



CANADIAN UTILITIES LIMITED

An **ATCO** Company

# CANADIAN UTILITIES LIMITED CONSOLIDATED FINANCIAL STATEMENTS

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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.

[Original signed by N.C. Southern]

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Chair & Chief Executive Officer

[Original signed by D. A. DeChamplain]

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Senior Vice President & Chief Financial Officer



February 21, 2018

## **Independent Auditor's Report**

### **To the Share Owners of Canadian Utilities Limited**

We have audited the accompanying consolidated financial statements of Canadian Utilities Limited 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 Canadian Utilities Limited 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

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

# CONSOLIDATED STATEMENT OF EARNINGS

		Year Ended December 31	
<i>(millions of Canadian Dollars except per share data)</i>	Note	2017	2016
<b>Revenues</b>	4	<b>4,027</b>	3,399
<b>Costs and expenses</b>			
Salaries, wages and benefits		(353)	(388)
Energy transmission and transportation		(269)	(216)
Plant and equipment maintenance		(212)	(243)
Fuel costs		(149)	(130)
Purchased power		(100)	(81)
Service concession arrangement costs	15	(456)	(69)
Depreciation and amortization	13,14	(598)	(573)
Franchise fees		(229)	(205)
Property and other taxes		(122)	(99)
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	(286)	(202)
		<b>(3,012)</b>	<b>(2,199)</b>
<b>Gain on sales of operations</b>	6	<b>30</b>	18
<b>(Loss) earnings from investment in ATCO Structures &amp; Logistics</b>	30	<b>(4)</b>	12
<b>Earnings from investment in joint ventures</b>	31	<b>20</b>	17
<b>Operating profit</b>		<b>1,061</b>	1,247
Interest income		22	13
Interest expense	7	(431)	(395)
<b>Net finance costs</b>		<b>(409)</b>	<b>(382)</b>
<b>Earnings before income taxes</b>		<b>652</b>	865
<b>Income taxes</b>	8	<b>(162)</b>	(236)
<b>Earnings for the year</b>		<b>490</b>	629
<b>Earnings attributable to:</b>			
Class A and Class B shares		483	620
Non-controlling interests		7	9
		<b>490</b>	629
<b>Earnings per Class A and Class B share</b>	9	<b>\$1.54</b>	\$2.07
<b>Diluted earnings per Class A and Class B share</b>	9	<b>\$1.54</b>	\$2.06

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	<b>Note</b>	<b>Year Ended December 31</b>	
		<b>2017</b>	<b>2016</b>
<b>Earnings for the year</b>		<b>490</b>	629
<b>Other comprehensive loss, net of income taxes</b>			
<i>Items that will not be reclassified to earnings:</i>			
Re-measurement of retirement benefits <sup>(1)</sup>	20	<b>(22)</b>	(16)
<i>Items that are or may be reclassified subsequently to earnings:</i>			
Cash flow hedges <sup>(2)</sup>		<b>(30)</b>	6
Cash flow hedges reclassified to earnings <sup>(3)</sup>		<b>(2)</b>	1
Foreign currency translation adjustment <sup>(3)</sup>		<b>1</b>	(38)
Share of other comprehensive loss of ATCO Structures & Logistics <sup>(3)</sup>	30	<b>(9)</b>	(3)
Share of other comprehensive income of joint ventures <sup>(3)</sup>	31	<b>-</b>	1
		<b>(40)</b>	(33)
<b>Other comprehensive loss</b>		<b>(62)</b>	(49)
<b>Comprehensive income for the year</b>		<b>428</b>	580
<b>Comprehensive income attributable to:</b>			
Class A and Class B shares		<b>421</b>	571
Non-controlling interests		<b>7</b>	9
		<b>428</b>	580

(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

		December 31	
<i>(millions of Canadian Dollars)</i>	Note	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	24	425	345
Accounts receivable		619	518
Finance lease receivables	11	15	12
Inventories	12	40	38
Income taxes receivable	8	35	35
Restricted project funds	10	861	–
Prepaid expenses and other current assets		45	37
		<b>2,040</b>	<b>985</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	16,786	16,363
Intangibles	14	563	526
Investment in ATCO Structures & Logistics	30	–	199
Investment in joint ventures	31	196	189
Finance lease receivables	11	395	302
Deferred income tax assets	8	62	55
Receivable under service concession arrangement	15	593	77
Restricted project funds	10	104	–
Other assets		86	85
<b>Total assets</b>		<b>20,825</b>	<b>18,781</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness	24	7	5
Accounts payable and accrued liabilities		824	605
Asset retirement obligations and other provisions	17	33	40
Other current liabilities		64	18
Short-term debt	16	–	55
Long-term debt	18	5	155
Non-recourse long-term debt	19	15	14
		<b>948</b>	<b>892</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	8	1,248	1,163
Asset retirement obligations and other provisions	17	128	132
Retirement benefit obligations	20	340	302
Deferred revenues	21	1,676	1,689
Other liabilities		128	34
Long-term debt	18	8,494	8,065
Non-recourse long-term debt	19	1,401	84
<b>Total liabilities</b>		<b>14,363</b>	<b>12,361</b>
<b>EQUITY</b>			
Equity preferred shares	22	1,483	1,483
<b>Class A and Class B share owners' equity</b>			
Class A and Class B shares	23	1,162	1,070
Contributed surplus		12	15
Retained earnings		3,663	3,655
Accumulated other comprehensive income		(45)	(5)
		<b>4,792</b>	<b>4,735</b>
<b>Non-controlling interests</b>	32	<b>187</b>	<b>202</b>
<b>Total equity</b>		<b>6,462</b>	<b>6,420</b>
<b>Total liabilities and equity</b>		<b>20,825</b>	<b>18,781</b>

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]

DIRECTOR

[Original signed by J.W. Simpson]

DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to Equity Owners of the Company						Non-Controlling Interests	Total Equity
		Class A and Class B Shares	Equity Preferred Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total		
<i>(millions of Canadian Dollars)</i>									
December 31, 2015		1,013	1,483	15	3,467	28	6,006	187	6,193
Earnings for the year		-	-	-	620	-	620	9	629
Other comprehensive loss		-	-	-	-	(49)	(49)	-	(49)
Losses on retirement benefits transferred to retained earnings	20	-	-	-	(16)	16	-	-	-
Shares issued	23	52	-	-	-	-	52	11	63
Dividends	22,23	-	-	-	(416)	-	(416)	(7)	(423)
Share-based compensation	33	5	-	-	-	-	5	-	5
Other		-	-	-	-	-	-	2	2
December 31, 2016		1,070	1,483	15	3,655	(5)	6,218	202	6,420
Earnings for the year		-	-	-	<b>483</b>	-	<b>483</b>	<b>7</b>	<b>490</b>
Other comprehensive loss		-	-	-	-	<b>(62)</b>	<b>(62)</b>	-	<b>(62)</b>
Losses on retirement benefits transferred to retained earnings	20	-	-	-	<b>(22)</b>	<b>22</b>	-	-	-
Shares issued	23	<b>90</b>	-	-	-	-	<b>90</b>	-	<b>90</b>
Dividends	22,23	-	-	-	<b>(453)</b>	-	<b>(453)</b>	<b>(7)</b>	<b>(460)</b>
Share-based compensation	33	<b>2</b>	-	<b>(3)</b>	-	-	<b>(1)</b>	-	<b>(1)</b>
Other		-	-	-	-	-	-	<b>(15)</b>	<b>(15)</b>
December 31, 2017		<b>1,162</b>	<b>1,483</b>	<b>12</b>	<b>3,663</b>	<b>(45)</b>	<b>6,275</b>	<b>187</b>	<b>6,462</b>

See accompanying Notes to Consolidated Financial Statements.



