession arrangement	16	**593**	**593**	77	77
Financial Liabilities					
Long-term debt	19	**8,557**	**9,737**	8,220	9,139
Non-recourse long-term debt	20	**1,416**	**1,562**	98	114

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31, 2017, the following derivative instruments were outstanding:

- interest rate swaps for the purpose of limiting interest rate risk on the variable future cash flows of long-term debt and non-recourse long-term debt held in a joint venture,
- foreign currency forward contracts for the purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in U.S. and Australian dollars, and
- natural gas and forward power sale and purchase contracts for the purpose of limiting exposure to electricity and natural gas market price movements.

The balance sheet classification and fair values of the Company's derivative financial instruments are as follows:

	Subject to Hedge Accounting		Not Subject to Hedge Accounting		
Recurring Measurements	**Interest Rate Swaps**	**Commodities**	**Commodities**	**Foreign Currency Forward Contracts**	**Total Fair Value of Derivatives**
December 31, 2017					
Financial Assets					
Prepaid expenses and other current assets	–	**2**	**3**	–	**5**
Other assets	–	**3**	**1**	–	**4**
Financial Liabilities					
Other current liabilities [(1)]	**4**	**14**	**32**	**4**	**54**
Other liabilities [(1)]	–	**16**	**35**	–	**51**
December 31, 2016					
Financial Assets					
Prepaid expenses and other current assets	–	6	7	–	13
Other assets	–	17	6	–	23
Financial Liabilities					
Other current liabilities	–	–	2	–	2
Other liabilities	3	7	5	–	15

(1) As at December 31, 2017, the Company paid a total of $54 million of cash collateral to third parties on commodity forward positions related to future periods. The contracts held with these third parties have an enforceable master netting arrangement, which allows the right to offset.

During the year ended December 31, 2017, losses before income taxes of $41 million million were recognized in other comprehensive income (OCI) (2016 - gains of $9 million) and $2 million was reclassified to the statement of earnings (2016 - $1 million).

No hedge ineffectiveness was recognized in the statement of earnings during 2017 (2016 - $4 million). Over the next 12 months, the Company estimates that losses before income taxes of $12 million will be reclassified from accumulated other comprehensive income (AOCI) to earnings.

Notional and maturity summary

The notional value and maturity dates of the Company's derivative instruments outstanding are as follows:

	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Notional value and maturity	**Interest Rate Swaps**	**Natural Gas [1]**	**Power [2]**	**Natural Gas [1]**	**Power [2]**	**Foreign Currency Forward Contracts**
December 31, 2017						
Purchases [3]	–	**19,237,000**	–	**85,926,700**	**7,326,745**	–
Sales [3]	–	–	**1,731,365**	**27,445,800**	**14,101,265**	–
Currency						
Canadian dollars	**3**	–	–	–	–	–
Australian dollars	**749**	–	–	–	–	–
U.S. dollars	–	–	–	–	–	**129**
Maturity	**2020**	**2018-2021**	**2018-2020**	**2018-2021**	**2018-2020**	**2018**
December 31, 2016						
Purchases [3]	–	24,892,000	–	35,985,800	3,755,080	–
Sales [3]	–	–	3,027,960	20,421,000	4,055,037	–
Currency						
Canadian dollars	4	–	–	–	–	–
Australian dollars	754	–	–	–	–	–
U.S. dollars	–	–	–	–	–	35
Maturity	2019-2020	2017-2021	2017-2020	2017-2021	2017-2020	2017

(1) *Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts.*

(2) *Notional amounts for the forward power sale and purchase contracts are the commodity volumes committed in the contracts.*

(3) *Volumes for natural gas and power derivatives are in GJ and MWh, respectively.*

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Netting arrangements and similar agreements provide counterparties the legal right to set-off liabilities against assets received. The following financial assets and financial liabilities are subject to offsetting at December 31:

	Effects of Offsetting on the Balance Sheet			Related Amounts not Offset		
	Gross Amount	Gross Amount Offset	Net Amount Recognized	Amounts Subject to Master Netting Arrangements	Financial Instrument Collateral	Net Amount
2017						
Financial Assets						
Derivative assets [1]	**8**	–	**8**	–	–	**8**
Accounts receivable	**204**	**(66)**	**138**	–	–	**138**
Financial Liabilities						
Derivative liabilities [1]	**151**	**(54)**	**97**	–	–	**97**
2016						
Financial Assets						
Derivative assets [1]	36	–	36	(1)	(19)	16
Accounts receivable	69	(19)	50	–	–	50
Financial Liabilities						
Derivative liabilities [1]	14	–	14	(1)	–	13

(1) The Company enters into derivative transactions based on master agreements in which there is a set-off provision under certain circumstances, such as default. The agreements do not meet the criteria for offsetting in the consolidated balance sheet since the Company does not presently have a legally enforceable right to set-off. This right is enforceable only if certain credit events occur in the future.

26. RISK MANAGEMENT

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments: market risk, credit risk and liquidity risk. The Company may use various derivative financial instruments to manage its exposure in these areas. All such instruments are used to manage risk and are not for trading purposes.

The Company's Board is responsible for understanding the principal risks of the Company's business, achieving a proper balance between risks incurred and the potential return to share owners, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of the Company. The Board established the Audit & Risk Committee to review significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Company's ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

The source of risk exposure and how each is managed is outlined below.

MARKET RISK

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and cash equivalents, bank indebtedness, long-term debt and non-recourse long-term debt. The interest rate risk faced by the Company is primarily due to its cash and cash equivalents and floating rate long-term debt.

Cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature. The Company is exposed to interest rate movements after these investments mature.

The Company's risk management policy is to hedge all material interest rate risk exposures related to long-term financings when the risk is incurred, unless commercial arrangements or mechanisms are in place to offset such interest rate risk. The Company has fixed interest rates, either directly or through interest rate swap agreements, on 99 per cent (2016 - 100 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 25 basis point increase or decrease in Australian interest rates would increase or decrease OCI by $1 million. This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2017.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk from financial instruments denominated in currencies other than the functional currency of an operation and on its net investments in foreign subsidiaries. The majority of this currency risk arises from exposure to the U.S. dollar and Australian dollar. The Company offsets foreign exchange volatility in part by entering into foreign currency derivative contracts and by financing with foreign-denominated debt. The Company's risk management policy is to hedge all material transactions with foreign exchange risks arising from the sale or purchase of goods and services where revenue or the costs to be incurred are denominated in a currency other than the functional currency of the transacting company.

