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ATCO

**Financial Report
Fiscal Year 1983**

**For the Three
Months ended
June 30, 1982**

**Working
with
Energy**

Company Mission

To achieve an international reputation for excellence by providing products and services to the energy and resource industries and to invest principally in energy-related assets in North America.

Company Profile

Divisions and affiliated companies of ATCO Ltd. are active worldwide in gas and oil exploration and development, contract drilling, well servicing and oilfield equipment; in utilities through the generation and production, transmission and distribution of electricity and natural gas; in manufacturing through industrial portable shelter, metal fabrication, interiors contracting and petrochemicals; and in real estate through commercial, residential and land development. ATCO employs over 8,000 people in the United States, Canada, Australia and Saudi Arabia.

To the Shareholder

Earnings for the ATCO Group of Companies for the three months ended June 30th, 1982, were \$6,790,000 or 1¢ per common share on total revenue of \$403,476,000. Comparative figures for the same period last year were earnings of \$11,945,000 or 45¢ per common share on total revenue of \$344,651,000. Earnings per common share are calculated after provision of \$6,676,000 for preferred share dividends. Preferred share dividends provided for during the first half of last year amounted to \$4,662,000.

The reduced earnings per common share resulted from higher interest costs, higher income taxes and an increased participation by minority shareholders in the earnings of Canadian Utilities Limited. This occurred despite a 13% increase in operating earnings to \$36.9 million.

Manufacturing

Although ATCO has increased its share of the industrial housing market on a world-wide basis, production from the Canadian factories declined because of economic instability in the country as well as the delay of several significant resource development projects. As a result, industrial housing sales volume declined during the first quarter and the pressure on margins that began to develop in the fall of 1981 increased.

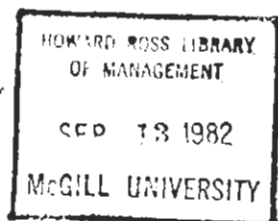
The encouraging areas for ATCO's manufacturing operations have been Australia and Saudi Arabia where reasonably buoyant markets have provided a steady level of production. Prospects for continued high levels of activity in these markets are good.

The utilization of rental equipment has been very steady as clients strive to conserve high cost capital through renting rather than purchasing their housing requirements.

Housing & Development

With the exception of lower cost homes eligible for mortgage subsidies, residential housing sales in the major centres of Alberta continue to be very slow. The policy of building residential housing on a pre-sold basis only is being continued. Although residential housing inventories are minimal as a result of actions taken several months ago, the emphasis on disposal of this inventory is being maintained.

The two major commercial developments now under way, the Canadian Western Centre in Calgary and the Canadian Utilities Centre in Edmonton, are on schedule and forecast to be completed within budget.



Drilling & Well Servicing

Over-capacity continues to be a major problem for both the drilling and well servicing industries in Canada and the United States. While ATCO is performing better than the industry average, the existence of surplus rigs has reduced margins to the break-even level. Although the Alberta Provincial Government has expanded its well servicing incentive program to include development drilling, a return to activity levels that will support reasonable margins is not likely until the winter drilling season commences in December 1982. In the interim, every step possible is being taken to reduce costs and streamline operating procedures.

The three drilling rigs being operated by ATCO-APM Drilling Pty. Ltd. in Australia are all under contract and prospects for further work are excellent.

Utilities

The summer months are traditionally a period of low revenue and earnings for the Group's utility subsidiaries because of the weather sensitive nature of large segments of these operations.

On June 1st, 1982, ATCO Ltd., Canadian Utilities Limited and Nu-West Group Limited announced the closing of a transaction involving the purchase by Canadian Utilities of all of the voting securities of TransAlta Utilities Corporation owned by Nu-West. The purchase from Nu-West was satisfied by the payment of \$170,000,000 in cash and the issue to Nu-West of 3.5 million Canadian Utilities common treasury shares valued at \$21.30 per share. Concurrently, ATCO Ltd. sold 950,000 Canadian Utilities common shares to Nu-West at \$21.30 per share.

As a result of these transactions, Canadian Utilities now owns approximately 20% of the voting securities of TransAlta making Canadian Utilities the principal holder of shares in TransAlta. ATCO now holds 50.5% of the Canadian Utilities common shares while TransAlta and Nu-West respectively hold approximately 31.3% and 16.5%.

At a special general meeting held on August 10th, 1982, the shareholders of Canadian Utilities approved a capital reorganization creating two new classes of common shares to be designated as Class A non-voting shares and Class B common shares. This capital reorganization is of special significance to ATCO shareholders since future Canadian Utilities equity financing will be accomplished through the issue of non-voting shares, thereby providing ATCO with maximum flexibility in its approach to these issues.

Financial

On May 6th, 1982, ATCO received an additional 153,831 common shares of Canadian Utilities to complete the sale of its gas and oil assets to that company. In total, ATCO received 2,434,882 common shares of Canadian Utilities valued at \$20.75 per share in this transaction.

On July 29th, 1982, ATCO filed preliminary prospectuses covering the proposed sale of convertible preferred shares and the proposed sale of preferred shares with common share warrants. These two prospectuses were filed to provide ATCO with maximum flexibility in the sale of equity. Final marketing of these securities will be dependent upon the market conditions.

