ATCO

GROUP

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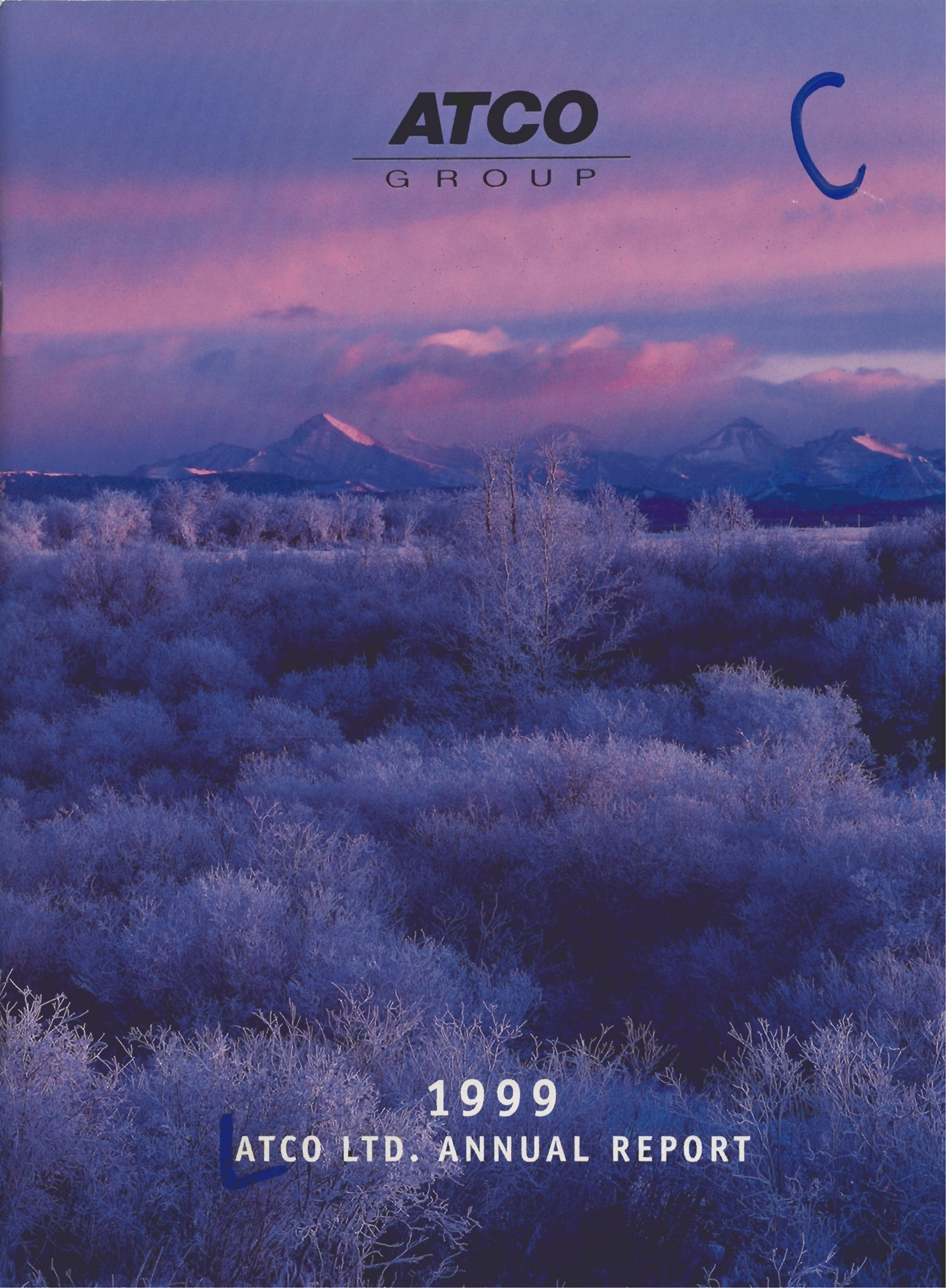


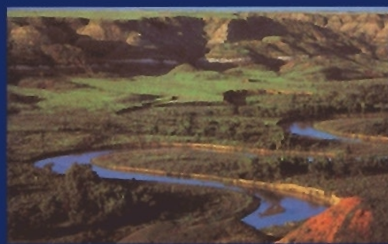
1999
ATCO LTD. ANNUAL REPORT

1990
EXPANSE OF ALBERTA FOOTHILLS

1991
ALBERTA ALPINE STREAM

1992
ALBERTA COUNTRY SCENE

1993
ALBERTA'S MAJESTIC WINTER SCENE

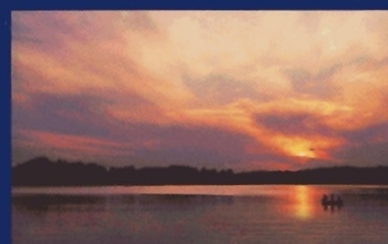


1994
MILK RIVER AREA, ALBERTA

1995
WRITING ON STONE PROVINCIAL PARK, AB

1996
VALLEY OF TEN PEAKS, ALBERTA

1997
NEAR BRAGG CREEK, ALBERTA



1998
MINK LAKE, WEST OF EDMONTON, ALBERTA

In recognition of ATCO's Alberta Heritage, this annual report cover is the tenth of a series to feature scenes of the province's beauty.

COVER PHOTO:
Winter Sunrise
and Frost

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ATCO LTD. Corporate Profile

ATCO Group is one of Canada's premier corporations, Alberta-based with a worldwide organization of companies, assets exceeding $4.9 billion and employing more than 4,500 persons.

ELECTRIC POWER

ATCO Electric and its subsidiaries provide electric power generation, transmission and distribution to customers in north central Alberta and parts of the Yukon and the Northwest Territories. ATCO Power is an independent power producer with operations in Canada, Great Britain and Australia.

NATURAL GAS

ATCO Gas distributes natural gas to Alberta industrial, residential and commercial customers, while ATCO Pipelines transports natural gas through high pressure pipelines throughout the province. Gas gathering and processing, storage and hub services are the key areas of operation for ATCO Midstream.

ENERGY SERVICES & MARKETING

ATCO Singlepoint provides billing and call centre services to large municipalities, utilities and other organizations. ATCO I-Tek builds, operates and supports the information systems and technologies used within the ATCO Group of companies. ATCO Energy was incorporated to participate in the deregulated gas and electricity markets in Alberta.

TECHNICAL SERVICES & FACILITIES MANAGEMENT

ATCO Frontec provides project management and technical services, operation and maintenance, technology transfer and training services to the defence, transportation and industrial sectors.

MANUFACTURING

ATCO Structures manufactures, sells and leases modular buildings to 100 countries around the world from factories in Canada, Hungary, Chile, Australia and the United States. ATCO Noise Management provides complete noise reduction services for industrial facilities.

ATCO LTD. Financial Highlights

CONSOLIDATED ANNUAL RESULTS

(Millions of Canadian Dollars except share data)

	Year Ended December 31 1999	1998
FINANCIAL		
Revenues	**2,374.8**	2,077.5
Earnings attributable to Class I and Class II shares	**100.7**	88.9
Total assets	**4,934.9**	4,793.7
Class I and Class II shareholders' equity	**744.2**	681.4
Capital expenditures - net	**398.6**	468.8
Cash flow from operations	**492.6**	434.8
CLASS I NON-VOTING AND CLASS II VOTING SHARE DATA		
Earnings per share	**3.36**	2.96
Dividends paid per share	**0.80**	0.68
Equity per share	**24.98**	22.68
Shares outstanding	**29,791,632**	30,047,832
Weighted average shares outstanding	**29,931,818**	30,044,171

CONSOLIDATED QUARTERLY RESULTS (1)

(Millions of Canadian Dollars except per share data)
(Unaudited)

		Three Months Ended March 31	June 30	September 30	December 31	Total
Revenues	**1999**	**668.7**	**524.8**	**482.7**	**698.6**	**2,374.8**
	1998	582.0	444.1	408.4	643.0	2,077.5
Earnings attributable to	**1999**	**35.3**	**21.8**	**18.7**	**24.9**	**100.7**
Class I and Class II shares	1998	32.8	19.4	14.2	22.5	88.9
Earnings per Class I	**1999**	**1.18**	**0.72**	**0.63**	**0.83**	**3.36**
and Class II share	1998	1.09	0.65	0.47	0.75	2.96

(1) *Because of seasonal fluctuations, particularly in the utility operations, quarterly earnings are not indicative of full year results.*

ATCO LTD. 1999 Achievements

ATCO Power was awarded contracts valued at approximately $330 million to build two power plants for Albian Sands Energy Inc. - one 170 MW cogeneration plant at the Muskeg River Mine near Fort McMurray and one 150 MW cogeneration plant at the Scotford Upgrader near Edmonton.

ATCO Pipelines was also awarded a $37 million contract to construct a 118 km gas pipeline to the Muskeg River mine site.

ATCO Midstream successfully completed a major expansion of its Golden Spike Sour Gas processing plant, increasing the capacity to process 40 mmcfd per day, as well as extracting 2,800 barrels of natural gas liquids per day.

ATCO Frontec won a $400 million U.S. Space Command contract to operate the Solid State Phased Array Radar System and a $200 million NORAD contract to operate the Alaska Radar System.

ATCO Singlepoint provided utility billing and call centre services to approximately 1,000,000 Albertans in its first year of operation.

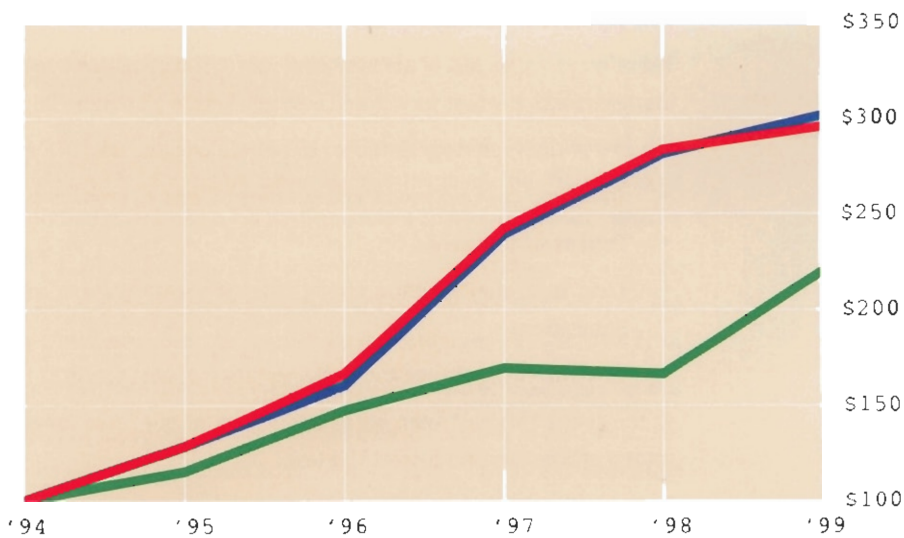
Natural gas distribution and pipelines were operated as separate businesses, ATCO Gas and ATCO Pipelines, creating an efficient structure with clear market focus in each company.

ATCO Structures was awarded a $17 million contract to provide workforce housing for 1,761 persons for Albian Sands Energy Inc. at Muskeg River.

ATCO Noise Management received many international contracts for acoustic buildings and enclosures in such diverse locations as Mexico, Grand Caymans, Puerto Rico, Wales and in North and South America in 1999.

FIVE YEAR TOTAL RETURN ON $100 INVESTMENT

The following compares the five year cumulative shareholder return on $100 invested in Class I Non-Voting shares and Class II Voting shares of the Corporation on December 31, 1994 with the cumulative total return of the TSE 300 Stock Index, assuming reinvestment of dividends.



	Cumulative Return	*Compound Growth Rate*
ATCO CLASS I	**$295**	**24.2%**
ATCO CLASS II	**$301**	**24.7%**
TSE 300	**$219**	**17.0%**

LETTER TO THE Share Owners

1999 was a record year for ATCO Group. In addition to our notable achievements in more than 358 operations doing business internationally, as well as in Canada, we also met our financial targets. ATCO Group's results are highlighted in the following letters to you from our President and Chief Operating Officer, Craighton Twa, and our Senior Vice President, Finance and Chief Financial Officer, Jim Campbell.

Their leadership and first rank efforts have been mirrored, without exception, throughout our Group, by the Presidents in each of our principal operating subsidiaries. Letters highlighting their achievements are also featured in this report.

Nancy C. Southern,
Co-Chairman and Chief Executive Officer

Ronald D. Southern,
Co-Chairman and Chief Executive Officer

Our geographic and business diversity, although essential to increasing and maintaining our profitability, is only part of ATCO Group's success.

The other essential part of our business is our 4,500 people who meet our standards of excellence in providing customers with the best service and best products in all that we do, wherever we are.

Our core business strategy continues to be defined by operational excellence with four fundamental elements:

- Transparency in our people and business processes, producing genuine teamwork
- Current achievement
- Long term growth with a strong balance sheet, allowing internal development, expansion and asset acquisitions
- Commitment to change and implementation of best practices

At the centre this past year, we directed much of our focus towards a corporate reorganization to produce greater efficiencies and competitiveness.

Concurrently, we re-branded all of our principal operating subsidiaries under the ATCO name. This was announced at a news conference in April followed by a comprehensive multi-media advertising campaign. Inventory, location signage, service vehicles, stationery, brochures and clothing were all re-branded within three and a half months of our announcement and by July of 1999, our post-branding research indicated that we had achieved over 70% household awareness for the ATCO name in Alberta, as well as significant reinforcement in our national and international markets.

In conjunction with re-branding, we also reorganized many of our subsidiaries into more specialized functions. Our fully integrated gas utilities, Canadian Western and Northwestern, were merged and coincidentally split into ATCO Pipelines, our intra-Alberta gas transmission pipeline business, and ATCO Gas, our province-wide gas distribution business.

ATCO Electric, previously known as Alberta Power, began the partitioning process of separating their formerly regulated generating power plants, to accommodate mandated power purchase agreements (PPA's) to be auctioned by the government to successful electricity marketer bidders in July of this year.

These "legacy" power plants will be managed and operated by ATCO Power under the terms of the PPA's, joining our growing inventory of independent power plants.

Under deregulation, ATCO Electric will focus on the design, construction and operation of our transmission and distribution systems. ATCO Electric has dedicated itself to being the best transmission and distribution company in Alberta and is directing its industry leading expertise to achieve profitable new growth.

This reorganization of our significant operations required a restructuring of our financial debt instruments and trust indentures. Not a simple process but one truly well done beginning with share owners' approval at last year's Annual General Meeting.

The resultant increased financial flexibility and balance sheet strength creates optimum benefits for both our regulated and unregulated endeavours.

Innovation and long term growth strategies were the catalysts for three new companies, which were launched in 1999:

- ATCO Singlepoint, which we believe to be a new growth engine for the Group, providing web-enabled, converged billing systems and call centre services to the deregulated energy markets.
- ATCO I-Tek, the Group's information technology division responsible for market-based systems, services and the advancement of new technologies.
- ATCO Energy, our 'retail' vehicle providing energy products and services to households and small commercial customers.

Led by our Chief Information Officer, Siegfried Kiefer, the design, installation and operation of new administrative systems and processes continues to be a major undertaking throughout the ATCO Group of companies. Our goal is to serve our customers better by being a full participant in e-commerce, while producing efficiencies and enhancing our profitability.