A 10 per cent increase or decrease in foreign exchange rates would each increase or decrease OCI by the following:

	OCI
U.S. dollar	2
Australian dollar	46

The sensitivity analysis is based on management's assessment that an average 10 per cent increase or decrease in this currency relative to the Canadian dollar is a reasonable potential change over the next year. This analysis has been determined based on the exposure to foreign exchange for financial instruments outstanding at December 31, 2017.

The sensitivity analysis excludes translation risk associated with the translation of subsidiaries that have a different functional currency than the functional currency of the Company.

Energy commodity price risk

Energy commodity price risk is the risk that the fair value or future cash flows of natural gas and power sales and purchases will fluctuate due to changes in market prices. The Company's electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas.

Natural gas for contracted capacity is provided either under a long-term supply agreement or is the responsibility of the off-taker. Natural gas capacity not contracted is purchased on a daily basis at spot prices. The Company pays market prices for substitute energy when it is unable to supply energy from its contracted capacity.

The Company's policy is to hedge and optimize the available merchant capacity related to electricity production and related natural gas consumption. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Hedge accounting is applied up to an allowable amount of forecasted merchant production to a maximum of a five year term.

The Company is also exposed to seasonal summer/winter natural gas price spreads in its natural gas storage business.

A 10 per cent increase or decrease in the forward price of natural gas or power in Alberta would each increase or decrease earnings and OCI by $2 million and $7 million, respectively. This analysis assumes that changes in the forward price of natural gas affect the mark-to-market adjustment of the natural gas purchase contracts derivative asset.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty's inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and cash equivalents, accounts receivable, derivative instrument assets, receivable under service concession arrangement and lease receivables. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheet.

The Company manages its credit risk on cash and cash equivalents by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

Changes during the year in the Company's allowance for doubtful accounts was as follows:

	2017	2016
Beginning of year	4	8
Impairment of receivables	**2**	–
Receivables written off as uncollectible	**(1)**	(4)
End of year	**5**	4

The aging analysis of trade receivables that are past due but not impaired at December 31 is as follows:

	2017	2016
30 to 90 days	**35**	19
Greater than 90 days	**17**	5
	52	24

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to its terms and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

Lease receivable credit risk arises from the possibility that a counterparty to a lease arrangement fails to make lease payments according to its terms and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

Receivable under service concession arrangement credit risk arises from the possibility that the counterparty to the service concession arrangement fails to make payments according to its terms and conditions. This risk is minimized as the counterparty is the AESO, which is a large, credit-worthy counterparty.

The Company does not have a concentration of credit risk with any counterparty, except for lease receivables and long-term receivable under service concession arrangement, which by their nature are with a single counterparty.

At December 31, 2017, the Company held $217 million in letters of credit for certain counterparty receivables (2016 - $233 million). The Company did not take possession of any collateral it holds as security in 2017 and 2016. The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 33).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Cash flow from operations provides a substantial portion of the Company’s cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt,

non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

Lines of credit

The Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2017			2016
	Total	Used	Available	Total	Used	Available
Long-term committed	**2,540**	**563**	**1,977**	2,687	516	2,171
Short-term committed	**165**	**17**	**148**	78	9	69
Uncommitted	**575**	**346**	**229**	324	137	187
	3,280	**926**	**2,354**	3,089	662	2,427

Long-term committed credit facilities have maturities greater than one year. Uncommitted credit facilities have no set maturity and the lender can demand repayment at any time.

Lines of credit utilized at December 31 are comprised of:

	2017	2016
Current bank indebtedness	**7**	5
Short-term debt (*Note 17*)	**10**	55
Long-term debt (*Note 19*)	**475**	414
Letters of credit	**434**	188
	926	662

Commercial paper

The Company is authorized to issue $1.2 billion of commercial paper against its long-term committed credit facilities.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2017 of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2018	2019	2020	2021	2022	2023 and thereafter
Bank indebtedness	7	–	–	–	–	–
Accounts payable and accrued liabilities	891	–	–	–	–	–
Short-term debt	10	–	–	–	–	–
Long-term debt:						
Principal	5	1,150	220	160	325	6,740
Interest expense [1]	399	380	344	331	315	6,423
Non-recourse long-term debt:						
Principal	15	20	35	32	33	1,335
Interest expense	58	59	58	56	54	1,009
Derivatives [2]	84	52	19	3	–	–
	1,469	1,661	676	582	727	15,507

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2017. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2017.

27. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

1. Safeguard the Company's ability to continue as a going concern so it can continue to provide returns to share owners and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the utilities.

The Company considers both its regulated and non-regulated operations, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to share owners, issue or purchase Class I and Class II Shares, issue or redeem preferred shares, and issue or repay short-term debt, long-term debt and non-recourse long-term debt. Financing decisions are based on assessments by management in line with the Company's objectives, with a goal of managing the financial risk to the Company as a whole.

While the Alberta utilities have as their objective to be capitalized according to the AUC-approved capital structure, the Company as a whole is not restricted in the same manner. The Company sets its capital structure relative to risk and to meet financial and operational objectives, while factoring in the decisions of the regulator.

The Company also manages capital to comply with the customary covenants on its long-term debt. A common financial covenant for the Company's debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness, short-term debt, long-term debt and non-recourse long-term debt (including their respective current portions). It defines total capitalization as the sum of Class I and Class II Shares, contributed surplus, retained earnings, AOCI, NCI and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

Debt capitalization does not have standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. Also, the definitions of total debt and total capitalization vary slightly in the Company's debt-related agreements.

The Company's capitalization at December 31 is as follows:

	2017	**2016**
Bank indebtedness	**7**	5
Short-term debt	**10**	55
Long-term debt	**8,557**	8,220
Non-recourse long-term debt	**1,416**	98
Total debt	**9,990**	8,378
Class I and Class II Shares	**167**	167
Contributed surplus	**10**	11
Retained earnings	**3,418**	3,345
Accumulated other comprehensive (loss) income	**(2)**	23
Non-controlling interests	**3,634**	3,653
Total equity	**7,227**	7,199
Total capitalization	**17,217**	15,577
Debt capitalization	**58%**	54%

For the year ended December 31, 2017, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

28. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments, estimates and assumptions made by the Company are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Joint arrangements

Judgment is required when assessing the classification of a joint arrangement as a joint operation or a joint venture. When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements, and other facts and circumstances.

