

# **ATCO**

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**G R O U P**

**ATCO LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2014**



February 19, 2015

## **Independent Auditor's Report**

### **To the Share Owners of ATCO Ltd.**

We have audited the accompanying consolidated financial statements of ATCO Ltd., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditor's responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATCO Ltd. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**  
Calgary, Alberta

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

# ATCO LTD.

## CONSOLIDATED STATEMENT OF EARNINGS

		Year Ended December 31	
<i>(millions of Canadian Dollars except per share data)</i>	Note	2014	2013
<b>Revenues</b>	6	4,554	4,359
<b>Costs and expenses</b>			
Salaries, wages and benefits		(716)	(705)
Energy transmission and transportation		(168)	(139)
Plant and equipment maintenance		(272)	(245)
Fuel costs		(466)	(331)
Purchased power		(67)	(75)
Materials and consumables		(575)	(589)
Depreciation, amortization and impairment	12,13	(561)	(530)
Franchise fees		(218)	(186)
Property and other taxes		(96)	(91)
Other	7	(267)	(288)
		<b>(3,406)</b>	<b>(3,179)</b>
		1,148	1,180
<b>Gain on sales of operations</b>	8	160	88
<b>Earnings from investment in joint ventures</b>	15	18	(9)
<b>Operating profit</b>		1,326	1,259
Interest income		14	13
Interest expense	18	(312)	(285)
<b>Net finance costs</b>		<b>(298)</b>	<b>(272)</b>
<b>Earnings before income taxes</b>		1,028	987
<b>Income taxes</b>	9	(237)	(251)
<b>Earnings for the year</b>		791	736
<b>Earnings attributable to:</b>			
Class I and Class II Shares		420	418
Non-controlling interests		371	318
		791	736
<b>Earnings per Class I and Class II Share</b>	24	\$ 3.66	\$ 3.64
<b>Diluted earnings per Class I and Class II Share</b>	24	\$ 3.64	\$ 3.62

See accompanying Notes to Consolidated Financial Statements.

# ATCO LTD.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2014	2013
<b>Earnings for the year</b>		<b>791</b>	736
<b>Other comprehensive income (loss), net of income taxes:</b>			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits <sup>(1)</sup>	29	<b>(116)</b>	231
Share of other comprehensive income of joint ventures <sup>(2)</sup>	15	<b>(10)</b>	(2)
		<b>(126)</b>	229
Items that are or may be reclassified subsequently to earnings:			
Cash flow hedges <sup>(3)</sup>		-	9
Cash flow hedges reclassified to earnings <sup>(4)</sup>		<b>11</b>	-
Foreign currency translation adjustment <sup>(5)</sup>		<b>7</b>	(41)
Share of other comprehensive income of joint ventures <sup>(2)</sup>	15	-	1
		<b>18</b>	(31)
		<b>(108)</b>	198
<b>Comprehensive income for the year</b>		<b>683</b>	934
<b>Comprehensive income attributable to:</b>			
Class I and Class II Shares		<b>365</b>	522
Non-controlling interests		<b>318</b>	412
		<b>683</b>	934

(1) Net of income taxes of \$39 million for the year ended December 31, 2014 (2013 – \$(77) million).

(2) Net of income taxes of \$3 million for the year ended December 31, 2014 (2013 – \$1 million).

(3) Net of income taxes of nil for the year ended December 31, 2014 (2013 – \$(5) million).

(4) Net of income taxes of \$(1) million for the year ended December 31, 2014 (2013 – nil).

(5) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.

# ATCO LTD.

## CONSOLIDATED BALANCE SHEET

		December 31	
<i>(millions of Canadian Dollars)</i>	Note	2014	2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		595	743
Accounts receivable		744	713
Finance lease receivables	10	20	8
Inventories	11	110	131
Prepaid expenses and other current assets		80	57
		<b>1,549</b>	1,652
<b>Non-current assets</b>			
Property, plant and equipment	12	15,117	13,381
Intangibles	13	416	387
Goodwill	14	71	71
Investment in joint ventures	15	147	127
Finance lease receivables	10	290	319
Other assets		99	73
<b>Total assets</b>		<b>17,689</b>	16,010
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness	16	5	2
Accounts payable and accrued liabilities		974	921
Asset retirement obligations and other provisions	17	46	71
Other current liabilities		26	22
Long-term debt	18	83	138
Non-recourse long-term debt	18	15	39
		<b>1,149</b>	1,193
<b>Non-current liabilities</b>			
Deferred income tax liabilities	9	778	684
Asset retirement obligations and other provisions	17	172	140
Retirement benefit obligations	29	445	302
Deferred revenues	19	1,512	1,386
Other liabilities	20	68	74
Long-term debt	18	7,173	6,092
Non-recourse long-term debt	18	112	126
<b>Total liabilities</b>		<b>11,409</b>	9,997
<b>EQUITY</b>			
<b>Class I and Class II Share owners' equity</b>			
Class I and Class II Shares	24	161	159
Contributed surplus		11	12
Retained earnings		3,010	2,717
Accumulated other comprehensive income		(14)	(28)
		<b>3,168</b>	2,860
<b>Non-controlling interests</b>	26	<b>3,112</b>	3,153
<b>Total equity</b>		<b>6,280</b>	6,013
<b>Total liabilities and equity</b>		<b>17,689</b>	16,010

See accompanying Notes to Consolidated Financial Statements.

*[Original signed by N.C. Southern]*  
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 DIRECTOR

*[Original signed by C.W. Wilson]*  
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 DIRECTOR

# ATCO LTD.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Owners of the Company							Total Equity
	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	
<i>(millions of Canadian Dollars)</i>								
December 31, 2012		156	12	2,210	(8)	2,370	2,551	4,921
Earnings for the year		-	-	418	-	418	318	736
Equity preferred shares issued by subsidiary company, net of issue costs	26	-	-	-	-	-	392	392
Shares issued, purchased and cancelled		-	-	(3)	-	(3)	34	31
Dividends	25	-	-	(86)	-	(86)	(182)	(268)
Share-based compensation	28	3	-	-	-	3	3	6
Other comprehensive income		-	-	-	104	104	94	198
Gains on retirement benefits transferred to retained earnings	29	-	-	124	(124)	-	-	-
Changes in ownership interest in subsidiary company <sup>(1)</sup>		-	-	54	-	54	(54)	-
Other		-	-	-	-	-	(3)	(3)
December 31, 2013		<b>159</b>	<b>12</b>	<b>2,717</b>	<b>(28)</b>	<b>2,860</b>	<b>3,153</b>	<b>6,013</b>
Earnings for the year		-	-	420	-	420	371	791
Equity preferred shares redeemed by subsidiary company	26	-	-	(2)	-	(2)	(158)	(160)
Shares issued, purchased and cancelled		-	-	(6)	-	(6)	39	33
Dividends	25	-	-	(99)	-	(99)	(194)	(293)
Share-based compensation	28	2	(1)	3	-	4	-	4
Other comprehensive loss		-	-	-	(55)	(55)	(53)	(108)
Losses on retirement benefits transferred to retained earnings	29	-	-	(69)	69	-	-	-
Changes in ownership interest in subsidiary company <sup>(1)</sup>		-	-	46	-	46	(46)	-
December 31, 2014		<b>161</b>	<b>11</b>	<b>3,010</b>	<b>(14)</b>	<b>3,168</b>	<b>3,112</b>	<b>6,280</b>

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

See accompanying Notes to Consolidated Financial Statements.

# ATCO LTD.

## CONSOLIDATED STATEMENT OF CASH FLOWS

		Year Ended December 31	
(millions of Canadian Dollars)	Note	2014	2013
<b>Operating activities</b>			
Earnings for the year		791	736
Adjustments for:			
Depreciation, amortization and impairment		561	530
Gain on sales of operations		(160)	(88)
Earnings from investment in joint ventures, net of dividends and distributions received		7	41
Income taxes		237	251
Unearned availability incentives		(3)	(22)
Contributions by customers for extensions to plant		177	266
Amortization of customer contributions		(46)	(50)
Net finance costs		298	272
Income taxes paid		(93)	(124)
Other		17	42
		<b>1,786</b>	<b>1,854</b>
Changes in non-cash working capital	30	<b>(105)</b>	<b>70</b>
<b>Cash flow from operations</b>		<b>1,681</b>	<b>1,924</b>
<b>Investing activities</b>			
Additions to property, plant and equipment		(2,199)	(2,361)
Proceeds on disposal of property, plant and equipment		22	11
Additions to intangibles		(98)	(92)
Proceeds on sale of information technology services	8	204	-
Proceeds on sale of Tecno Fast ATCO S.A.	8	-	124
Investment in joint venture	15	(35)	-
Changes in non-cash working capital	30	49	(79)
Other		(21)	(10)
		<b>(2,078)</b>	<b>(2,407)</b>
<b>Financing activities</b>			
Issue of long-term debt		1,355	1,506
Repayment of long-term debt		(323)	(556)
Repayment of non-recourse long-term debt		(31)	(30)
Issue of equity preferred shares by subsidiary company		-	400
Redemption of equity preferred shares by subsidiary company	26	(160)	-
Issue of Class A shares by subsidiary company		3	3
Purchase of Class I Shares		(3)	-
Dividends paid to Class I and Class II Share owners		(99)	(86)
Dividends paid to non-controlling interests in subsidiary company		(155)	(148)
Interest paid		(343)	(312)
Other		(8)	(20)
		<b>236</b>	<b>757</b>
<b>Foreign currency translation</b>		<b>10</b>	<b>(3)</b>
<b>Cash position <sup>(1)</sup></b>			
(Decrease) increase		(151)	271
Beginning of year		741	470
<b>End of year</b>		<b>590</b>	<b>741</b>

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes \$43 million (2013 - \$53 million) which is not available for general use by the Company.

See accompanying Notes to Consolidated Financial Statements.

# ATCO LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

### 1. THE COMPANY AND ITS OPERATIONS

ATCO Ltd. was incorporated under the laws of the province of Alberta and is listed on the Toronto Stock Exchange. Its head office and registered office is at 700, 909-11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, R.D. Southern.

ATCO Ltd. is engaged in the following business activities:

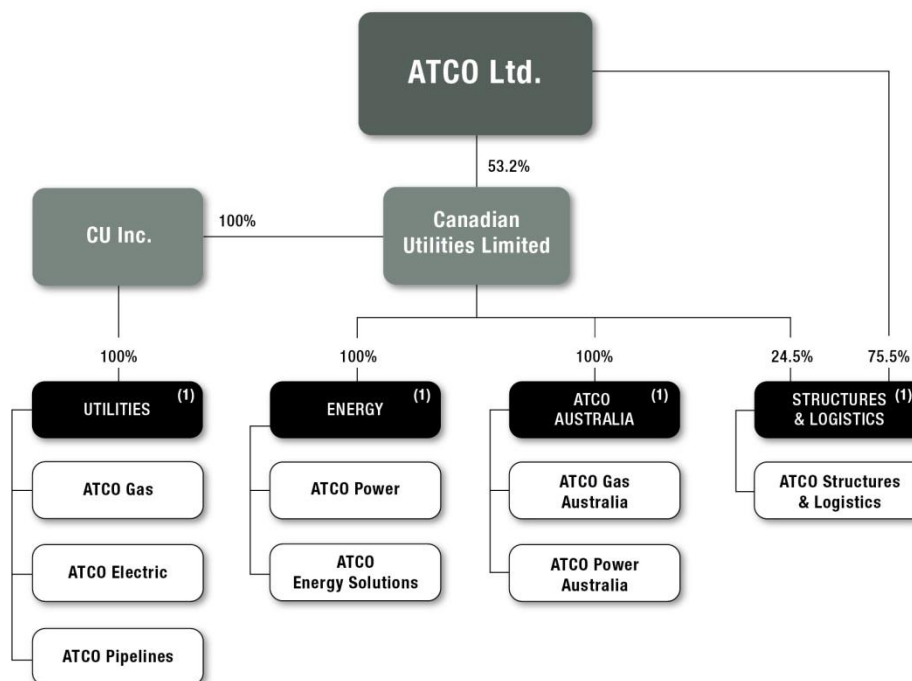
- Structures and Logistics (manufacturing, logistics and noise abatement);
- Utilities (pipelines, natural gas and electricity transmission and distribution); and
- Energy (power generation and sales, industrial water infrastructure, natural gas gathering, processing, storage and liquids extraction).

The consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries (the Company). The statements also include the accounts of a proportionate share of the Company's investments in joint operations and its equity-accounted investments in joint ventures.

Principal operating subsidiaries are:

- ATCO Structures & Logistics (75.5 per cent owned) and its subsidiaries. On a consolidated basis, the Company owns 88.5 per cent of ATCO Structures & Logistics; and
- Canadian Utilities Limited (53.2 per cent owned), its subsidiaries, and its 24.5 per cent investment in ATCO Structures & Logistics.

A simplified organization chart of the Company's principal operating subsidiaries is given below.



(1) See Note 5 for segment descriptions.



## **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 19, 2015.

### **BASIS OF MEASUREMENT**

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, defined benefit pension and other employee retirement benefit liabilities and cash-settled share-based compensation liabilities as disclosed in the applicable accounting policies.