It is fair to say that enthusiasm for change has always been a defining strength of ATCO. Wherever we go in our organization today, there is a keen vitality and an eagerness to capture the opportunities we have identified.

We would like to thank our Directors for their premier governance and extraordinary commitment to our share owners.

We also feel tremendously privileged and deeply honoured to work with the men and women of our companies who span the continents. On your behalf, we would like to thank them for their spirit, loyalty and dedication they bring to our enterprise; it is truly exemplary.

Respectfully submitted,
Sincerely,

N. C. Southern	R. D. Southern
Co-Chairman &	Co-Chairman &
Chief Executive Officer	Chief Executive Officer

March 30, 2000

Operations

ATCO POWER

ATCO ELECTRIC

ATCO GAS

ATCO PIPELINES

ATCO MIDSTREAM

ATCO SINGLEPOINT

ATCO I-TEK

ATCO ENERGY

ATCO FRONTEC

ATCO STRUCTURES

ATCO NOISE MANAGEMENT

1999 REVIEW OF Operations

With another year of strong performance in 1999, ATCO Ltd. capped a decade of growth for our share owners, and we enter the new millennium with a strong core of operating businesses. Our focus continues to be the growth and performance of our operating businesses.

The strength of our Alberta based businesses reflects the Alberta economy, which continues to be one of the strongest in Canada.

Growing demand for power in Alberta, combined with deregulation of power generation, led to the development of three new generating plants which ATCO Power had operating in 1999. A fourth 416 MW plant is under construction with our partners NOVA Chemicals and EPCOR at NOVA's Joffre petrochemical complex. As power generation markets open up outside of Alberta, ATCO Power has an impressive list of projects in various stages of development.

An ATCO Frontec joint venture with an Alaska-based aboriginal-owned company, Arctec Services, was awarded two important U.S. Air Force contracts which reinforce ATCO Frontec's strong position in the North American radar and communications market. The joint Canadian U.S. North Warning System operations contract held by Frontec and Pan Arctic Inuit Logistics Corporation was extended to September, 2001.

ATCO Frontec continued to expand its operations in government and industrial markets for logistics and airport management.

Acquisition of a 50% interest in Genics, an Edmonton based company, takes ATCO Frontec into environmentally safe products that are breaking new ground in the wood preservation market.

Expansion of ATCO Midstream's Golden Spike and Watelet gas plants increased the company's gas processing capacity to 569 mmcfd. Its growing gas storage business and its highly efficient operations (maintaining throughput over 90% of capacity) make ATCO Midstream a growing contributor to ATCO's growth and performance.

Our regulated natural gas and electric companies face tremendous change with the introduction of deregulation and competition into their businesses. For several years we have been taking preemptive actions to restructure these companies and to transition their operations so that they will continue to be successful in meeting the challenges of deregulation.

ATCO Gas and ATCO Electric took a leading role in advancing negotiated rate settlements with customer groups.

ATCO I-Tek was formed to provide technology based support services for the complex information systems needed for deregulated markets and to provide focused and cost efficient IT for the ATCO Group of companies.

Retail energy marketing was, and continues to be, evaluated by ATCO Energy and corporate management.

While the demand for ATCO Structures' workforce housing to serve the western Canadian resource market was robust through 1999 (fleet utilization was up by two thirds to 64%), its international operations were also particularly strong.

The market position of ATCO Structures 2,300 unit rental fleet in western Australia was strengthened by the acquisition of 300 units in the Brisbane area. The company established a 100,000 square foot manufacturing plant near Lufkin, Texas.

ATCO Noise Management, with a strong outlook for growth, expanded its scope of operations with a number of key international contracts during the year.

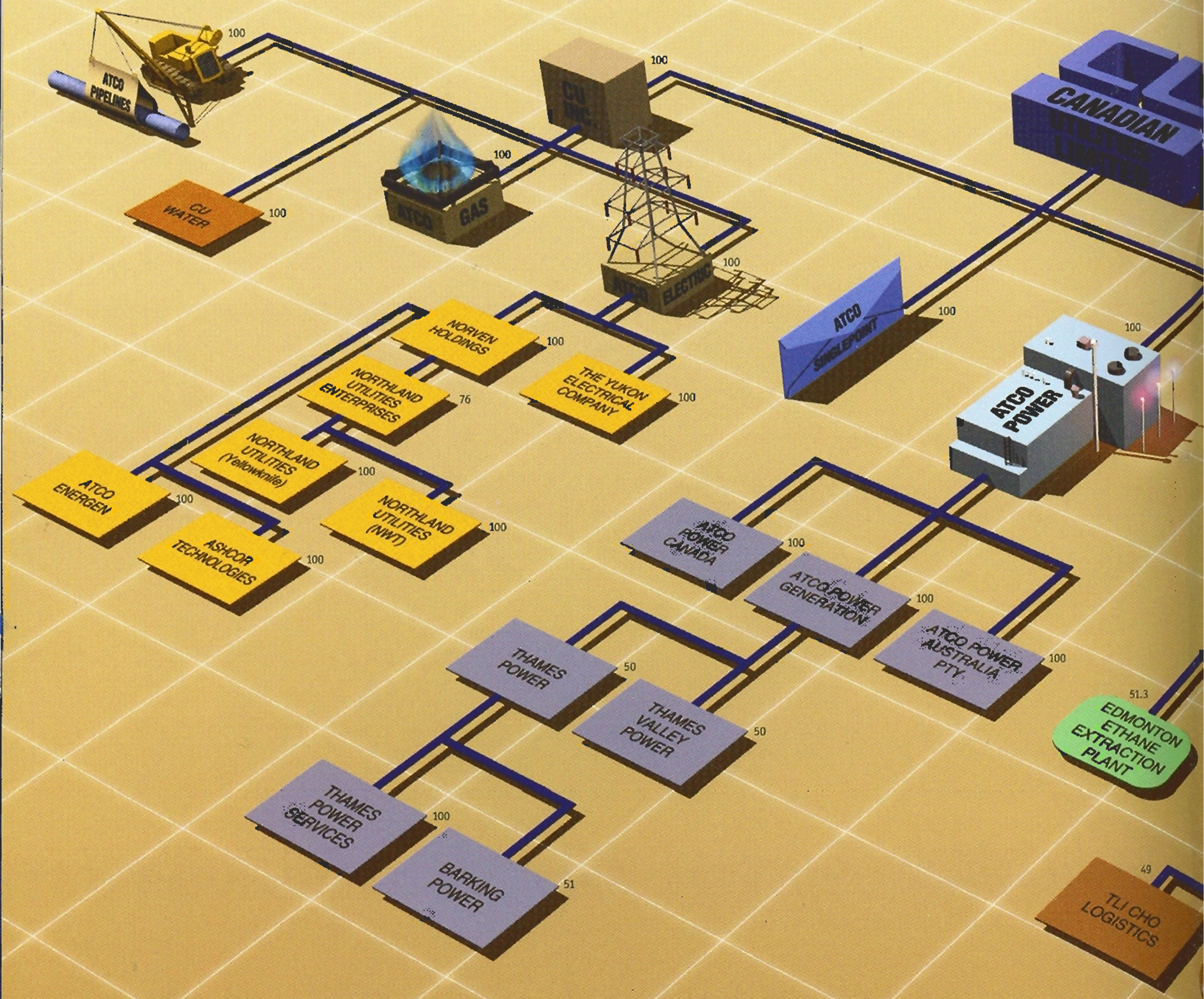
Our operating companies performed well in 1999. Each company, without exception, faced escalating pressures for change in their markets, organizations and operations to adapt to unprecedented competition and deregulation.

I sincerely believe that actions taken during 1999 to preemptively address the challenges confronting us will help ATCO continue to grow and provide increasing value to our share owners.

Craighton Twa

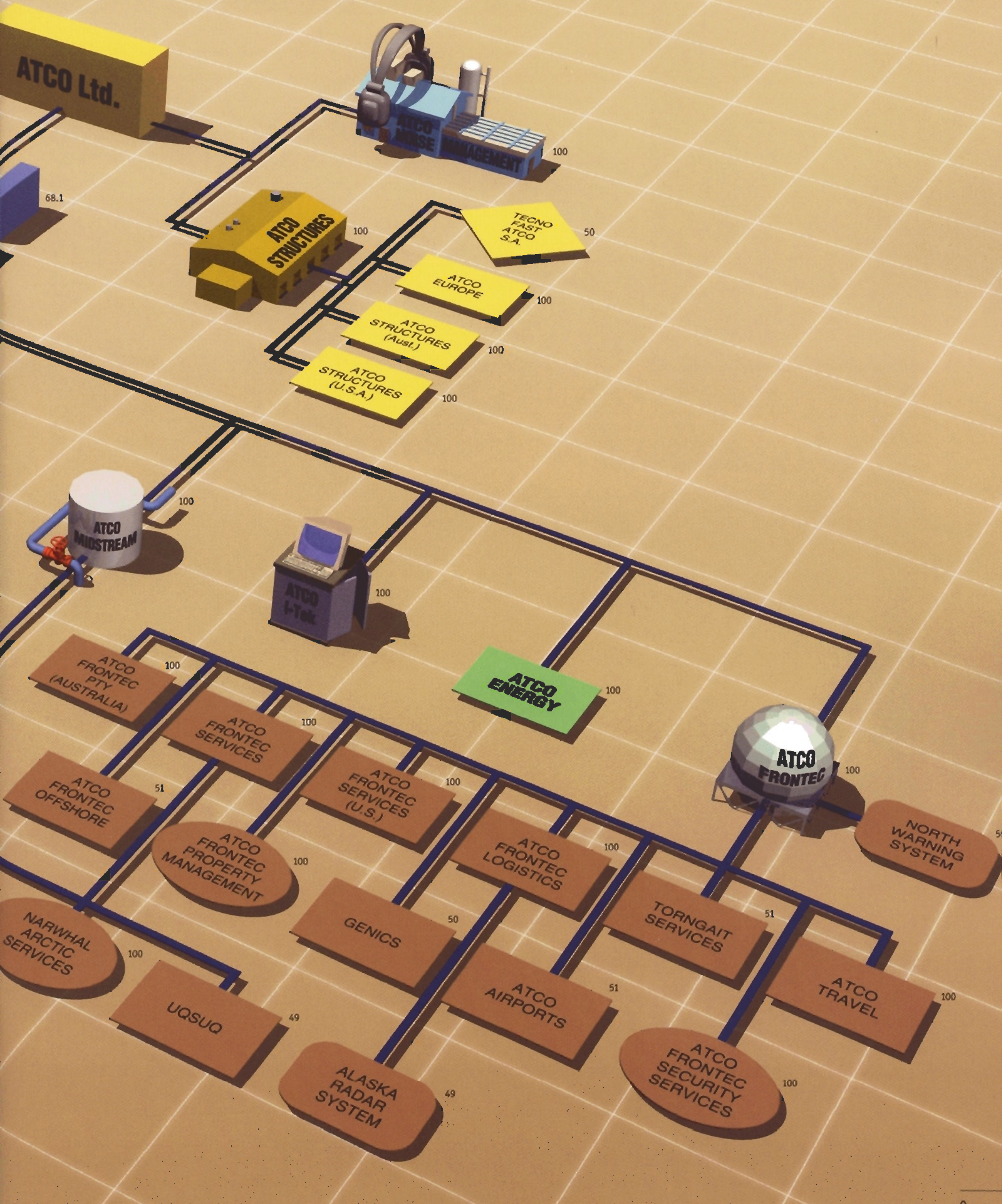
Craighton O. Twa
President and Chief Operating Officer,
ATCO Ltd.

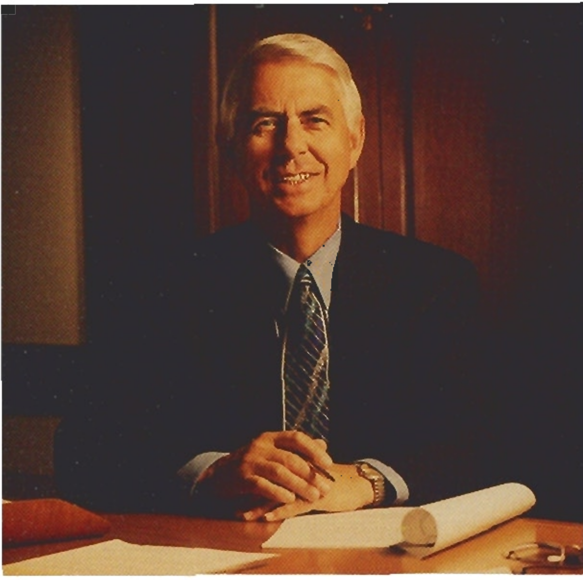
ATCO LTD. Corporate Structure



LEGEND

- Core Business
- Joint Venture
- Business Division
- Limited Partnership


ATCO Ltd.
68.1
ATCO NOISE MANAGEMENT
100
ATCO STRUCTURES
100
TECNO FAST ATCO S.A.
50
ATCO EUROPE
100
ATCO STRUCTURES (Aust.)
100
ATCO STRUCTURES (U.S.A.)
100
ATCO MIDSTREAM
100
ATCO I-Tek
100
ATCO ENERGY
100
ATCO FRONTEC
100
ATCO FRONTEC PTY (AUSTRALIA)
100
ATCO FRONTEC SERVICES
100
ATCO FRONTEC OFFSHORE
51
ATCO FRONTEC SERVICES (U.S.)
100
ATCO FRONTEC PROPERTY MANAGEMENT
100
ATCO FRONTEC LOGISTICS
100
NORTH WARNING SYSTEM
NARWHAL ARCTIC SERVICES
100
GENICS
50
TORNGAIT SERVICES
51
UQSUQ
49
ATCO AIRPORTS
51
ATCO TRAVEL
100
ALASKA RADAR SYSTEM
49
ATCO FRONTEC SECURITY SERVICES
100



ATCO Power

ATCO Power had another successful year in 1999, and it was able to enhance its reputation as a developer, project manager, owner and operator of independent power projects.

CANADA

ATCO Power's operational projects achieved excellent levels of availability in both British Columbia, where the power from its 50% owned McMahon Cogeneration Plant is sold under a long term power purchase arrangement with BC Hydro; and in Alberta where its plants, the 85MW Primrose (40% owned); the 43MW Poplar Hill (80% owned); and the 43MW Rainbow Lake (80% owned) sold power to the Alberta Power Pool.

Construction at the 416MW Joffre Cogeneration Project, where ATCO Power has a 32% ownership interest, continued during the year with completion slated for the second quarter of 2000. During the year the owners of Joffre finalized a $278 million project financing, which represented the first financing of a merchant power plant in Canada.

Development work continued during the year on the Lakeview New Generation Project, a 550MW gas fired combined cycle power plant at the Lakeview Generating Station site in Mississauga, Ontario. The ATCO Group has a one third ownership interest in the Project together with Ontario Power Generation Inc. and Toronto Hydro.

On February 18, 2000, BC Hydro unilaterally terminated negotiations of a power purchase agreement for the Port Alberni Cogeneration Project in which the ATCO Group has a 50% ownership interest.

In December, 1999, Shell Canada Limited announced that ATCO Power will develop two cogeneration plants for its Oil Sands Project; one 170MW cogeneration plant at the Muskeg River Mine and a second 150MW cogeneration plant at the Scotford Upgrader. Orders for the gas turbines were placed in 1999. The in-service date for these plants is the third quarter of 2002.