# CONSOLIDATED STATEMENT OF CASH FLOW

		Year Ended December 31	
<i>(millions of Canadian Dollars)</i>	Note	2017	2016
<b>Operating activities</b>			
Earnings for the year		490	629
Adjustments to reconcile earnings to cash flows from operating activities	24	1,271	1,174
Changes in non-cash working capital	24	67	(104)
Change in receivable under service concession arrangement	15	(516)	(77)
<b>Cash flows from operating activities</b>		<b>1,312</b>	<b>1,622</b>
<b>Investing activities</b>			
Additions to property, plant and equipment		(1,127)	(1,204)
Proceeds on disposal of property, plant and equipment		18	15
Additions to intangibles		(90)	(89)
Proceeds on sales of operations	6	47	21
Proceeds on sale of investment in ATCO Structures & Logistics	30	140	–
Investment in joint ventures		(12)	(64)
Changes in non-cash working capital	24	4	(137)
Other		2	2
<b>Cash flows used in investing activities</b>		<b>(1,018)</b>	<b>(1,456)</b>
<b>Financing activities</b>			
Net issue of short-term debt	16	(55)	55
Issue of long-term debt	18	430	375
Release of restricted project funds	10, 19	374	–
Repayment of long-term debt		(155)	(5)
Repayment of non-recourse long-term debt		(14)	(15)
Issue of Class A shares		4	4
Issue of shares by subsidiary company to non-controlling interests		–	11
Dividends paid on equity preferred shares	22	(67)	(68)
Dividends paid to non-controlling interests	32	(7)	(7)
Dividends paid to Class A and Class B share owners	23	(296)	(296)
Interest paid		(413)	(394)
Debt issue costs		(11)	(3)
Other		(7)	2
<b>Cash flows used in financing activities</b>		<b>(217)</b>	<b>(341)</b>
<b>Increase (decrease) in cash position <sup>(1)</sup></b>		<b>77</b>	<b>(175)</b>
Foreign currency translation		1	(4)
Beginning of year		340	519
<b>End of year</b>	24	<b>418</b>	<b>340</b>

(1) Cash position includes \$43 million which is not available for general use by the Company (2016 - \$24 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**

Canadian Utilities Limited was incorporated under the laws of Canada and is listed on the Toronto Stock Exchange. Its head office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4 and its registered office is 20th Floor, 10035 - 105 Street, Edmonton, Alberta T5J 2V6. The Company is controlled by ATCO Ltd. and its controlling share owner, the Southern family.

Canadian Utilities Limited is engaged in the following business activities:

- 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 Canadian Utilities Limited and its subsidiaries (see Note 29), and the accounts of a proportionate share of the Company's investment in joint operations and joint ventures (see Note 31). The statements also include the Company's equity-accounted investments in ATCO Structures & Logistics (24.5 per cent) up to December 31, 2017, when it was sold to ATCO Ltd. (see Note 30). In these financial statements, "the Company" means Canadian Utilities Limited, 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 38.

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 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

<b>Electricity</b>	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 development in Western Canada, Ontario, the Yukon, the Northwest Territories, Australia and Mexico.
<b>Pipelines &amp; Liquids</b>	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.
<b>Corporate &amp; Other</b>	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 is shown below.

2017					
2016	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	<b>2,290</b>	<b>1,567</b>	<b>170</b>	–	<b>4,027</b>
	1,852	1,474	73	–	3,399
Revenues - intersegment	<b>51</b>	<b>63</b>	<b>38</b>	<b>(152)</b>	–
	25	22	36	(83)	–
Revenues	<b>2,341</b>	<b>1,630</b>	<b>208</b>	<b>(152)</b>	<b>4,027</b>
	1,877	1,496	109	(83)	3,399
Operating expenses <sup>(1)</sup>	<b>(1,461)</b>	<b>(871)</b>	<b>(236)</b>	<b>154</b>	<b>(2,414)</b>
	(735)	(829)	(145)	83	(1,626)
Depreciation and amortization	<b>(373)</b>	<b>(226)</b>	<b>(8)</b>	<b>9</b>	<b>(598)</b>
	(357)	(220)	(9)	13	(573)
Gain on sales of operations	–	–	<b>30</b>	–	<b>30</b>
	–	18	–	–	18
Loss (earnings) from investment in ATCO Structures & Logistics	–	–	<b>(4)</b>	–	<b>(4)</b>
	–	–	12	–	12
Earnings from investment in joint ventures	<b>17</b>	<b>3</b>	–	–	<b>20</b>
	17	–	–	–	17
Net finance costs	<b>(270)</b>	<b>(146)</b>	<b>9</b>	<b>(2)</b>	<b>(409)</b>
	(249)	(142)	10	(1)	(382)
Earnings before income taxes	<b>254</b>	<b>390</b>	<b>(1)</b>	<b>9</b>	<b>652</b>
	553	323	(23)	12	865
Income taxes	<b>(71)</b>	<b>(107)</b>	<b>18</b>	<b>(2)</b>	<b>(162)</b>
	(151)	(100)	18	(3)	(236)
Earnings for the period	<b>183</b>	<b>283</b>	<b>17</b>	<b>7</b>	<b>490</b>
	402	223	(5)	9	629
Adjusted earnings	<b>397</b>	<b>273</b>	<b>(69)</b>	<b>1</b>	<b>602</b>
	402	255	(69)	2	590
Total assets	<b>12,993</b>	<b>7,489</b>	<b>449</b>	<b>(106)</b>	<b>20,825</b>
	11,506	6,919	512	(156)	18,781
Capital expenditures <sup>(2)</sup>	<b>454</b>	<b>777</b>	<b>3</b>	–	<b>1,234</b>
	572	734	5	–	1,311

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

(2) Includes additions to property, plant and equipment and intangibles and \$17 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	3,823	3,173
Australia	203	221
Other	1	5
Total	4,027	3,399

### Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets <sup>(1)</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Canada	15,451	15,069	543	511	235	409	16,228	15,989
Australia	1,173	1,121	20	15	32	35	1,226	1,171
Other	162	173	-	-	11	6	173	179
Total	16,786	16,363	563	526	278	450	17,627	17,339

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

## ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class A and B shares after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares of Canadian Utilities Limited,
- 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.

<b>2017</b>					
<b>2016</b>	<b>Electricity</b>	<b>Pipelines &amp; Liquids</b>	<b>Corporate &amp; Other</b>	<b>Intersegment Eliminations</b>	<b>Consolidated</b>
Adjusted earnings	<b>397</b>	<b>273</b>	<b>(69)</b>	<b>1</b>	<b>602</b>
	402	255	(69)	2	590
Gain on sales of operations ( <i>Note 6</i> )	–	–	<b>30</b>	–	<b>30</b>
	–	13	–	–	13
Unrealized losses on mark-to-market forward commodity contracts	<b>(90)</b>	–	–	–	<b>(90)</b>
	–	–	–	–	–
Impairment	–	–	<b>(7)</b>	–	<b>(7)</b>
	–	–	–	–	–
Rate-regulated activities	<b>(131)</b>	<b>6</b>	–	<b>6</b>	<b>(119)</b>
	(8)	(41)	–	7	(42)
Dividends on equity preferred shares of Canadian Utilities Limited	<b>3</b>	<b>1</b>	<b>63</b>	–	<b>67</b>
	3	1	64	–	68
Other	–	–	–	–	–
	–	(9)	–	–	(9)
Earnings attributable to Class A and Class B shares	<b>179</b>	<b>280</b>	<b>17</b>	<b>7</b>	<b>483</b>
	397	219	(5)	9	620
Earnings attributable to non-controlling interests					<b>7</b>
					9
Earnings for the period					<b>490</b>
					629

### ***Gain on sales of operations***

The Company adjusted for the following one-time gains, after-tax:

	<b>Note</b>	<b>Segment</b>	<b>2017</b>	<b>2016</b>
Real estate	6	Corporate & Other	<b>30</b>	–
Natural gas gathering and processing assets	6	Pipelines & Liquids	–	13
			<b>30</b>	13

### ***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 2017, the Company adjusted for its share of the impairment included in equity earnings from investment in ATCO Structures & Logistics, which amounted to \$7 million, after-tax (see Note 30).