Certain comparative figures are reclassified to conform to the current presentation.

## **3. ACCOUNTING POLICIES**

### **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 non-controlling interests.

Non-controlling interests in subsidiaries are identified separately from equity attributable to Class I and Class II owners of the Company. Earnings and each component of other comprehensive income are attributed to the Class I and Class II owners of the Company and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Earnings attributable to the Class I and Class II owners are determined after adjusting for dividends on equity preferred shares held by non-controlling interests.

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 non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Class I and Class II owners of the Company.

### **JOINT ARRANGEMENTS**

Joint operations are proportionately consolidated by including the Company's share of assets, liabilities, revenues, expenses and other comprehensive income (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.

## **RATE REGULATION**

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.

In the absence of a rate-regulated standard under IFRS that the Company is eligible to adopt, 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 (see revenue recognition accounting policy below).

Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meets the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

## **SEGMENTED INFORMATION**

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 by the related parties.

## **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 labor 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.

## **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.

Cash and cash equivalents which are restricted under the terms of project financing agreements or are only available for use within the joint arrangements, unless partner approval has been obtained, are considered not available for general use within the Company.

## **INVENTORIES**

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods. The standard cost method is used to approximate cost in the Company's Structures & Logistics manufacturing operations.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, contracted services and asset retirement costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repair and maintenance activities performed every two years or less which do not enhance or extend the useful life of the asset are expensed when incurred.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Depreciation Rate
Utility transmission and distribution:		
Electricity transmission equipment	40 to 75 years	2.1 %
Electricity distribution equipment	15 to 75 years	2.5 %
Gas transmission equipment	3 to 81 years	2.3 %
Gas distribution plant and equipment	3 to 120 years	2.6 %
Power generation plant and equipment:		
Gas-fired	3 to 40 years	3.6 %
Coal-fired	5 to 47 years	3.2 %
Hydroelectric	50 years	2.2 %
Buildings	3 to 60 years	3.2 %
Other:		
Rental assets	12 to 17 years	6.8 %
Other plant, equipment and machinery	1 to 66 years	7.2 %

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 75 and 100 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

## **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES**

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

## **GOODWILL**

Goodwill is not amortized. The carrying value of goodwill is tested for impairment annually or more frequently if there is an indicator of impairment. Impairment is tested at the operating segment level. If the carrying value of the segment to which goodwill has been assigned exceeds its recoverable amount, then any excess of the carrying value of a segment's goodwill over its recoverable amount is expensed and is not subsequently reversed.

## **LEASES**

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

Assets subject to operating leases are included in property, plant and equipment and are depreciated. Income from operating leases is recognized in earnings on a straight-line basis over the lease term.

When the Company has purchased goods or services as a lessee, and the lease is an operating lease, rental payments are expensed on a straight-line basis over the life of the lease.

For both finance and operating leases, contingent rents are recognized in earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

## **PROVISIONS AND CONTINGENCIES**

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.

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**

Asset retirement obligations (ARO) 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 instruments when they are first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Financial liabilities are classified as fair value through profit or loss or amortized cost.

### **Fair value through profit or loss**

Financial instruments classified as fair value through profit or loss, other than derivative instruments that are effective hedging instruments, are measured at fair value. Changes in fair value are recognized in earnings.

### **Available for sale**

Financial instruments classified as available for sale are measured at fair value using quoted prices in an active market. When actively quoted prices are not available, fair value is determined using other valuation techniques. Changes in fair value are recognized in other comprehensive income. If fair value cannot be reliably estimated, the item is carried at cost.

### **Held to maturity**

Financial instruments classified as held to maturity, loans and receivables, or other liabilities are initially measured at fair value. Thereafter, they are measured at their amortized cost using the effective interest method. Investments in equity instruments that do not have an actively quoted price and whose fair value cannot be reliably measured are measured at cost.

### **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 and preferred shares classified as liabilities 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 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**

An impairment of loans and receivables or held to maturity investments carried at amortized cost is recognized in earnings when the asset's carrying amount is higher than the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. When an available for sale financial asset is impaired, the cumulative gain or loss previously reported in accumulated other comprehensive income (AOCI) is recognized in earnings.

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. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

An impairment charge for an investment in an equity instrument classified as available for sale is not reversed.

#### **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, including derivatives embedded in other financial instruments or host contracts, 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, and then assesses at each reporting period whether the derivative has been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of the hedged item. The Company discontinues hedge accounting prospectively if the hedging relationship ceases to be highly effective, the derivative is no longer designated as a hedging instrument, or the underlying hedged item is derecognized.

#### **Fair value hedges**

A fair value hedge offsets the risk of volatility in the fair value of a recognized asset, liability, or firm commitment. Adjustments to the carrying value of the hedged item caused by changes in the fair value of the risk being hedged are offset in earnings by the effective portion of the changes in the fair value of the derivative.

If the Company discontinues hedge accounting, no further changes to the carrying value of the hedged item are recognized. The cumulative fair-value adjustments to the carrying amount of the hedged item are amortized to earnings over the remaining term of the hedged item using the effective interest method.

#### **Cash flow hedges**

A cash flow hedge offsets 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. 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 other post-employment benefit (OPEB) plans.

Pension plan assets at the balance sheet date are reported at market 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. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

#### **SHARE-BASED COMPENSATION PLANS**

The Company expenses stock options granted by ATCO Ltd. and its subsidiary, Canadian Utilities Limited. The Company determines the fair value of the options on the date of grant. The fair value is recognized over the vesting period of the options granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of the ATCO Ltd. options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the ATCO Ltd. options are exercised, and the amount initially recorded in contributed surplus is credited to Class I and Class II Share capital. The fair value of the Canadian Utilities Limited options is recorded in salaries, wages and benefits expense and non-controlling interests.

Share Appreciation Rights (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 mid-term incentive plan (MTIP) awards are equity-settled with shares purchased on the secondary market. They are measured at fair value based on the purchase price of the Company's Class I Non-Voting Shares at the date of grant. The awards are held by a trust until the shares are vested, at which time they are transferred to the employee. The fair value of the MTIP awards is recognized in salaries, wages and benefits expense over the vesting period, with a corresponding charge to contributed surplus.

#### **RELATED PARTY TRANSACTIONS**

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers or business combinations between entities under common control are measured at the carrying amount.

#### **FOREIGN CURRENCY TRANSLATION**

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. On consolidation, assets and liabilities of foreign operations 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. Gains or losses on translation are included in AOCI.



Transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. 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.

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.

#### 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. The Company has not early adopted these standards or interpretations.

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	Impact	Effective Date
IFRS 9 (2013) <i>Financial Instruments</i>	This standard replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting.	The adoption of this standard is not expected to have a material impact on the Company's financial results but will result in additional disclosures in the Company's annual financial statements.	Effective until January 1, 2018 if adopted by January 31, 2015. The Company will early adopt this standard January 1, 2015.
IFRS 9 (2014) <i>Financial Instruments</i>	This final standard replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments.	The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 15 <i>Revenue from Contracts with Customers</i>	This standard replaces previous guidance on revenue recognition. 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 yet completed as of the effective date. The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2017.

#### 4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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.

Significant judgments and estimates 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.

### **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. This estimate 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.

### **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 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

Costs for the defined benefit pension and OPEB plans are determined using the projected unit credit method and reflect management's best estimates of investment returns, long-term inflation rate, wage and salary increases, age at retirement, liability discount rates and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period. Key assumptions used to determine benefit cost and obligation are shown in Note 29.

### 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.

## 5. SEGMENTED INFORMATION

### SEGMENT DESCRIPTIONS

<b>Structures &amp; Logistics</b>	<p>ATCO Structures &amp; Logistics has five divisions: Modular Structures, Logistics and Facility O&amp;M Services, Lodging &amp; Support Services, Emissions Management and Sustainable Communities.</p> <p>Modular Structures manufactures, sells and leases transportable workforce housing and space rental products. Workforce Housing provides short-term and permanent modular camps and pre-fabricated and re-locatable modular buildings worldwide. Space Rentals sells and leases mobile office trailers in various sizes and floor plans to suit customers' needs.</p> <p>Logistics and Facility O&amp;M Services delivers facilities operations and maintenance services, including end-to-end supply chain management, to clients in the resource, defense and telecommunication sectors.</p> <p>Lodging &amp; Support Services provides lodging, catering, waste management and maintenance services to meet the demands of major, remote resource projects.</p> <p>Emissions Management designs, supplies and constructs noise abatement products for industrial facilities and gas turbine auxiliary products.</p> <p>Sustainable Communities provides pre-fabricated building solutions to Aboriginal and remote communities.</p>
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<b>Utilities</b>	<p>Utilities' activities are conducted through three regulated businesses in western and northern Canada: ATCO Gas, ATCO Electric and ATCO Pipelines.</p> <p>ATCO Gas distributes natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. It serves municipal, residential, business and industrial customers.</p> <p>ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), transmit and distribute electricity mainly in northern and central east Alberta, the Yukon and the Northwest Territories. Its service territory includes oil sands areas near Fort McMurray and heavy oil areas near Cold Lake and Peace River.</p> <p>ATCO Pipelines transmits natural gas in Alberta. It receives natural gas at various gas processing plants as well as from other natural gas transmission systems and transports it to end users in the province or to other pipeline systems, primarily for export.</p>
<b>Energy</b>	<p>Energy's activities are conducted through ATCO Power and ATCO Energy Solutions.</p> <p>ATCO Power's businesses include the regulated and non-regulated supply of electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada and Ontario.</p> <p>ATCO Energy Solutions' businesses include non-regulated natural gas gathering, processing, storage and transmission, natural gas liquids extraction, electricity transmission and industrial water services in western Canada and the Northwest Territories.</p>
<b>ATCO Australia</b>	<p>ATCO Australia comprises two business operations: ATCO Gas Australia and ATCO Power Australia.</p> <p>ATCO Gas Australia is a regulated provider of natural gas distribution services in Western Australia. It serves metropolitan Perth and surrounding regions.</p> <p>ATCO Power Australia is a non-regulated supplier of electricity from three natural gas-fired generating plants in Adelaide, South Australia; Brisbane, Queensland; and Karratha, Western Australia.</p>
<b>Corporate and Other</b>	<p>The Corporate and Other segment includes the strategic growth investments in competitively bid, long-term contracted electricity transmission infrastructure in Alberta and geographical expansion into Mexico. In addition, the segment also includes the commercial real estate owned by the Company in Alberta and included ATCO I-Tek until close of the sale of the Company's information systems and technologies services to Wipro Ltd. in August 2014 (see Note 8).</p> <p>ATCO I-Tek developed, operated and supported the Company's information systems and technologies. The billing services, payment processing, credit, collection, and call centre services formerly provided by ATCO I-Tek were retained by the Company; the financial results of these activities were reported in the Corporate and Other segment.</p>

## SEGMENTED RESULTS

Results by operating segment for the years ended December 31, 2014 and 2013 are shown below.

### YEAR ENDED DECEMBER 31

	2014		2013				
	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Revenues – external	<b>962</b>	<b>2,238</b>	<b>1,019</b>	<b>264</b>	<b>71</b>	<b>–</b>	<b>4,554</b>
	989	2,034	1,011	261	64	–	4,359
Revenues – intersegment	<b>1</b>	<b>8</b>	<b>7</b>	<b>–</b>	<b>143</b>	<b>(159)</b>	<b>–</b>
	15	6	6	–	177	(204)	–
Revenues	<b>963</b>	<b>2,246</b>	<b>1,026</b>	<b>264</b>	<b>214</b>	<b>(159)</b>	<b>4,554</b>
	1,004	2,040	1,017	261	241	(204)	4,359
Operating expenses <sup>(1)</sup>	<b>(814)</b>	<b>(1,131)</b>	<b>(794)</b>	<b>(108)</b>	<b>(147)</b>	<b>149</b>	<b>(2,845)</b>
	(824)	(1,044)	(689)	(123)	(173)	204	(2,649)
Depreciation, amortization and impairment <sup>(2)</sup>	<b>(47)</b>	<b>(355)</b>	<b>(95)</b>	<b>(53)</b>	<b>(17)</b>	<b>6</b>	<b>(561)</b>
	(51)	(320)	(107)	(38)	(18)	4	(530)
Gain (loss) on sales of operations	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3)</b>	<b>163</b>	<b>–</b>	<b>160</b>
	88	–	–	–	–	–	88
Earnings from investment in joint ventures <sup>(2)</sup>	<b>3</b>	<b>–</b>	<b>6</b>	<b>9</b>	<b>–</b>	<b>–</b>	<b>18</b>
	15	–	(29)	5	–	–	(9)
Net finance costs	<b>(2)</b>	<b>(215)</b>	<b>(30)</b>	<b>(61)</b>	<b>13</b>	<b>(3)</b>	<b>(298)</b>
	–	(178)	(33)	(61)	9	(9)	(272)
Earnings before income taxes	<b>103</b>	<b>545</b>	<b>113</b>	<b>48</b>	<b>226</b>	<b>(7)</b>	<b>1,028</b>
	232	498	159	44	59	(5)	987
Income taxes	<b>(28)</b>	<b>(138)</b>	<b>(30)</b>	<b>(15)</b>	<b>(26)</b>	<b>–</b>	<b>(237)</b>
	(63)	(126)	(52)	(8)	(2)	–	(251)
Earnings for the year	<b>75</b>	<b>407</b>	<b>83</b>	<b>33</b>	<b>200</b>	<b>(7)</b>	<b>791</b>
	169	372	107	36	57	(5)	736
Adjusted earnings	<b>67</b>	<b>218</b>	<b>53</b>	<b>27</b>	<b>14</b>	<b>(5)</b>	<b>374</b>
	96	179	80	24	10	1	390
Total assets <sup>(3)</sup>	<b>956</b>	<b>13,389</b>	<b>1,652</b>	<b>1,296</b>	<b>437</b>	<b>(41)</b>	<b>17,689</b>
	960	11,611	1,619	1,296	542	(18)	16,010
Total liabilities <sup>(3)</sup>	<b>301</b>	<b>9,158</b>	<b>981</b>	<b>900</b>	<b>148</b>	<b>(79)</b>	<b>11,409</b>
	359	7,724	1,000	935	148	(169)	9,997
Capital expenditures <sup>(4)</sup>	<b>91</b>	<b>2,079</b>	<b>75</b>	<b>81</b>	<b>47</b>	<b>–</b>	<b>2,373</b>
	116	2,178	68	89	67	–	2,518

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

(2) Includes impairment of property, plant and equipment (see Note 12) and investment in joint venture (see Note 15).