In 1999, SaskPower International and ATCO Power announced their intention to jointly develop a number of cogeneration projects in Saskatchewan. At the end of the year, several sites were being investigated.

AUSTRALIA

The 180MW Osborne Cogeneration plant, in which ATCO Power has a 50% ownership interest, achieved excellent availability levels during the year. The official opening of the plant took place in February 1999.

Construction of the 33MW electrical and 55MW thermal cogeneration project at British Petroleum's Bulwer Island Queensland refinery commenced in 1999, with completion expected in the fourth quarter of 2000. ATCO Power has a one third ownership in the Project with Origin Energy Limited and Lend Lease.

UNITED KINGDOM

The 1000MW gas fired combined cycle power station at Barking delivered another year of successful operations. ATCO Power operates the station and owns a 25.5% interest. ATCO Power continues to seek cogeneration opportunities in the United Kingdom on sites where approvals can be more easily obtained, given the Government's present moratorium for permitting new gas fired power stations.

IRELAND

ATCO Power and its co-venturers, Bord Gais Eireann have continued to pursue opportunities for gas fired generating stations in Ireland as that country moves to liberalize its electricity market to comply with EU directives. Shortly after the year end, Aughinish Alumina Limited announced that it would proceed with ATCO Power and Bord Gais on the development of a 250MW gas fired cogeneration facility at its existing aluminium refinery (the largest in Europe) in Limerick, Ireland.

OUTLOOK

ATCO Power's business outlook at the end of 1999 was very encouraging. The company enjoyed success in 1999 in being chosen as developer for projects in Alberta, Saskatchewan and Ireland and must apply its skills to the development, construction, financing and operation of all its projects, so that our share owners can look forward to steady growth in both projects and earnings.

G.K. (Gary) Bauer
President, ATCO Power

ATCO Power and its partners, NOVA and EPCOR, will commission the largest cogeneration plant in Canada in 2000. The 416 MW plant will supply steam and power to NOVA's petrochemical site at Joffre, Alberta as well as significant capacity for the growing Alberta power market.

ATCO Electric

This has been a year of change for ATCO Electric. The entire electricity industry in Alberta is preparing for a competitive environment on January 1, 2001. In 1999, we took a number of significant steps to ensure this transition happens smoothly - for our company, for the industry, and particularly for our customers.

Most significantly, we changed our name to ATCO Electric from Alberta Power Limited on April 26, 1999. When the province enters the deregulated environment on January 1, 2001, the services our company provides will change. By changing our name, we are signaling that we have a clear business focus for the future, and will be a key player in the new industry.

As of January 1, 2001, we will no longer be a vertically integrated electric utility. The two main parts of electric service - the lines that deliver power, and the energy that is being delivered - are being separated. The transmission and distribution lines will remain regulated - to avoid duplicate sets of power lines - while the generation and sale of electric energy will be open to competition.

ATCO Electric will focus on delivering electricity through its system of more than 55,000 km of power lines. Our employees will remain in the communities we serve to ensure that safe, reliable service continues for our customers.

Although the wires system will still be regulated, growth of that system can and will be a priority for ATCO Electric. We were the winner of several wires construction projects this year, including the first competitively bid transmission construction project at Foster Creek.

In 1999, we continued to be active in discussions that are moving Alberta's industry along the road to restructuring. Major issues during the past year have been:

- The process by which existing utility-owned generating stations will be deregulated; and
- The regulations that will allow all customers to choose their energy supplier by the beginning of 2001, and also provide an option whereby most customers can continue to buy their energy through their current supplier if they wish.

Another high priority during the year was completing the company's preparations for Y2K. Through the diligence and extraordinary efforts of our employees, our systems - from the control systems at each coal-fired station, to 100% of our transmission system, as well as all our distribution systems - were Y2K ready. We are very proud of our accomplishments.

Despite all of these new challenges, ATCO Electric and its subsidiaries (The Yukon Electrical Company Limited, Northland Utilities (NWT) Limited and Northland Utilities (Yellowknife) Limited) maintained our core business - the supply of electric service to more than 200 communities in Alberta, Yukon, Northwest Territories, Saskatchewan and British Columbia - with as much determination and commitment as ever.

In 1999, combined electric sales were 10,068 million kilowatt hours with 86% of the sales going to industrial and commercial customers, 9% to residential and 3% to farm. This is a 17% increase since 1994. During that same period, on a sales per employee basis, our efficiencies have improved by more than 44%.

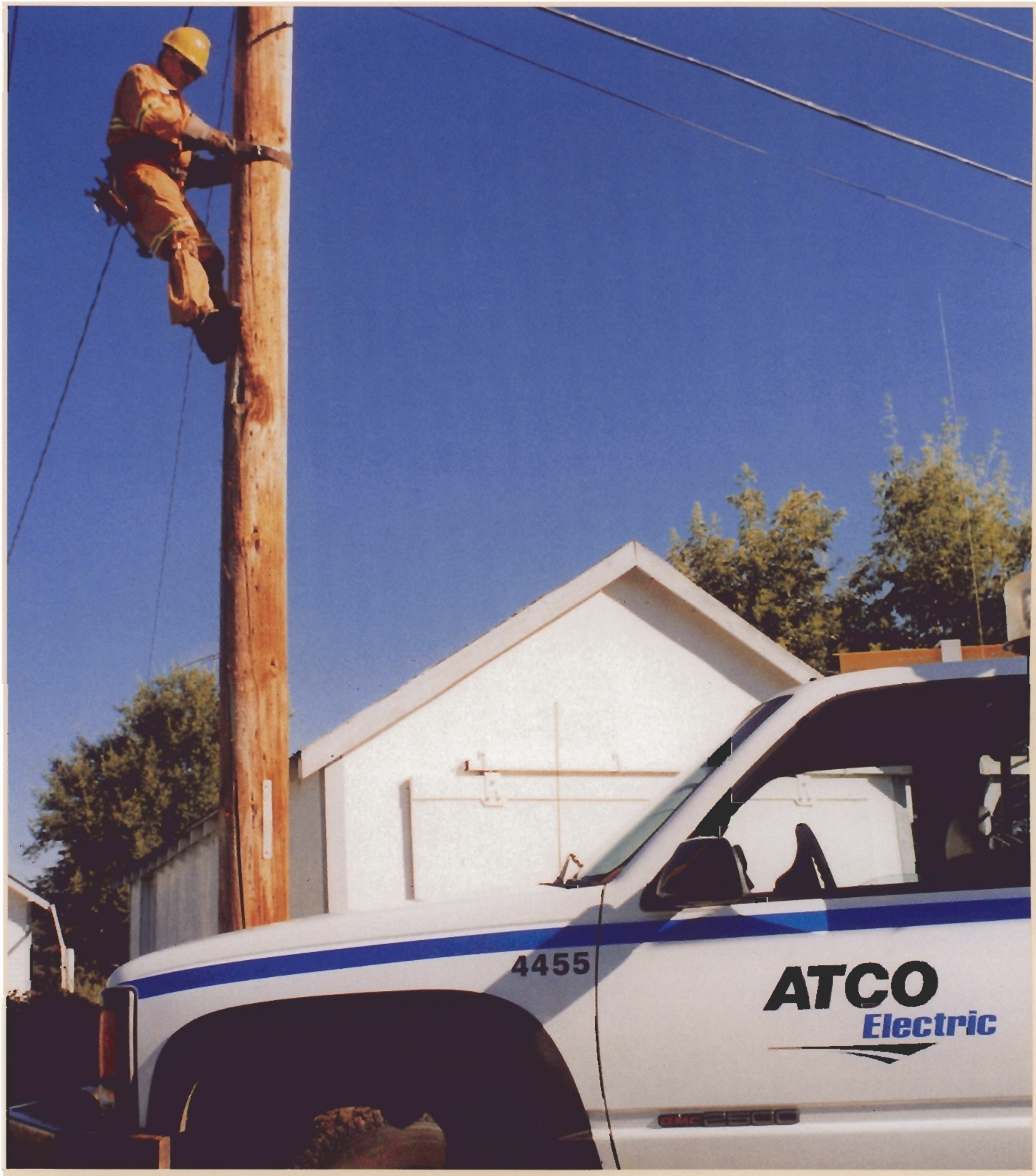
Capital spending for ATCO Electric totaled $127 million in 1999, including $59 million on distribution projects, $34 million on transmission projects and $34 million for generation.

In mid-year, ATCO Electric was able to reach a negotiated settlement with customers regarding its total revenue requirement for 1999 and 2000. The company also finalized a direct access tariff to enable industrial customers to purchase energy directly from the pool. This is a first step to full retail choice in 2001.

Although our core business is changing, ATCO Electric continues to uphold our tradition of service. Our focus is shifting to the delivery of power, but we will not lose sight of our reputation for service excellence. It is a reputation our employees have worked hard to establish, and their commitment is carrying it forward into the future.

For ATCO Electric, 1999 was a year of change, and a year of growing even stronger.

J.R. (Dick) Frey
President, ATCO Electric



ATCO Electric has been delivering electricity to its communities for more than 70 years. As Alberta's electric industry prepares for deregulation, ATCO Electric remains focused on the safe, reliable delivery of electricity to the communities we serve.

ATCO Gas

CORPORATE GROWTH AND PRODUCTIVITY

ATCO Gas experienced strong growth in 1999. New service line installations reached the second highest levels of the 1990's. 18,728 new customers were added, representing an increase of 2.4%.

The effects of the weather, however, mitigated the impact of growth. Temperatures were approximately 8.3% warmer than normal. Sales volumes were reduced to 208.7 PJs*, versus 211.5 PJs* in 1998 (*includes ATCO Gas and ATCO Pipelines sales volumes). Total capital expenditures of $87 million included a major mains replacement project ($7.5 million) in Calgary.

The Negotiated Agreement with Northwestern Utilities Limited (NUL) core customers (approved in early 1998) was re-opened after the restructuring of NUL and Canadian Western Natural Gas Company Limited (CWNG) into ATCO Gas and ATCO Pipelines. The Alberta Energy and Utilities Board (AEUB) approved an amended agreement that resulted in a rate reduction of 1.426%.

CUSTOMERS...

In a third-party survey of customers, the company earned an 84% satisfaction rating. Supporting comments indicate that customers believe we provide good or excellent service. Negative comments were primarily associated with factors outside of the company's direct control, including price increases and the perceived lack of competition.

In 1999 the company's bills for Red Deer customers were consolidated with bills from that city's other utilities. Power, water, waste treatment, garbage collection, recycling and ATCO Gas bills are now combined, extending our payment options to Red Deer customers and offering improved convenience.

...AND COMMUNITY

ATCO Gas is intensely involved in many worthwhile community projects such as the Lost Kids program at the Calgary Stampede, the Edmonton Eskimos' Stay in School Program and countless other artistic, educational and recreational initiatives.

We are also committed to smaller events, donating barbecues to community gatherings and sponsoring fund raisers, community sports teams, cultural groups and charities in nearly 300 communities province wide.

INNOVATION

ATCO Gas led industry change as the first in Canada to use large diameter polyethylene pipe. ATCO Gas sought and received approval to conduct a trial using this pipe in our mains replacement project in Calgary.

THE ENVIRONMENT

An internal review of waste management ensured regulatory compliance controls and best management practices are in place.

We completed our fifth annual voluntary action plan to limit company greenhouse gas emissions (Action Plan for Canada's Voluntary Climate Change Challenge Program) in support of the federal government's initiative to reduce greenhouse gas emissions.

A key to this goal is our increased use of low emission glycol pumps. Each pump reduces operative emissions of carbon dioxide equivalent by 921 tonnes.

In October, the Tree Canada Foundation presented the company with its ETERNE Award, recognizing our tree planting program and our commitment to protecting the environment.

ATCO Gas has been a sustaining member of Alberta Ecotrust since its inception in 1992. Alberta Ecotrust encourages non-profit groups to submit viable projects between $2,000 and $20,000 for consideration.

Chris

C.K. (Chris) Sheard
President, ATCO Gas

Connecting new customers through growth and acquisition! Growth in housing starts and the economy meant primary service installations in 1999 reached the second-highest level of the past five years. Part of that customer growth came when ATCO Gas added the Village of Andrew to the list of communities we serve. In July, ATCO Gas began maintaining Andrew's natural gas distribution system. In November we started distribution to our new customers in the village.

ATCO Pipelines

A focus on the gas transmission business, successful negotiated settlements with its customers, and relatively high natural gas prices provided the base for ATCO Pipelines' excellent financial results in 1999. Natural gas transportation throughput on ATCO Pipelines' extensive system reached record levels as gas producers aggressively tied in natural gas in areas adjacent to ATCO Pipelines' system. Significant market growth was led by the completion of two cogeneration facilities, both of which are served by ATCO Pipelines.

The negotiated settlement with the customers in the region from Red Deer south to the U.S. border resulted in very competitive tariffs in southern Alberta. The business terms are similar to those previously negotiated in the ATCO Pipelines' north region. The agreements result in competitive tariffs through 2002, liquidity and flexibility for buyers and sellers, and the ability to access multiple markets.

The merger of north and south transmission assets and functions into a new province-wide pipeline business with over 7,000 km of pipelines was completed in 1999. This transition was completed smoothly.

GROWTH

ATCO Pipelines has rapidly grown to become a significant player in the natural gas transportation industry, with over 230 transportation customers. On-system receipts grew by 11% over 1998, to average 981 TJ/day, while industrial deliveries increased to average 926 TJ/day, up 3% from the previous year. For the first time, on-system receipts exceeded the milestone of one billion cubic feet per day (over 1 PJ/day) at the end of the year, indicative of ATCO Pipelines' competitive tariffs and flexible transportation arrangements. ATCO Pipelines' low cost structure, flexible rates, extensive infrastructure throughout central and southern Alberta, and a focus on providing customers with excellent service will provide continued growth in 2000.

MAJOR PROJECTS COMPLETED IN 1999

In October, ATCO Pipelines completed a 16 km pipeline loop of the Ranfurly transmission system, to enable the transportation of incremental gas supplies to the Husky Bi-Provincial Upgrader at Lloydminster, for use at their newly commissioned cogeneration plant.

Numerous new meter stations were constructed in the Lethbridge and Claresholm areas, to accommodate new or incremental natural gas volumes delivered to ATCO Pipelines by area gas processing plants. An expansion of compression capacity at Monarch is currently in progress to provide an incremental 70 TJ/day of fully contracted transportation capacity in this area.

Other areas of significant growth include service to the new cogeneration facility located at Dow Chemical's Fort Saskatchewan complex, and expanded receipt facilities at Golden Spike, Ferrybank, Rosebud, Keoma, and Bonnie Glen, among others.

MAJOR PROJECTS AWARDED IN 1999

ATCO Pipelines will construct a $37 million, 118 km pipeline to supply natural gas to an ATCO Power cogeneration plant at the Shell Muskeg River Mine site near Fort McMurray, Alberta. The pipeline is scheduled to be in-service in November, 2001.

Also during the year, Air Liquide and ATCO Pipelines signed agreements which will result in ATCO Pipelines providing delivery service to Air Liquide's new cogeneration plant at Shell Chemicals' complex at Fort Saskatchewan. Natural gas should be flowing to this new facility in April 2000.