### **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:

<b>Timing Adjustment</b>	<b>Items</b>	<b>RRA Treatment</b>	<b>IFRS Treatment</b>
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
<i>Additional revenues billed in current period</i>		
Future removal and site restoration costs <sup>(1)</sup>	<b>61</b>	60
<i>Revenues to be billed in future periods</i>		
Deferred income taxes <sup>(2)</sup>	<b>(102)</b>	(90)
Impact of warmer temperatures <sup>(3)</sup>	<b>(4)</b>	(28)
Impact of inflation on rate base <sup>(4)</sup>	<b>(15)</b>	(10)
<i>Regulatory decisions received</i>	<b>17</b>	13
<i>Settlement of regulatory decisions and other items <sup>(5)</sup></i>	<b>(76)</b>	13
	<b>(119)</b>	(42)

- (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 \$33 million in relation to settlement of final 2015-2017 General Tariff Application rate and \$27 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	(7)	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	(10)	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	(19)	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	5	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 - \$9 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	369	279
Rendering of services	2,788	2,806
Operating lease income	205	204
Service concession arrangement income	516	77
Sale of electricity generation asset on transition to finance lease (Note 11)	116	–
Finance lease income	33	33
	4,027	3,399

## 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. SALES OF OPERATIONS

### SALE OF ATCO REAL ESTATE HOLDINGS LTD.

On January 1, 2017, the Company sold its 100 per cent investment in ATCO Real Estate Holdings Ltd. (AREHL) to ATCO Ltd. for cash proceeds of \$47 million, resulting in a gain of \$30 million. The transaction occurred on a tax-deferred basis. The proceeds represent the fair value of AREHL, which was supported by independent appraisals. Commencing January 1, 2017, 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 Corporate & Other segment.

### SALE OF NATURAL GAS GATHERING AND PROCESSING ASSETS

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 (\$13 million after-tax). 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	384
Non-recourse long-term debt	21	8
Retirement benefits net interest expense	5	5
Amortization of deferred financing charges	3	3
Accretion of asset retirement obligations	2	4
Short-term debt	11	4
Other	10	5
	<b>448</b>	413
Less: interest capitalized (Note 13)	(17)	(18)
	<b>431</b>	395

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
<b>Current income tax expense</b>		
Canada	63	55
Australia	2	9
Adjustment in respect of prior years	-	(6)
	<b>65</b>	58
<b>Deferred income tax expense</b>		
Reversal of temporary differences	97	173
Adjustment in respect of prior years	-	5
	<b>97</b>	178
	<b>162</b>	236

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

	2017		2016	
Earnings before income taxes	652	%	865	%
Income taxes, at statutory rates	176	27.0	234	27.0
International financing	(8)	(1.2)	(9)	(1.0)
Foreign exchange on deferred tax asset	-	-	9	1.0
Equity earnings	(2)	(0.3)	(6)	(0.7)
Unrecognized deferred income tax assets	5	0.8	5	0.6
Non-taxable (gains) losses	(11)	(1.7)	2	0.2
Tax cost of preferred share financings	2	0.3	2	0.2
Other	-	-	(1)	(0.1)
	<b>162</b>	<b>24.9</b>	236	27.2

## 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
<b>Income tax assets</b>			
Current	Income taxes receivable	35	35
Deferred	Deferred income tax assets	62	55
		<b>97</b>	90
<b>Income tax liabilities</b>			
Current	Other current liabilities	17	15
Deferred	Deferred income tax liabilities	1,248	1,163
		<b>1,265</b>	1,178

## 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	24	–	33	2	1	3	63
Credit (charge) to earnings	(1)	(3)	(10)	7	–	1	(6)
Charge to other comprehensive income	–	–	–	–	(1)	–	(1)
Other	(1)	–	–	1	–	(1)	(1)
December 31, 2016	22	(3)	23	10	–	3	55
Credit (charge) to earnings	6	–	(2)	4	–	–	8
Other	–	1	(1)	–	–	(1)	(1)
December 31, 2017	28	(2)	20	14	–	2	62

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	1,088	99	(37)	(91)	(106)	30	983
Charge (credit) to earnings	119	14	34	15	(1)	(9)	172
Charge (credit) to other comprehensive income	–	–	3	–	(4)	–	(1)
Consolidation of Barking <sup>(1)</sup>	11	–	–	–	–	–	11
Other	–	–	–	–	1	(3)	(2)
December 31, 2016	1,218	113	–	(76)	(110)	18	1,163
Charge (credit) to earnings	144	(15)	(27)	(2)	(8)	13	105
Charge (credit) to other comprehensive income	–	–	(11)	–	(8)	–	(19)
Other	(1)	–	(1)	–	–	1	(1)
December 31, 2017	1,361	98	(39)	(78)	(126)	32	1,248

(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 \$18 million of its deferred income tax liabilities to reverse within the next twelve months.

At the end of 2017, the Company had \$379 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 \$92 million for losses and credits that expire. No deferred income tax assets were recorded for losses that do not expire.

## 9. EARNINGS PER SHARE

Earnings per Class A non-voting (Class A) and Class B common (Class B) share are calculated by dividing the earnings attributable to Class A and Class B 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 A and Class B shares outstanding.

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

	Year Ended December 31	
	2017	2016
<b>Average shares</b>		
Weighted average shares outstanding	269,437,739	267,172,850
Effect of dilutive stock options	85,271	119,861
Effect of dilutive MTIP	531,805	483,857
Weighted average dilutive shares outstanding	270,054,815	267,776,568
<b>Earnings for earnings per share calculation</b>		
Earnings for the period	490	629
Dividends on equity preferred shares of the Company	(67)	(68)
Non-controlling interests	(7)	(9)
	416	552
<b>Earnings and diluted earnings per Class A and Class B share</b>		
Earnings per Class A and Class B share	\$1.54	\$2.07
Diluted earnings per Class A and Class B share	\$1.54	\$2.06

## 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 19). The restricted project funds are released as the project progresses (see Note 15), subject to satisfaction of certain performance conditions under the financing agreement.

Restricted project funds are comprised of:

	Year Ended December 31, 2017
<b>Current assets</b>	
Restricted cash	351
Restricted funds invested in structured deposit note <sup>(1)</sup>	510
	861
<b>Non-current assets</b>	
Restricted cash	69
Restricted funds for construction holdbacks <sup>(2)</sup>	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.

#### *Finance leases*

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

	2017	2016
<b>Net investment in finance leases</b>		
Finance lease - gross investment	737	622
Unearned finance income	(329)	(310)
Unguaranteed residual value	2	2
	<b>410</b>	314
Current portion	15	12
Non-current portion	395	302
	<b>410</b>	314
<b>Gross receivables from finance leases</b>		
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
	<b>737</b>	622
<b>Net investment in finance leases</b>		
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
	<b>410</b>	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 an after tax gain of less than \$1 million.