(3) Total assets and total liabilities do not reflect adjustments for rate-regulated activities included in adjusted earnings.

(4) Includes additions to property, plant and equipment and intangibles and \$76 million (2013 – \$65 million) of interest capitalized during construction for the year ended December 31, 2014.

## GEOGRAPHIC SEGMENTS

### Revenues - external <sup>(1)</sup>

	2014	2013
Canada	3,905	3,692
Australia	476	504
United States	157	108
Other	16	55
<b>Total</b>	<b>4,554</b>	<b>4,359</b>

(1) Revenues are attributed based on the country in which the good or service originated.

### Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets <sup>(2)</sup>		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Canada	13,876	12,187	410	372	162	170	14,448	12,729
Australia	1,198	1,169	6	15	36	40	1,240	1,224
United States	34	20	–	–	–	–	34	20
Other	9	5	–	–	18	28	27	33
<b>Total</b>	<b>15,117</b>	<b>13,381</b>	<b>416</b>	<b>387</b>	<b>216</b>	<b>238</b>	<b>15,749</b>	<b>14,006</b>

(2) Excludes financial instruments and deferred income tax assets.

The Company's operating segments are reported in the same way as internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM consists of the Office of the Chair, comprised of the Chair, President and Chief Executive Officer, and four other senior executives.

### ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses for rate-regulated activities. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal course of business or a result of day-to-day operations. Adjusted earnings are a key measure of segment earnings 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 2014 and 2013 year is shown below.

	Structures & Logistics	Utilities	Energy	ATCO Australia	Corporate and Other	Intersegment Eliminations	Consolidated
Adjusted earnings	67	218	53	27	14	(5)	374
	96	179	80	24	10	1	390
Gain (loss) on sales of information technology services and joint venture	–	–	–	(2)	76	–	74
	54	–	–	–	–	–	54
Impairment	–	–	(9)	(6)	–	–	(15)
	–	–	(24)	(1)	–	–	(25)
Adjustments for rate- regulated activities	–	(10)	–	(2)	–	(1)	(13)
	–	7	–	(4)	–	(4)	(1)
Earnings attributable to Class I and Class II Shares	67	208	44	17	90	(6)	420
	150	186	56	19	10	(3)	418
Earnings attributable to non-controlling interests							371
							318
Earnings for the period							791
							736

#### Gain (loss) on sales of information technology services and joint venture

In 2014, the Company adjusted for the realized gain on sale of its information technology services (see Note 8). The gain, after tax and after non-controlling interests, was \$74 million.

In 2013, the Company adjusted for the realized gain on sale of Tecno Fast ATCO S.A. (see Note 8). The gain, after tax and after non-controlling interests, was \$56 million. ATCO Structures & Logistics also adjusted for the realized loss on sale of its non-core rental fleet assets in the United Kingdom (U.K.). The loss, after non-controlling interests, was \$2 million.

#### Impairments

In 2014, the Company adjusted for a significant impairment of certain natural gas gathering, processing and liquids extraction assets in Canada (see Note 12), as well as an impairment relating to ATCO Power Australia's Bulwer Island power station (BIEP) (see Note 10). These impairments were included in depreciation, amortization and impairment expense.

In 2014 and 2013, the Company also adjusted for impairments of its joint venture power generation assets in the U.K. (see Note 15) and Australia. These impairments were recognized as reductions of equity earnings from investment in joint ventures.

#### Adjustments for rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

Before adopting IFRS, the Company used standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities. 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 segment disclosures on this basis.

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

Rate-Regulated Accounting Treatment	IFRS Treatment
1. The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2. The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
3. The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4. Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	2014	2013
<b>Additional revenues billed in current period:</b>		
Future removal and site restoration costs <sup>(1)</sup>	12	21
Retirement benefits <sup>(2)</sup>	1	2
Finance costs on major transmission capital projects <sup>(3)</sup>	24	21
Impact of colder temperatures on revenues <sup>(4)</sup>	4	–
Other	5	1
	<b>46</b>	<b>45</b>
<b>Revenues to be billed in future periods:</b>		
Deferred income taxes <sup>(5)</sup>	(46)	(39)
Transmission access payments <sup>(6)</sup>	(4)	(25)
Transmission capital deferral <sup>(7)</sup>	(3)	(7)
Impact of inflation on rate base for ATCO Gas Australia <sup>(8)</sup>	(4)	(8)
Other	(5)	(7)
	<b>(62)</b>	<b>(86)</b>
<b>Regulatory decisions related to current and prior periods:</b>		
Transmission access payments recoveries <sup>(9)</sup>	7	35
Transmission capital deferral refunds <sup>(9)</sup>	(5)	–
Evergreen and capital tracker decisions <sup>(9)</sup>	2	–
ATCO Gas Australia appeal decision <sup>(9)</sup>	2	5
Weather recoveries (refunds) <sup>(4)</sup>	(2)	2
Other	1	4
	<b>5</b>	<b>46</b>
<b>Intercompany profits:</b>		
Intercompany profits related to construction of property, plant and equipment and intangibles <sup>(10)</sup>	(2)	(6)
	<b>(13)</b>	<b>(1)</b>



Descriptions of the adjustments, and the timing of recovery or refund, are as follows:

Description	Timing of Recovery or Refund
1. Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
2. Contributions to defined benefit pension plans and other post-employment benefit plans are billed to customers when paid by the Company, whereas the costs of retirement benefits are accrued over the service life of the employees. Under rate-regulated accounting, contributions paid and billed to customers in excess of costs accrued in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings as the variances between contributions and costs reverse over the life of the plans.
3. Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
4. 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. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the AUC for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30th of any year for either of its North or South systems.
5. Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
6. Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.

Description	Timing of Recovery or Refund
7. For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.
8. ATCO Gas Australia earns a return on rate base that excludes inflation. Inflation is accounted for by adjusting the rate base in subsequent periods by the actual rate of inflation; the impact of inflation is billed to customers through recovery of depreciation. Under rate-regulated accounting, an adjustment is made to recognize the inflation component of rate base when it is earned in the current period. Differences between the amounts earned and the amounts billed to customers are deferred.	The inflation-indexed portion of rate base will be recovered from customers over the life of the assets comprising rate base through the recovery of depreciation.
9. The Canadian and Australian utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.	<p><b>Transmission Access Payment Recoveries</b> In the years 2014 and 2013, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers.</p> <p><b>Transmission Capital Deferral Refunds</b> In 2014, ATCO Electric refunded amounts to customers over-collected in 2011 for major transmission capital projects.</p> <p><b>Evergreen and Capital Tracker Decisions</b> The Utilities recorded a reduction in adjusted earnings of \$17 million in 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs (Evergreen decision) incurred in the period 2010 to 2014. In the fourth quarter of 2014, customer rates were adjusted and \$15 million was refunded to customers.</p> <p>In 2014, ATCO Gas and the distribution operations of ATCO Electric recorded adjusted earnings of \$14 million for the period January 1, 2013 to December 31, 2014, for the AUC decisions which approved 90 per cent of the applied-for Capital Tracker rates on an interim basis. In the fourth quarter of 2014, customer rates were adjusted and \$14 million was collected from customers.</p>
10. Under rate-regulated accounting, intercompany profits from transactions with related parties and approved by the regulator for inclusion in rate base are not eliminated on consolidation; they are recognized as earnings in the current period.	Intercompany profits will be recognized as earnings under IFRS as rate base is depreciated and the depreciation is billed to customers over the life of the assets.

## 6. REVENUES

The components of revenues are as follows:

	2014	2013
Sale of goods	1,036	957
Rendering of services	3,189	2,926
Operating lease income	295	441
Finance lease income	34	35
	4,554	4,359

## 7. OTHER COSTS AND EXPENSES

Other costs and expenses comprise the following:

	2014	2013
Goods and services <sup>(1)</sup>	226	219
Rent and utilities	52	51
PPA arbitration decision	–	17
Realized losses on derivatives	3	6
Unrealized gains on derivatives	(14)	(5)
	267	288

(1) Goods and services include professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

## 8. SALES OF INFORMATION TECHNOLOGY SERVICES AND JOINT VENTURE

### SALE OF INFORMATION TECHNOLOGY SERVICES

On August 15, 2014, Canadian Utilities Limited sold its 100 per cent ownership interest in ATCO I-Tek's information technology services as well as the assets of ATCO I-Tek Australia for proceeds of \$204 million cash, resulting in an after-tax gain of \$138 million. The gain, after-tax and after non-controlling interests, was \$74 million. This sale included current contracts and operational assets consisting of computer hardware and most software licenses. The Company retained the customer care and billing functions formerly provided by ATCO I-Tek as well as certain key enterprise-wide software licenses. Commencing August 15, 2014, the Company no longer recognizes ATCO I-Tek and ATCO I-Tek Australia's information technology services in its financial position, results of operations and cash flows in the consolidated financial statements. ATCO I-Tek was previously reported in the Corporate and Other segment; ATCO I-Tek Australia was previously reported in the ATCO Australia segment.

### SALE OF TECNO FAST ATCO S.A.

On September 13, 2013, ATCO Structures & Logistics sold its 50 per cent ownership interest in Tecno Fast ATCO S.A. (TFA) for proceeds of \$124 million cash, resulting in an after-tax gain of \$64 million. The gain, after-tax and after non-controlling interests, was \$56 million. This sale included all operational assets consisting of space rental and workforce housing fleet assets, manufacturing facilities and offices in Chile, Peru, Columbia and Brazil. Commencing September 13, 2013, the Company no longer recognizes TFA in its financial position, results of operations and cash flows in the consolidated financial statements. TFA was previously accounted for as a joint venture and was reported in the Structures & Logistics segment.

## 9. INCOME TAXES

### INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2014	2013
<b>Current income tax expense:</b>		
Canada	74	79
Australia	18	16
Chile	1	25
United States	6	6
Other	–	1
Adjustment in respect of prior years	(1)	–
	<b>98</b>	127
<b>Deferred income tax expense:</b>		
Reversal of temporary differences	137	124
Adjustment in respect of prior years	2	–
	<b>139</b>	124
	<b>237</b>	251

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

	2014		2013	
Earnings before income taxes	1,029	%	987	%
Income taxes, at statutory rates	257	25.0	247	25.0
International financing	(12)	(1.2)	(14)	(1.4)
Foreign tax rate variance	6	0.6	17	1.7
Disposition of foreign investment	–	–	(10)	(1.0)
Disposition of investment at capital gains rate	(18)	(1.8)	–	–
Equity earnings	(3)	(0.3)	7	0.7
Tax cost of preferred share financings	2	0.2	2	0.2
Other	5	0.5	2	0.2
	<b>237</b>	<b>23.0</b>	251	25.4

The combined federal and Alberta statutory Canadian income tax rate did not change from 2013 to 2014. Changes in income tax rates in foreign jurisdictions were not material.