FUTURE OPPORTUNITIES AND CHALLENGES

The natural gas transmission industry in Alberta is constantly changing and is now highly competitive, with customers requiring more cost effective, flexible transportation service arrangements to meet their needs. ATCO Pipelines is well positioned, both with its significant infrastructure and its position in the marketplace, to adapt to these changes and to capture new opportunities that arise from them.

J.D. (Doug) Graham
President, ATCO Pipelines

Consultation with customers and property owners was undertaken in the construction of the 16 km Ranfurly pipeline loop. ATCO Pipelines ensured that all phases of the project complied with environmental legislation and safety regulations.

ATCO Midstream

ATCO Midstream (formerly ATCO Gas Services) completed another very successful year in the midstream business – gas gathering, processing and storage services.

GATHERING AND PROCESSING

We had a number of achievements in 1999, but a highlight was the successful expansion of our Golden Spike Sour Gas Processing Plant. The expansion was completed on time and under budget. The plant is now capable of processing 40 million cubic feet of gas per day (mmcfd) as well as extracting 2,800 barrels of natural gas liquids per day. We also expanded the Watelet Gas plant, purchased in 1998 from a producer, to 21 mmcfd from 15 mmcfd.

These and our other plants and the Integrated Gas System (IGS) surrounding Edmonton are key elements in Midstream's success. Our ability to offer producers a wide range of options has allowed us to significantly increase the throughput of this system. In 1999, our average throughput was in excess of 90% of available capacity. This is indeed a high rate of utilization in an industry where traditional utilization rates average approximately 60%.

STORAGE AND HUB SERVICES

Natural gas markets were quite volatile during the year, which kept our Storage and Hub Services group active in working with producers, marketers, aggregators and gas distributors who rely on storage to provide some price certainty. We were also busy assisting our customers to capture value from the ever-changing winter/summer price differentials.

Most of our customers continue to see their transactions being conducted at the Carbon Storage Facility, an extremely flexible and convenient transaction point at the intersection of the ATCO Pipelines and TransCanada Pipeline systems. To complement these capabilities, we have been working hard to develop a service that is supported by more than a single facility. We have been successful in partnering with another major company to bring to market the capacity of another excellent storage reservoir located in the province. This will strengthen ATCOs Midstream's long-term position in the storage business.

OPPORTUNITIES AND ISSUES

The current business environment for midstream companies is very competitive. In 1994 there were four to five pure midstream companies. As we enter 2000, our competitor base has tripled, with other players on the sidelines looking to become involved in this sector of the oil and gas industry.

We have been presented with many opportunities to acquire processing assets as producers recognize that this is not their core competency. While these opportunities are welcomed, we have been, and will continue to be, extremely disciplined in our evaluation of these assets. In 1999 we evaluated a number of projects, however, due to the inflated prices that other companies were willing to pay, we chose not to acquire anything. Rather, we chose to grow through internal expansion.

ENVIRONMENTAL AND COMMUNITY

ATCO Midstream is committed to operating in a safe and environmentally responsible manner. We have Emergency Response Plans for each facility. These plans are practiced regularly.

ATCO Midstream values highly the good relationships that we have with the residents who live near our facilities. We regularly hold Open Houses to inform them of any operational issues or proposed changes to our facilities. It is our intention to continue to place the utmost importance on these communications and we will endeavor to ensure that all of our community relations continue to be of the highest standards.

Michael M. Shaw

M.M. (Michael) Shaw
President, ATCO Midstream

In September 1999, ATCO Midstream commissioned its newest plant addition at Golden Spike. A further project is planned for 2000 that will see the addition of 25 km of gas gathering pipelines in the Golden Spike area. These projects are affirmation of ATCO Midstream's strategy to provide custom processing solutions to producers.

ATCO Singlepoint

ATCO Singlepoint marked its first full year of operations in 1999. One of the newest members of the ATCO Group, the new utility billing and customer information company bills about one million customers a month and collects revenue in excess of $1.5 billion a year.

Building on over 70 years of utility billing and customer information experience, ATCO Singlepoint is strategically positioned to meet the customer billing and information infrastructure needs of Alberta's deregulating utilities sector.

The company's full suite of customer care services – from bill print and call centre to credit and collections – is based on a state-of-the-art information system that provides clients with a user friendly, flexible billing service. Called ATCO-CIS (ATCO Customer Information System), our billing system has proven itself in the market and served as the technical backbone in providing The City of Red Deer with Alberta's first ever combined gas and electric bill. Introduced in the fall of last year, the all-in-one utility bill has been well received by the client and end-use customers.

Charges for gas, electricity, water, waste water, recycling and garbage removal for Red Deer residential, commercial and industrial customers are listed on an ATCO Singlepoint summary page. Individual utility usage charts and charges are also provided on the combined bill.

ATCO Singlepoint provides its full suite of customer care services to the City of Red Deer, ATCO Gas and ATCO Electric. Our comprehensive service packages include: meter reading; management of billing data; billing preparation; maintenance of meter consumption and equipment information; bill calculation; bill creation; bill print and mailing; analysis of billing results; billing adjustments and production of revised bills.

A sophisticated call centre with highly trained call takers provides friendly, personal service to more than one million customers in Alberta and handles more than 1.3 million customer assistance calls a year. Agents handle a wide variety of customer inquiries, billing questions, service requests as well as emergency calls and outage call management for some clients.

Additional ATCO Singlepoint services include revenue collection and management, payment processing, and a comprehensive credit and collections service. Credit and collections activities include assessing credit worthiness, tracking and managing arrears, dealing with delinquent account customers to optimize payment through written notices and verbal communications, analyzing credit performance, handling write-offs and bankruptcies, and directing disconnection and reconnection activities.

With ATCO Singlepoint as their utility billing and customer information service provider, clients can also minimize their investment in technology and system maintenance and eliminate duplication of services.

AfCO Singlepoint services are designed to provide clients with the flexibility and customer-focused information organizations need to be successful in the customer driven, deregulated marketplace.

Among the advantages ATCO Singlepoint offers are:

- Flexibility of our billing system
- Efficiencies of outsourcing billing and customer information requirements
- User friendly, customer focused service
- Competitive advantage of providing bills that meet end user needs

Consolidating operations, eliminating duplication and streamlining processes were a main internal focus of ATCO Singlepoint in the first half of the year. Migrating ATCO Group customers to the ATCO-CIS system continues to be the operational focus from fourth quarter 1999 through much of 2000.

D.M. (Denis) Ellard
President, ATCO Singlepoint

Great customer service is built on teamwork and communication. ATCO Singlepoint agents (left to right) Tim Homeniuk, Della Rea, Lainna El Jabi and Sandy DeChamplain stand at the crossroads of Black Diamond Crescent and Red Deer Street in the ATCO Singlepoint Customer Assistance Centre. Each of the 36 call centre rows are named after an Alberta community and serves as a daily reminder that ATCO Singlepoint provides customer service to more thon o million Albertans each month.

ATCO I-Tek

Established in January 1999 to operate and support the information systems and technologies used within the ATCO Group of companies, ATCO I-Tek has brought cost efficiencies to their service contracts, and positioned our companies to take advantage of the expanding use of information and technology in meeting the ATCO Group's diverse business objectives.

Throughout the ATCO Group, Information and Technology are being utilized to improve the effectiveness of our sales forces, enhance our customer's experience when dealing with our companies, provide operational efficiencies, identify new business opportunities, and facilitate information exchanges required by legislation for deregulation.

During 1999, ATCO I-Tek was able to secure an additional long term service agreement, complete significant development projects within schedule and under budget, operate our computing and network environment within the contracted service levels, and successfully address the Year 2000 issue.

These accomplishments were achieved as a result of the dedicated efforts of over 350 IT professionals. ATCO I-Tek continues to refine its delivery processes and capabilities to build on these successes and meet the increasing demand for and use of Information and Technology.

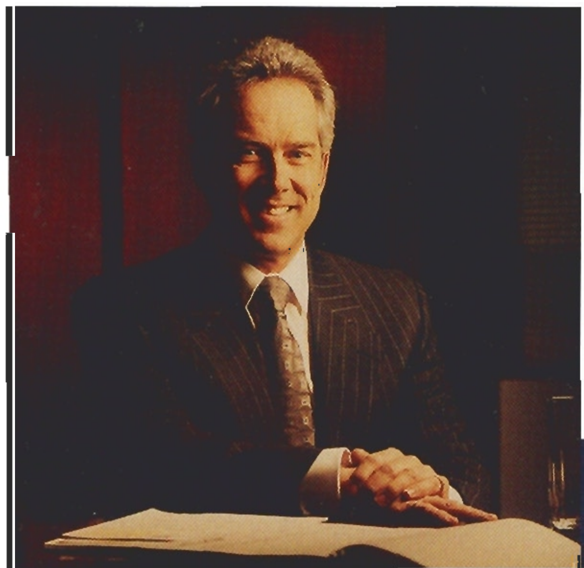
ATCO I-Tek operates and supports a secured enterprise computing environment consisting of over 3,000 desktop and laptop computers, more than 200 applications, and network connections to over 126 sites throughout western Canada, the Yukon and the Northwest Territories.

S.W. Kiefer

S.W. (Siegfried) Kiefer
President, ATCO I-Tek

ATCO Energy was incorporated in September 1998, as a wholly owned subsidiary of Canadian Utilities, to participate in the evolving restructuring of the natural gas and electricity supply industry in Alberta. This restructuring is intended to replace the current regulated industry structure with competition and customer choice in all but the pipes and wires portions of the supply chain. ATCO Energy focused on potential opportunities as an unregulated competitive retail supplier of gas, electricity, and other retail products and services.

Throughout 1999, ATCO Energy was an active participant in the industry wide restructuring consultations led by the Alberta Department of Resource Development, making many submissions and recommendations on how competition could most effectively be introduced. In parallel with these consultations, ATCO Energy studied the business case for participation as a competitive retail supplier under the evolving potential business environments.



The Company concluded in late 1999 that there remained significant uncertainty in this process and that ATCO Energy would not make any significant financial commitment to this market at this time but would continue to study the opportunities as the Government deregulation process is concluded and the market place is defined.

ATCO Energy also provided gas supply management services to the other ATCO Group companies throughout 1999.

G.W. (Gerry) Welsh
President, ATCO Energy

ATCO Energy

At ATCO I-Tek our people make the difference. They ensure a thorough understanding before aggressively pursuing a solution. Pictured here is I-Tek employee, Crystal Benoit (top left) working with ATCO Pipelines employees to ensure that the client is involved and comfortable with the solutions being developed.

ATCO Frontec

ATCO Frontec had an outstanding year with major new contracts in all areas of its business. Relying on a strategy based on strong relationships, cost control and service excellence, the company increased annual revenue by 23% and added $385 million to its contract backlog.

RADAR AND COMMUNICATION SYSTEMS

Arctec Services, a joint venture between ATCO Frontec Services Inc. and the Aboriginal Alaska-based company Arctic Slope World Services Inc., was awarded the contract from the U.S. Air Force to operate and maintain the Solid State Phased Array Radar System (SSPARS), part of U.S. Space Command. SSPARS tracks orbiting satellites and ballistic missiles from five sites in the USA, United Kingdom and Greenland. The contract, which started October 1, is the second biggest in the company's history with ATCO Frontec's share valued at Can $200 million, if all options are exercised over seven years. The project employs 345 people, and its headquarters are located in Colorado Springs.

In November the U.S. Air Force awarded a contract to the Arctec Alaska joint venture to manage the Alaska Radar System, a network of 19 remote radar sites and a high-tech control centre, employing 100 people. The system forms a strategic part of the North American Aerospace Defense Command (NORAD). This contract, won competitively, represents a renewal of a contract held by ATCO Frontec and its joint venture partner since 1994. ATCO Frontec's share of it is worth up to $100 million.

LOGISTICS

In September ATCO Frontec won a $2.4 million contract to provide support to the Canadian Forces' Operation ABACUS, working side by side with military authorities across Canada to develop Y2K contingency plans. The project, known as Logistics Contractor Augmentation Support (LOGCAS), also provided for a surge capacity to support up to 13,000 military personnel should they be deployed in response to any Y2K-generated emergencies in Canada.

In December ATCO Frontec launched a new venture with Syndicated Management Services Ltd. of St. John's, Newfoundland, to serve the emerging East Coast petroleum industry. The joint venture will provide an array of logistics services under the name ATCO Frontec Offshore Inc.

AIRPORTS MANAGEMENT

ATCO Frontec won contracts to operate and maintain the airports in Resolute and in Iqaluit, the capital of Nunavut, both for three years. As well, ATCO Frontec negotiated a five-year contract with Canadian North (Aboriginally-owned by the Norterra Group of Companies) to provide services for ground handling, warehouse, cargo and delivery in Yellowknife and Iqaluit, effective January 1999.

ATCO Frontec Corp. and Winnipeg Airports Services Company created a new company called ATCO Airports Ltd., which began operations on May 1, 1999. This venture combines entrepreneurship with large-airport expertise as it seeks to serve national and regional airports.

In November, Edmonton Regional Airports Authority and ATCO Frontec signed a 10-year contract under which ATCO Frontec operates and maintains the Edmonton City Centre Airport.

ENVIRONMENTAL PRODUCTS

ATCO Frontec purchased a 50% interest in Genics Inc., an Edmonton-based company that develops and manufactures innovative wood-preservation products. The company believes that the environmentally friendly nature of the products represents the most significant advance in the industry in over 40 years. Sales efforts focused on wood poles used by electric utilities in North America. To meet increasing demand, Genics expanded its facilities and tripled production of its key products.

LOOKING AHEAD

ATCO Frontec anticipates strong continued growth, especially in our core businesses of logistics, radar and communication systems, as well as airports management and wood preservation products.

G.N. Paicu

G.N. (George) Paicu
President and Chief Executive Officer, ATCO Frontec

Remi Bisson, control centre technician, sits at the panel for supervisory control and data acquisitian (SCADA) to remotely diagnose the radars in the North Warning System. The contract to operate and maintain the 47 radars and 5 logistics support sites of the North Warning System, held jointly with Pan Arctic Inuit Logistics Corporation, has been extended for 18 months to September 30, 2001.

ATCO Structures

Operations worldwide in 1999 were extremely successful in each of ATCO Structures' core business centres. The year was highlighted with the award of key projects in Canada, Europe, Australia, South America and the establishment of manufacturing capabilities in the United States.

In Canada, strong demand for the manufacture and supply of "new generation" workforce housing was the result of an active Alberta resource sector. The year began with the award to ATCO for a $16 million construction camp by Beaver Foods Limited for the Suncor Energy oil sands expansion project. The year concluded with ATCO Structures receiving a $17 million workforce housing project award by Shell Canada Ltd. to supply workforce accommodation at the construction site of Shell's Athabasca Oil Sands Project, also near Fort McMurray. Further sales for drill camps to the oil and gas industry, as well as sales of the company's patented Fold-A-Way storage buildings in Canada and the United States were brisk throughout the year.

To support ATCO Structures' continuing worldwide growth strategy, the company decided late in the year to establish a manufacturing facility in the United States. ATCO leased and renovated a 100,000 square foot manufacturing plant near Lufkin, Texas, approximately 90 miles north of Houston. From this modern facility, the company can serve parts of the U.S. as well as large emerging workforce housing markets in Central America, the northern part of South America and the west coast of Africa. ATCO is manufacturing a variety of products including offices, classrooms, storage units and storage facilities to several key U.S. Space Rentals dealers based in the south-central region of the United States.