### ***Operating leases***

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

	2017	2016
<b>Minimum lease payments receivable</b>		
In one year or less	<b>158</b>	151
In more than one year, but not more than five years	<b>320</b>	633
In more than five years	<b>2</b>	1
	<b>480</b>	785

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, \$28 million was recognized as an expense for these operating leases (2016 - \$28 million).

## **12. INVENTORIES**

Inventories at December 31 are comprised of:

	2017	2016
Natural gas and fuel in storage	<b>15</b>	17
Raw materials and consumables	<b>20</b>	20
Work-in-progress	<b>5</b>	1
	<b>40</b>	38

For the year ended December 31, 2017, inventories recognized as an expense were \$80 million (2016 - \$73 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
<b>Cost</b>						
December 31, 2015	16,601	2,034	655	747	1,034	21,071
Additions	422	26	118	793	–	1,359
Transfers	701	10	24	(809)	74	–
Retirements and disposals	(153)	(15)	(5)	(45)	(109)	(327)
Changes to asset retirement costs	–	(3)	–	–	(5)	(8)
Foreign exchange rate adjustment	(46)	(1)	(14)	(4)	(2)	(67)
December 31, 2016	17,525	2,051	778	682	992	22,028
Additions	<b>385</b>	<b>10</b>	<b>5</b>	<b>749</b>	<b>7</b>	<b>1,156</b>
Transfers	<b>678</b>	<b>1</b>	<b>40</b>	<b>(760)</b>	<b>41</b>	<b>–</b>
Retirements and disposals	<b>(127)</b>	<b>(5)</b>	<b>(39)</b>	<b>(53)</b>	<b>(37)</b>	<b>(261)</b>
Transfer to finance lease ( <i>Note 11</i> )	–	<b>(187)</b>	–	–	–	<b>(187)</b>
Changes to asset retirement costs	<b>(5)</b>	<b>(1)</b>	–	–	–	<b>(6)</b>
Foreign exchange rate adjustment	<b>9</b>	–	<b>2</b>	<b>(9)</b>	<b>1</b>	<b>3</b>
December 31, 2017	<b>18,465</b>	<b>1,869</b>	<b>786</b>	<b>609</b>	<b>1,004</b>	<b>22,733</b>
<b>Accumulated depreciation and impairment</b>						
December 31, 2015	3,427	1,261	137	85	428	5,338
Depreciation	408	65	16	–	45	534
Retirements and disposals	(101)	(14)	(5)	–	(78)	(198)
Foreign exchange adjustment	(5)	–	–	(3)	(1)	(9)
December 31, 2016	3,729	1,312	148	82	394	5,665
Depreciation	<b>413</b>	<b>68</b>	<b>20</b>	–	<b>42</b>	<b>543</b>
Retirements and disposals	<b>(127)</b>	<b>(3)</b>	<b>(21)</b>	–	<b>(34)</b>	<b>(185)</b>
Transfer to finance lease ( <i>Note 11</i> )	–	<b>(72)</b>	–	–	–	<b>(72)</b>
Foreign exchange rate adjustment	<b>1</b>	–	–	<b>(5)</b>	–	<b>(4)</b>
December 31, 2017	<b>4,016</b>	<b>1,305</b>	<b>147</b>	<b>77</b>	<b>402</b>	<b>5,947</b>
<b>Net book value</b>						
December 31, 2016	13,796	739	630	600	598	16,363
December 31, 2017	<b>14,449</b>	<b>564</b>	<b>639</b>	<b>532</b>	<b>602</b>	<b>16,786</b>

The additions to property, plant and equipment included \$17 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 \$198 million were pledged as security for liabilities at December 31, 2017 (2016 - \$336 million).



## 14. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
<b>Cost</b>				
December 31, 2015	493	302	33	828
Additions	72	24	–	96
Retirements	–	(2)	(6)	(8)
December 31, 2016	565	324	27	916
Additions	<b>67</b>	<b>23</b>	–	<b>90</b>
Disposals	<b>(21)</b>	<b>(1)</b>	–	<b>(22)</b>
December 31, 2017	<b>611</b>	<b>346</b>	<b>27</b>	<b>984</b>
<b>Accumulated amortization</b>				
December 31, 2015	298	35	11	344
Amortization	47	4	1	52
Retirements	–	–	(6)	(6)
December 31, 2016	345	39	6	390
Amortization	<b>47</b>	<b>5</b>	<b>1</b>	<b>53</b>
Retirements	<b>(21)</b>	<b>(1)</b>	–	<b>(22)</b>
December 31, 2017	<b>371</b>	<b>43</b>	<b>7</b>	<b>421</b>
<b>Net book value</b>				
December 31, 2016	220	285	21	526
December 31, 2017	<b>240</b>	<b>303</b>	<b>20</b>	<b>563</b>

## 15. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

In December 2014, Alberta PowerLine (APL), a partnership between 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 (Project).

The 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 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 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 Project are expected to be \$3.7 billion.

In October 2017, APL issued non-recourse long-term debt to fund the Project activities (see Note 19).

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).

## 16. SHORT-TERM DEBT

At December 31, 2017, the Company had no commercial paper outstanding (December 31, 2016 - \$55 million at an interest rate of 0.89 per cent, maturing in January 2017). The commercial paper was supported by the Company's long-term committed credit facilities (Note 26).

## 17. 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.

The changes in AROs and other provisions are as follows:

	Asset Retirement Obligations	Other	Total
December 31, 2015	158	29	187
Additions	21	4	25
Utilized in the year	(1)	(19)	(20)
Reversals of unused amounts	(11)	(2)	(13)
Accretion expense	4	–	4
Revisions in discount rate	(9)	–	(9)
Foreign exchange rate adjustment	(2)	–	(2)
December 31, 2016	160	12	172
Additions	<b>1</b>	<b>5</b>	<b>6</b>
Utilized in the year	<b>(5)</b>	<b>(8)</b>	<b>(13)</b>
Accretion expense	<b>2</b>	–	<b>2</b>
Revisions in discount rate	<b>(6)</b>	–	<b>(6)</b>
December 31, 2017	<b>152</b>	<b>9</b>	<b>161</b>
Less: current portion	<b>26</b>	<b>7</b>	<b>33</b>
Long-term portion	<b>126</b>	<b>2</b>	<b>128</b>

### 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).

## 18. LONG-TERM DEBT

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

	Effective Interest Rate	2017	2016
CU Inc. debentures - unsecured <i>(interest is the average effective interest rate weighted by principal amounts outstanding)</i>	4.881% (2016 - 4.982%)	<b>7,605</b>	7,325
CU Inc. other long-term obligation, due December 2019 - unsecured <sup>(1)</sup>	3.200%	<b>3</b>	3
Canadian Utilities Limited debentures - unsecured, 3.122% due November 2022	3.187%	<b>200</b>	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) <sup>(2)</sup>	Floating <sup>(3)</sup>	<b>73</b>	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) <sup>(2)</sup>	Floating <sup>(3)</sup>	<b>244</b>	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) <sup>(2)</sup>	Floating <sup>(3)</sup>	<b>417</b>	414
Less: deferred financing charges		<b>(43)</b>	(42)
		<b>8,499</b>	8,220
Less: amounts due within one year		<b>(5)</b>	(155)
		<b>8,494</b>	8,065

*BBSY - Bank Bill Swap Benchmark Rate*

(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 1.29 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.

## 19. 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
<b>ATCO Power:</b>			
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
<b>Alberta PowerLine:</b>			
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	–
<b>Less: deferred financing charges</b>		<b>(54)</b>	<b>(1)</b>
		<b>1,416</b>	98
Less: amounts due within one year		<b>(15)</b>	(14)
		<b>1,401</b>	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 15).