Service concession arrangements

Judgment is required when assessing whether contracts with government entities fall within the scope of IFRIC 12 *Service Concession Arrangements*. Judgment also needs to be exercised when determining the classification to be applied to the service concession asset, allocation of consideration between revenue generating activities, classification of costs incurred and the effective interest rate to be applied to the service concession asset.

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company's overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Measurement uncertainty is increased where the Company is not the operator of a facility. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

The Company makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Leases

The Company evaluates contract terms and conditions to determine whether they contain or are leases. Where a lease exists, the Company determines whether substantially all of the significant risks and rewards of ownership are transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Company, in which case it is accounted for as an operating lease.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is from the date of the last meter reading and uses historical consumption patterns. Management applies judgment to the measure and value of the estimated consumption.

Service concession arrangements

Contracts falling under IFRIC 12 require the use of estimates over the term of the arrangement, including estimates of the services performed to date as a proportion of the total services to be performed. Any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for the cash generating unit (CGU) to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 21.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

29. SUBSIDIARIES

Principal operating subsidiaries are listed below. Subsidiaries are wholly owned, unless otherwise indicated.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
ATCO Structures & Logistics [(1)]	Canada	Workforce housing, modular facilities, construction, site support services and logistics and operations management.
Canadian Utilities Limited [(2)]	Canada	Holding company
ATCO Power	Canada	Electricity generation and related infrastructure services
Alberta PowerLine [(3)]	Canada	Design, build, own, and operate transmission infrastructure
ATCO Energy Solutions	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
ATCO Gas Australia	Australia	Natural gas distribution
ATCO Power Australia	Australia	Electricity generation
ATCO Energy	Canada	Electricity and natural gas retailer
CU Inc.	Canada	Holding company
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines	Canada	Natural gas transmission and related infrastructure development

(1) On December 31, 2017, Canadian Utilities Limited transferred its 24.5 per cent ownership in ATCO Structures & Logistics to ATCO Ltd.. As a result, at December 31, 2017, ATCO Ltd. has 100.0 per cent ownership interest in ATCO Structures & Logistics.

(2) At December 31, 2017, ATCO Ltd. has an ownership interest of 52.6 per cent (2016 - 52.8 per cent).

(3) At December 31, 2017 and 2016, Canadian Utilities Limited has an ownership interest of 80.0 per cent.

30. JOINT ARRANGEMENTS

JOINT OPERATIONS

Significant joint operations, all of which are included in the Electricity segment, are listed below.

Significant Joint Operations	Operating Jurisdiction	Ownership %	Principal Activity
Sheerness Generating Plant	Canada	50.0	Electricity generation
Joffre Cogeneration Plant	Canada	40.0	Electricity generation
Cory Cogeneration Plant	Canada	50.0	Electricity generation
Muskeg River Cogeneration Plant	Canada	70.0	Electricity generation

JOINT VENTURES

The following joint ventures are considered the most significant; however, they are not individually material to the operations of the Company.

Significant Joint Ventures	Segment	Operating Jurisdiction	Ownership %	Principal Activity
Brighton Beach Plant	Electricity	Canada	50.0	Electricity generation
Osborne Cogeneration Plant	Electricity	Australia	50.0	Electricity generation
Strathcona Storage Limited Partnership	Pipelines & Liquids	Canada	60.0	Hydrocarbon storage
Sabinco Soluciones Modulares S.A.	Structures & Logistics	Chile	50.0	Modular structures

Aggregate information for the Company's interest in joint ventures is shown below.

	2017	2016
Earnings for the year	**23**	22
Other comprehensive income	**–**	1
Comprehensive income for the year	**23**	23
Dividends received	**25**	21
Aggregate carrying amount of interests in joint ventures	**245**	239

Investment in joint ventures

In 2017, the Company contributed $7 million to the Strathcona Storage Limited Partnership, which is developing salt caverns for hydrocarbon storage (2016 - $59 million).

In April 2016, the Company expanded its international modular structures business into the Chilean market by investing $25 million in Sabinco Soluciones Modulares S.A. (Sabinco) for a 50 per cent ownership interest. Sabinco operates under the name ATCO-Sabinco S.A. The Company has accounted for its 50 per cent ownership interest as a joint venture which is reported in the Structures & Logistics segment.

Commitments

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on the contractual undiscounted cash flows, was $141 million at December 31, 2017.

Restrictions

The Company requires approval from its joint venture partners before any dividends or distributions can be paid.

31. NON-CONTROLLING INTERESTS

Non-controlling interests in Canadian Utilities Limited at December 31 are as follows:

Class A non-voting shares and Class B common shares	2017 %	2016 %
Total ownership interest held	**47.4**	47.2
Proportion of voting rights held	**10.5**	10.7
Proportion of non-voting rights held	**61.2**	61.1

The summarized consolidated financial information for Canadian Utilities Limited, before inter-company eliminations, is provided below.

	2017	2016
Consolidated Statement of Comprehensive Income		
Revenues	**4,027**	3,399
Earnings for the year	**490**	629
Total comprehensive income	**428**	580
Attributable to NCI:		
Earnings for the year	**259**	335
Total comprehensive income	**229**	313
Consolidated Balance Sheet		
Current assets	**2,040**	985
Non-current assets	**18,785**	17,796
Current liabilities	**(948)**	(892)
Non-current liabilities	**(13,415)**	(11,469)
Net assets	**6,462**	6,420
Attributable to NCI	**3,634**	3,653
Consolidated Statement of Cash Flow		
Cash flows from operating activities	**1,312**	1,622
Cash flows used in investing activities	**(1,018)**	(1,456)
Cash flows used in financing activities	**(217)**	(341)
Increase (decrease) in cash position	**77**	(175)
Dividends paid to NCI		
Class A and Class B share owners	**124**	112
Equity preferred shares	**74**	75
	198	187

CANADIAN UTILITIES LIMITED DIVIDEND REINVESTMENT PLAN

Canadian Utilities Limited has a dividend reinvestment plan (DRIP) that allows eligible Class A non-voting and Class B common share owners of Canadian Utilities Limited to reinvest all or a portion of their dividends in additional Class A non-voting shares.

During 2017, non-controlling interests acquired 1,525,948 Class A non-voting shares of Canadian Utilities Limited, using re-invested dividends of $58 million (2016 - 1,484,241 shares using re-invested dividends of $52 million). The shares were priced at an average of $37.70 per share (2016 - $35.01 per share).

EQUITY PREFERRED SHARES

Equity preferred shares held by non-controlling interests at December 31 are shown below.