### INCOME TAX ASSETS AND LIABILITIES

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

Income Tax Assets and Liabilities	Statements of Financial Position Location	2014	2013
<b>Income tax assets:</b>			
Current	Prepaid expenses and other current assets	18	10
Deferred	Other assets	30	33
<b>Total income tax assets</b>		<b>48</b>	43
<b>Income tax liabilities:</b>			
Current	Other current liabilities	22	12
Deferred	Deferred income tax liabilities	778	684
<b>Total income tax liabilities</b>		<b>800</b>	696

## DEFERRED INCOME TAXES

The changes in deferred income tax assets and liabilities were as follows:

	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
<b>Deferred income tax assets:</b>							
December 31, 2012	(19)	(4)	43	5	4	1	30
Credit (charge) to earnings	5	–	(5)	3	–	(2)	1
Other	–	–	–	3	–	(1)	2
<b>December 31, 2013</b>	<b>(14)</b>	<b>(4)</b>	<b>38</b>	<b>11</b>	<b>4</b>	<b>(2)</b>	<b>33</b>
<b>Credit (charge) to earnings</b>	<b>6</b>	<b>–</b>	<b>(3)</b>	<b>(10)</b>	<b>–</b>	<b>3</b>	<b>(4)</b>
<b>Charge to other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Disposition</b>	<b>(1)</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>(3)</b>	<b>1</b>	<b>1</b>
<b>December 31, 2014</b>	<b>(9)</b>	<b>–</b>	<b>35</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>30</b>
<b>Deferred income tax liabilities:</b>							
December 31, 2012	675	48	(44)	(2)	(189)	(8)	480
Charge (credit) to earnings	123	–	12	(13)	3	–	125
Credit to other comprehensive income	–	–	5	–	77	(1)	81
Other	(3)	–	–	–	–	1	(2)
<b>December 31, 2013</b>	<b>795</b>	<b>48</b>	<b>(27)</b>	<b>(15)</b>	<b>(109)</b>	<b>(8)</b>	<b>684</b>
<b>Charge (credit) to earnings</b>	<b>115</b>	<b>37</b>	<b>(6)</b>	<b>(22)</b>	<b>(1)</b>	<b>12</b>	<b>135</b>
<b>Charge (credit) to other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>(39)</b>	<b>(3)</b>	<b>(41)</b>
<b>Disposition</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2)</b>	<b>(2)</b>
<b>Other</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>(1)</b>	<b>2</b>
<b>December 31, 2014</b>	<b>910</b>	<b>85</b>	<b>(32)</b>	<b>(34)</b>	<b>(149)</b>	<b>(2)</b>	<b>778</b>

The Company does not expect its deferred income tax assets or liabilities to reverse within the next twelve months.

At the end of 2014, the Company had \$168 million in tax losses and credits, which expire on the following dates:

	Non-Capital Losses	Capital Losses
2031	17	–
2033	47	–
2034	72	–
Do not expire	16	16

The Company recorded deferred income tax assets of \$34 million for losses and credits that expire. No deferred income tax assets were recorded for losses that do not expire.

The Company recorded deferred income tax assets of nil (2013 – \$3 million) directly to equity.

The Company had \$137 million (2013 – \$131 million) of aggregate temporary differences for investments in subsidiaries, branches and joint ventures for which deferred income tax liabilities of \$29 million (2013 – \$27 million) were not recognized.

## 10. LEASES

### THE COMPANY AS LESSOR

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

#### Finance leases

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

	2014	2013
<b>Net investment in finance leases:</b>		
Finance lease - gross investment	654	735
Unearned finance income	(346)	(411)
Unguaranteed residual value	2	3
	<b>310</b>	<b>327</b>
Current portion	20	8
Non-current portion	290	319
	<b>310</b>	<b>327</b>
<b>Gross receivables from finance leases:</b>		
In one year or less	53	45
In more than one year, but not more than five years	159	183
In more than five years	442	507
	<b>654</b>	<b>735</b>
<b>Net investment in finance leases:</b>		
In one year or less	20	8
In more than one year, but not more than five years	38	44
In more than five years	252	275
	<b>310</b>	<b>327</b>

During the year ended December 31, 2014, \$4 million (2013 – \$4 million) of contingent rents was recognized as income from these finance leases.

#### Impairment

The Company recognized a pre-tax impairment of \$12 million in the year ended December 31, 2014 relating to ATCO Power Australia's 33 MW Bulwer Island power station (BIEP) (ATCO Australia segment), which was included in depreciation, amortization and impairment expense. On April 2, 2014, British Petroleum (BP) announced it will cease refining operations at its oil refinery in Brisbane by mid-2015 and convert to an import terminal. BP is BIEP's only customer and no suitable economic replacement has been identified at this time.

BIEP is jointly owned with Origin Energy and the plant is accounted for as a finance lease. As a result, BIEP's lease receivable was impaired. The impairment calculation was based on pre-tax cash flow projections of the separation payments due from BP, salvage value of the plant and the expected remaining lease payments assuming a plant closure date of May 31, 2015. This date reflects the Company's best estimate of the timing based on current commercial discussions. The expected future cash flows were discounted at a pre-tax rate of 12.4 per cent, which was the original effective interest rate of the lease receivable. The remaining lease receivable of \$14 million is classified in current assets as at December 31, 2014.

## Operating leases

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

	2014	2013
<b>Minimum lease payments receivable:</b>		
In one year or less	199	194
In more than one year, but not more than five years	760	654
In more than five years	187	331
	<b>1,146</b>	1,179

During the year ended December 31, 2014, \$24 million (2013 – \$60 million) of contingent rents was recognized as income from these operating leases.

## THE COMPANY AS LESSEE

The Company's operating leases are mainly long-term leases for office premises and equipment.

## Operating leases

During the year ended December 31, 2014, \$44 million (2013 – \$44 million) was recognized as an expense for these operating leases. No sublease payments were received or made nor were any contingent rental payments made for these operating leases.

## 11. INVENTORIES

Inventories at December 31 were comprised of:

	2014	2013
Natural gas and fuel in storage	21	21
Raw materials and consumables	76	77
Work-in-progress	10	24
Finished goods	3	9
	<b>110</b>	131

For the year ended December 31, 2014, inventories recognized as an expense were \$551 million (2013 – \$567 million). Write-downs to net realizable value were less than \$1 million (2013 – \$2 million) and there were no reversals of previous write-downs to net realizable value.

Inventories with a carrying value of \$25 million were pledged as security for liabilities at December 31, 2014 (2013 – \$41 million).

## 12. PROPERTY, PLANT AND EQUIPMENT

The Utilities segment continues to make significant investment in utility infrastructure in Alberta, particularly in electricity transmission facilities.

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

	Utility Transmission & Distribution	Power Generation	Land and Buildings	Construction Work-in- Progress	Other	Total
<b>Cost:</b>						
December 31, 2012	10,719	1,943	613	1,427	1,454	16,156
Additions	1,809	41	93	220	267	2,430
Disposals	(60)	(9)	(3)	–	(128)	(200)
Changes to asset retirement costs	–	(7)	–	–	(25)	(32)
Foreign exchange rate adjustment	(84)	–	(3)	(2)	(27)	(116)
<b>December 31, 2013</b>	<b>12,384</b>	<b>1,968</b>	<b>700</b>	<b>1,645</b>	<b>1,541</b>	<b>18,238</b>
<b>Additions</b>	<b>1,225</b>	<b>11</b>	<b>83</b>	<b>756</b>	<b>209</b>	<b>2,284</b>
<b>Disposals</b>	<b>(75)</b>	<b>(9)</b>	<b>(9)</b>	<b>(12)</b>	<b>(144)</b>	<b>(249)</b>
<b>Changes to asset retirement costs</b>	<b>–</b>	<b>10</b>	<b>–</b>	<b>–</b>	<b>33</b>	<b>43</b>
<b>Foreign exchange rate adjustment</b>	<b>(5)</b>	<b>–</b>	<b>(2)</b>	<b>1</b>	<b>3</b>	<b>(3)</b>
<b>December 31, 2014</b>	<b>13,529</b>	<b>1,980</b>	<b>772</b>	<b>2,390</b>	<b>1,642</b>	<b>20,313</b>
<b>Accumulated depreciation:</b>						
December 31, 2012	2,678	1,098	133	–	625	4,534
Depreciation and impairment	280	63	21	–	129	493
Disposals	(60)	(8)	(2)	–	(80)	(150)
Foreign exchange rate adjustment	(4)	–	(2)	–	(14)	(20)
<b>December 31, 2013</b>	<b>2,894</b>	<b>1,153</b>	<b>150</b>	<b>–</b>	<b>660</b>	<b>4,857</b>
<b>Depreciation and impairment</b>	<b>313</b>	<b>64</b>	<b>22</b>	<b>–</b>	<b>122</b>	<b>521</b>
<b>Disposals</b>	<b>(69)</b>	<b>(9)</b>	<b>(3)</b>	<b>–</b>	<b>(99)</b>	<b>(180)</b>
<b>Foreign exchange rate adjustment</b>	<b>(2)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2)</b>
<b>December 31, 2014</b>	<b>3,136</b>	<b>1,208</b>	<b>169</b>	<b>–</b>	<b>683</b>	<b>5,196</b>
<b>Net book value:</b>						
December 31, 2013	9,490	815	550	1,645	881	13,381
<b>December 31, 2014</b>	<b>10,393</b>	<b>772</b>	<b>603</b>	<b>2,390</b>	<b>959</b>	<b>15,117</b>

The additions of property, plant and equipment included \$76 million (2013 – \$65 million) of interest capitalized. Interest rates ranged from 4.28 per cent to 6.90 per cent (2013 – 5.34 per cent to 7.00 per cent).

Construction work-in-progress additions in 2014 are net of transfers of \$911 million (2013 – \$1,591 million) to other property, plant and equipment categories.

In 2014, the Company recognized a pre-tax impairment of \$18 million based on a fair market value assessment of integrated gas system assets which are comprised of certain gas gathering and processing facilities and natural gas liquids extraction plants. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were no longer economically viable due to declining gas production in the service area and deteriorating condition of these assets which would pose operational and financial risk. The impairment charge decreased the carrying amount of these assets to nil.

In 2013, the Company recognized a pre-tax impairment of \$16 million relating to certain natural gas gathering, processing and liquids extraction plants in the Energy segment. The impairment was included in depreciation, amortization and impairment expense. The anticipated price and recovery of natural gas liquids did not materialize as the market re-focused on a different geographical area. Management made assumptions about gas volumes, the price of natural gas liquids, and operational capacity based on industry information and company forecasts of expected future cash flows. The cash flows were discounted at a pre-tax rate of 9.25 per cent. After recognizing this impairment, the recoverable amount of these assets was \$21 million at December 31, 2013. This amount was determined using value in use.



Property, plant and equipment with a carrying value of \$814 million were pledged as security for liabilities at December 31, 2014 (2013 – \$806 million).

### 13. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. Goodwill is also an intangible asset (see Note 14).

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, 2012	422	158	29	609
Additions	46	39	5	90
Disposals	(6)	–	–	(6)
Foreign exchange rate adjustment	(2)	–	(1)	(3)
<b>December 31, 2013</b>	<b>460</b>	<b>197</b>	<b>33</b>	<b>690</b>
<b>Additions</b>	<b>59</b>	<b>32</b>	<b>–</b>	<b>91</b>
<b>Disposals</b>	<b>(36)</b>	<b>–</b>	<b>(6)</b>	<b>(42)</b>
<b>December 31, 2014</b>	<b>483</b>	<b>229</b>	<b>27</b>	<b>739</b>
<b>Accumulated amortization:</b>				
December 31, 2012	232	28	4	264
Amortization	37	2	6	45
Disposals	(6)	–	–	(6)
<b>December 31, 2013</b>	<b>263</b>	<b>30</b>	<b>10</b>	<b>303</b>
<b>Amortization</b>	<b>40</b>	<b>2</b>	<b>3</b>	<b>45</b>
<b>Disposals</b>	<b>(24)</b>	<b>–</b>	<b>(1)</b>	<b>(25)</b>
<b>December 31, 2014</b>	<b>279</b>	<b>32</b>	<b>12</b>	<b>323</b>
<b>Net book value:</b>				
December 31, 2013	197	167	23	387
<b>December 31, 2014</b>	<b>204</b>	<b>197</b>	<b>15</b>	<b>416</b>

### 14. GOODWILL

The carrying value of goodwill for the utilities and energy segments is shown below.

	2014	2013
Utilities	46	46
Energy	25	25
Carrying value	71	71

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

The Company used an average enterprise value-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) of 13.3 and 11.7 (2013 – 12.5 and 11.8) and price-to-earnings value of 18.6 and 18.8 (2013 – 19.1 and 19.6) for the Utilities and Energy segments, respectively, to calculate fair value less costs of disposal.

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

## 15. JOINT ARRANGEMENTS

A joint arrangement is one in which two or more parties have joint control. The Company classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements. Joint arrangements that are not structured as separate vehicles and give all parties direct rights to the assets and direct obligations for the liabilities under the arrangements are classified as joint operations. Joint arrangements that are structured as separate vehicles and provide all parties with rights to the net assets of the entities under the arrangements are classified as joint ventures.

### JOINT OPERATIONS

Significant joint operations at December 31, 2014, are listed below.

Significant Joint Operations	Operating Jurisdiction	Ownership %	Principal Activity
Energy:			
Sheerness Generating Plant	Canada	50.0	Power generation
Joffre Cogeneration Plant	Canada	40.0	Power generation
Cory Cogeneration Plant	Canada	50.0	Power generation
Muskeg River Cogeneration Plant	Canada	70.0	Power generation

### JOINT VENTURES

On September 19, 2014, ATCO Energy Solutions Ltd. (AES), a wholly owned subsidiary of Canadian Utilities Limited, entered into a partnership (Strathcona Storage Limited Partnership) with Petrogas Energy Corp. to develop four salt caverns for hydrocarbon storage. AES made an initial investment of \$35 million for a 60 per cent partnership interest. The total combined partnership investment is expected to be approximately \$200 million. The partnership is accounted for as a joint venture.