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.

## 20. 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 automatically participate in the defined contribution pension plan.

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 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
<b>Market value of plan assets</b>				
Beginning of year	2,595	–	2,650	–
Interest income	97	–	104	–
Employee contributions	1	–	1	–
Employer contributions	26	–	28	–
Benefit payments	(109)	–	(122)	–
TPL <sup>(1)</sup>	–	–	(69)	–
Return on plan assets, excluding amounts included in interest income	83	–	12	–
Foreign exchange rate adjustment	–	–	(9)	–
End of year	2,693	–	2,595	–
<b>Accrued benefit obligations</b>				
Beginning of year	2,785	112	2,815	112
Current service cost	28	2	31	2
Interest cost	106	4	110	4
Employee contributions	1	–	1	–
Benefit payments from plan assets	(109)	–	(122)	–
Benefit payments by employer	(5)	(4)	(5)	(4)
TPL <sup>(1)</sup>	–	–	(69)	–
Actuarial losses (gains)	112	1	33	(2)
Foreign exchange rate adjustment	–	–	(9)	–
End of year <sup>(2)</sup>	2,918	115	2,785	112
<b>Funded status</b>				
Net retirement benefit obligations	225	115	190	112

(1) In 2015, trustees for the pension plan of the Company's subsidiary, Thames Power Limited (TPL), 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 \$140 million at December 31, 2017 due to a decrease in the liability discount rate partially offset by experience adjustments (2016 - decreased to \$127 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	28	2	31	2
Interest cost	106	4	110	4
Interest income	(97)	–	(104)	–
Defined benefit plans cost	37	6	37	6
Defined contribution plans cost	29	–	30	–
Total cost	66	6	67	6
Less: capitalized	29	3	29	3
Net cost recognized	37	3	38	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
<b>Gains on plan assets from:</b>				
Return on plan assets, excluding amounts included in net interest expense	83	–	12	–
<b>(Losses) gains on plan obligations from:</b>				
Changes in demographic assumptions	4	4	–	5
Changes in financial assumptions	(131)	(5)	(54)	(3)
Experience adjustments	15	–	21	–
	(112)	(1)	(33)	2
<b>(Losses) gains recognized in other comprehensive income<sup>(1)</sup></b>	<b>(29)</b>	<b>(1)</b>	<b>(21)</b>	<b>2</b>

(1) Losses net of income taxes were \$22 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:

Plan asset mix	2017				2016			
	Quoted	Un-quoted	Total	%	Quoted	Un-quoted	Total	%
Equity securities								
Public								
Canada	238	-	238		226	-	226	
United States	295	-	295		335	-	335	
International	208	-	208		126	-	126	
Private	-	11	11		-	13	13	
	<b>741</b>	<b>11</b>	<b>752</b>	<b>28</b>	<b>687</b>	<b>13</b>	<b>700</b>	<b>27</b>
Fixed income securities								
Government bonds	882	-	882		837	-	837	
Corporate bonds and debentures	638	-	638		626	-	626	
Securizations	53	-	53		51	-	51	
Mortgages	-	46	46		-	54	54	
	<b>1,573</b>	<b>46</b>	<b>1,619</b>	<b>60</b>	<b>1,514</b>	<b>54</b>	<b>1,568</b>	<b>61</b>
Real estate								
Land and building <sup>(1)</sup>	-	43	43		-	57	57	
Real estate funds	-	193	193		-	187	187	
	-	<b>236</b>	<b>236</b>	<b>9</b>	-	<b>244</b>	<b>244</b>	<b>9</b>
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	
	<b>86</b>	-	<b>86</b>	<b>3</b>	<b>83</b>	-	<b>83</b>	<b>3</b>
	<b>2,400</b>	<b>293</b>	<b>2,693</b>	<b>100</b>	<b>2,284</b>	<b>311</b>	<b>2,595</b>	<b>100</b>

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

At December 31, 2017, plan assets include Class A shares of the Company having a market value of \$8 million (2016 - \$8 million) and Class I Non-Voting Shares of ATCO Ltd. 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 \$26 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
<b>Benefit plan cost</b>				
Discount rate for the year	3.90%	3.90%	4.10%	4.10%
Average compensation increase for the year <sup>(1)</sup>	1.50%	n/a	1.50%	n/a
<b>Accrued benefit obligations</b>				
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 <sup>(2)</sup>	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:

Assumption	Percent Change	Accrued Benefit Obligation		Net Benefit Plan Cost	
		Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1%	(359)	447	(7)	(5)
Future compensation rate	1%	20	(19)	1	(1)
Long-term inflation rate <sup>(1)</sup>	1%	412	(339)	11	(9)
Health care cost trend rate	1%	11	(9)	–	–
Life expectancy	10%	77	(69)	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.

## **21. DEFERRED REVENUES**

Deferred revenues from customer contributions and other sources are as follows:

	2017	2016
Customer contributions	<b>1,676</b>	1,687
Other	–	2
	<b>1,676</b>	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	<b>61</b>	104
Derecognition on transition to finance lease (Note 11)	<b>(16)</b>	–
Amortization	<b>(56)</b>	(64)
End of year	<b>1,676</b>	1,687

## 22. EQUITY PREFERRED SHARES

### CANADIAN UTILITIES LIMITED EQUITY PREFERRED SHARES

#### Authorized and issued

Authorized: an unlimited number of Series Second Preferred Shares, issuable in series.

Issued	2017		2016	
	Shares	Amount	Shares	Amount
<b>Cumulative Redeemable Second Preferred Shares</b>				
3.403% Series Y <sup>(1)</sup>	13,000,000	325	13,000,000	325
4.90% Series AA	6,000,000	150	6,000,000	150
4.90% Series BB	6,000,000	150	6,000,000	150
4.50% Series CC	7,000,000	175	7,000,000	175
4.50% Series DD	9,000,000	225	9,000,000	225
5.25% Series EE	5,000,000	125	5,000,000	125
4.50% Series FF	10,000,000	250	10,000,000	250
<b>Perpetual Cumulative Second Preferred Shares</b>				
4.00% Series V <sup>(2)</sup>	4,400,000	110	4,400,000	110
Issuance costs		(27)		(27)
		<b>1,483</b>		<b>1,483</b>

(1) 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.

(2) On 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. The first payment at the new dividend rate was made on January 3, 2018. Prior to October 3, 2017, the annual dividend rate was 4.00 per cent.

#### Rights and privileges

Preferred shares	Redemption Amount <sup>(1)</sup>	Quarterly Dividend <sup>(2)</sup>	Reset Premium <sup>(3)</sup>	Date Redeemable/ Convertible	Convertible To
<b>Cumulative Redeemable Second Preferred Shares</b>					
Series Y	25.00	0.2126875	2.40%	June 1, 2022 <sup>(4)</sup>	Series Z <sup>(5)</sup>
Series AA	25.00	0.30625	Does not reset	September 1, 2017 <sup>(6)</sup>	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 <sup>(6)</sup>	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 <sup>(6)</sup>	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 <sup>(6)</sup>	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 <sup>(6)</sup>	Not convertible
Series FF	25.00	0.28125	3.69%	December 1, 2020 <sup>(4)</sup>	Series GG <sup>(5)</sup>
<b>Perpetual Cumulative Second Preferred Shares</b>					
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.