In South America, ATCO and its joint venture partner, Tecno Fast S. A., were awarded a U.S. $18.9 million, 4,000 person construction camp for the Antamina copper-zinc project in Peru. This award followed the successful provision of a 1,400 person pioneer/construction camp to Antamina. In August, Tecno Fast ATCO entered into a project to manufacture and install 12 bank branches in remote and varying sites throughout Chile. Each branch, which is completely mobile, includes all counters and furnishings as well as full client service areas.

In April, ATCO Europe was awarded a project to manufacture and install a 500 person operating camp destined for Kazakhstan. This U.S. $9.2 million contract represents the most significant project undertaken by ATCO Europe in the five years since its start-up. The project comprises 236 modules and 29,500 square feet of pre-engineered steel buildings, all manufactured in Budapest, and shipped by rail to Kazakhstan. The project includes dormitories, kitchen and dining facilities, offices, recreation facilities, laundry facilities, as well as a guardhouse and the supply of water and sewage treatment facilities. Other manufacturing activities in Europe included the supply of a 330 person camp for peacekeeping forces in Kosovo. Additionally, 55 Fold-A-Way buildings were utilized by U.S. armed forces in Kosovo and served as multi-functional buildings for vehicle maintenance storage facilities and gymnasiums.

In Australia, key acquisitions and the award of two major construction projects during the year further strengthened ATCO Structures' decision to return there in late 1998. The purchase of 300 rental units from a competitor in Brisbane provides ATCO Structures Pty Ltd with 750 units to service the greater Brisbane market area. ATCO has developed a fully integrated engineering, manufacturing, leasing, transportation and installation operation in Australia, providing products for both the domestic and international market. Products manufactured include workforce accommodation, multi-purpose offices, transportable homes, schools and communications buildings. Other activities included the manufacture and installation of a 700 person construction camp for the Bechtel Millmerran Power Project in Queensland and the manufacture of a 1,400 square metre engineering office complex.

Worldwide, the current demand for workforce housing, especially oil and gas related projects, is expected to remain strong in the coming year. However, mining projects in North America, South America and Australia continue to be delayed. The outlook for general construction in North America and Australia, where ATCO Structures operates rental fleets, remains positive.

Walter Kmet

W.A. (Walter) Kmet
President and Chief Executive Officer, ATCO Structures

Pictured above is ATCO Structures' 200,000 square foot manufacturing facility in Calgary, Alberta, one of eight facilities located worldwide on five different continents. To ensure consistent quality and maintain high manufacturing standards, ATCO Structures is ISO certified in Australia and is moving forward with ISO certification in Canada, the United States, South America and Europe.

ATCO Noise Management

Established in 1991 as a division of ATCO Structures Inc. and incorporated in 1998 as a subsidiary of ATCO Ltd., ATCO Noise Management (ANM) is a full-service engineering, procurement and construction firm specializing in noise abatement for industrial facilities.

Robust activity within the power generation, gas manufacturing and gas transmission sectors resulted in strong demand for ANM's noise control services during 1999.

A major initiative for ANM culminated in a two-year contract from Siemens-Westinghouse Power Corporation for the design, supply and installation of fifty-two acoustic generator enclosures in Canada, the United States and South America. The contract followed the successful operation of a prototype enclosure by ANM in Pensacola, Florida. To date, nine acoustic generator enclosures have been completed at four sites. The contract provides ANM with an opportunity to develop a new acoustic enclosure in partnership with an important original equipment manufacturer (OEM). The potential for similar projects is large as demand for electrical generation continues strong.

1999 marked the first anniversary of ANM's European operation in Staffordshire, England with two breakthrough contract awards. The contracts involved the acoustic treatment of a 24 MW power plant in the Grand Caymans for Burmeister & Wain Scandinavian Contractors A/S of Denmark and an oxygen manufacturing plant at the Owens-Corning glass factory in Wrexham, Wales for BOC Process Plants. These projects demonstrated ANM's ability to successfully serve its European customers leading to another contract award from BOC Process Plants' client, Owens-Corning, for the acoustic treatment of an oxygen manufacturing facility in Guelph, Ontario.

Other international contracts for ANM included the design, supply and installation of the acoustic compressor building at the Cantarell Nitrogen Project in Campeche, Mexico—the largest building on the world's largest nitrogen production complex. To demonstrate the scale of the project, construction of the acoustical treatment proceeded over ten months. Another sizeable project commenced with the design of the acoustic retrofit of ten power plants at four sites in Puerto Rico with an anticipated completion date of May, 2001. International project opportunities are expected to rise as noise standards are increasingly applied in regions outside North America and Europe.

Noise control for gas compression facilities also remained strong. ANM completed the design, supply and installation of nine acoustic buildings for Propak Systems at ATCO Midstream's Golden Spike gas plant; three buildings at the North Carolina Natural Gas Corporation's Clayton, North Carolina station; and a compressor station for TransCanada PipeLines at Rapid City, Manitoba.

ANM was also awarded service contracts for acoustical survey and consulting work by Constellation Power Development of Baltimore, Maryland; Southern Energy of Atlanta, Georgia; and Coastal Power Development Company of Houston, Texas. This new service is offered by ANM to assist developers on noise issues in the early project stages.

An award on a personal note was given by the Walker von Brimer Foundation to company officers, John Barrett, President; Boris Rassin, Vice President, Operations; and John Evison, Vice President, Sales and Business Development, for their role in "benefitting mankind" through innovation in noise abatement. The California-based Foundation was formed in 1995 in memory of American engineer and inventor, J. Walker von Brimer, and for the purposes of recognizing outstanding engineering achievement.

Acoustic project opportunities remain strong in North America and Europe. To meet current and future demand, ANM increased staffing levels in engineering, drafting and project management and added a sales support engineer to the European office. In 2000, ANM will concentrate on developing new products to sell to the OEM market. ANM must continue to supply the kind of innovative noise solutions that resulted in its Siemens-Westinghouse award to retain current OEM business as well as secure future contracts.

J.E. (John) Barrett
President, ATCO Noise Management

A significant highlight was the successful installation of the acoustic components, including inlet plenum and intake silencer, test cell liner, equipment door, augmenter tube, diffuser basket, and exhaust stack with silencer, for TransCanada Turbines Ltd.'s testing facility at Calgary, Alberta. The acoustic treatment of the turbine test cell represented a new market for ANM—one that is expected to grow along with turbine sales and maintenance requirements.

FINANCIAL Overview

ATCO Group continued its record setting performance in 1999:

- Earnings increased by 13.3% to $100.7 million in 1999 from $88.9 million in 1998;
- Earnings per share increased by 13.5% to $3.36 in 1999 from $2.96 in 1998. This is the 12th consecutive year of increased earnings per share;
- Cash flow from operations of $492.6 million in 1999 was $57.8 million higher than in 1998 primarily due to higher earnings before future income taxes and depreciation and amortization;
- ATCO increased common share dividends by $0.12 per share from $0.68 per share to $0.80 per share representing an 18% increase in dividends to share owners;
- Property, plant and equipment increased to $3,977 million in 1999 from $3,898 million in 1998. Capital expenditures (net) of $399 million in 1999, compared to $469 million in 1998, reflected reduced expenditures for natural gas transmission projects and non-regulated power plants.

In 1999, CU Inc. issued $300 million of 6.8% twenty-year debentures and issued $80.7 million of commercial paper to finance ATCO Electric, ATCO Gas and ATCO Pipelines requirements.

ATCO Power completed the financing of the 416 megawatt cogeneration plant for the Joffre project. It is the largest cogeneration plant in Canada and the first merchant power plant to be funded in Canada on a non-recourse basis.

A significant achievement in 1999 was the reorganization of Canadian Utilities which required the approvals of share owners, debenture holders, as well as regulatory approval and an advance income tax ruling. The reorganization was implemented on July 1, 1999. As a result of the reorganization, the regulated utility operations have been separated from the non-regulated operations.

A new subsidiary, CU Inc., acquired all of the common shares and debt of ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water. It also assumed all of the existing debentures of Canadian Utilities under its trust indenture and will be responsible for all future regulated utility financings. Canadian Utilities non-regulated operations will continue to be financed directly by the subsidiary involved or by Canadian Utilities.

Canadian Utilities, on a consolidated basis, will hold the same assets and liabilities it held prior to the reorganization.

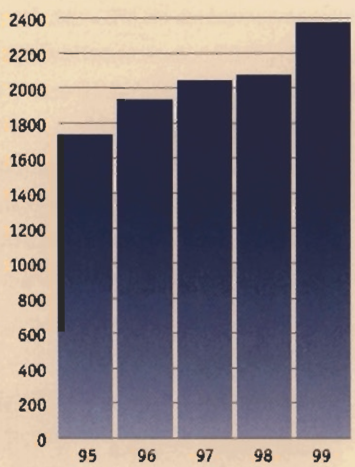
The reorganization provides greater flexibility for the regulated utility operations and the non-regulated operations to develop, manage and finance their respective operations independently. It also allows the non-regulated operations to continue their growth, without affecting the financial strength and credit ratings of the regulated utility operations.

ATCO Group has a strong balance sheet, is well positioned and has the resources to capitalize on new investments and opportunities to achieve its growth objectives in the 21st century.

J.A. (Jim) Campbell
Senior Vice President, Finance and Chief Financial Officer

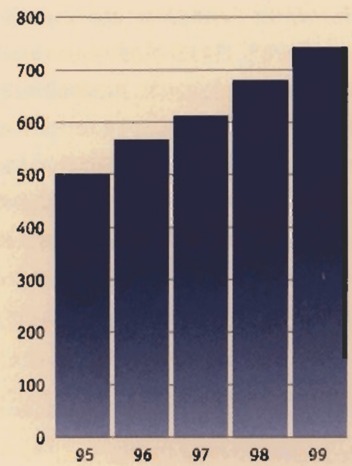
REVENUES

(Millions of dollars)



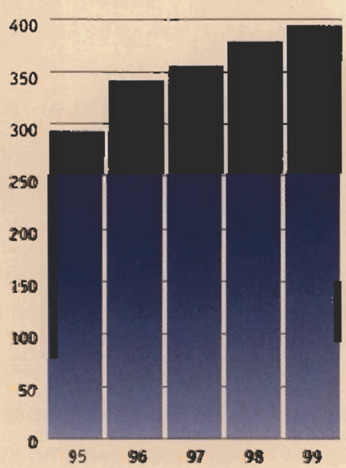
CLASS I AND CLASS II SHAREHOLDERS' EQUITY

(Millions of dollars)



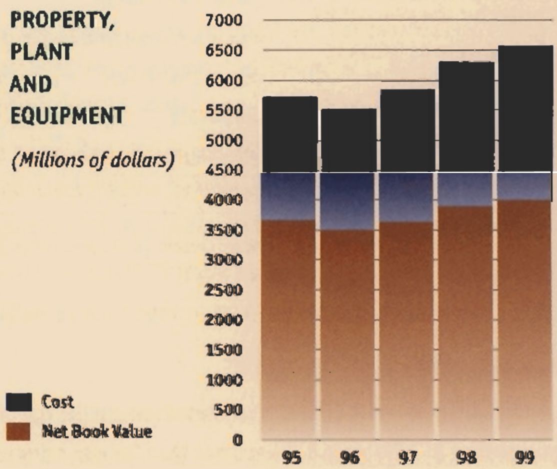
EARNINGS

(Millions of dollars) Earnings before income taxes & non-controlling interests



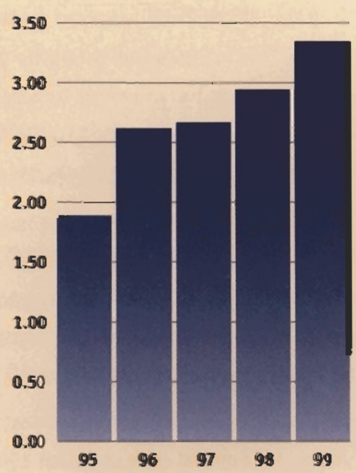
PROPERTY, PLANT AND EQUIPMENT

(Millions of dollars)



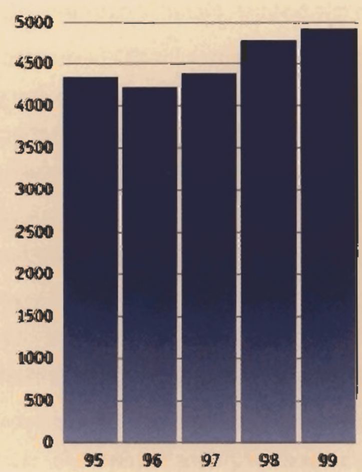
EARNINGS PER CLASS I AND CLASS II SHARE

(Dollars)



TOTAL ASSETS

(Millions of dollars)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTROOUCTION

The following discussion and analysis of financial condition and results of operations of ATCO Ltd. for the two years ended December 31, 1999 should be read in conjunction with the audited consolidated financial statements which include the accounts of ATCO Ltd. and all of its subsidiaries ("ATCO"). The principal subsidiaries are Canadian Utilities Limited ("Canadian Utilities"), of which ATCO Ltd. owns 42.0% of the Class A non-voting shares and 68.1% of the Class B common shares, for an aggregate ownership of 51.9%, ATCO Structures Inc. ("ASI") of which ATCO Ltd. owns 100% of the Class A non-voting shares and 100% of the Class B common shares, and ATCO Noise Management Ltd. ("ANM") of which ATCO Ltd. owns 100% of the Class A non-voting shares and 100% of the Class B common shares. Canadian Utilities has published an Annual Report containing its Management's Discussion and Analysis of Financial Condition and Results of Operations. Please refer to Shareholders' Information on the inside back cover of this annual report to obtain copies.

RESULTS OF OPERATIONS

CONSOLIDATED OPERATIONS

Segmented revenues and earnings for the years 1999 and 1998 were as follows:

	Revenues		Earnings	
(Millions of Canadian Dollars)	**1999**	1998	**1999**	1998
Regulated Natural Gas Operations	**1,002.7**	879.6	**34.1**	35.6
Regulated Electric Operations	**705.6**	672.2	**46.8**	44.8
Power Generation	**254.3**	193.4	**16.3**	13.2
Manufacturing and Leasing	**132.6**	100.7	**10.8**	8.9
Other Businesses	**278.9**	230.9	**8.4**	9.1
Corporate	**0.7**	0.7	**(11.9)**	(19.8)
Intersegment	**-**	-	**(3.8)**	(2.9)
Total	**2,374.8**	2,077.5	**100.7**	88.9

Note: Certoin 1998 comporotive figures have been reclassified to conform with the current year's presentation.

Earnings per share increased to $3.36 in 1999 from $2.96 in 1998.

REGULATED NATURAL GAS OPERATIONS

The segmented earnings of ATCO's regulated natural gas operations decreased from $35.6 million in 1998 to $34.1 million in 1999. Temperatures in 1999 were 8.3% warmer than normal, whereas temperatures in 1998 were 5.1% warmer than normal.

Revenues in 1999 increased by $123.1 million to $1,002.7 million. The primary reason for the increase was higher natural gas supply costs recovered in customer rates, partially offset by the impact of warmer weather.

Operating expenses for 1999 increased by $139.8 million to $758.7 million. This increase was primarily due to higher natural gas supply costs. The amount of natural gas supply costs recorded as an expense is based on the forecast cost of natural gas included in customer rates. Any variances from forecast are deferred until the Alberta Energy and Utilities Board ("AEUB") approves revised rates to either refund or collect the variance. As a consequence, changes in natural gas supply costs have no effect on ATCO's earnings.