The following joint ventures are considered the most significant; however, they are not individually material to the operations of the Company.

Significant Joint Ventures	Operating Jurisdiction	Ownership (%)	Principal Activity
Energy:			
Brighton Beach Plant	Canada	50.0	Power generation
Barking Generating Plant	United Kingdom	25.5	Power generation
Strathcona Storage Limited Partnership	Canada	60.0	Hydrocarbon storage
ATCO Australia:			
Osborne Cogeneration Plant	Australia	50.0	Power generation

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

	2014	2013
Earnings (loss) for the year	18	(9)
OCI	(10)	(1)
Comprehensive income (loss) for the year	8	(10)
Aggregate carrying amount of interests in these joint ventures	147	127

### IMPAIRMENT OF BARKING POWER LTD.

On October 27, 2014, the Company, together with its partners, made the decision to close the 1,000 MW Barking generating plant in the U.K. ATCO Power has a 25.5 per cent ownership interest in this plant. On-going weakness in the U.K. economy and increased competition from renewable energy due to significant regulatory changes resulted in declining projected U.K. energy margins and continued losses for the Barking operations. As a result of the decision to close the plant, the Company recognized an impairment of \$3 million in equity earnings in the Energy segment in the fourth quarter of 2014.

In 2013, the Company recognized an impairment of \$33 million in equity earnings in the Energy segment relating to the Barking plant. The recoverable amount of the Barking CGU was determined based on a value in use calculation. This calculation used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. In calculating the value in use, management made assumptions about future capacity revenue, which included consideration of proposed regulatory changes. Capacity revenue forecasts beyond five years were based on independent long-term market forecasts and management's judgment for U.K. energy prices and volumes. The expected future cash flows were discounted at a pre-tax rate of 11 per cent, which reflected the specific risks relating to the CGU. The estimated future growth rate of (1.9) per cent to 1.6 per cent was based on management's assumptions. After recognizing this impairment, the recoverable amount of the CGU was \$8 million at December 31, 2013, the majority of which was land.

#### COMMITMENTS

The joint ventures have contractual obligations in the normal course of business. The Company's share of these contractual obligations and the future minimum undiscounted contractual maturities are as follows:

	2015	2016	2017	2018	2019	2020 and thereafter
Accounts payable and accrued liabilities	35	—	—	—	—	—
Non-recourse long-term debt	12	13	14	16	17	58
Interest expense	8	7	6	6	5	9
Operating and maintenance agreements	12	6	3	2	2	3
Derivatives	1	1	—	—	—	—
Other	1	—	—	—	—	—
	69	27	23	24	24	70

#### SIGNIFICANT RESTRICTIONS

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

#### 16. BANK INDEBTEDNESS AND LINES OF CREDIT

The Company has the following lines of credit that enable it to obtain financing for general business purposes:

	2014			2013		
	Total	Used	Available	Total	Used	Available
Long-term committed	2,602	593	2,009	2,603	597	2,006
Uncommitted	73	6	67	73	3	70
	2,675	599	2,076	2,676	600	2,076

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.

Of the \$599 million used at December 31, 2014, \$5 million was current bank indebtedness, \$472 million was long-term debt and \$122 million represented outstanding letters of credit (2013 – \$500 million was long-term debt, \$2 million was long-term debt due within one year and \$98 million represented outstanding letters of credit).

## 17. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

ARO represent the present value of the costs to be incurred to retire the Company's power generation plants and natural gas liquids extraction and processing plants. The other provision relates to expected warranty claims on modular buildings. In 2013, the other provision also included an amount for Australian stamp duty obligations relating to the WA Gas Networks Pty Ltd acquisition. This was paid in 2014.

An ARO and other provisions reconciliation is given below.

	Asset Retirement Obligations	Other	Total
December 31, 2012	187	58	245
Additions	3	17	20
Disposals	(2)	–	(2)
Utilized in the year	(1)	(14)	(15)
Accretion expense	3	–	3
Revisions in discount rate	(36)	–	(36)
Foreign exchange rate adjustment	–	(4)	(4)
<b>December 31, 2013</b>	<b>154</b>	<b>57</b>	<b>211</b>
<b>Additions</b>	<b>4</b>	<b>18</b>	<b>22</b>
<b>Utilized in the year</b>	<b>(2)</b>	<b>(46)</b>	<b>(48)</b>
<b>Reversals of unused amounts</b>	<b>–</b>	<b>(10)</b>	<b>(10)</b>
<b>Accretion expense</b>	<b>5</b>	<b>–</b>	<b>5</b>
<b>Revisions in discount rate</b>	<b>37</b>	<b>–</b>	<b>37</b>
<b>Foreign exchange rate adjustment</b>	<b>–</b>	<b>1</b>	<b>1</b>
<b>December 31, 2014</b>	<b>198</b>	<b>20</b>	<b>218</b>
<b>Current</b>	<b>26</b>	<b>20</b>	<b>46</b>
<b>Non-current</b>	<b>172</b>	<b>–</b>	<b>172</b>
	<b>198</b>	<b>20</b>	<b>218</b>

The Company estimates that the undiscounted amount of cash flows required to settle the AROs is approximately \$580 million, which will be incurred between 2015 and 2111. The pre-tax, risk-free discount rate used to calculate the fair value of the AROs was 1.01 per cent to 4.23 per cent (2013 – 1.19 per cent to 4.23 per cent).

The Company expects that the majority of the warranty claims costs will be incurred in the next year. The provision is based on current sales levels and information available on repair and maintenance costs for products sold.

## 18. LONG-TERM DEBT AND NON-RECOURSE LONG-TERM DEBT

### LONG-TERM DEBT

Long-term debt outstanding is shown in the table below.

	Effective Interest Rate	2014	2013
CU Inc. debentures – unsecured <i>(Interest is the average effective interest rate weighted by principal amounts outstanding)</i>	5.146% (2013 – 5.382%)	<b>6,300</b>	5,200
CU Inc. other long-term obligation, due December 2016 – unsecured	3.000%	<b>3</b>	5
Canadian Utilities Limited debentures – unsecured 2012 3.122% due November 2022	3.187%	<b>200</b>	200
Less: Deferred financing charges		<b>(35)</b>	(29)
		<b>6,468</b>	5,376
Canadian Utilities Limited credit facility at 5.72%, matured June 2014	5.884%	<b>–</b>	35
ATCO Power Australia credit facility, payable in Australian dollars, at Bank Bill rates, due June 2015, secured by a pledge of project assets and contracts, \$87 million AUD (2013 – \$90 million AUD) <sup>(1)</sup>	Floating <sup>(2)</sup>	<b>83</b>	86
ATCO Gas Australia Limited Partnership credit facility, payable in Australian dollars, at Bank Bill Rates, due December 2019, \$250 million AUD (2013 – \$250 million AUD) <sup>(1)</sup>	Floating <sup>(2)</sup>	<b>237</b>	237
ATCO Gas Australia Limited Partnership revolving credit facility, payable in Australian dollars, at Bank Bill Rates, due December 2019, \$427 million AUD (2013 – \$418 million AUD) <sup>(1)</sup>	Floating <sup>(2)</sup>	<b>404</b>	396
<b>ATCO Structures &amp; Logistics</b>			
Credit facility, at BA rates, due September 2016 secured by a general assignment of ATCO Structures & Logistics' present and future property, assets, undertakings and equity interests in certain of its restricted subsidiaries and joint ventures <sup>(1)</sup>	Floating <sup>(2)</sup>	<b>60</b>	59
Credit facility, payable in Australian dollars, at Bank Bill Rates, due October 2016, \$8 million AUD, secured by a general assignment of an Australian subsidiary's present and future assets	Floating <sup>(2)</sup>	<b>8</b>	45
Less: Deferred financing charges		<b>(4)</b>	(4)
		<b>7,256</b>	6,230
Less: Amounts due within one year		<b>(83)</b>	(138)
		<b>7,173</b>	6,092

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

The book value of the pledged assets at December 31, 2014, was \$943 million (2013 – \$923 million).

## NON-RECOURSE LONG-TERM DEBT

Project Financing	Effective Interest Rate	2014	2013
Joffre:			
Notes, at fixed rate of 8.59%, due to 2020	8.950%	29	34
Scotford:			
Term loan, at BA rates, matured 2014 <sup>(1)</sup>	Floating <sup>(2)</sup>	–	7
Term loan, at CDOR, matured 2014 <sup>(1)</sup>	Floating <sup>(2)</sup>	–	2
Notes, at fixed rate of 7.93%, due to 2022	8.240%	22	23
Muskeg River:			
Term loan, at BA rates, matured 2014 <sup>(1)</sup>	Floating <sup>(2)</sup>	–	6
Term loan, at CDOR, matured 2014 <sup>(1)</sup>	Floating <sup>(2)</sup>	–	2
Notes, at fixed rate of 7.56%, due to 2022	7.840%	18	20
Cory:			
Notes, at fixed rate of 7.586%, due to 2025	7.870%	31	33
Notes, at fixed rate of 7.601%, due to 2026	7.890%	28	30
Other:			
Other long-term obligations, at rates of 8.16% to 12.65%, due at various dates to 2016		1	10
Less: Deferred financing charges		(2)	(2)
		127	165
Less: Amounts due within one year		(15)	(39)
		112	126

BA – Bankers' Acceptance

CDOR – Canadian Dealer Offered Rate

(1) The above interest rates have additional margin fees at a weighted average rate of 1.2% (2013 – 1.5%). The margin fees are subject to escalation.

(2) Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 22).

The 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 and bank accounts at December 31, 2014, was \$407 million (2013 – \$417 million). The Cory project is accounted for as a finance lease receivable.

## CONTRACTUAL MATURITIES OF DEBT

The undiscounted contractual maturities of long-term debt and non-recourse long-term debt were as follows:

	Long-Term Debt		Non-Recourse Long-Term Debt		Total	
	Principal	Interest <sup>(1)</sup>	Principal	Interest <sup>(1)</sup>	Principal	Interest <sup>(1)</sup>
2015	83	357	15	11	98	368
2016	71	354	15	9	86	363
2017	150	352	15	7	165	359
2018	–	344	15	6	15	350
2019	1,121	327	15	5	1,136	332
2020 and thereafter	5,870	5,818	54	11	5,924	5,829
	7,295	7,552	129	49	7,424	7,601

(1) Interest payments on floating rate debt that has not been hedged have been estimated using rates in effect at December 31, 2014. Interest payments on debt that has been hedged have been estimated using the hedged rates.

## INTEREST EXPENSE

Interest expense is as follows:

	2014	2013
Long-term debt	350	311
Non-recourse long-term debt	12	14
Retirement benefits net interest expense	10	15
Amortization of deferred financing charges	4	3
Accretion of asset retirement obligations	5	3
Other	7	4
	388	350
Less: Interest capitalized (Note 12)	(76)	(65)
	312	285

## 19. DEFERRED REVENUES

Deferred revenues from customer contributions and other sources are:

	2014	2013
Customer contributions	1,508	1,377
Other	4	9
	1,512	1,386

## 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.

	2014	2013
Beginning of year	1,377	1,162
Receipt of customer contributions	177	266
Amortization	(46)	(50)
Other	–	(1)
End of year	1,508	1,377

## 20. OTHER LIABILITIES

Other non-current liabilities are as follows:

	2014	2013
Unearned availability incentives	53	56
Derivative liabilities (Note 23)	–	1
Other	15	17
	68	74

## 21. CONTINGENCIES

Measurement inaccuracies occur from time to time on the utilities' metering facilities. These measurement adjustments 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.

Measurement inaccuracies occur from time to time on ATCO Gas Australia's metering facilities. These measurement adjustments are settled between the parties and the costs are recovered via the tariff based on a predetermined threshold contained in the current Access Arrangement. The Access Arrangement also contains a cost pass-through mechanism for recovery of any increases in gas commodity prices associated with these measurement adjustments. Recovery of a measurement adjustment may be disallowed if the adjustment exceeds a predetermined threshold; currently, levels are tracking below the threshold.

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.

## **22. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

### **FINANCIAL RISKS**

The Company is exposed to a variety of risks associated with the use of financial instruments. These risks are comprised of interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk and liquidity risk. 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 a Risk Review 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 Company may use various derivative instruments, including swaps and forward contracts, to manage the risks from fluctuating interest rates, exchange rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes. Derivatives are disclosed in Note 23.

### **INTEREST RATE RISK**

The Company's interest-bearing assets and liabilities include cash and cash equivalents, bank indebtedness, long-term debt and non-recourse long-term debt (see Note 18). The interest rate risk faced by the Company is largely a result of its cash and cash equivalents and variable rate long-term debt and non-recourse 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 has fixed interest rates, either directly or through interest rate swap agreements, on 99 per cent (2013 – 97 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited. Interest rate swaps are designated as cash flow hedges; changes in the fair value of highly effective cash flow hedges are recorded in other comprehensive income.