	2017	2016
CU Inc. Equity Preferred Shares		
Cumulative Redeemable Preferred Shares, at 2.243% to 4.60% (1)	**190**	190
Canadian Utilities Limited Equity Preferred Shares		
Cumulative Redeemable Second Preferred Shares, at 3.403% to 5.25% (2)	**1,400**	1,400
Perpetual Cumulative Second Preferred Shares, at 4.60% (3)	**110**	110
Issuance costs	**(30)**	(30)
	1,670	1,670

(1) *Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.243 per cent for the five-year period commencing June 1, 2016. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.*

(2) *Effective June 1, 2017, the annual dividend rate for the Series Y Preferred Shares was reset to 3.403 per cent for the next five years. Prior to June 1, 2017, the annual dividend rate was 4.00 per cent.*

(3) *Effective October 3, 2017, the annual dividend rate for the Series V Preferred Shares was reset to 4.60 per cent for the next five years. Prior to October 3, 2017, the annual dividend rate was 4.00 per cent.*

Rights and privileges

Preferred shares	Redemption Amount (1)	Quarterly Dividend (2)	Reset Premium (3)	Date Redeemable/ Convertible	Convertible To
Cumulative Redeemable Preferred Shares					
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.1401875	1.36%	June 1, 2021 (4)	Series 5 (5)
Cumulative Redeemable Second Preferred Shares					
Series Y	25.00	0.2126875	2.40%	June 1, 2022 (4)	Series Z (5)
Series AA	25.00	0.30625	Does not reset	September 1, 2017 (6)	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 (6)	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 (6)	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 (6)	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 (6)	Not convertible
Series FF	25.00	0.28125	3.69%	December 1, 2020 (4)	Series GG (5)
Perpetual Cumulative Second Preferred Shares					
Series V	25.00	0.2875	No premium	Currently redeemable	Not convertible

(1) *Plus accrued and unpaid dividends.*

(2) *Cumulative, payable quarterly as and when declared by the Board.*

(3) *Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.*

(4) *Redeemable by the Company or convertible by the holder on the date noted and every five years thereafter.*

(5) *If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.*

(6) *Subject to a redemption premium of 4 per cent per share. The redemption premium declines by 1 per cent in each succeeding twelve month period from the redeemable date.*

32. SHARE-BASED COMPENSATION PLANS

PLAN FEATURES

Share based forms of compensation are granted at the discretion of the Corporate Governance – Nomination, Compensation and Succession Committee. Plan features are described below.

Form of compensation	Eligibility	Vesting Period	Term	Settlement
Stock options [1]	Officers and key employees	20% per year over 5 years	10 years	Class I Non-Voting Shares [3]
Share appreciation rights [1]	Directors, officers and key employees	20% per year over 5 years	10 years	Cash
Mid-term incentive plan	Officers and key employees	2-3 years [2]	2-3 years	Class I Non-Voting Shares [4]

(1) Exercise price is equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant.

(2) Based on achieving certain performance criteria.

(3) Issued from Treasury.

(4) Purchased on the secondary market.

STOCK OPTION PLAN

Information about the options outstanding and exercisable at December 31 is summarized below.

	2017		2016	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	**10,200,000**		10,200,000	
Options available for issuance	**2,632,550**		2,732,750	
Outstanding options, beginning of year	671,350	$36.26	678,100	$34.49
Granted	**108,000**	**48.80**	86,750	39.17
Exercised	**(41,500)**	**28.98**	(89,000)	25.17
Forfeited	**(7,800)**	**46.36**	(4,500)	45.19
Outstanding options, end of year	**730,050**	**$38.42**	671,350	$36.26
Options exercisable, end of year	**462,250**	**$33.97**	422,050	$31.61

Options	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$22.94	112,000	0.2	$22.94	112,000	$22.94
$25.35 - $29.47	118,750	2.5	26.33	118,750	26.33
$35.12 - $39.75	153,150	6.4	37.23	86,350	35.91
$44.20 - $44.97	84,650	5.3	44.96	67,300	44.96
$45.14 - $48.82	181,750	8.4	47.93	32,700	46.92
$50.33 - $51.97	79,750	6.8	51.89	45,150	51.96
$22.94 - $51.97	730,050	5.2	$38.42	462,250	$33.97

Compensation expense related to stock options was less than $1 million in each of 2017 and 2016, with a corresponding increase to contributed surplus.

SHARE APPRECIATION RIGHTS

Information about the stock appreciation rights (SARs) outstanding and exercisable at December 31 is summarized below.

	2017		2016	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	739,850	$37.04	790,500	$35.19
Granted	**130,000**	**48.86**	102,750	39.47
Exercised	**(147,000)**	**25.21**	(123,900)	26.05
Forfeited	**(19,800)**	**41.54**	(29,500)	42.09
Outstanding SARs, end of year	**703,050**	**$41.57**	739,850	$37.04
SARs exercisable, end of year	**358,250**	**$37.08**	419,550	$31.66

SARs	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$22.94	12,000	0.2	$22.94	12,000	$22.94
$25.35 - $29.47	116,750	2.5	26.29	116,750	26.29
$35.12 - $39.75	161,150	6.5	37.36	84,350	35.93
$44.20 - $44.97	100,650	5.4	44.95	67,300	44.96
$45.14 - $48.82	218,750	8.3	47.90	32,700	46.92
$50.33 - $51.97	93,750	6.5	51.85	45,150	51.96
$22.94 - $51.97	703,050	6.1	$41.57	358,250	$37.08

In 2017, compensation expense related to SARs was $1 million (2016 - $3 million). The total carrying value of liabilities arising from SARs at December 31, 2017 was $4 million (2016 - $6 million). The total intrinsic value of all vested SARs at December 31, 2017 was $3 million (2016 - $6 million).

STOCK OPTION AND SARS WEIGHTED AVERAGE ASSUMPTIONS

The Company uses the Black-Scholes option pricing model to estimate the weighted average fair value of the stock options and SARs granted. The following weighted average assumptions were used:

	2017		2016	
	Options	SARs	Options	SARs
Class I share price	**$48.80**	**$48.86**	$39.17	$39.47
Risk-free interest rate	**1.22%**	**1.21%**	0.73%	0.72%
Share price volatility (1)	**16.95%**	**13.49%**	25.65%	20.87%
Estimated annual Class I share dividend	**2.68%**	**2.68%**	2.91%	2.89%
Expected holding period prior to exercise	**7.2 years**	**6.0 years**	7.1 years	6.0 years

(1) The share price volatility is based on historical data and reflects the assumption that historical volatility over a period similar to the life of the option or SAR is indicative of future trends, which may not necessarily be indicative of exercise patterns that may occur.