On December 13, 1999, Canadian Western Natural Gas Company Limited changed its name to ATCO Gas and Pipelines Ltd. ("AGP").

On October 30, 1997, the AEUB approved, among other things, a five year agreement for Northwestern Utilities Limited ("NUL") which changed industrial and producer transportation customer rates and terms and conditions of service effective January 1, 1998. This agreement enhanced NUL's transmission service by reducing transmission costs.

On March 31, 1998, the AEUB approved a five year negotiated settlement for NUL which established cost of service rates and terms and conditions of service for residential, commercial, institutional and industrial customers for 1998 through 2002.

At the request of the AEUB, AGP conducted negotiations during 1998 to review AGP's 1997 capital structure and return on common equity and to establish customer rates for 1998. As these negotiations did not result in a settlement, AGP filed a General Rate Application in August 1998. Hearings on the General Rate Application concluded in March 1999. On March 2, 2000, the AEUB issued its Decision which, among other things, provided for an allowed rate of return on common equity of 10.5% and 9.375% for 1997 and 1998, respectively, and allows AGP an approved common equity component of 37.0%. The Decision reduced earnings attributable to Class I and Class II Shares over the two years, 1997 and 1998, by approximately $10.2 million. Of that amount, $2.9 million was accounted for in the 1998 consolidated financial statements as a result of a customer refund in that year. A further $4.7 million was provided for in the 1999 consolidated financial statements and the balance of $2.6 million will be recorded in 2000.

An agreement for AGP similar to NUL's five year agreement with its industrial and producer transportation customers was approved by the AEUB on an interim basis effective February 1, 1999, to December 31, 2002. As a result of this agreement, AGP filed a General Rate Application for 1999 on May 3, 1999, to determine final rates for 1999 for all customers. To date, hearings to consider the application have not been scheduled.

On June 16, 1998, NUL and AGP announced that the operations of the two companies would be merged and then restructured into two new businesses, one of which, AGP, would focus on transmitting natural gas throughout Alberta through high pressure pipelines, the other, NUL, would distribute natural gas to industrial, institutional, commercial and residential customers in urban areas. The restructuring is subject to AEUB approval, which was granted November 1, 1999, and certain other conditions. NUL and AGP expect to complete the restructuring by January 1, 2001.

As a result of the restructuring announcement, the negotiated settlement with NUL's residential, commercial, institutional and industrial customers was re-opened and a new agreement was reached for the same period as the original agreement through 2002. The AEUB approved the new agreement effective January 1, 1999, which resulted in a reduction to customer rates of 1.426%.

In January 2000, the Corporation announced its intention to sell CU Water Limited. It is not anticipated that this disposal will have a material impact on the Corporation's earnings.

REGULATED ELECTRIC OPERATIONS

The segmented earnings of ATCO's regulated electric operations increased from $44.8 million in 1998 to $46.8 million in 1999.

Revenues in 1999 increased by $33.4 million to $705.6 million. This increase was primarily the result of rate increases approved by the AEUB, partially offset by lower industrial sales.

Operating expenses for 1999 increased by $26.0 million to $323.9 million. The increase was primarily due to higher costs of fuel and purchased power.

Fuel costs in ATCO Electric Ltd. ("ATCO Electric") are mostly for coal supply. To protect against volatility in coal prices, ATCO Electric owns or has committed under long term contracts sufficient coal supplies for the anticipated lives of its coal-fired generating plants. These contracts are at prices that are either fixed or indexed to inflation.

The coal supplier for the H.R. Milner generating station, which comprises approximately 11% of ATCO Electric's generating capacity, has been under the protection of the Companies' Creditors Arrangement Act since July 1998. The coal supplier's operations have continued during this process and it has continued to sell coal to its customers, including ATCO Electric. In December 1999, the Court-appointed monitor undertook a process to effect the sale of the coal supplier and/or its assets. ATCO Electric is continuing to monitor the situation and will assess its options when the outcome of this process becomes known.

On October 30, 1998, ATCO Electric filed a General Tariff Application with the AEUB for the 1999 and 2000 test years. Hearings for the tariff application were scheduled to be held in the second quarter of 1999. However, negotiations between ATCO Electric and its customers continued during this time and the parties were successful in reaching a negotiated settlement covering substantially all of the matters raised. The negotiated settlement was approved by the AEUB on May 10, 1999. The matters not covered in the negotiated settlement were heard in the second quarter of 1999 by the AEUB which issued its decision on November 25, 1999. The AEUB decision did not have a material impact on earnings in 1999 and is not expected to have a material impact on earnings in 2000.

POWER GENERATION

The segmented earnings of ATCO's power generation operations increased from $13.2 million in 1998 to $16.3 million in 1999.

Revenues in 1999 increased by $60.9 million to $254.3 million. This increase was primarily the result of new generating stations commissioned during 1998 and 1999.

Operating expenses for 1999 increased by $42.8 million to $156.5 million. The increase was primarily the result of fuel and operating costs associated with the new generating stations commissioned during 1998 and 1999.

ATCO Power Ltd. ("ATCO Power") has a 50% interest in a joint venture which had been selected to negotiate an electricity purchase agreement with BC Hydro for a $240 million, 270 megawatt natural gas fired cogeneration plant in Port Alberni, British Columbia. On February 18, 2000, BC Hydro unilaterally ended negotiations to develop the project. On February 22, 2000, BC Hydro invited a number of developers (including ATCO Power) to submit expressions of interest in developing a 250 megawatt natural gas fired power station on Vancouver Island.

MANUFACTURING AND LEASING

The segmented earnings of ATCO's manufacturing and leasing operations increased by $1.9 million to $10.8 million in 1999.

Manufacturing and leasing revenues in 1999 increased by $31.9 million to $132.6 million, primarily due to the acquisition of Campac Building Systems Pty Ltd in Australia on October 30, 1998.

Western Canadian capital resource projects provide the primary domestic market for the North American workforce housing division. During 1999, the fleet utilization rate of 64% was up from 38% in 1998. Programs to rationalize and modernize the size of the workforce housing lease fleet are continuing.

Operating expenses for 1999 increased by $21.5 million to $109.1 million, primarily as a result of increased manufacturing and leasing activity in Australia and Europe, partially offset by lower operating expenses in Canada reflecting changes in sales mix.

ASI will continue to focus on its core businesses of workforce housing in North America, Australia, South America and Europe and selective international markets and on the space rental business in Australia.

A number of major projects, which provide opportunities for ASI, are planned for development in 2000 and beyond. In Australia, the majority of these projects are still on hold and may proceed starting late in 2000. ASI expects a number of projects in South America, North America, Europe and Africa to proceed in 2000.

International sales may expose ASI to greater risk than normally associated with domestic transactions due to the political and financial aspects of international business. However, ASI will continue to follow strict credit policies on international sales to minimize financial exposure and will continue to utilize its international experience to manage the political and other risks associated with international business. ASI has marketed and installed its manufactured products in over 105 countries around the world since 1947.

OTHER BUSINESSES

The segmented earnings of ATCO's other operations decreased from $9.1 million in 1998 to $8.4 million in 1999.

Revenues in 1999 increased by $48.0 million to $278.9 million. The primary reason for the increase was increased business activity in ATCO Frontec Corp. ("ATCO Frontec").

Operating expenses, net of intersegment expenses, increased by $33.8 million in 1999. This increase was primarily due to increased business activity in ATCO Frontec.

NON-CONTROLLING INTERESTS

The interests of non-controlling shareholders increased from $102.0 million in 1998 to $111.2 million in 1999. This increase was primarily due to increased earnings by Canadian Utilities and higher dividends on Canadian Utilities' non-retractable preferred shares.

LIQUIDITY AND CAPITAL RESOURCES

A major portion of ATCO's operating income and cash flow is generated from its utility operations. Canadian Utilities and its wholly owned subsidiary, CU Inc., use commercial paper borrowings and short term bank loans to provide flexibility in the timing and amounts of long term financing. Utility rates designed to recover financing costs and depreciation over the useful life of the utility assets assure the availability of funds for debt interest and retirement, and preferred share dividends and redemption. ATCO Ltd. and CanUtilities Holdings Ltd., a wholly owned subsidiary, receive dividends from Canadian Utilities which have been more than sufficient to service debt requirements and pay dividends.

Cash flow from operations increased by $57.8 million to $492.6 million in 1999, primarily due to higher earnings before future income taxes and depreciation and depletion.

Investing decreased from $425.8 million in 1998 to $399.0 million in 1999, primarily as a result of lower capital expenditures, reflecting the completion of a number of non-regulated power generation projects in 1998 and in early 1999 and lower expenditures on regulated natural gas transmission projects. These decreases were partially offset by increased construction of non-regulated natural gas processing plants.

Capital expenditures for regulated operations decreased from $267.9 million in 1998 to $246.6 in 1999, primarily the result of lower expenditures on natural gas transmission projects. Capital expenditures for non-regulated operations decreased from $201.6 million in 1998 to $168.4 million in 1999, primarily reflecting the completion of construction of a number of non-regulated power projects in 1998 and in early 1999, partially offset by increased construction of non-regulated natural gas processing plants.

At December 31, 1999, ATCO had credit lines totaling $965.1 million, of which $432.5 million was available on a long term committed basis by the lenders, $308.8 million was available on a short term committed basis and $223.8 million was available on an uncommitted basis. At December 31, 1999, $295.0 million of long term committed credit lines, $308.8 million of short term committed credit lines and $192.8 million of uncommitted credit lines were available to be drawn.

Future income tax liabilities of $167.6 million at December 31, 1999, are attributable to differences between the financial statement carrying amounts of assets and liabilities and their tax bases. These differences result primarily from recognizing revenue and expenses in different years for financial and tax reporting purposes. Future income taxes will become payable when such differences are reversed through the settlement of liabilities and realization of assets.

In May 1999, ATCO Ltd. filed a notice of intention to make a normal course issuer bid for the purchase of up to 5% of its outstanding Class I Non-Voting Shares during the period May 25, 1999 to May 24, 2000. To date, 250,200 shares have been purchased.

It is the policy of ATCO Ltd. to pay dividends quarterly on its Class I Non-Voting and Class II Voting shares. The matter of quarterly dividends is addressed by the board of directors in the first quarter of each year. For the first quarter of 2000, the quarterly dividend payment has been increased by $0.03 to $0.23 per share. The payment of any dividend is at the discretion of the board of directors and depends on the financial condition of ATCO Ltd. and other factors.

BUSINESS RISKS

Regulated Operations

ATCO's regulated operations are subject to the normal risks faced by regulated companies. These risks include the approval by the AEUB of customer rates which permit a reasonable opportunity to recover on a timely basis the estimated costs of providing service, including a fair return on rate base. ATCO's ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate-setting process.

The business risks of ATCO Electric have changed with the implementation of the Electric Utilities Act ("EUA") in 1996. The risks include increased forecast risk, as each electric utility is exposed to the forecasts of other electric utilities in Alberta as well as the requirement to independently forecast province-wide generation output and pool prices. These risks have been mitigated in the 1999 negotiated settlement for ATCO Electric by the implementation of deferral accounts for pool transactions for 1999 and 2000. For generation, these accounts permit the deferral of 100% of the variations from forecast pool prices and 90% of the variations from forecast volumes. For distribution, these accounts permit the deferral of 100% of the variations from forecast pool prices. The balances in these deferral accounts at the end of 1999 and 2000, respectively, will be passed to customers.

There will be further changes in the electric utility industry in Alberta. Through legislation passed in 1998, the government of Alberta has set a timetable to pursue a direction, similar to that developing in other jurisdictions, whereby generation will be completely deregulated and retail competition will be available beginning January 2001. Transmission and distribution activities will continue to be regulated.

The EUA provides for the continued equalization of costs of "existing generation" that was in service at December 31, 1995. The equalization is currently achieved by providing for each entitled distributor a stipulated share of the output from each existing generating unit at regulated prices. If the actual pool prices paid by the distributors exceed the entitled prices, the owners of the existing generating units must pay the difference to the distributors. In return, the distributors are obligated to pay the fixed costs associated with the existing generating units in proportion to their share of the output. This system will end in 2000. Beginning in 2001, existing generation will be deregulated through a system of long term power purchase arrangements ("PPAs"). PPAs are commercial arrangements which will be imposed on generation owners and will be auctioned to a new group of participants known as "marketers". The effect of these arrangements will be that the marketers, not generation owners, will own the output of the plant and will be the pool market participants for "existing generation".

The legislation also requires that a "Regulated Rate Option" be offered to smaller customers who do not want to exercise their choice of an unregulated retailer. This option is to be available for five years (2001 – 2005) for residential and farm customers and for three years (2001 – 2003) for small commercial and small industrial customers.

ATCO Electric, along with other industry participants, continues to be involved in discussions with the government of Alberta regarding the details of this deregulation process.

Non-Regulated Operations

ATCO's non-regulated operations are outside its traditional regulated businesses, but are related to them in terms of skills, knowledge and experience. ATCO accounts for its non-regulated operations separately from its regulated operations. ATCO's non-regulated operations are subject to the risks faced by any commercial enterprise in those industries and in those countries in which they operate.

By entering into long term contracts with purchasers for the output of projects and with key suppliers, ATCO is able to limit its risk. In the majority of power generation and steam sales undertakings to date, risks in respect of fuel and energy prices have by contract been agreed and allocated to the purchasers of the electric energy and steam and ATCO has not assumed any risks in this regard.

For those projects in Alberta for which there are no long term agreements for the purchase of the power generated, ATCO Power purchases its natural gas supplies on the short term market, as it believes that the hourly price of power in the Alberta power pool reflects, and will continue to reflect, the current market price of natural gas in Alberta.

During 1999, 87.4% of the volume of ATCO Power's natural gas supply was purchased under long term contracts or supplied by the purchasers of the electricity. During 2000, 80.0% of the volume of ATCO Power's natural gas supply is expected to be purchased under long term contracts or supplied by the purchasers of the electricity.

ATCO has financed approximately 75% of its non-regulated electrical generating capacity on a non-recourse basis. In these projects, the lender's recourse in the event of default is limited to the business and assets of the project in question and to ATCO's equity therein. ATCO's remaining non-regulated projects are financed through long term bank credit facilities and from internally generated cash.

Hedging

It is the policy of ATCO to use financial instruments to reduce specific risk exposures and to not hold these instruments for trading purposes.

ATCO has entered into several contracts in order to reduce interest rate, foreign exchange and commodity price risk. The financial impact of these contracts is not material and the counterparty in each transaction is a major financial institution or a significant industry participant.

Post Retirement Benefits

Effective January 1, 2000, a new Canadian accounting standard has been introduced by the Canadian Institute of Chartered Accountants which will require ATCO to begin reporting on an accrual basis, rather than a cash basis, health, dental and life insurance benefits that its employees will receive after retirement. This change in accounting policy is not expected to have a material effect on ATCO's future earnings.

Year 2000

To date, ATCO's customers have not experienced any service interruptions as a result of Year 2000 problems. All of ATCO's computer systems have continued to operate as usual. ATCO is monitoring all of its systems to ensure that they continue to operate normally. However, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect ATCO, including those related to customers, suppliers, or other third parties, have been fully resolved.