The Company has converted certain variable rate long-term debt and non-recourse long-term debt to fixed rate debt through the following interest rate swap agreements:

Financing	Swap Fixed Interest Rate <sup>(1)</sup>	Variable Debt Interest Rate	Maturity Date	Notional Principal	
				2014	2013
Karratha:					
\$87 million AUD (2013 – \$91 million AUD)	6.160%	Bank Bill Rate in Australia	June 2015	83	86
ATCO Gas Australia:					
2014 – nil (2013 – \$200 million AUD)	6.960%	Bank Bill Rate in Australia	June 2014	–	190
2014 – nil (2013 – \$160 million AUD)	7.089%	Bank Bill Rate in Australia	June 2014	–	152
2014 – nil (2013 – \$200 million AUD)	6.935%	Bank Bill Rate in Australia	June 2014	–	190
2014 – nil (2013 – \$40 million AUD)	6.839%	Bank Bill Rate in Australia	June 2014	–	38
\$225 million AUD (2013 – nil)	2.763%	Bank Bill Rate in Australia	June 2015	213	–
\$225 million AUD (2013 – nil)	2.763%	Bank Bill Rate in Australia	June 2015	213	–
\$225 million AUD (2013 – nil)	2.763%	Bank Bill Rate in Australia	June 2015	213	–
Scotford:					
	3.360%	90 day BA	December 2014	–	8
	3.758%	3 month CDOR	December 2014	–	2
Muskeg River:					
	2.775%	90 day BA	December 2014	–	8
Brighton Beach <sup>(2)</sup> :					
	4.703%	90 day BA	June 2020	3	4
	4.909%	3 month CDOR	June 2020	3	3
				<b>728</b>	<b>681</b>

BA – Bankers' Acceptance

CDOR – Canadian Dealer Offered Rate

(1) The above swap fixed interest rates include any long-term debt margin fees; the margin fees are subject to escalation (Note 18).

(2) The Brighton Beach swap was entered into by the Company; however, the non-recourse debt is held within the Company's investment in joint venture.

#### FOREIGN CURRENCY EXCHANGE RATE RISK

The Company's earnings from, and carrying values of, its foreign operations are exposed to fluctuating exchange rates. The Company offsets this foreign exchange impact in part by hedging and by financing with foreign-denominated debt.

Foreign currency exchange rate risk arises from financial instruments denominated in a currency other than the functional currency. The Company entered into foreign currency forward contracts to manage its exposure to foreign exchange rate risk arising from certain service contracts, planned equipment expenditures and operating cash flows denominated in U.S. and Australian dollars. At December 31, 2014, the contracts consist of \$35 million U.S. in return for \$41 million Australian dollars (\$41 million Canadian dollars). In 2013, there were: (i) \$35 million U.S. in return for \$39 million Australian dollars (\$37 million Canadian dollars), (ii) 7 billion Chilean pesos in return for \$14 million Canadian dollars, and (iii) \$10 million U.S. in return for \$10 million Canadian dollars.

The sensitivity of OCI in 2014 to changes in foreign exchange rates on financial instruments is outlined below. The sensitivity analysis is based on management's assessment that an average 10 cent increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next quarter.

	<b>OCI</b>
U.S. dollar	9
Australian dollar	(63)
<b>Total</b>	<b>(54)</b>

*(1) These calculations assume an increase in the value of these currencies relative to the Canadian dollar. A decrease would have the reverse effect.*

#### **ENERGY COMMODITY PRICE RISK**

The Company's electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas. At December 31, 2014, approximately 734 MW of power generating plant capacity out of a total capacity owned by ATCO Power of 2,286 MW is merchant capacity, which can be sold on the merchant electricity market.

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 is also exposed to seasonal summer/winter natural gas price spreads in its natural gas storage business.

#### **CREDIT RISK**

For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government. Approximately 74 per cent of the cash equivalents at December 31, 2014 were invested in Government of Canada treasury bills and certificates of deposit issued by Canadian financial institutions.

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.

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.

The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments. The Company does not have a concentration of credit risk with any counterparty, except for lease receivables, which by their nature are with a single counterparty. A significant portion of loans and receivables are from the Company's operations in Alberta, except for the lease receivable for the Karratha plant in Australia.

At December 31, 2014, the Company held \$63 million, \$70 million and \$2 million in letters of credit, parental guarantees and security deposits, respectively (2013 – \$67 million, \$15 million and \$2 million). The Company did not take possession of collateral it holds as security or call on other credit enhancements in the years ended December 31, 2014 and December 31, 2013.

The Company has also entered into guarantee arrangements with Centrica plc. (see Note 21).

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. Changes in the provision for impairment were as follows:

	2014	2013
Beginning of year	5	6
Impairment of receivables	3	1
Receivables written off as uncollectible	(2)	(2)
End of year	6	5

The aging analysis of trade receivables that are past due but not impaired is as follows:

	2014	2013
30 to 90 days	18	15
Greater than 90 days	12	1
	30	16

No other impairments have been identified within accounts receivable.

### LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. 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 used under available credit lines to provide flexibility in the timing and amounts of long-term financing. The Company has a policy not to invest any of its cash balances in asset-backed securities.

The Company has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

	2015	2016	2017	2018	2019	2020 and thereafter
Accounts payable and accrued liabilities	974	–	–	–	–	–
Long-term debt (Note 18)	83	71	150	–	1,121	5,870
Non-recourse long-term debt (Note 18)	15	15	15	15	15	54
Interest expense (Note 18)	368	363	359	350	332	5,829
Operating leases <sup>(1)</sup>	40	33	23	19	6	36
Purchase obligations:						
Coal purchase contracts <sup>(2)</sup>	89	97	100	103	106	361
Operating and maintenance agreements <sup>(3)</sup>	320	310	318	298	149	141
Capital expenditures <sup>(4)</sup>	138	–	–	–	–	–
Derivatives <sup>(5)</sup>	4	–	–	–	–	–
Other	46	37	–	–	1	2
	2,077	926	965	785	1,730	12,293

(1) Operating leases are comprised primarily of long-term leases for office premises and equipment.

(2) ATCO Power has long-term fixed price contracts to purchase coal for its coal-fired generating plants.

(3) Consists of ATCO Power's long-term service agreements with suppliers to provide operating and maintenance services at certain of their generating plants, ATCO Gas's transmission service from NOVA Gas Transmission Ltd. and the Company's information technology services contractual obligations.

(4) Consists of various contracts to purchase goods and services with respect to capital expenditures.

(5) Payments on outstanding derivatives have been estimated using rates in effect at December 31, 2014.

## FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate carrying value due to their short-term nature.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

Recurring Measurements	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and Receivables:				
Lease receivables <sup>(1)</sup>	310	504	327	499
<b>Financial Liabilities</b>				
Amortized Cost:				
Long-term debt <sup>(2)</sup>	7,256	8,270	6,230	6,597
Non-recourse long-term debt <sup>(2)</sup>	127	156	165	191

(1) Recorded at amortized cost. Fair values are determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts.

(2) Recorded at amortized cost. Fair values are 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. Long-term debt and non-recourse long-term debt are classified in Level 2 of the fair value hierarchy.

## OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following trade receivables and payables are subject to offsetting, enforceable master netting arrangements and similar agreements:

	2014	2013
Gross amounts of recognized trade receivables	59	42
Gross amounts of recognized trade payables	(22)	(22)
Net amounts of trade receivables presented in the balance sheet	37	20

## 23. DERIVATIVES

### DERIVATIVE INSTRUMENTS

At December 31, 2014, the following derivative instruments were outstanding: interest rate swaps that hedge interest rate risk on the variable future cash flows for a portion of long-term debt and non-recourse long-term debt, foreign currency forward contracts, forward power sales, and forward natural gas purchases.

The derivative assets and liabilities comprise the following:

	Derivative Assets <sup>(1)</sup>		Derivative Liabilities <sup>(2)</sup>	
	2014	2013	2014	2013
<b>Current</b>				
Interest rate swap agreements	—	—	1	10
Natural gas purchase contracts	—	—	3	—
Forward power sales contracts	5	—	—	—
Foreign currency forward contracts	2	1	—	—
	7	1	4	10
<b>Non-current</b>				
Interest rate swap agreements	—	—	—	1
	—	—	—	1
	7	1	4	11

(1) Current derivative assets are included in prepaid expenses and other current assets. Non-current derivative assets are included in other assets.

(2) Current derivative liabilities are included in other current liabilities. Non-current derivative liabilities are included in other liabilities.

For the year ended December 31, 2014, losses after income taxes of \$11 million (2013 – nil) were reclassified from AOCI and recognized in earnings and a gain of \$14 million (2013 – \$5 million) was recognized due to hedge ineffectiveness. Over the next 12 months, the Company estimates that gains after income taxes of \$2 million will be reclassified from AOCI to earnings.

#### FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of the Company's derivative financial instruments are as follows:

Recurring Measurements	2014			2013		
	Notional Principal or Volume <sup>(1)</sup>	Fair Value Receivable (Payable) <sup>(3)</sup>	Maturity	Notional Principal or Volume <sup>(1)</sup>	Fair Value Receivable (Payable) <sup>(3)</sup>	Maturity
Interest rate swaps	728	(1)	2015-2020	681	(11)	2014-2020
Natural gas purchase contracts <sup>(2)</sup>	2,452,000 GJ	(3)	2016	1,610,548 GJ	–	2014
Forward power sales contracts <sup>(2)</sup>	580,216 MWh	5	2015-2019	182,400 MWh	–	2014
Foreign currency forward contracts	41	2	2015	61	1	2014

(1) The notional principal is not recorded in the consolidated financial statements as it does not represent amounts that are exchanged by the counterparties.

(2) Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts. Notional amounts for the forward sale and purchase contracts are the commodity volumes committed in the contracts.

(3) Fair values for the interest rate swaps and foreign currency forward contracts were estimated using period-end market rates. Fair values for the natural gas purchase contracts were estimated using period-end market prices for natural gas and an estimate of implied volatility based on historic market prices. Fair values for forward power sales contracts were estimated using forward period-end market prices. These fair values approximate the amount that the Company would either pay or receive to settle the contracts at December 31, 2014.

The hierarchy of the Company's derivative financial instruments measured at fair value is as follows:

	Level 1	Level 2	Level 3	Total
Current derivative assets <sup>(1)</sup>	–	7	–	7
Current derivative liabilities <sup>(2)</sup>	–	(4)	–	(4)
	–	3	–	3

(1) Current derivative assets are included in prepaid expenses and other current assets.

(2) Current derivative liabilities are included in other current liabilities.

#### SENSITIVITY ANALYSIS

The analysis below illustrates the sensitivity in the fair value of outstanding derivatives to reasonably possible changes in Canadian and Australian interest rates and foreign exchange rates, the forward price of natural gas, and the forward price of power in Alberta. Sensitivities are reflected in changes to earnings and other comprehensive income, after income taxes and non-controlling interests.

Assumptions made in arriving at the sensitivity analysis are as follows:

- Changes in the fair value of derivatives are recorded in OCI if the instruments are highly effective cash flow hedges.
- Changes in the fair value of derivatives are recorded in earnings if the instruments are not designated as hedges, are fair value hedges, or are ineffective cash flow hedges.
- Changes in the forward price of natural gas affect the mark-to-market adjustment of the natural gas purchase contracts derivative asset.

A 25 basis point increase or decrease in Australian or Canadian interest rates would each increase or decrease OCI, net of non-controlling interests, by less than \$1 million. A 10 per cent increase or decrease in the Australian to Canadian dollar exchange rate and forward price of natural gas in Alberta would each increase or decrease OCI, net of non-controlling interests, by less than \$1 million. A 10 per cent increase or decrease in the forward price of natural gas or power in Alberta would each increase or decrease OCI, net of non-controlling interests, by less than \$1 million and \$2 million, respectively.

## 24. CLASS I AND CLASS II SHARES AND EARNINGS PER SHARE

A reconciliation of the number and dollar amount of outstanding Class I Non-Voting and Class II Voting shares at December 31, 2014 is shown below.

### AUTHORIZED AND ISSUED

	Class I Non-Voting		Class II Voting		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	300,000,000		50,000,000		350,000,000	
Issued and outstanding:						
December 31, 2012	101,358,112	165	13,658,816	2	115,016,928	167
Purchased and cancelled	(62,000)	–	–	–	(62,000)	–
Stock options exercised	168,800	4	–	–	168,800	4
Converted: Class II to Class I	8,020	–	(8,020)	–	–	–
<b>December 31, 2013</b>	<b>101,472,932</b>	<b>169</b>	<b>13,650,796</b>	<b>2</b>	<b>115,123,728</b>	<b>171</b>
<b>Purchased and cancelled</b>	<b>(130,000)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(130,000)</b>	<b>–</b>
<b>Stock options exercised</b>	<b>147,700</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>147,700</b>	<b>2</b>
<b>Converted: Class II to Class I</b>	<b>15,591</b>	<b>–</b>	<b>(15,591)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>December 31, 2014</b>	<b>101,506,223</b>	<b>171</b>	<b>13,635,205</b>	<b>2</b>	<b>115,141,428</b>	<b>173</b>

There were 310,692 Class I Non-Voting Shares held in the mid-term incentive plan (MTIP) trust at December 31, 2014, with a carrying amount of \$12 million (2013 – 351,652 shares with a carrying amount of \$12 million). The carrying amount of the Class I and II share capital, net of shares held in trust, was \$161 million at December 31, 2014 (2013 – \$159 million).