MID-TERM INCENTIVE PLAN

Information about the MTIPs outstanding at December 31 is summarized below.

	2017		2016	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	300,824	$46.32	306,987	$47.94
Granted	**123,050**	**49.58**	103,118	41.76
Vested	**(5,227)**	**51.03**	(7,000)	52.79
Forfeited	**(94,085)**	**50.09**	(101,380)	45.73
Change in unallocated shares [(1)]	**4,942**	**–**	(901)	–
Outstanding MTIPs, end of year	**329,504**	**$46.36**	300,824	$46.32

(1) Unallocated shares are Class I Shares held by the trustee which have not been awarded to officers or key employees.

MTIPs			Outstanding
Range of Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
$37.05 - $39.75	53,891	1.2	$38.90
$42.29 - $44.76	33,668	1.0	42.85
$45.14 - $49.60	180,824	1.4	48.51
$50.33 - $53.79	30,143	2.4	50.67
Unallocated shares	30,978	–	–
$37.05 - $53.79	329,504	1.4	$46.36

Compensation expense related to MTIP grants was a credit of $3 million for 2017 (2016 - credit of less than $1 million) with a corresponding decrease to contributed surplus.

The Company, through a trustee, purchased 35,550 shares during 2017 to be distributed to employees on vesting of the awards (2016 - nil).

33. CONTINGENCIES

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. The measurement adjustments relating to the Canadian utilities are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate. The measurement adjustments relating to ATCO Gas Australia are reconciled by the market operator and settled between the parties. Recovery of the costs is via a predetermined allowance contained in the current Access Arrangement.

The Company is party to a number of other disputes and lawsuits in the normal course of business. The Company believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy. The legal obligations of ATCO Gas and ATCO Electric for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric, with no refund of the transfer proceeds to Direct Energy.

Centrica plc., Direct Energy's parent company, provided a $300 million guarantee, supported by a $235 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

34. COMMITMENTS

In addition to commitments disclosed elsewhere in the financial statements, the Company has entered into a number of operating leases, coal purchase contracts, operating and maintenance agreements and agreements to purchase capital assets. Approximate future undiscounted payments under these agreements are as follows:

	2018	2019	2020	2021	2022	2023 and thereafter
Operating leases	22	17	15	11	6	38
Purchase obligations:						
Coal purchase contracts	64	66	68	71	27	117
Operating and maintenance agreements	303	277	132	130	129	298
Construction activities related to Fort McMurray 500 kV Transmission project (*Note 16*)	543	221	–	–	–	–
Capital expenditures	56	–	–	–	–	–
Other	12	–	–	2	–	–
	1,000	581	215	214	162	453

35. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH SUBSIDIARY

During the year ended December 31, 2017 the Company acquired 862,822 Class A non-voting shares of Canadian Utilities Limited under its DRIP, using re-invested dividends of $32 million. The shares were priced at an average of $37.62 per share. The Company did not participate in the DRIP during 2016.

OTHER

In transactions with the Company's joint ventures, the Company recognized revenues of $5 million relating to management fees and other charges (2016 - $10 million).

In transactions with the Company's group pension plans, the Company paid occupancy costs of $8 million relating to property owned by the pension plans (2016 - $8 million).

The Company received $1 million (2016 - nil) in electricity and gas sales revenue and incurred $2 million in advertising, promotion and other expenses from entities related through common control (2016 - $2 million).

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2017	**2016**
Salaries and short-term employee benefits	**12**	7
Retirement benefits	**2**	2
Share-based compensation	**1**	6
	15	15

Key management personnel comprise members of executive management and the Board, a total of 18 individuals (2016 - 17 individuals).

36. SUBSEQUENT EVENT

In December 2017, the Company announced it had entered into an agreement to acquire a 100 per cent ownership interest in Electricidad del Golfo (EGO) for aggregate consideration of approximately $114 million. EGO owns a long-term contracted, 35 megawatt hydroelectric power station based in Veracruz, Mexico.

The acquisition closed on February 20, 2018. The fair value calculation of the major classes of assets acquired and liabilities assumed will be completed in the first quarter of 2018.

37. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns.

All intra-group balances and transactions are eliminated on consolidation.

Interests in subsidiaries owned by other parties are included in NCI. NCI in subsidiaries are identified separately from equity attributable to Class I and Class II owners of the Company. Earnings and each component of OCI are attributed to the Class I and Class II owners of the Company and to NCI, even if this results in the NCI having a deficit balance. Earnings attributable to the Class I and Class II owners are determined after adjusting for dividends on equity preferred shares held by NCI.

Changes in the Company's ownership interests that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interest and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Class I and Class II owners of the Company.

JOINT ARRANGEMENTS

A joint arrangement can be classified as either a joint operation or joint venture and represents the contractually agreed sharing of control by two or more parties. A joint operation is an arrangement in which the Company has the rights and obligations to the corresponding assets and liabilities of the arrangement, whereas a joint venture is an arrangement in which the Company has the rights to the net assets of the arrangement.

Joint operations are proportionately consolidated by including the Company's share of assets, liabilities, revenues, expenses and OCI in the respective consolidated accounts.

Joint ventures are equity accounted. Under this method, the Company's interests in joint ventures are initially recognized at cost. The interests are subsequently adjusted to recognize the Company's share of post-acquisition profits or losses, movements in OCI and dividends or distributions received.

The Company's interests in joint ventures are tested for recoverability when events or circumstances indicate a possible impairment. An impairment loss is recognized in earnings when the carrying value of the Company's interest in an individual joint venture is higher than its recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. An impairment loss may be reversed if there is objective evidence that a change in the estimated recoverable amount of the investment is warranted.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred.

SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls:

- (i) the services provided by the Company; and
- (ii) a significant residual interest in the infrastructure.

Service concession arrangements are classified as either a financial asset or an intangible asset, or both. A financial asset is recognized when the Company has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable upon initial recognition. When the Company delivers more than one category of activities in a

service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable. The Company recognizes an intangible asset when it has a right to charge for usage of the public infrastructure. The intangible asset is measured at fair value upon initial recognition. Subsequent to initial recognition, both the financial and intangible asset are measured at cost less accumulated amortization and impairment losses, if any.