The costs for Year 2000 preparedness were approximately $11.5 million, of which approximately $10.0 million were capitalized as these costs will extend the service life of the assets involved.

March 8, 2000

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements, management's discussion and analysis and other financial information relating to the Corporation contained in this annual report. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industries in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management depends upon internal accounting control systems to meet its responsibility for reliable and accurate reporting. These control systems are subject to periodic review by the Corporation's internal auditors.

PricewaterhouseCoopers, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee comprised of three non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditors have full and free access to the Audit Committee.

J.A. Campbell	K.M. Watson
Senior Vice President, Finance and Chief Financial Officer	*Vice President, Controller*

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ATCO LTD.

We have audited the consolidated balance sheets of ATCO Ltd. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

February 18, 2000, except as to Note 17
which is as of March 2, 2000.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

(Millions of Canadian Dollars except per share data)

		Year ended December 31	
	Note	1999	1998
Revenues		$ 2,374.8	$ 2,077.5
Costs and expenses			
Natural gas supply		499.7	376.3
Fuel and purchased power		257.1	201.8
Operating and maintenance		524.8	446.2
Selling and administrative		172.9	183.4
Depreciation and amortization		241.0	214.8
Interest	8	185.4	175.5
Dividends on preferred shares		23.3	34.5
Franchise, property and other taxes		110.0	101.3
		2,014.2	1,733.8
		360.6	343.7
Interest and other income	2	32.1	34.5
Earnings before income taxes and non-controlling interests		392.7	378.2
Income taxes	3	180.8	187.3
Net earnings		211.9	190.9
Non-controlling interests	4	111.2	102.0
Earnings attributable to Class I and Class II shares		100.7	88.9
Retained earnings at beginning of year		542.4	475.5
		643.1	564.4
Dividends on Class I and Class II shares		23.9	20.4
Direct charges	5	10.1	1.6
Retained earnings at end of year		$ 609.1	$ 542.4
Earnings per Class I and Class II share		$ 3.36	$ 2.96
Dividends paid per Class I and Class II share		$ 0.80	$ 0.68

CONSOLIDATED BALANCE SHEET

(Millions of Canadian Dollars)

	Note	December 31 1999	1998
ASSETS			
Current assets			
Cash and short term investments		$ 218.3	$ 208.5
Accounts receivable		383.6	370.0
Inventories		130.5	112.9
Deferred natural gas costs		5.7	6.0
Prepaid expenses		14.5	19.2
		752.6	716.6
Property, plant and equipment	6	3,976.6	3,898.4
Goodwill		78.7	82.4
Security deposits for debt		23.4	28.2
Other assets	7	103.6	68.1
		$ 4,934.9	$ 4,793.7
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness		$ 34.8	$ 27.0
Accounts payable and accrued liabilities		334.7	342.3
Income taxes payable		19.6	19.7
Long term debt due within one year	8	3.4	2.4
Non-recourse long term debt due within one year	8	24.6	24.7
		417.1	416.1
Future income taxes	3	165.1	133.9
Unearned revenues		5.0	25.9
Other deferred credits		20.0	18.8
Long term debt	8	1,818.8	1,683.3
Non-recourse long term debt	8	408.1	422.7
Preferred shares	9	350.0	500.0
Non-controlling interests	4	1,006.6	911.6
Class I and Class II shareholders' equity			
Class I and Class II shares	10	135.6	136.7
Retained earnings		609.1	542.4
Foreign currency translation adjustment		(0.5)	2.3
		744.2	681.4
		$ 4,934.9	$ 4,793.7

B.P. Drummond
Director

R.D. Southern
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of Canadian Dollars)

	Note	Year ended December 31 1999	1998
Operating activities			
Earnings attributable to Class I and Class II shares		$ 100.7	$ 88.9
Non-cash items included in earnings			
Depreciation and amortization		241.0	214.8
Future income taxes		35.8	29.8
Non-controlling interests		111.2	102.0
Other - net		3.9	(0.7)
Cash flow from operations		492.6	434.8
Changes in non-cash working capital	11	(34.9)	(72.9)
		457.7	361.9
Investing activities			
Capital expenditures - net		(398.6)	(468.8)
Contributions by customers for extensions to utility plant		45.3	37.8
Changes in non-cash working capital	11	(14.7)	8.4
Other		(31.0)	(3.2)
		(399.0)	(425.8)
Financing activities			
Issue of long term debt		372.4	301.4
Issue of non-recourse long term debt		64.2	11.0
Repayment of long term debt		(236.7)	(52.1)
Repayment of non-recourse long term debt		(50.0)	(17.2)
Security deposits for debt		2.5	(25.4)
Redemption of preferred shares by subsidiary		(96.3)	(68.1)
Issue (purchase) of Class A non-voting shares by subsidiary		(0.6)	0.6
Issue (purchase) of Class I Non-Voting shares		(10.8)	0.3
Dividends paid to Class I and Class II shareholders		(23.9)	(20.4)
Dividends paid to non-controlling interests		(67.3)	(60.4)
Changes in non-cash working capital	11	(1.4)	(1.2)
Other		(3.3)	(21.6)
		(51.2)	46.9
Foreign currency translation		(5.5)	5.1
Cash position(1)			
Increase (decrease)		2.0	(11.9)
Beginning of year		181.5	193.4
End of year		$ 183.5	$ 181.5

(1) Cash position includes cash and short term investments less current bank indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1999
(tabular amounts in millions of Canadian dollars)

1. Summary of significant accounting policies

FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries, including a proportionate share of joint venture investments ("ATCO"). The principal operating subsidiaries are ATCO Structures Inc. (100% owned) and its subsidiaries, ATCO Noise Management Ltd. (100% owned), and Canadian Utilities Limited (51.875% owned) and its subsidiaries ("Canadian Utilities"), which mainly comprise the regulated electric and natural gas utility operations and power generation.

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

UTILITY REGULATION

The electric and natural gas utility subsidiaries are regulated primarily by the Alberta Energy and Utilities Board ("AEUB"), which administers acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The AEUB may award interim rates, subject to final determination.

REVENUE RECOGNITION

Revenues are recognized on the accrual basis and include an estimate of services provided but not yet billed.

Revenues resulting from the supply of contracted products and services are recorded by the percentage of completion method. Full provision is made for any anticipated loss.

NATURAL GAS SUPPLY

Natural gas supply expense is based on the forecast cost of natural gas included in customer rates. Variances from forecast costs are deferred until such time as approval from the AEUB is obtained for refund to or collection from customers through revised rates and natural gas supply expense is adjusted accordingly.

INCOME TAXES

Each regulated electric and natural gas utility follows the method of accounting for income taxes that is consistent with the method of determining the income tax component of its rates. When future income taxes are not provided in the income tax component of current rates, such future income taxes are not recognized to the extent that it is expected that they will be recovered from customers through inclusion in future rates.

Other subsidiaries follow the liability method of accounting for income taxes. Under this method future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

INVENTORIES

Inventories are valued at the lower of average cost or net realizable value.

PROPERTY, PLANT AND EQUIPMENT

The utility subsidiaries include in capital expenditures an allowance for funds used during construction at rates approved by the AEUB for debt and equity capital. Capital expenditures in the other subsidiaries include capitalized interest incurred during construction.

Certain utility additions are made with the assistance of non-refundable cash contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as, and offset the depreciation charge of, the assets to which they relate. Property, plant and equipment is disclosed net of unamortized contributions.

Depreciation is provided on assets on a straight-line basis over their estimated useful lives. Depreciation rates for utility assets are approved by the AEUB. For certain utility assets these approved depreciation rates include a provision for future removal costs and site restoration costs. On retirement of depreciable utility assets, the accumulated depreciation is charged with the cost of the retired unit, net disposal costs and site restoration costs.

GOODWILL

Goodwill is recorded at cost and amortized on a straight-line basis generally over 40 years. The carrying value of goodwill is reviewed for impairment by estimating future cash flow from related operations over the remaining amortization period.

DEFERRED FINANCING CHARGES

Issue costs of long term debt are amortized over the term of the debt and issue costs of preferred shares are amortized over the expected life of the issue. Premiums paid and unamortized issue costs of redeemed long term debt and preferred shares of utility subsidiaries are amortized over the life of the issue funding the redemption.

LONG TERM DEBT DUE WITHIN ONE YEAR

When ATCO intends to refinance long term debt due within one year on a long term basis and there is a written undertaking from an underwriter to act on ATCO's behalf with respect thereto, or sufficient capacity under long term bank loan agreements to issue commercial paper or assume bank loans, then long term debt due within one year is classified as long term.

HEDGING

In conducting its business, ATCO uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

Gains and losses are recognized in income in the same period and in the same financial statement category as the income or expense from the hedged position.

RETIREMENT BENEFITS

ATCO has defined benefit pension plans covering approximately 72% of its employees. Employees participate through contributions to the plans, which provide for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the accrued benefit actuarial cost method prorated on service and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Plan assets are valued based on a three to five year average of market values. Adjustments resulting from plan enhancements, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service life of employees.

Canadian Utilities also has defined contribution pension plans for employees. Employer contributions are expensed as incurred.

The cost of other benefits, principally health, dental and life insurance for retirees and their dependents, is expensed as paid.

STOCK-BASED COMPENSATION PLANS

ATCO Ltd. has a stock option plan and a share appreciation rights plan, and participates in the share appreciation rights plan of its subsidiary corporation, Canadian Utilities Limited, all of which are described in Note 10. No compensation expense is recognized when stock options or share appreciation rights are granted. Any consideration paid by holders of the stock options is credited to share capital. If stock options are repurchased, the consideration paid to the holders of the options is charged to retained earnings. Compensation expense for the share appreciation rights plan is accrued monthly to the date of vesting on the basis of the difference between the greater of the market price of the ATCO Ltd. Class I Non-Voting shares and the Canadian Utilities Limited Class A non-voting shares or the 12 month average market price thereof over the base value of the rights.

2. Interest and other income

	1999	1998
Allowance for funds used by utilities	$ 4.4	$ 5.7
Interest	21.5	22.8
Other	6.2	6.0
	$ 32.1	$ 34.5

3. Income taxes

The income tax provision differs from that computed using the statutory tax rates for the following reasons:

	1999		1998	
Earnings before income taxes and non-controlling interests	$ 392.7	%	$ 378.2	%
Income taxes, at statutory rates	$ 175.0	44.6	$ 168.5	44.6
Dividends on preferred shares	10.4	2.6	15.4	4.1
Allowance for funds used by utilities	(1.0)	(0.3)	(1.4)	(0.4)
Depreciation of capitalized allowance for funds used by utilities	3.7	1.0	3.7	1.0
Crown royalties and other non-deductible Crown payments	4.2	1.1	3.1	0.8
Earned depletion and resource allowance	(6.3)	(1.6)	(4.5)	(1.2)
Large Corporations Tax	6.1	1.5	5.6	1.4
Manufacturing and processing tax credit	(1.1)	(0.3)	(0.1)	-
Foreign tax rate variance	(5.9)	(1.5)	(5.7)	(1.5)
Non-deductible interest on foreign financing	1.8	0.5	1.8	0.5
Change in future income taxes resulting from reduction in tax rates	(1.9)	(0.5)	(1.3)	(0.3)
Unrecorded future income taxes	(2.6)	(0.7)	1.2	0.3
Recovery of prior years' income taxes	(3.6)	(0.9)	-	-
Other	2.0	0.5	1.0	0.2
	180.8	46.0	187.3	49.5
Current income taxes	146.6		153.7	
Future income taxes	$ 34.2		$ 33.6	

The future income tax liabilities comprise the following:

	1999	1998
Property, plant and equipment	$ 170.8	$ 154.3
Deferred costs	12.7	3.2
Reserves	(9.3)	(5.9)
Tax loss carryforwards	(8.5)	(18.8)
Other	1.9	5.2
	167.6	138.0
Less: Amounts included in income taxes payable	2.5	4.1
	$ 165.1	$ 133.9

Unrecorded future income taxes of the utility subsidiaries increased by $2.6 million to $181.2 million at December 31, 1999.

Expected future recoveries relating to tax loss carryforwards have been recorded in the amount of $8.5 million, of which $0.1 million expires beginning in 2004 and $8.4 million does not expire. In addition, a foreign subsidiary has tax loss carryforwards of $11.9 million for which no tax benefit has been recorded. These losses begin to expire in 2000.

Income taxes paid amounted to $143.4 million (1998 - $166.8 million).

4. Non-controlling interests

	1999	1998
Non-controlling interests in Canadian Utilities:		
Non-retractable		
Cumulative Redeemable Second Preferred Shares, at 5.3% to 5.9%	$ 110.6	$ 56.9
Perpetual Cumulative Second Preferred Shares, at 4.55% to 4.66%	210.0	210.0
Class A non-voting and Class B common shares	686.0	644.7
	$ 1,006.6	$ 911.6
Non-controlling interests in the earnings of Canadian Utilities:		
Non-retractable preferred share dividends	$ 14.9	$ 10.4
Earnings attributable to Class A non-voting and Class B common shares	96.3	91.6
	$ 111.2	$ 102.0

5. Direct charges to retained earnings

	1999	1998
Class I shares purchased	$ 9.7	$ -
Stock options settled (after income taxes)	0.3	1.1
Stock options settled by a subsidiary (after income taxes and non-controlling interests)	0.1	0.5
	$ 10.1	$ 1.6

6. Property, plant and equipment

		1999		1998	
	Composite Depreciation Rates	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Regulated natural gas operations	3.7%	$ 2,263.7	$ 793.9	$ 2,208.0	$ 748.3
Regulated electric operations	3.4%	3,253.4	1,214.7	3,163.1	1,137.4
Power generation	3.8%	739.2	83.7	682.9	65.1
Manufacturing and leasing	7.8%	98.9	29.3	72.4	24.8
Other	8.2%	215.3	52.1	175.4	37.5
		$ 6,570.5	2,173.7	$ 6,301.8	2,013.1
Property, plant and equipment, less accumulated depreciation			4,396.8		4,288.7
Unamortized contributions by customers for extensions to utility plant			420.2		390.3
			$ 3,976.6		$ 3,898.4

Accumulated depreciation includes amounts provided for future removal and site restoration costs, net of salvage value, of $187.3 million (1998 - $156.9 million).

Composite depreciation rates reflect total depreciation in the year as a percentage of mid-year cost, excluding construction work-in-progress of $171.7 million (1998 - $107.7 million) and non-depreciable assets of $45.3 million (1998 - $50.1 million).