Outlook

The recent softening of interest rates is most encouraging and we look for this trend to continue for the next few months. Such a trend will be very beneficial to ATCO since a 100 basis points reduction in the prime rate translates to an increase in earnings in excess of 20¢ per share.

There is some uncertainty in the outlook for the balance of the fiscal year. However, because of seasonal factors, particularly as they affect the utilities, the October to March period is historically the period of strongest earnings. Thus, quarterly earnings are not indicative of full year results and it is expected that the Company will record satisfactory profits despite the poor economic environment existing at the present time.

On behalf of the Board of Directors



R. D. Southern
President & Chief Executive Officer

ATCO Ltd.
Consolidated Statement of Earnings
(Thousands of Canadian dollars)
Unaudited

	Three months ended	
	June 30	
	1982	1981
		(Restated)
Revenue		
Sales, rentals and service		
Energy related activities	\$320,395	\$261,897
Manufacturing	60,623	65,874
Housing and property development	11,401	11,356
Other	11,057	5,524
	<u>403,476</u>	<u>344,651</u>
Costs and expenses		
Natural gas supply	94,952	101,964
Utility taxes, other than income	74,756	36,739
Operating and maintenance	114,738	109,753
Selling and administrative	32,665	30,378
Depreciation, depletion and amortization	21,626	15,293
Interest	27,889	17,867
	<u>366,626</u>	<u>311,994</u>
	<u>36,850</u>	<u>32,657</u>
Income taxes		
Current	13,861	5,356
Deferred	(466)	2,384
	<u>13,395</u>	<u>7,740</u>
	23,455	24,917
Minority interests		
	16,665	12,972
Earnings for the period		
	6,790	11,945
Dividend requirements on redeemable preferred shares		
	6,676	4,662
Earnings attributable to common shares		
	<u>\$ 114</u>	<u>\$ 7,283</u>
Earnings per common share		
	<u>\$.01</u>	<u>\$.45</u>

Note: Effective December 31, 1981 the Company changed from the successful efforts method to the full cost method of accounting for its gas and oil operations. The change has been applied retroactively and, accordingly, results for the three months ended June 30, 1981 have been restated, which had the effect of increasing earnings by \$154,000 over those previously reported.

ATCO Ltd.
Consolidated Statement of Changes in Financial Position
(Thousands of Canadian dollars)
Unaudited

	Three months ended	
	June 30	
	1982	1981
		(Restated)
Sources of working capital		
Working capital provided by operations	\$ 46,405	\$ 40,180
Issue of shares by subsidiary to minority interests	74,550	—
Increase in notes payable	86,151	—
Issue of long term debt	21,076	28,947
Contributions for extensions to utility plant	4,869	2,936
Proceeds on disposal of property, plant and equipment	4,093	5,454
Release of deposits	4,000	5,750
Increase in debt on real estate development	3,480	—
Increase in deferred credits	555	—
Issue of common shares	64	525
Issue of preferred shares	—	5,000
	<u>245,243</u>	<u>88,792</u>
Applications of working capital		
Investment in TransAlta Utilities Corporation	244,550	—
Additions to property, plant and equipment	82,325	62,509
Reduction in long term debt	7,105	5,718
Redemption of preferred shares	5,340	5,340
Investment in real estate development	4,253	1,361
Increase in deferred financing charges	4,065	—
Dividends		
Redeemable preferred shares	6,676	4,662
Common shares	813	833
Minority interests	18,095	15,874
Decrease in debt on real estate development	—	4,846
Other	587	196
	<u>373,809</u>	<u>101,339</u>
Decrease in working capital	<u>\$128,566</u>	<u>\$ 12,547</u>

The ATCO Group

Canada

Alberta Power Limited
ATCO Components
ATCO Development Corporation
ATCO Drilling Ltd.
ATCO Eastern
ATCO Housing Corp
ATCO Housing & Development Ltd.
ATCO Industries (N.A.) Ltd.
ATCO Marine Exploration Ltd.
ATCO Metal
ATCO-ZAPATA Off-shore Ltd.
ATCO Oilfield Equipment
ATCO Pacific
ATCO Structures
ATCOR Resources Limited
ATCO Well Servicing
Canadian Utilities Limited
Canadian Western Natural Gas Company Limited
Northland Utilities (B.C.) Limited
Northwestern Utilities Limited
Southco Customs Brokers
Southco Travel
The Yukon Electrical Company Limited
Yukon Hydro Company Limited

United States

ATCO Drilling Inc.
ATCO Energy Inc.
ATCO International
ATCO Well Servicing Inc.
ATCO Structures Inc.

Australia

ATCO-APM Drilling Pty. Ltd.
ATCO Homes
ATCO Industries (Aust.) Pty. Ltd.
ATCO Structures

Saudi Arabia

ATCO Saudi Arabia Ltd.

Europe

InterATCO BV
InterATCO Drilling BV

ATCO

ATCO Ltd.

World Headquarters
1243 McKnight Blvd. N.E.
Calgary, Alberta, Canada T2E 5T2
(403) 276-1101
Telex 038-22697