REVENUE RECOGNITION

Revenues from the regulated distribution of natural gas in Canada and Australia and the regulated distribution of electricity in Canada include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the commodity to customers and include an estimate of usage not yet billed. Fixed charges are based on the distribution service provided during the period.

Revenues for the use of regulated electricity transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from the regulated transmission of natural gas are recognized based on AUC-approved revenue requirement (cost of service).

Certain additions to property, plant and equipment, mainly in the utilities, are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will provide customers with on-going access to the supply of natural gas or electricity, they are classified as deferred revenues and are recognized in revenues over the life of the related asset.

Revenues from power generating plants are recognized on delivery of output or on availability of delivery as prescribed by contracts. In addition, incentives and penalties associated with the PPAs are recognized in earnings on a straight-line basis as lease income. Accumulated incentives in excess of accumulated penalties are deferred. For an individual PPA, any surplus of the accumulated and estimated future incentives over the accumulated and estimated future penalties is amortized to revenues on a straight-line basis over the remaining term of the PPA. Conversely, any shortfall is expensed in the year the shortfall occurs.

Revenues from natural gas storage and processing capacity are recognized according to contracts. Revenues from the sale of natural gas liquids are recognized on delivery.

Revenues from the supply of contracted products and services are recorded using the percentage of completion method. The percentage of completion is based either on actual labour hours incurred as a proportion of the total estimated labour hours for the contract or on contract costs incurred as a proportion of the total estimated contract costs. Full provision is made for any anticipated loss. Other revenues are recognized when products are delivered or services provided. Billings in excess of earned revenue are classified as deferred revenues on the consolidated balance sheet.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

Termination benefits are recognized as an expense in salaries, wages and benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring that includes the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

FRANCHISE FEES

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

INCOME TAXES

Income taxes are the sum of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in OCI or in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the balance sheet date in the jurisdictions in which the Company operates.

The liability method is used to determine deferred income tax on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax is calculated using the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. If expected tax rates change, deferred income taxes are adjusted to the new rates.

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. The tax effect of temporary differences from investments in subsidiaries and joint arrangements are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset where the Company has a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank, bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short-term investments with maturities generally of 90 days or less at purchase.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods. The standard cost method is used to approximate cost in the Company's Structures & Logistics manufacturing operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, contracted services and asset retirement costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repair and maintenance activities performed every two years or less which do not enhance or extend the useful life of the asset are expensed when incurred.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	28 to 65 years	49 years	2.0%
Electricity distribution equipment	10 to 103 years	40 years	2.5%
Gas transmission equipment	3 to 80 years	42 years	2.4%
Gas distribution plant and equipment	3 to 120 years	41 years	2.5%
Power generation plant and equipment:			
Gas-fired	3 to 40 years	20 years	5.1%
Coal-fired	5 to 47 years	39 years	2.6%
Hydroelectric	50 years	50 years	2.2%
Buildings	5 to 55 years	31 years	3.2%
Other:			
Rental assets	12 to 17 years	19 years	5.2%
Other plant, equipment and machinery	1 to 74 years	26 years	3.8%

Depreciation methods and the estimated residual values and useful lives of assets are reviewed on an annual basis. Any changes in these accounting estimates are recorded prospectively.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 60 and 100 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

GOODWILL

Goodwill is not amortized. The carrying value of goodwill is tested for impairment annually or more frequently if there is an indicator of impairment. Impairment is tested at the operating segment level. If the carrying value of the segment to which goodwill has been assigned exceeds its recoverable amount, then any excess of the carrying value of a segment's goodwill over its recoverable amount is expensed and is not subsequently reversed.

LEASES

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

Assets subject to operating leases are included in property, plant and equipment and are depreciated. Income from operating leases is recognized in earnings on a straight-line basis over the lease term.

When the Company has purchased goods or services as a lessee, and the lease is an operating lease, rental payments are expensed on a straight-line basis over the life of the lease.

For both finance and operating leases, contingent rents are recognized in earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

PROVISIONS

The Company recognizes provisions when:

- (i) there is a current legal or constructive obligation as a result of a past event,
- (ii) a probable outflow of economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate of the obligation can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Neither contingent liabilities nor assets are recognized in the consolidated financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

ASSET RETIREMENT OBLIGATIONS

AROs are legal and constructive obligations connected with the retirement of tangible long-lived assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for AROs are adjusted to take risks and uncertainties into account and are discounted using a pre-tax, risk-free discount rate.

Initially, an ARO is recorded in provisions, with a corresponding increase to property, plant and equipment. Subsequently, the carrying amount of the provision is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as interest expense. The asset is depreciated over its estimated useful life. Revaluations of the ARO at each reporting period take into account changes in estimated future cash flows and the discount rate.

FINANCIAL INSTRUMENTS

The Company classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured at amortized cost if the financial asset is:

(i) held for the purpose of collecting contractual cash flows, and

(ii) the contractual cash flows of the financial asset solely represent payments of principle and interest.

All other financial assets are classified as fair value through profit or loss.

Financial liabilities are classified as amortized cost or fair value through profit or loss.

Amortized cost

Financial instruments classified as amortized cost are initially measured at fair value and subsequently measured at their amortized cost using the effective interest method.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recognized in earnings.

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt, non-recourse long-term debt and equity preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet:

(i) if there is a legally enforceable right to offset the recognized amounts, and

(ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

(i) when the right to receive cash flows from the financial assets has expired or been transferred, and

(ii) the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

Fair value hierarchy

The Company uses quoted market prices when available to estimate fair value. Models incorporating observable market data, along with transaction specific factors, are also used to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Company and recognizing the disposal of an asset on the day it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, an impairment loss is recognized in earnings.

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

DERIVATIVE FINANCIAL INSTRUMENTS

Contracts settled net in cash or in another financial asset are classified as derivatives, unless they meet the Company's own use requirements.

All derivative financial instruments are measured at fair value. The gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

Where the Company elects to apply hedge accounting, the Company documents the relationship between the derivative and the hedged item at inception of the hedge, based on the Company's risk management policies. A qualitative assessment of the effectiveness of the hedging relationship is performed at each reporting period if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment may be required. Ineffectiveness, if any, is measured at the end of each reporting period.

If the risk management hedge ratio used to form the economic relationship of the hedged item and hedging instrument changes, rebalancing of the hedging relationship is required. Under this circumstance, an adjustment to the quantities of the hedged item or hedging instrument would be allowed to realign the hedging relationship in accordance with the appropriate risk management hedge ratio. The Company can only discontinue hedge accounting prospectively if there is

no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument, or the underlying hedged item is derecognized.