There were 762,900 options to purchase Class I Non-Voting Shares outstanding at December 31, 2014, under the Company's stock option plan. From January 1, 2015, to February 18, 2015, no stock options were granted or cancelled, 200 stock options were exercised and 2,000 Class II Voting Shares were converted to Class I Non-Voting Shares.

Class I Non-Voting and Class II Voting Shares have no par value.

### EARNINGS PER SHARE

Earnings per Class I Non-Voting and Class II Voting Share are calculated by dividing the earnings attributable to Class I and Class II Shares by the weighted average shares outstanding. Diluted earnings per share are calculated using the treasury stock method, which reflects the potential exercise of stock options and MTIPs on the weighted average Class I Non-Voting and Class II Voting Shares outstanding.

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

	2014	2013
<b>Average shares:</b>		
Weighted average shares outstanding	114,847,991	114,800,753
Effect of dilutive stock options	295,581	359,352
Effect of MTIPs	317,934	342,861
Weighted average dilutive shares outstanding	115,461,506	115,502,966
<b>Earnings for earnings per share calculation:</b>		
Earnings for the year	791	736
Non-controlling interests	(371)	(318)
	420	418
<b>Earnings and diluted earnings per Class I and Class II Share:</b>		
Earnings per Class I and Class II Share	\$3.66	\$3.64
Diluted earnings per Class I and Class II Share	\$3.64	\$3.62

## SHARE OWNER RIGHTS

A share owner may convert one Class II Voting Share into one Class I Non-Voting Share at any time. The Class I Non-Voting Shares will be entitled to the same voting rights as the Class II Voting Shares when an offer to purchase all Class II Voting Shares is made, and the offer is accepted and taken up by a majority of the Class II Voting Share owners, and, at the same time, an offer is not made to the Class I Non-Voting Share owners on the same terms and conditions. The two share classes rank equally in all other respects.

## NORMAL COURSE ISSUER BID

On March 1, 2013, ATCO Ltd. began a normal course issuer bid to purchase up to 2,027,314 outstanding Class I Non-Voting Shares. The bid expired on February 28, 2014. From March 1, 2013, to February 28, 2014, 62,000 shares were purchased, all of which were purchased in 2013 for \$3 million. The purchases resulted in a decrease to share capital and retained earnings of nil and \$3 million, respectively.

On March 3, 2014, ATCO Ltd. began a new normal course issuer bid to purchase up to 2,029,496 outstanding Class I Non-Voting Shares. The bid will expire on February 27, 2015. From March 3, 2014, to February 18, 2015, 130,000 shares were purchased, all of which were purchased in 2014 for \$6 million. The purchases resulted in a decrease to share capital and retained earnings of nil and \$6 million, respectively.

## 25. DIVIDENDS

Cash dividends declared and paid per share were as follows:

<i>(dollars per share)</i>	2014	2013
Class I and Class II Shares	0.860	0.750

The Company's policy is to pay dividends quarterly on its Class I and Class II Shares. Increases in the quarterly dividend are addressed by the Board in the first quarter of each year. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

## 26. NON-CONTROLLING INTERESTS

Non-controlling interests (NCI) own 60.8 per cent (2013 – 61.0 per cent) of the Class A non-voting common shares and 11.8 per cent (2013 – 11.9 per cent) of the Class B common shares of Canadian Utilities Limited for a total ownership interest of 46.8 per cent (2013 – 46.9 per cent). They also own 100 per cent of the equity preferred shares issued by Canadian Utilities Limited and its subsidiary, CU Inc.

The summarized consolidated financial information for Canadian Utilities Limited, before inter-company eliminations, is provided below.

	2014	2013
<b>Consolidated Balance Sheet:</b>		
Current assets	1,026	1,105
Non-current assets	15,698	13,946
Current liabilities	(1,002)	(1,024)
Non-current liabilities	(10,115)	(8,633)
<b>Net assets</b>	<b>5,607</b>	<b>5,394</b>
Attributable to NCI	3,112	3,153
Equity preferred shares:		
Cumulative Redeemable Preferred Shares, at 3.80% to 4.60% (2013 – 3.8% to 6.7%)	190	350
Cumulative Redeemable Second Preferred Shares, at 4.00% to 4.90%	1,025	1,025
Perpetual Cumulative Second Preferred Shares, at 4.00%	110	110
Issuance costs	(23)	(27)
	<b>1,302</b>	<b>1,458</b>
<b>Consolidated Statement of Comprehensive Income:</b>		
Revenues	3,600	3,381
Earnings for the year	724	606
OCI	(114)	200
<b>Comprehensive income for the year</b>	<b>610</b>	<b>806</b>
Attributable to NCI:		
Earnings for the year	371	318
OCI	(53)	94
	<b>318</b>	<b>412</b>
<b>Consolidated Statement of Cash Flows:</b>		
Cash flows from operating activities	1,540	1,801
Cash flows from investing activities	(1,977)	(2,418)
Cash flows from financing activities	291	770
Foreign currency translation	(3)	(6)
<b>Net (decrease) increase in cash position</b>	<b>(149)</b>	<b>147</b>
<b>Dividends paid to NCI:</b>		
Class A and Class B share owners	92	84
Equity preferred shares	63	64
	<b>155</b>	<b>148</b>

Canadian Utilities Limited has a dividend reinvestment plan (DRIP) that allows eligible Class A non-voting and Class B common share owners of Canadian Utilities Limited to reinvest all or a portion of their dividends in additional Class A non-voting shares.

During 2014, non-controlling interests acquired 1,023,766 Class A non-voting shares of Canadian Utilities Limited, using re-invested dividends of \$39 million (2013 – 936,977 shares using re-invested dividends of \$34 million). The shares were priced at an average of \$38.60 per share (2013 – \$35.92 per share).



## **EQUITY PREFERRED SHARES**

On June 1, 2014, CU Inc., a wholly owned subsidiary of Canadian Utilities Limited, redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling \$160 million. The redemption was financed with available cash reserves.

On March 19, 2013, Canadian Utilities Limited issued \$175 million Cumulative Redeemable Second Preferred Shares Series CC at \$25.00 per share under its base shelf prospectus. Holders are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board, payable quarterly at an annual rate of \$1.125 per share, or 4.50 per cent.

On May 15, 2013, Canadian Utilities Limited issued \$225 million Cumulative Redeemable Second Preferred Shares Series DD at \$25.00 per share under its base shelf prospectus. Holders are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board, payable quarterly at an annual rate of \$1.125 per share, or 4.50 per cent.

Issuance costs of \$8 million, net of income taxes, were recorded as a reduction of non-controlling interests in the year ended December 31, 2013.

### **Redemption privileges**

The Series AA and Series BB Preferred Shares are redeemable in whole or in part at the option of Canadian Utilities Limited starting September 1, 2017, at the stated value plus a 4 per cent premium per share for the next twelve months plus accrued and unpaid dividends. The redemption premium declines by 1 per cent in each succeeding twelve month period until September 1, 2021.

The Series CC Preferred Shares are redeemable in whole or in part at the option of Canadian Utilities Limited starting June 1, 2018, at the stated value plus a 4 per cent premium per share for the next twelve months plus accrued and unpaid dividends. The redemption premium declines by 1 per cent in each succeeding twelve month period until June 1, 2022.

The Series DD Preferred Shares are redeemable in whole or in part at the option of Canadian Utilities Limited, starting September 1, 2018, at the stated value plus a 4 per cent premium per share for the next twelve months plus accrued and unpaid dividends. The redemption premium declines by 1 per cent in each succeeding twelve month period until September 1, 2022.

## **27. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are to:

1. Safeguard the Company's ability to continue as a going concern so it can continue to provide returns to share owners and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the Utilities.

The Company considers both its regulated and non-regulated operations, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to share owners, issue or purchase Class I and Class II Shares, and issue or redeem preferred shares, 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 a large portion of 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, long-term debt and non-recourse long-term debt (including their respective current portions). It defines total capitalization as the sum of Class I and Class II Shares, contributed surplus, retained earnings, AOCI, preferred shares, non-controlling interests 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 is as follows:

	2014	2013
Bank indebtedness	5	2
Long-term debt	7,256	6,230
Non-recourse long-term debt	127	165
<b>Total debt</b>	<b>7,388</b>	<b>6,397</b>
Class I and Class II Shares	161	159
Contributed surplus	11	12
Retained earnings	3,010	2,717
Accumulated other comprehensive income	(14)	(28)
Non-controlling interests	3,112	3,153
<b>Total equity</b>	<b>6,280</b>	<b>6,013</b>
<b>Total capitalization</b>	<b>13,668</b>	<b>12,410</b>
<b>Debt capitalization</b>	<b>54%</b>	<b>52%</b>

For the year ended December 31, 2014, 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. SHARE-BASED COMPENSATION PLANS

### STOCK OPTION PLAN

Of the 10,200,000 Class I Non-Voting Shares authorized for grant of options under ATCO Ltd.'s stock option plan, 2,888,800 Class I Non-Voting Shares were available for issuance at December 31, 2014. Options may be granted to officers and key employees of ATCO Ltd. and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The options have a term of 10 years and vest over the first 5 years.

Information about the options outstanding and exercisable is given below.

	2014		2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding options, beginning of year	844,500	\$25.97	919,250	\$22.20
Granted	82,500	51.86	97,250	45.06
Exercised	(147,700)	15.69	(168,800)	16.34
Forfeited	(16,400)	37.21	(3,200)	31.19
<b>Outstanding options, end of year</b>	<b>762,900</b>	<b>\$30.52</b>	<b>844,500</b>	<b>\$25.97</b>
<b>Options exercisable, end of year</b>	<b>518,550</b>	<b>\$24.97</b>	<b>596,550</b>	<b>\$21.62</b>

Options		Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$20.17 – \$24.89	355,600	2.1	\$22.44	355,600	\$22.44	
\$25.35 – \$29.47	151,100	5.6	26.64	109,100	26.45	
\$35.12 – \$37.81	82,550	7.2	35.15	34,700	35.15	
\$44.97 – \$47.70	93,900	8.2	45.05	19,150	45.04	
\$51.96 – \$51.97	79,750	9.2	51.96	–	–	
\$20.17 – \$51.97	762,900	4.8	\$30.52	518,550	\$24.97	

Compensation expense related to stock options was less than \$1 million in each of 2014 and 2013, with a corresponding increase to contributed surplus.

### SHARE APPRECIATION RIGHTS

Directors, officers and key employees of the Company may be granted share appreciation rights (SAR) that are based on Class I Non-Voting Shares of ATCO Ltd. or Class A non-voting shares of Canadian Utilities Limited. The vesting provisions and exercise period are determined at the time of grant and cannot exceed 10 years.

The base value of the SAR is equal to the weighted average of the trading price of the Class I Non-Voting Shares and the Class A non-voting shares, respectively, on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant. The holder is entitled on exercise to receive a cash payment equal to any increase in the market price of the Class I Non-Voting Shares and the Class A non-voting shares, respectively, over the base value of the SAR exercised.

Information about the SARs outstanding and exercisable is summarized below.

	2014		2013	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	659,900	\$30.47	578,650	\$26.76
Granted	95,500	51.78	125,250	45.07
Exercised	(7,700)	27.53	(40,800)	22.61
Forfeited	(16,400)	37.21	(3,200)	31.19
Outstanding SARs, end of year	731,300	\$33.13	659,900	\$30.47
SARs exercisable, end of year	407,950	\$26.27	345,950	\$24.75

SARs		Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$20.17 – \$24.89	245,000	2.6	\$23.47	245,000	\$23.47	
\$25.35 – \$29.77	167,100	5.3	26.94	109,100	26.45	
\$35.12 – \$37.81	104,550	6.2	35.14	34,700	35.15	
\$44.97 – \$47.70	123,900	7.1	45.10	19,150	45.04	
\$51.96 – \$51.97	90,750	8.6	51.96	–	–	
\$20.17 – \$51.97	731,300	5.2	\$33.13	407,950	\$26.27	

Compensation expense related to SARs was \$1 million in 2014 (2013 – \$4 million). The total carrying value of liabilities arising from SARs at December 31, 2014 was \$10 million (2013 – \$9 million). The total intrinsic value of all vested SARs at December 31, 2014 was \$9 million (2013 – \$8 million).

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:

	2014		2013	
	Options	SARs	Options	SARs
Class I share price	\$51.86	\$51.78	\$45.06	\$45.06
Risk-free interest rate	1.6%	1.4%	1.4%	2.0%
Share price volatility <sup>(1)</sup>	18.3%	22.2%	14.7%	19.0%
Estimated annual Class I share dividend	1.7%	1.8%	1.7%	1.6%
Expected holding period prior to exercise	7.1 years	6.0 years	7.1 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 is indicative of future trends, which may not necessarily be indicative of exercise patterns that may occur.