## Dividends

Cash dividends declared and paid per share are as follows:

<i>(dollars per share)</i>	Year Ended December 31	
	2017	2016
<b>Cumulative Redeemable Second Preferred Shares</b>		
3.403% Series Y	<b>0.9254</b>	1.0000
4.90% Series AA	<b>1.2250</b>	1.2250
4.90% Series BB	<b>1.2250</b>	1.2250
4.50% Series CC	<b>1.1250</b>	1.1250
4.50% Series DD	<b>1.1250</b>	1.1250
5.25% Series EE	<b>1.3125</b>	1.3125
4.50% Series FF	<b>1.1250</b>	1.1250
<b>Perpetual Cumulative Second Preferred Shares</b>		
4.00% Series V	<b>1.0000</b>	1.0000

The payment of dividends 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 first quarter eligible dividends of \$0.2126875 per Series Y Preferred Share, \$0.30625 per Series AA and Series BB Preferred Share, \$0.28125 per Series CC, Series DD and Series FF Preferred Share and \$0.328125 per Series EE Preferred Share.

## 23. CLASS A AND CLASS B SHARES

A reconciliation of the number and dollar amount of outstanding Class A and Class B shares at December 31, 2017 is shown below.

### AUTHORIZED AND ISSUED

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2015	191,831,009	889	75,064,535	142	266,895,544	1,031
Shares issued	1,484,241	52	–	–	1,484,241	52
Stock options exercised	174,000	5	–	–	174,000	5
Converted: Class B to Class A	770,352	1	(770,352)	(1)	–	–
December 31, 2016	194,259,602	947	74,294,183	141	268,553,785	1,088
Shares issued	<b>2,388,770</b>	<b>90</b>	–	–	<b>2,388,770</b>	<b>90</b>
Stock options exercised	<b>159,500</b>	<b>4</b>	–	–	<b>159,500</b>	<b>4</b>
Converted: Class B to Class A	<b>181,400</b>	–	<b>(181,400)</b>	–	–	–
December 31, 2017	<b>196,989,272</b>	<b>1,041</b>	<b>74,112,783</b>	<b>141</b>	<b>271,102,055</b>	<b>1,182</b>

Class A and Class B 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 A shares, while held in trust, are accounted for as a reduction of share capital. The consolidated Class A and Class B shares outstanding at December 31 is shown below.

	2017		2016	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	271,102,055	1,182	268,553,785	1,088
Shares held in trust for the mid-term incentive plan	(548,456)	(20)	(480,464)	(18)
Shares outstanding, net of shares held in trust	270,553,599	1,162	268,073,321	1,070

## DIVIDENDS

The Company declared and paid cash dividends of \$1.4300 per Class A and Class B share during 2017 (2016 - \$1.3000). The Company's policy is to pay dividends quarterly on its Class A and Class B 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 \$0.3933 per Class A and Class B share.

## SHARE OWNER RIGHTS

Class A and Class B share owners are entitled to share equally, on a share for share basis, in all dividends the Company declares on either of such classes of shares as well as in the Company's remaining property on dissolution. Class B share owners are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares and if it would result in the offeror owning more than 50 per cent of the outstanding Class B shares (excluding any Class B shares acquired upon conversion of Class A shares), the Class A share owners are entitled, for the duration of the take-over bid, to exchange their Class A shares for Class B shares and to tender the newly acquired Class B shares to the take-over bid. Such right of exchange and tender is conditional on completion of the applicable take-over bid.

In addition, Class A share owners are entitled to exchange their shares for Class B shares if ATCO Ltd., the Company's controlling share owner, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

## DIVIDEND REINVESTMENT PLAN

The Company has a dividend reinvestment plan (DRIP) for eligible Class A non-voting and Class B common share owners who are enrolled in the program. The DRIP allows eligible Class A non-voting and Class B common share owners of the Company to reinvest all or a specified portion of their dividends in additional Class A non-voting shares.

The Class A non-voting shares are issued from treasury at a two per cent discount to the volume weighted average price of the Class A non-voting shares traded on the Toronto Stock Exchange during the last five qualifying trading days preceding the dividend payment date.

During the year ended December 31, 2017, 2,388,770 Class A non-voting shares were issued under the DRIP (2016 - 1,484,241), using re-invested dividends of \$90 million (2016 - \$52 million). The shares issued by the Company were priced at an average of \$37.67 per share (2016 - \$35.01 per share).

## 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 and amortization	598	573
Gain on sales of operations	(30)	(18)
Loss/earnings from investment in ATCO Structures & Logistics, net of dividends received	45	-
Earnings from investment in joint ventures, net of dividends and distributions received	-	3
Income taxes	162	236
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	409	382
Income taxes paid	(65)	(52)
Other	32	31
	<b>1,271</b>	<b>1,174</b>

### CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital are summarized below.

	2017	2016
<b>Operating activities</b>		
Accounts receivable	(108)	(101)
Inventories	-	3
Prepaid expenses and other current assets	(15)	(4)
Accounts payable and accrued liabilities	151	29
Provisions and other current liabilities	39	(31)
	<b>67</b>	<b>(104)</b>
<b>Investing activities</b>		
Accounts receivable	(1)	(1)
Inventories	(3)	1
Prepaid expenses	-	(2)
Accounts payable and accrued liabilities	8	(135)
	<b>4</b>	<b>(137)</b>

## 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
<b>Liabilities from financing activities</b>				
December 31, 2015	–	7,879	112	7,991
Net issue (repayment) of debt	55	370	(15)	410
Foreign currency translation	–	(28)	–	(28)
Debt issue costs	–	(3)	–	(3)
Amortization of deferred finance charges	–	2	1	3
December 31, 2016	55	8,220	98	8,373
Net issue (repayment) of debt	(55)	275	1,371	1,591
Foreign currency translation	–	5	–	5
Debt issue costs	–	(3)	(54)	(57)
Amortization of deferred finance charges	–	2	1	3
December 31, 2017	–	8,499	1,416	9,915

## CASH POSITION

Cash position in the consolidated statement of cash flow at December 31 is comprised of:

	2017	2016
Cash	381	319
Short-term investments	1	2
Restricted cash <sup>(1)</sup>	43	24
Cash and cash equivalents	425	345
Bank indebtedness	(7)	(5)
	418	340

(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
<b>Measured at Amortized Cost</b>	
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).
<b>Measured at Fair Value</b>	
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		December 31, 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>					
Lease receivables	11	410	568	314	433
Receivable under service concession arrangement	15	593	593	77	77
<b>Financial Liabilities</b>					
Long-term debt	18	8,499	9,679	8,220	9,139
Non-recourse long-term debt	19	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
- 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:

Recurring Measurements	Subject to Hedge Accounting		Not Subject to Hedge Accounting		Total Fair Value of Derivatives
	Interest Rate Swaps	Commodities	Commodities	Foreign Currency Forward Contracts	
<b>December 31, 2017</b>					
<b>Financial Assets</b>					
Prepaid expenses and other current assets	–	2	3	–	5
Other assets	–	3	1	–	4
<b>Financial Liabilities</b>					
Other current liabilities (1)	4	14	32	–	50
Other liabilities (1)	–	16	35	–	51
<b>December 31, 2016</b>					
<b>Financial Assets</b>					
Prepaid expenses and other current assets	–	6	7	–	13
Other assets	–	17	6	–	23
<b>Financial Liabilities</b>					
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 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:

Notional value and maturity	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
	Interest Rate Swaps	Natural Gas <sup>(1)</sup>	Power <sup>(2)</sup>	Natural Gas <sup>(1)</sup>	Power <sup>(2)</sup>	Foreign Currency Forward Contracts
<b>December 31, 2017</b>						
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	–	–	–	–	–	63
Maturity	2020	2018-2021	2018-2020	2018-2021	2018-2020	2018
<b>December 31, 2016</b>						
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	–	–	–	–	–
Maturity	2019-2020	2017-2021	2017-2020	2017-2021	2017-2020	–

(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
<b>2017</b>						
<b>Financial Assets</b>						
Derivative assets <sup>(1)</sup>	8	–	8	–	–	8
Accounts receivable	100	(65)	35	–	–	35
<b>Financial Liabilities</b>						
Derivative liabilities <sup>(1)</sup>	151	(54)	97	–	–	97
<b>2016</b>						
<b>Financial Assets</b>						
Derivative assets <sup>(1)</sup>	36	–	36	(1)	(19)	16
Accounts receivable	69	(19)	50	–	–	50
<b>Financial Liabilities</b>						
Derivative liabilities <sup>(1)</sup>	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 100 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:

	<b>OCI</b>
U.S. dollar	2
Australian dollar	48

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.