Cash flow hedges

The Company enters into interest rate swaps, foreign currency forward contracts and natural gas and forward power purchase and sale contracts to offset the risk of volatility in the variable cash flows arising from a recognized asset or liability, a highly probable forecast transaction or a firm commitment in a foreign currency transaction. The effective portion of changes in fair value of the derivative is recognized in OCI, whereas the ineffective portion is recognized in earnings immediately. Sources of hedge ineffectiveness can occur as a result of credit risk, change in hedge ratio, changes in the timing of payment, and forecast adjustments leading to over-hedging. The cumulative gain or loss in AOCI is transferred to earnings when the hedged item affects earnings. If a forecast transaction results in the recognition of a non-financial asset or liability, the amount in AOCI is added to the initial cost of the non-financial asset or liability.

If the Company discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings.

The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized or it is probable that a forecast transaction will not occur in the originally specified time frame.

RETIREMENT BENEFITS

The Company accrues for its obligations under defined benefit pension and OPEB plans.

Pension plan assets at the balance sheet date are reported at fair value. Accrued benefit obligations at the balance sheet date are determined using a discount rate that reflects market interest rates. The rates are equivalent to those on high quality corporate bonds that match the timing and amount of expected benefit payments.

The cost for defined benefit plans includes net interest expense. This expense is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year plus projected contributions and benefit payments during the year.

Gains and losses resulting from experience adjustments and changes in assumptions used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

Employer contributions to the defined contribution pension plans are expensed as employees render service.

For defined benefit pension plans and OPEB plans, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of defined contribution pension plans is recognized as an expense in salaries, wages and benefits. Past service costs are recognized immediately in earnings in the period of a plan amendment or curtailment. The change in the present value of the defined benefit pension plans resulting from a curtailment is accounted for as a past service cost. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

SHARE-BASED COMPENSATION PLANS

The Company expenses stock options granted by ATCO Ltd. and its subsidiary, Canadian Utilities Limited. The Company determines the fair value of the options on the date of grant. The fair value is recognized over the vesting period of the options granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of the ATCO Ltd. options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the ATCO Ltd. options are exercised, and the amount initially recorded in contributed surplus is credited to Class I and Class II Share capital. The fair value of the Canadian Utilities Limited options is recorded in salaries, wages and benefits expense and non-controlling interests.

SARs are cash-settled and are measured at fair value. The fair value is recognized over the vesting period of the SARs granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of SARs is recorded in salaries,

wages and benefits expense and accounts payable and accrued liabilities and other non-current liabilities. The liabilities are re-measured at each reporting period.

The MTIP awards are equity-settled with shares purchased on the secondary market. They are measured at fair value based on the purchase price of the Company's Class I Non-Voting Shares at the date of grant. The awards are held by a trust until the shares are vested, at which time they are transferred to the employee. The fair value of the MTIP awards is recognized in salaries, wages and benefits expense over the vesting period, with a corresponding charge to contributed surplus.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers of assets or business combinations between entities under common control are measured at the carrying amount.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities and non-monetary assets and liabilities measured at fair value denominated in a foreign currency are adjusted to reflect the exchange rate at the balance sheet date. Gains or losses on translation of these monetary and non-monetary items are recognized in earnings. Non-monetary items not measured at fair value are not retranslated after they are first recognized.

Foreign operations

The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the exchange rate at the balance sheet date. Revenues and expenses are translated at the average monthly exchange rates during the period, which approximates the foreign exchange rates on the dates of the transactions. Gains or losses on translation are included in other comprehensive income.

If the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in earnings.

The exchange rates for the major currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange Rates as at December 31		Average Exchange Rates for Year Ended December 31	
	2017	**2016**	**2017**	**2016**
U.S. dollar	**1.252**	1.3427	**1.298**	1.3256
Australian dollar	**0.9783**	0.9707	**0.9947**	0.9854

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. Standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

Standard	Description	Effective Date
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces IAS 18 *Revenue* and related interpretations. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not completed as of the effective date. The Company has applied the full retrospective transition method. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing and amount of revenue recognition for certain non-regulated contracts in the Electricity global business unit will be significantly impacted by the new revenue recognition model. Under IFRS 15, the Company will also be assessed as an agent for certain revenue streams in the Corporate & Other segment, resulting in these revenues being recorded net of related costs. The following transitional adjustments are expected to have a material effect on the Company's financial statements: • Decrease to retained earnings of approximately $76 million, non-controlling interests of approximately $68 million and deferred income tax liabilities of approximately $54 million, at January 1, 2017, with a corresponding increase of $198 million to deferred revenues. This is due to the reversal of revenues previously recognized that will be instead recognized in earnings in future years, up to and including 2043. As a result, revenues will increase by approximately $42 million ($16 million after tax and non-controlling interests) for the year ended December 31, 2017. Included in these revenues are revenues of approximately $38 million ($15 million after tax and non-controlling interests) which relate to the sale of electricity generation asset on transition to finance lease (see Note 11). • Increase to revenues of approximately $79 million during the year ended December 31, 2017, with an offsetting increase to costs and expenses and interest expense, due to recognition of non-cash consideration and a financing component on deferred revenues, respectively. • Decrease to revenues with an offsetting decrease to costs and expenses during the year ended December 31, 2017, of approximately $61 million, due to the agent classification of certain charges collected from customers on behalf of distribution and transmission service providers.	Effective for annual periods on or after January 1, 2018.

Standard	Description	Effective Date
IFRS 9 (2014) *Financial Instruments*	This final standard replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments. The Company early adopted two out of three components of this standard (*Classification and Measurement and Hedge Accounting*) on January 1, 2015. The Company adopted the final component, *Impairments*, on January 1, 2018. This component includes a new expected credit loss model for calculating impairment on financial assets and replaces the current incurred loss impairment model. The new standard will increase bad debt provisioning for all trade receivables, however the impact is not expected to be material due to current provisioning procedures, the low credit risk with current counterparties, and collateral and parental guarantee arrangements in place for the Company's significant receivables.	Effective for annual periods on or after January 1, 2018.
IFRS 16 *Leases*	This standard replaces IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance, however the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. The Company is currently assessing the impact of the new standard.	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.