#### MID-TERM INCENTIVE PLAN

Officers and key employees of the Company may be awarded Class I Non-Voting Shares of ATCO Ltd. under a mid-term incentive plan (MTIP). The awards vest after two to three years and are settled with shares purchased on the secondary market. In 2014, the Company, through a trustee, purchased \$4 million of shares (2013 – \$4 million) to be distributed to employees on vesting of awards.

Information about the MTIPs outstanding is summarized below.

	2014		2013	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	351,652	\$36.63	338,060	\$30.99
Granted	94,650	52.56	112,000	45.05
Vested	(122,800)	29.93	(90,000)	26.40
Forfeited	(40,150)	40.89	(8,400)	31.52
Change in unallocated shares <sup>(1)</sup>	27,340	–	(8)	–
Outstanding MTIPs, end of year	310,692	\$44.26	351,652	\$36.63

(1) Unallocated shares are Class I Non-Voting Shares held by the trustee which have not been awarded to officers or key employees.

MTIPs	Outstanding		
Range of Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Grant Date Fair Value
\$35.44 – \$38.18	96,250	0.3	\$35.63
\$44.56 – \$47.72	100,200	1.3	45.07
\$51.97 – \$53.79	86,900	2.2	52.88
Unallocated shares	27,342	–	–
\$35.44 – \$53.79	310,692	1.2	\$44.26

Compensation expense related to MTIP grants amounted to \$3 million for 2014 (2013 – \$4 million) with a corresponding increase to contributed surplus.

The MTIP trust is considered a special purpose entity and is consolidated in the Company's financial statements. The Class I Non-Voting Shares, while held in trust, are accounted for as a reduction of share capital.

## 29. 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, principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees of Canadian Utilities Limited and its subsidiaries, and, as of 2005, new employees of ATCO Structures & Logistics, automatically participate in the defined contribution pension plans.

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

The majority of benefit payments are made from trustee-administered funds; however, there are a number of unfunded plans where the Company makes the benefit payments. Plan assets held in trusts are governed by provincial and federal legislation and regulations, as is the relationship between the Company and the trustee. The Pension Committee of the Board 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.

Information about the Company's benefit plans, in aggregate, is as follows:

Benefit plan assets, obligations and funded status	2014		2013	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Market value of plan assets:</b>				
Beginning of year	2,231	–	2,017	–
Interest income	107	–	85	–
Employee contributions	2	–	3	–
Employer contributions	45	–	68	–
Benefit payments	(85)	–	(76)	–
Return on plan assets, excluding amounts included in interest income	228	–	134	–
End of year	2,528	–	2,231	–
<b>Accrued benefit obligations:</b>				
Beginning of year	2,433	100	2,537	98
Current service cost	36	3	43	3
Interest cost	118	5	106	4
Employee contributions	2	–	3	–
Benefit payments from plan assets <sup>(1)</sup>	(85)	–	(76)	–
Benefit payments by employer	(7)	(3)	(7)	(4)
Curtailment gain <sup>(2)</sup>	(11)	(1)	–	–
Actuarial losses (gains) <sup>(3)</sup>	365	18	(173)	(1)
End of year <sup>(4)</sup>	2,851	122	2,433	100
<b>Funded status:</b>				
Net retirement benefit obligations <sup>(5)</sup>	(323)	(122)	(202)	(100)

(1) Pension plan benefit payments have historically been indexed annually to increases in the Canadian Consumer Price Index to a maximum increase of 3% per annum.

(2) The sale of the Company's ownership interest in ATCO I-Tek's information technology services resulted in a curtailment gain of \$12 million. The curtailment gain is included in the gain on sale of information technology services (see Note 8).

(3) The actuarial losses were due to a decrease in the liability discount rate assumption at December 31, 2014 (2013 – an increase in the liability discount rate assumption at December 31, partially offset by an assumption update to reflect longer life expectancy, resulted in actuarial gains).

(4) The non-registered, non-funded defined benefit pension plans accrued benefit obligations increased to \$147 million at December 31, 2014 (2013 – \$131 million) due to a decrease in the liability discount rate.

(5) The weighted average duration of the defined benefit obligation is 14.9 years.

	2014		2013	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Components of benefit plan cost:</b>				
Current service cost	36	3	43	3
Interest cost	118	5	106	4
Interest income	(107)	–	(85)	–
Curtailment gain <sup>(1)</sup>	(11)	(1)	–	–
Defined benefit plans cost	36	7	64	7
Defined contribution plans cost	38	–	34	–
Total cost	74	7	98	7
Less: Capitalized	32	3	35	2
Net cost recognized	42	4	63	5
<b>Gains (losses) on retirement benefit assets and obligations:</b>				
Return on plan assets, excluding amounts included in net interest expense	228	–	134	–
Gains (losses) on plan obligations from:				
Changes in demographic assumptions <sup>(2)</sup>	(25)	(2)	(104)	(1)
Changes in financial assumptions	(347)	(15)	253	3
Experience adjustments	7	(1)	24	(1)
	(365)	(18)	173	1
Gains (losses) recognized in other comprehensive income	(137)	(18)	307	1

(1) The curtailment gain is included in the gain on sale of information technology services (see Note 8).

(2) In 2014, the Company adopted the Private Sector Canadian Pensioners Mortality table published by the Canadian Institute of Actuaries as the basis for assumption regarding future life expectancy. In 2013 assumptions regarding future life expectancy were based on a 1994 mortality table, updated for improvements in life expectancy. Assumptions were updated at December 31, 2013 to reflect longer life expectancy consistent with the plans' experience.

## PLAN ASSETS

The market values of the Company's defined benefit pension plan assets at December 31, 2014 and 2013 are:

	2014				2013			
	Quoted	Un-quoted	Total	%	Quoted	Un-quoted	Total	%
<b>Plan asset mix:</b>								
Equity securities <sup>(1)</sup>								
Public	737	–	737		815	–	815	
Private	–	25	25		–	29	29	
	<b>737</b>	<b>25</b>	<b>762</b>	<b>30</b>	<b>815</b>	<b>29</b>	<b>844</b>	<b>38</b>
Fixed income securities								
Government bonds	849	–	849		635	–	635	
Corporate bonds and debentures	582	–	582		531	–	531	
Mortgages	–	40	40		–	24	24	
	<b>1,431</b>	<b>40</b>	<b>1,471</b>	<b>59</b>	<b>1,166</b>	<b>24</b>	<b>1,190</b>	<b>53</b>
Real estate								
Land and building <sup>(2)</sup>	–	73	73		–	73	73	
Real estate funds	–	139	139		–	64	64	
	<b>–</b>	<b>212</b>	<b>212</b>	<b>8</b>	<b>–</b>	<b>137</b>	<b>137</b>	<b>6</b>
Cash and other assets								
Cash	39	–	39		14	–	14	
Short-term notes and money market funds	37	–	37		38	–	38	
Accrued interest and dividends receivable	7	–	7		8	–	8	
	<b>83</b>	<b>–</b>	<b>83</b>	<b>3</b>	<b>60</b>	<b>–</b>	<b>60</b>	<b>3</b>
	<b>2,251</b>	<b>277</b>	<b>2,528</b>	<b>100</b>	<b>2,041</b>	<b>190</b>	<b>2,231</b>	<b>100</b>

(1) Equity securities consisted of investments in domestic and foreign preferred and common shares. At December 31, 2014, the market values of investments in United States' securities and international equities, denominated in a number of different currencies, were \$309 million and \$165 million, respectively (2013 – \$286 million and \$252 million, respectively).

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

At December 31, 2014, plan assets included Class I Non-Voting Shares of ATCO Ltd. with a market value of \$49 million (2013 – \$45 million), Class A non-voting and Class B common shares of Canadian Utilities Limited with a market value of \$41 million (2013 – \$36 million) and long-term debt of CU Inc. with a market value of \$19 million (2013 – \$24 million).

## FUNDING

Employees contribute a percentage of their salary to registered pension plans. The Company contributes its share of contributions for the defined contribution pension plans. The Company also provides the balance of the funding necessary to ensure that benefits will be fully provided for the defined benefit pension plans.

In 2014, an actuarial valuation for funding purposes as of December 31, 2013 was completed for the registered defined benefit pension plans. Based on this valuation, employer contributions for 2014 were \$45 million compared to \$68 million in 2013, a decrease of \$23 million. The 2014 amount is also the estimated contribution for 2015. The next actuarial valuation for funding purposes must be completed as of December 31, 2016.

Employer contributions to the defined contribution component of the plans for 2014 were \$38 million (2013 – \$34 million).

## WEIGHTED AVERAGE ASSUMPTIONS

	2014		2013	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Assumptions regarding benefit plan cost:</b>				
Discount rate for the year	4.9%	4.9%	4.3%	4.3%
Average compensation increase for the year	Note <sup>(1)</sup>	—	Note <sup>(1)</sup>	—
<b>Assumptions regarding accrued benefit obligations:</b>				
Discount rate at December 31	4.0%	4.0%	4.9%	4.9%
Long-term inflation rate	2.0%	Note <sup>(2)</sup>	2.0%	Note <sup>(2)</sup>

Note <sup>(1)</sup> The assumed average compensation increase is 3.25% for 2014 and thereafter (2013 – 3.25% until the end of 2013 and thereafter).

Note <sup>(2)</sup> The assumed annual health care cost trend rate increases used in measuring the accumulated OPEB obligation are as follows: for drug costs, 5.83% for 2014 grading down over ten years to 4.5% (2013 – 5.97% for 2013 grading down over eleven years to 4.5%), for other medical costs, 4.5% for 2014 and thereafter (2013 – 4.5% for 2013 and thereafter), and for dental costs, 4.0% for 2014 and thereafter (2013 – 4.0% for 2013 and thereafter).

## 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 equities offer the best returns over the long-term with an acceptable level of risk, the Company continues to invest in equity securities. This investment is an important element of the Company's long-term strategy to manage the plans efficiently. The equity securities are in a diversified portfolio of high-quality businesses. 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 sensitivities of key assumptions used in measuring accrued benefit obligations and benefit plan cost for 2014 are outlined in the following table. They are calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously. The types of assumptions and method used to prepare the sensitivity analysis has not changed from previous periods and is consistent with the calculation of the retirement benefit obligations and net benefit plan cost recognized in the consolidated financial statements.

	2014 Pension Benefit Plans		2014 OPEB Plans	
	Accrued Benefit Obligation	Net Benefit Plan Cost	Accrued Benefit Obligation	Net Benefit Plan Cost
Discount rate				
1% increase	(313)	(14)	(14)	–
1% decrease	371	13	18	–
Future compensation rate				
1% increase	38	2	–	–
1% decrease	(36)	(2)	–	–
Long-term inflation rate				
1% increase <sup>(1) (2)</sup>	343	12	12	–
1% decrease <sup>(2)</sup>	(285)	(10)	(10)	–
Life expectancy				
10% increase	66	2	2	–
10% decrease	(59)	(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 annum.

(2) The long-term inflation rate for OPEB plans is the assumed annual health care cost trend rate described in the weighted average assumptions.

## 30. CHANGES IN NON-CASH WORKING CAPITAL

Activities resulting in changes in non-cash working capital are summarized below.

	2014	2013
<b>Operating activities, changes related to:</b>		
Accounts receivable	(37)	(13)
Inventories	15	14
Prepaid expenses and other current assets	(15)	19
Accounts payable and accrued liabilities	(21)	51
Provisions and other current liabilities	(47)	(1)
	<b>(105)</b>	70
<b>Investing activities, changes related to:</b>		
Accounts receivable	(5)	1
Inventories	6	(11)
Prepaid expenses	2	(1)
Accounts payable and accrued liabilities	46	(68)
	<b>49</b>	(79)

### 31. RELATED PARTY TRANSACTIONS

#### JOINT VENTURE TRANSACTIONS

In transactions with the Company's joint ventures, the Company recognized revenues of \$4 million (2013 – \$4 million) relating to management fees, surface and mineral rights, interest income, and facility and equipment rentals.

#### GROUP PENSION PLAN TRANSACTIONS

In transactions with the Company's group pension plans, the Company paid occupancy costs of \$8 million (2013 – \$7 million) relating to property owned by the pension plans.

#### RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, the Company acquired 1,675,441 Class A non-voting shares of Canadian Utilities Limited under its DRIP, using re-invested dividends of \$65 million (2013 – 2,789,988 shares using re-invested dividends of \$100 million). The shares were priced at an average of \$38.60 per share (2013 – \$35.91 per share).

The Company sold property and equipment of \$4 million (2013 – nil) to an entity related through common control and incurred \$2 million (2013 – \$2 million) in advertising, promotion and other expenses from an entity related through common control.

#### KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2014	2013
Salaries and short-term employee benefits	13	12
Retirement benefits	1	1
Share-based compensation	6	8
	20	21

Key management personnel comprise members of executive management and the Board, a total of 19 individuals (2013 – 15 individuals).

### 32. SUBSEQUENT EVENT

On January 8, 2015, the Company declared a quarterly dividend of \$0.24750 per Class I Non-Voting Share and Class II Voting Share.