The provision for impairment of credit losses was \$1 million in 2017 and 2016.

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	27	6
Greater than 90 days	11	1
	<b>38</b>	<b>7</b>

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 from 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 34).

## 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	2,240	468	1,772	2,237	479	1,758
Uncommitted	557	344	213	307	136	171
	<b>2,797</b>	<b>812</b>	<b>1,985</b>	2,544	615	1,929

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 16)	-	55
Long-term debt (Note 18)	417	414
Letters of credit	388	141
	<b>812</b>	615

### 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	824	-	-	-	-	-
Long-term debt:						
Principal	5	1,150	162	160	325	6,740
Interest expense <sup>(1)</sup>	398	380	343	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 <sup>(2)</sup>	84	52	19	3	-	-
	1,391	1,661	617	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 A and Class B 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 A and Class B shares, contributed surplus, retained earnings, AOCI, equity preferred shares, 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	–	55
Long-term debt	8,499	8,220
Non-recourse long-term debt	1,416	98
Total debt	9,922	8,378
Class A and Class B shares	1,162	1,070
Contributed surplus	12	15
Retained earnings	3,663	3,655
Accumulated other comprehensive income	(45)	(5)
Equity preferred shares	1,483	1,483
Non-controlling interests	187	202
Total equity	6,462	6,420
Total capitalization	16,384	14,798
Debt capitalization	61%	57%

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 20.

### **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.

<b>Principal Operating Subsidiaries</b>	<b>Principal Place of Business</b>	<b>Principal Activity</b>
ATCO Power	Canada	Electricity generation and distributed generation
Alberta PowerLine <sup>(1)</sup>	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) At December 31, 2017 and 2016, Canadian Utilities Limited has an ownership interest of 80.0 per cent.*

## **30. INVESTMENT IN ATCO STRUCTURES & LOGISTICS**

On December 31, 2017, the Company sold its 24.5 per cent ownership interest in ATCO Structures & Logistics to its parent company, ATCO Ltd., at fair market value, for cash proceeds of \$140 million. This transaction resulted in no impact to the Company's earnings and occurred on a tax-deferred basis. The transaction allows the Company to redeploy capital as part of its financing plan for its large investment program in core regulated and long-term contracted energy infrastructure asset base.

Commencing December 31, 2017, the Company no longer recognizes its interest in ATCO Structures & Logistics in its financial position, results of operations and cash flows in the consolidated financial statements. The investment in ATCO Structures & Logistics was previously reported in the Corporate & Other segment.

The summarized financial information for ATCO Structures & Logistics, which was accounted for using the equity method up until the date of transfer, is provided below:

	2017	2016
<b>Balance sheet</b>		
Current assets	214	267
Non-current assets	411	523
Current liabilities	(79)	(81)
Non-current liabilities	(105)	(73)
Net assets	441	636

	2017	2016
<b>Statement of earnings and comprehensive income:</b>		
Revenues	515	647
(Loss) earnings for the year	(18)	49
Other comprehensive loss	(12)	(12)
Comprehensive (loss) income for the year	(30)	37
Dividends received from ATCO Structures & Logistics	41	12

Reconciliation of the above summarized financial information to the carrying amount of the investment in ATCO Structures & Logistics recognized in the consolidated financial statements for 2016 is shown below:

	2016
Net assets	636
Proportion of the Company's ownership	24.5%
	156
Fair value adjustment on acquisition	43
Carrying amount of the investment	199

## IMPAIRMENT

In the fourth quarter of 2017, ATCO Structures & Logistics recognized a pre-tax impairment of \$34 million relating to certain workforce housing assets in Canada and space rental assets in the U.S. ATCO Structures & Logistics 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 Company's 24.5 per cent share of the impairment decreased equity earnings by \$7 million in the Corporate & Other segment.

## 31. 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

Aggregate information for the Company's interest in joint ventures is shown below.

	2017	2016
Earnings for the year	20	17
Other comprehensive income	-	1
Comprehensive income for the year	20	18
Dividends received	20	20
Aggregate carrying amount of interests in joint ventures	196	189

#### **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).

#### **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 \$126 million at December 31, 2017.

#### **Restrictions**

The Company requires approval from its joint venture partners before any dividends or distributions can be paid.

## 32. NON-CONTROLLING INTERESTS

Non-controlling interests at December 31 are as follows:

	2017	2016
Equity preferred shares	187	187
Alberta PowerLine (Note 15) <sup>(1)</sup>	–	15
	187	202

(1) Quanta Services Inc. (Quanta) owns a 20.0 per cent ownership interest in APL. Due to contractual arrangements with Quanta and the Company, the 20.0 per cent ownership interest in APL was transferred to other liabilities in the first quarter of 2017.

### CU INC. EQUITY PREFERRED SHARES

#### Authorized and issued

Authorized: an unlimited number of Preferred Shares, issuable in series.

Issued	2017		2016	
	Shares	Amount	Shares	Amount
<b>Cumulative Redeemable Preferred Shares</b>				
4.60% Series 1	4,600,000	115	4,600,000	115
2.243% Series 4 <sup>(1)</sup>	3,000,000	75	3,000,000	75
Issuance costs		(3)		(3)
		187		187

(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.

#### Rights and privileges

Preferred shares	Redemption Amount <sup>(1)</sup>	Quarterly Dividend <sup>(2)</sup>	Reset Premium <sup>(3)</sup>	Date Redeemable/Convertible	Convertible To
<b>Cumulative Redeemable Preferred Shares</b>					
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.1401875	1.36%	June 1, 2021 <sup>(4)</sup>	Series 5 <sup>(5)</sup>

(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.

### 33. 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 <sup>(1)</sup>	Officers and key employees	20% per year over 5 years	10 years	Class A non-voting shares <sup>(3)</sup>
Share appreciation rights <sup>(1)</sup>	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 <sup>(2)</sup>	2-3 years	Class A non-voting shares <sup>(4)</sup>

(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	12,800,000		12,800,000	
Options available for issuance	5,250,850		5,360,750	
Outstanding options, beginning of year	781,850	\$32.04	855,200	\$29.92
Granted	123,500	38.19	107,250	36.09
Exercised	(159,500)	24.16	(174,000)	23.86
Forfeited	(13,600)	39.06	(6,600)	38.35
Outstanding options, end of year	732,250	\$34.66	781,850	\$32.04
Options exercisable, end of year	420,850	\$32.09	486,950	\$28.43

Options	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of Exercise Prices					
\$22.17 - \$24.74	159,000	2.0	\$23.59	159,000	\$23.59
\$27.05 - \$29.97	7,750	6.4	28.93	4,750	28.28
\$33.18 - \$34.80	72,750	4.2	33.20	72,750	33.20
\$35.48 - \$39.45	405,900	7.4	38.06	150,850	38.72
\$40.61 - \$41.54	86,850	7.3	40.81	33,500	40.78
\$22.17 - \$41.54	732,250	5.9	\$34.66	420,850	\$32.09