2017 PERFORMANCE

CONSOLIDATED ANNUAL RESULTS (1)

(Millions of Canadian dollars, except as indicated)	**2017**	2016	2015	2014	2013
EARNINGS STATEMENT					
Revenues	**4,541**	4,045	4,131	4,554	4,359
Earnings attributable to Class I and Class II shares	**203**	340	154	420	418
Adjusted earnings (2)					
- Structures & Logistics	**6**	43	27	67	96
- Electricity	**210**	213	171	195	206
- Pipelines & Liquids	**144**	136	101	106	83
- Corporate & Other and eliminations	**(25)**	(32)	(6)	6	5
Adjusted earnings (2)	**335**	360	293	374	390
BALANCE SHEET					
Cash (3)	**494**	601	799	590	741
Total assets	**21,775**	19,724	19,055	17,689	16,010
Capitalization					
- Bank indebtedness	**7**	5	1	5	2
- Short-term debt	**10**	55	-	-	-
- Long-term debt	**8,557**	8,220	7,943	7,256	6,230
- Non-recourse long-term debt	**1,416**	98	112	127	165
- Non-controlling interests	**3,634**	3,653	3,537	3,112	3,153
- Share owners' equity	**3,593**	3,546	3,356	3,168	2,860
Capitalization	**17,217**	15,577	14,949	13,668	12,410
CASH FLOW STATEMENT					
Funds generated by operations (4)	**1,813**	1,912	1,589	1,786	1,854
Capital expenditures (5)					
- Structures & Logistics	**33**	70	61	91	116
- Electricity	**454**	572	935	1,622	1,810
- Pipelines & Liquids	**777**	734	824	620	521
- Corporate & Other and eliminations	**84**	75	48	40	71
Capital expenditures	**1,348**	1,451	1,868	2,373	2,518
PER SHARE DATA					
Earnings per share ($)	**1.78**	2.97	1.34	3.66	3.64
Adjusted earnings per share ($)	**2.93**	3.15	2.55	3.26	3.40
Dividends paid per share ($)	**1.31**	1.14	0.99	0.86	0.75
Equity per share ($)	**31.34**	30.93	29.18	27.51	24.84
Class I Non-Voting closing share price ($)	**45.00**	44.66	35.70	47.66	46.66
Class II Voting closing share price ($)	**44.90**	44.78	35.50	47.75	46.35

Full disclosure of all financial information is available on the SEDAR website - www.sedar.com.

(1) Financial results have been prepared in accordance with International Financial Reporting Standards (IFRS).

(2) Adjusted earnings are earnings attributable to Class I & Class II shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal course of business or a result of day-to-day operations. Descriptions of the adjustments are provided in the Segmented Information note of the Financial Statements.

(3) Cash is defined as cash and cash equivalents less current bank indebtedness.

(4) Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. This measure is not defined by IFRS and GAAP and may not be comparable to similar measures used by other companies.

(5) Includes purchases of property, plant and equipment and intangibles, including capitalized interest.

2017 PERFORMANCE

CONSOLIDATED OPERATING SUMMARY

(Millions of Canadian dollars, except as indicated)	**2017**	2016	2015	2014	2013
Structures & Logistics					
Capital expenditures [1]	**33**	70	61	91	116
Workforce housing lease fleet (units in thousands)	**4**	5	3	3	3
Workforce housing lease fleet utilization (%)	**37**	38	51	77	83
Space rental lease fleet (units in thousands)	**13**	14	13	13	13
Space rental lease fleet utilization (%)	**70**	64	68	75	77
Electricity					
Electricity distribution and transmission operations					
Capital expenditures [1]	**438**	470	850	1,602	1,763
Power lines (thousands of kilometres)	**87**	88	87	86	86
Electricity distributed (millions of kilowatt hours)	**11,961**	11,659	11,832	11,600	11,283
Average annual use per residential customer (kWh)	**7,325**	7,198	7,476	7,815	7,743
Customers at year-end (thousands)	**256**	256	256	252	248
Electricity generation operations					
Capital expenditures [1]	**24**	102	85	20	47
Generating capacity (megawatts)	**3,887**	3,870	3,857	3,890	4,890
Generating capacity owned (megawatts)	**2,482**	2,473	2,462	2,479	2,734
Availability (%)	**94**	93	93	95	94
Pipelines & Liquids					
Natural gas distribution operations					
Capital expenditures [1]	**464**	426	411	371	353
Pipelines (thousands of kilometres)	**55**	55	54	54	54
Maximum daily demand (terajoules)	**2,381**	2,097	2,216	2,269	2,182
Natural gas distributed (petajoules)	**287**	263	264	289	275
Average annual use per residential customer (gigajoules) for ATCO Gas	**116**	116	117	117	117
Average annual use per residential customer (gigajoules) for ATCO Gas Australia	**14**	15	14	14	15
Customers at year-end (thousands)	**1,952**	1,924	1,893	1,846	1,802
Natural gas transmission operations					
Capital expenditures [1]	**303**	282	363	194	147
Pipelines (thousands of kilometres)	**9**	9	9	9	9
Energy storage & industrial water operations					
Capital expenditures [1]	**10**	26	50	55	21
Seasonal natural gas storage capacity (petajoules)	**52**	52	52	46	44
Salt cavern storage capacity (thousands of m^3) [2]	**200**	200	-	-	-
Industrial water infrastructure intake capacity (thousands of m^3/day)	**85**	85	60	-	-

(1) Includes purchases of property, plant and equipment and intangibles, including capitalized interest.

(2) ATCO Energy Solutions, together with a partner, is developing four salt caverns with capacity to store approximately 400,000 cubic metres of hydrocarbons. The first two caverns are in service with earnings starting in the 4th quarter of 2016. The two remaining caverns are expected to be completed in the 1st quarter of 2018.

GENERAL INFORMATION

INCORPORATION

ATCO Ltd. was incorporated under the laws of the province of Alberta on August 31, 1962.

ANNUAL MEETING

The Annual Meeting of Share Owners will be held at 10:00 a.m. on Tuesday, May 15, 2018, at The Fairmont Palliser Hotel, 133 - 9 Avenue S.W., Calgary, AB.

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LEGAL COUNSEL

Bennett Jones LLP
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Class I Non-Voting Shares
Symbol ACO.X

Class II Voting Shares
Symbol ACO.Y

Listing: The Toronto Stock Exchange

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In recognition of its beautiful Alberta heritage, ATCO has featured scenes of Alberta in annual reports since 1990.

COVER: Three large bull elk in the Rocky Mountains in Alberta's Banff National Park.

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