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	773,050	\$32.15	821,800	\$30.21
Granted	123,500	38.19	107,250	36.09
Exercised	(153,500)	24.24	(149,400)	24.06
Forfeited	(13,600)	39.06	(6,600)	38.35
Outstanding SARs, end of year	729,450	\$34.71	773,050	\$32.15
SARs exercisable, end of year	418,050	\$32.15	478,150	\$28.53

SARs	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of Exercise Prices					
\$22.17 - \$24.74	156,200	2.0	\$23.58	156,200	\$23.58
\$27.05 - \$29.97	7,750	6.4	28.93	4,750	28.28
\$33.18 - \$34.80	72,750	4.2	33.20	72,750	33.20
\$35.48 - \$39.45	405,900	7.4	38.06	150,850	38.72
\$40.61 - \$41.54	86,850	7.3	40.81	33,500	40.78
\$22.17 - \$41.54	729,450	5.9	\$34.71	418,050	\$32.15

In 2017, compensation expense related to SARs was \$1 million (2016 - \$2 million). The total carrying value of liabilities arising from SARs at December 31, 2017 was \$2 million (2016 - \$3 million). The total intrinsic value of all vested SARs at December 31, 2017 was \$3 million (2016 - \$4 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 A share price	\$38.19	\$38.19	\$36.09	\$36.43
Risk-free interest rate	1.22%	1.21%	0.73%	0.74%
Share price volatility <sup>(1)</sup>	12.97%	10.08%	18.58%	15.26%
Estimated annual Class A share dividend	3.75%	3.75%	3.60%	3.60%
Expected holding period prior to exercise	6.9 years	6.1 years	6.8 years	6.1 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	480,464	38.50	489,949	\$39.64
Granted	<b>182,500</b>	<b>38.95</b>	214,517	36.65
Vested	<b>(14,493)</b>	<b>39.86</b>	(11,500)	40.28
Forfeited	<b>(148,742)</b>	<b>39.72</b>	(146,030)	38.91
Change in unallocated shares <sup>(1)</sup>	<b>48,727</b>	-	(66,472)	-
Outstanding MTIPs, end of year	<b>548,456</b>	<b>\$38.26</b>	480,464	\$38.50

(1) Unallocated shares are Class A shares held by the trustee which have not been awarded to officers or key employees.

MTIPs	Outstanding		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
Range of Prices			
\$29.97 - \$34.46	5,500	1.0	30.38
\$35.48 - \$39.39	394,402	1.7	37.52
\$40.00 - \$41.86	94,000	0.4	41.83
Unallocated shares	54,554	-	-
\$29.97 - \$41.86	548,456	1.4	\$38.26

Compensation expense related to MTIP grants was a credit of \$6 million for 2017 (2016 - expense of less than \$1 million) with a corresponding decrease (2016 - increase) to contributed surplus.

The Company, through a trustee, purchased 81,800 shares during 2017 to be distributed to employees on vesting of the awards (2016 - nil).

## 34. 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.



### 35. 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	21	17	16	14	9	60
Purchase obligations:						
Coal purchase contracts	64	66	68	71	27	117
Operating and maintenance agreements	297	271	127	124	123	286
Construction activities related to Fort McMurray 500 kV Transmission project (Note 15)	543	221	-	-	-	-
Capital expenditures	56	-	-	-	-	-
Other	12	-	-	-	-	-
	993	575	211	209	159	463

### 36. RELATED PARTY TRANSACTIONS

#### TRANSACTIONS WITH PARENT AND AFFILIATE COMPANIES

Transaction	Recorded As	2017	2016
Natural gas and electricity sales	Revenues	2	-
Administrative expenses, rent expense and licensing fees	Other expenses	14	14
Capital projects and office services	Property, plant and equipment	2	-

During the year ended December 31, 2017, the Company issued 862,822 Class A non-voting shares to ATCO Ltd. under the DRIP using re-invested dividends of \$32 million. The shares were priced at an average of \$37.62 per share. ATCO Ltd. did not participate in the Company's DRIP in 2016.

At December 31, 2017, accounts receivable due from related parties amounted to \$19 million (2016 - \$2 million) and accounts payable due to related parties amounted to \$36 million (2016 - \$5 million). Receivables and payables with related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

#### **Sale of ATCO Real Estate Holdings Ltd.**

On January 1, 2017, the Company sold its 100 per cent investment in ATCO Real Estate Holdings Ltd. (AREHL) to ATCO Ltd. for cash proceeds of \$47 million, resulting in a gain of \$30 million. The proceeds represent the fair value of AREHL, which is supported by independent appraisals (Note 6).

#### **Sale of Investment in ATCO Structures and Logistics**

On December 31, 2017, the Company sold its 24.5 per cent ownership interest in ATCO Structures & Logistics to ATCO Ltd., at fair market value, for cash proceeds of \$140 million (Note 30).

## OTHER

In transactions with the Company's joint ventures, the Company recognized revenues of \$3 million (2016 - \$8 million) relating to management fees and other charges.

In transactions with the Company's group pension plans, the Company paid occupancy costs of \$8 million (2016 - \$8 million) relating to property owned by the pension plans.

The Company received \$1 million (2016 - nil) in electricity and gas sales revenue and incurred \$1 million (2016 - \$1 million) in advertising, promotion and other expenses from entities related through common control.

## KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2017	2016
Salaries and short-term employee benefits	11	6
Retirement benefits	2	2
Share-based compensation	1	5
	14	13

Key management personnel comprise members of executive management and the Board, a total of 20 individuals (2016 - 19 individuals).

## 37. 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.

## **38. 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 A and Class B owners of the Company. Earnings and each component of OCI are attributed to the Class A and Class B owners of the Company and to NCI, even if this results in the NCI having a deficit balance. Earnings attributable to the Class A and Class B 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 A and Class B 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.

## **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	30 years	3.3%
Other plant, equipment and machinery	1 to 74 years	27 years	3.7%

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.

## **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. 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 options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the options are exercised, and the amount initially recorded in contributed surplus is credited to Class A and Class B share capital.

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 A 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 on 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	<b>1.2520</b>	1.3427	<b>1.2980</b>	1.3256
Australian dollar	<b>0.9783</b>	0.9707	<b>0.9947</b>	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 <i>Revenue from Contracts with Customers</i>	<p>This standard replaces IAS 18 <i>Revenue</i> 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.</p> <p>The Company is party to numerous contracts with customers that will be impacted by the new standard.</p> <p>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 &amp; 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:</p> <ul style="list-style-type: none"> <li>• Decrease to retained earnings of approximately \$144 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 (\$31 million after tax) for the year ended December 31, 2017. Included in these revenues are revenues of approximately \$38 million (\$28 million after tax) relates to the sale of electricity generation asset on transition to finance lease (see Note 11).</li> <li>• 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.</li> <li>• 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.</li> </ul>	Effective for annual periods on or after January 1, 2018.

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
IFRS 9 (2014) <i>Financial Instruments</i>	<p>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.</p> <p>The Company early adopted two out of three components of this standard (<i>Classification and Measurement and Hedge Accounting</i>) on January 1, 2015. The Company adopted the final component, <i>Impairments</i>, 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.</p>	Effective for annual periods on or after January 1, 2018.
IFRS 16 <i>Leases</i>	<p>This standard replaces IAS 17 <i>Leases</i> 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.</p> <p>The Company is currently assessing the impact of the new standard.</p>	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.