7. Other assets

	1999	1998
Deferred pension asset	$ 28.1	$ 21.2
Costs deferred for recovery through future utility rates	45.1	24.7
Deferred financing charges	11.4	12.1
Other	19.0	10.1
	$ 103.6	$ 68.1

8. Long term debt

	1999	1998
Canadian Utilities		
Debentures, unsecured – at fixed rates of 5.42% to 12% (weighted average interest rate of 9.21%), due at various dates to 2023	$ 1,593.0	$ 1,335.0
Notes payable, at rates of 5.07% to 5.10%, maturing January 2000	80.7	186.5
Term credit facility, at fixed rates of 5.567% to 5.79%, due March 2003	34.6	16.0
Term credit facilities, at Bankers' Acceptance rates, due to 2003	73.3	107.2
Other long term obligations, at rates of 5.805% to 8.87%	15.3	18.0
ATCO Investments Ltd.		
Term loan on ATCO Centre II, at prime, due March 2000, secured by the building	11.5	11.6
ATCO Structures Pty Ltd		
Term loan, at fixed rate of 5.8%, due December 2003, payable in Australian dollars	9.3	11.4
Term loan, at fixed rate of 6.95%, due September 2004, payable in Australian dollars	4.5	-
	1,822.2	1,685.7
Less: Amounts due within one year	3.4	2.4
	$ 1,818.8	$ 1,683.3
Non-recourse (secured only by specific project assets)		
Canadian Utilities		
Barking Power Limited project financing, due to 2010, payable in British pounds:		
At fixed rates averaging 7.95%	$ 108.7	$ 124.0
At London Interbank Offered Rate plus 0.5089%	178.3	205.4
Osborne Cogeneration Pty Ltd. project financing, at 10.795%, due to 2013, payable in Australian dollars	64.0	67.1
McMahon cogeneration plant term facility, at 9.135%, due to 2004	17.5	21.4
Industrial Gas System credit facility	-	29.5
ATCO Ltd. (20%) and Canadian Utilities (80%)		
Joffre cogeneration project financing:		
At Bankers' Acceptance rates plus 1.25%, due to 2012	11.3	-
At London Interbank Offered Rate plus 1.25%, due to 2012	12.9	-
At fixed rate of 8.59%, due to 2020	40.0	-
	432.7	447.4
Less: Amounts due within one year	24.6	24.7
	$ 408.1	$ 422.7

The interest rates disclosed for certain of the non-recourse debt obligations reflect the effect of interest rate swap agreements.

The minimum annual debt repayments for each of the next five years are as follows:

	Long Term Debt	Non-Recourse Long Term Debt	Total
2000	$ 65.0	$ 24.6	$ 89.6
2001	15.2	27.1	42.3
2002	137.4	28.8	166.2
2003	108.2	30.4	138.6
2004	100.7	29.1	129.8
	$ 426.5	$ 140.0	$ 566.5

Of the $89.6 million due in 2000, $61.6 million is to be refinanced and is, therefore, excluded from long term debt due within one year in the balance sheet. Similarly, the notes payable have been included in long term debt.

ATCO has credit lines totaling $965.1 million, of which $432.5 million are available on a long term committed basis by the lenders, $308.8 million on a short term committed basis and $223.8 million on an uncommitted basis. These credit lines enable ATCO to obtain financing for general business purposes. At December 31, 1999, $295.0 million of long term committed credit lines, $308.8 of short term committed credit lines and $192.8 million of uncommitted credit lines were still available.

Interest on debt is as follows:	1999	1998
Long term debt and non-recourse long term debt	$ 183.0	$ 177.3
Current bank indebtedness	4.3	2.8
Amortization of financing charges	3.1	3.7
Less: Capitalized on non-utility projects	(5.0)	(8.3)
	$ 185.4	$ 175.5

Interest paid amounted to $176.2 million (1998 - $172.8 million).

FAIR VALUES

Fair values for the above debt, determined using quoted market prices for the same or similar issues, are shown below. Where market prices are not available, fair values are estimated using discounted cash flow analysis based on ATCO's current borrowing rate for similar borrowing arrangements.

	1999	1998
Long term debt – fixed rate	$ 1,874.4	$ 1,789.6
– floating rate	89.5	96.4
	$ 1,963.9	$ 1,886.0
Non-recourse long term debt – fixed rate	$ 239.9	$ 245.2
– floating rate	204.4	236.1
	$ 444.3	$ 481.3

9. Preferred shares

	Redemption Date	1999 Shares	1999 Amount	1998 Shares	1998 Amount
CanUtilities Holdings Ltd.					
Authorized and Issued:					
Cumulative Redeemable Preferred Shares					
Series A	July 1, 2001	**6,000,000**	**$ 150.0**	6,000,000	$ 150.0
Series B	July 1, 2001	**3,000,000**	**75.0**	3,000,000	75.0
Series C	July 1, 2001	**3,000,000**	**75.0**	3,000,000	75.0
			300.0		300.0
Canadian Utilities Limited					
Authorized:					
An unlimited number of Series Second Preferred Shares, issuable in series					
Issued:					
Cumulative Redeemable Second Preferred Shares					
Retractable on redemption date					
5.3% Series R	-	**-**	**-**	6,000,000	150.0
6.6% Series S	March 1, 2000	**2,000,000**	**50.0**	2,000,000	50.0
			50.0		200.0
			$ 350.0		$ 500.0

CANUTILITIES HOLDINGS LTD.

The Series A preferred shares bear a fixed dividend rate of $1.7250 per share per annum. The Series B and Series C preferred shares bear a floating dividend rate determined by monthly auctions.

The average dividend rate on the preferred shares for the year ended December 31, 1999 was $1.3949 (1998 - $1.3693) per share per annum.

CanUtilities Holdings Ltd. will be required to redeem the preferred shares on July 1, 2001 at $25.00 per share plus accrued and unpaid preferential dividends. It is not permitted to redeem the preferred shares prior to July 1, 2001.

CANADIAN UTILITIES LIMITED

On June 1, 1999, 3,853,270 of Cumulative Redeemable Second Preferred Shares Series R were retracted at a price of $25.00 per share plus accrued dividends. Effective June 1, 1999, the retraction option expired and the remaining 2,146,730 Series R shares are now redeemable only at the option of Canadian Utilities Limited and, therefore, have been recorded as non-controlling interests (see Note 4).

The preferred shares of Canadian Utilities Limited are retractable on the date specified above at the option of the holder at the stated value plus accrued and unpaid dividends. The preferred shares may be redeemed on the date specified above at the option of Canadian Utilities Limited at the stated value of $25.00 per share plus accrued and unpaid dividends.

FAIR VALUES

Fair values for preferred shares, determined using quoted market prices for the same or similar issues, are $351.8 million (1998 - $514.2 million).

10. Class I and Class II shares

	Class I Non-Voting		Class II Voting		Total	
	Shares	Consideration	Shares	Consideration	Shares	Consideration
Authorized:	100,000,000		50,000,000		150,000,000	
Issued and Outstanding:						
December 31, 1997	26,357,560	$ 134.5	3,668,672	$ 1.9	30,026,232	$ 136.4
Stock options exercised	21,600	0.3	-	-	21,600	0.3
Converted: Class II to Class I	200	-	(200)	-	-	-
December 31, 1998	26,379,360	134.8	3,668,472	1.9	30,047,832	136.7
Stock options exercised	23,000	0.4	-	-	23,000	0.4
Purchased	(279,200)	(1.5)	-	-	(279,200)	(1.5)
Converted: Class II to Class I	1,000	0.1	(1,000)	(0.1)	-	-
December 31, 1999	**26,124,160**	**$ 133.8**	**3,667,472**	**$ 1.8**	**29,791,632**	**$ 135.6**

SHAREHOLDER RIGHTS

Each Class II Voting share may be converted to one Class I Non-Voting share at the shareholder's option. In the event an offer to purchase Class II Voting shares is made to all holders of Class II Voting shares, and is accepted and taken up by the holders of a majority of such shares pursuant to such offer, then provided an offer is not made to the holders of Class I Non-Voting shares on the same terms and conditions, the Class I Non-Voting shares shall be entitled to the same voting rights as the Class II Voting shares. The two classes of shares rank equally in all other respects.

NORMAL COURSE ISSUER BID

On May 25, 1999, ATCO Ltd. commenced a Normal Course Issuer Bid for the purchase of up to 5% of the outstanding Class I Non-Voting shares. The offer will expire on May 24, 2000.

STOCK OPTION PLAN

ATCO Ltd. has a stock option plan under which 2,000,000 Class I Non-Voting shares are reserved for issuance in respect of options. Options may be granted to directors, 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 vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

The exercise of the outstanding options would not materially dilute earnings per Class I and Class II share. Changes in shares under option are summarized below:

	1999		1998	
	Class I Shares	Weighted-Average Exercise Price	Class I Shares	Weighted-Average Exercise Price
Options at beginning of year	**912,450**	**$ 21.34**	895,300	$ 18.17
Granted	**423,000**	**38.26**	140,500	36.52
Exercised	**(23,000)**	**17.71**	(21,600)	14.03
Settled	**(20,000)**	**18.69**	(101,750)	15.94
Options at end of year	**1,292,450**	**$ 26.98**	912,450	$ 21.34

Information about stock options outstanding at December 31, 1999 is summarized below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Class I Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Class I Shares	Weighted-Average Exercise Price
$14.03 to $23.70	728,950	6.0 Years	$ 18.60	449,750	$ 17.28
$36.52 to $40.11	563,500	9.5 Years	37.83	78,100	37.58
$14.03 to $40.11	1,292,450	7.5 Years	$ 26.98	527,850	$ 20.28

SHARE APPRECIATION RIGHTS PLANS

Directors, officers and key employees of ATCO may be granted share appreciation rights under the share appreciation rights plans of ATCO Ltd. and its subsidiary corporation, Canadian Utilities Limited. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant. The base value of the share appreciation rights 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 share appreciation rights exercised. Share appreciation rights expense amounted to $2.9 million (1998 - $11.8 million).

11. Changes in non-cash working capital

	1999	1998
Operating activities		
Increase in accounts receivable	**$ (19.7)**	$ (52.4)
Increase in inventories	**(14.9)**	(17.9)
Decrease (increase) in deferred natural gas costs	**0.3**	(7.7)
Decrease (increase) in prepaid expenses	**5.9**	(3.4)
Increase (decrease) in accounts payable and accrued liabilities	**(6.1)**	15.0
Decrease in income taxes payable	**(0.4)**	(6.5)
	$ (34.9)	$ (72.9)
Investing activities		
Decrease (increase) in inventories	**$ (2.9)**	$ 3.0
Increase (decrease) in accounts payable and accrued liabilities	**(11.8)**	5.4
	$ (14.7)	$ 8.4
Financing activities		
Decrease (increase) in accounts receivable	**$ 1.3**	$ (1.3)
Increase (decrease) in accounts payable and accrued liabilities	**(2.7)**	0.1
	$ (1.4)	$ (1.2)

12. Joint ventures

ATCO's interest in joint ventures is summarized below:

	1999	1998
Statement of earnings		
Revenues	$ 265.4	$ 221.4
Operating expenses	164.4	132.2
Depreciation	25.3	21.0
Interest	31.9	29.8
	43.8	38.4
Interest and other income	7.2	6.4
Earnings from joint ventures before income taxes	$ 51.0	$ 44.8
Balance sheet		
Current assets	$ 95.4	$ 127.4
Current liabilities	(73.9)	(73.5)
Property, plant and equipment	588.2	579.4
Deferred items, net	(69.3)	(63.3)
Long term debt	(14.4)	(16.0)
Non-recourse long term debt (secured only by joint venture assets)	(408.2)	(396.0)
Investment in joint ventures	$ 117.8	$ 158.0
Statement of cash flows		
Operating activities	$ 73.6	$ 50.4
Investing activities	(68.7)	(97.0)
Financing activities	10.0	49.3
Foreign currency translation	(3.4)	5.0
Increase in cash position	$ 11.5	$ 7.7

Current assets include cash of $49.6 million (1998 - $41.0 million) which is only available for use within the joint ventures.

13. Retirement benefits

The present values of the accrued pension benefits based on actuarial calculations and the net assets available to provide for pensions under the defined benefit plan are as follows:

	1999	1998
Market value of assets	$ 1,313.3	$ 1,131.2
Accrued pension benefits	924.2	845.7
Surplus	$ 389.1	$ 285.5

14. Commitments and contingencies

ATCO has contractual obligations in the normal course of business and in respect of long term operating leases for manufacturing facilities, office premises and equipment. The rentals amounted to $14.4 million for the year (1998 - $13.3 million). Future minimum lease payments are as follows:

2000	2001	2002	2003	2004	Total of All Subsequent Years
$14.0	$13.1	$12.3	$10.2	$4.6	$24.6

ATCO is party to a number of disputes and lawsuits in the ordinary course of business. Management is confident that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

On May 3, 1999, ATCO Gas and Pipelines Ltd. (formerly Canadian Western Natural Gas Company Limited) filed a general rate application with the AEUB for 1999. To date, hearings to consider the application have not been scheduled and it is unknown when a decision will be issued. However, based on the decision for 1997 and 1998 issued by the AEUB on March 2, 2000 (see Note 17), it is expected that the decision for 1999 will have a negative impact on 2000 earnings.

15. Segmented information

ATCO operates in four primary business segments:

Regulated natural gas operations provide natural gas production, transmission and distribution to industrial, residential and commercial customers in Alberta;

Regulated electric operations provide electric power generation, transmission and distribution to industrial, commercial and residential customers in north central Alberta and parts of the Yukon and the Northwest Territories;

Power generation owns and operates non-regulated electric generating facilities in Canada, Great Britain and Australia;

Manufacturing and leasing, with operations in Canada, Chile, Hungary, Australia and the United States, manufactures, sells and leases transportable shelters.

Other businesses consist of: natural gas gathering, processing, storage and natural gas supply management; technical facilities management for the defence, transportation and industrial sectors; design and construction of buildings and acoustic barriers to reduce noise emissions from industrial facilities; customer billing and call centre services for utilities, municipalities and other organizations; development, operation and support of the information systems and technologies used within ATCO; and real estate.

BUSINESS SEGMENTS

1999 1998	Regulated Natural Gas Operations	Regulated Electric Operations	Power Generation	Manu-facturing & Leasing	Other Businesses	Corporate	Intersegment Eliminations	Consolidated
Revenues – external	**$ 1,002.7**	**$ 705.6**	**$ 254.3**	**$ 132.6**	**$ 278.9**	**$ 0.7**	**$ -**	**$ 2,374.8**
	$ 879.6	$ 672.2	$ 193.4	$ 100.7	$ 230.9	$ 0.7	$ -	$ 2,077.5
Revenues – intersegment (1)	**11.8**	**0.6**	**-**	**-**	**228.5**	**13.4**	**(254.3)**	**-**
	8.6	3.9	-	-	70.9	9.5	(92.9)	-
Revenues	**1,014.5**	**706.2**	**254.3**	**132.6**	**507.4**	**14.1**	**(254.3)**	**2,374.8**
	888.2	676.1	193.4	100.7	301.8	10.2	(92.9)	2,077.5
Operating expenses	**758.7**	**323.9**	**156.5**	**109.1**	**454.4**	**16.8**	**(254.9)**	**1,564.5**
	618.9	297.9	113.7	87.6	263.0	19.6	(91.7)	1,309.0
Depreciation and	**77.2**	**110.0**	**27.0**	**6.5**	**16.2**	**0.5**	**3.6**	**241.0**
amortization	74.2	105.1	20.7	2.6	8.3	0.3	3.6	214.8
Interest	**55.3**	**90.4**	**34.3**	**1.8**	**6.2**	**144.9**	**(147.5)**	**185.4**
	53.3	87.9	29.9	0.3	5.7	137.1	(138.7)	175.5
Dividends on	**3.0**	**3.6**	**-**	**-**	**-**	**16.7**	**-**	**23.3**
preferred shares	6.3	11.7	-	-	-	16.5	-	34.5
Interest and other income	**(4.8)**	**(3.2)**	**(14.7)**	**(2.6)**	**1.4**	**(155.7)**	**147.5**	**(32.1)**
	(3.9)	(5.4)	(10.6)	(3.1)	(3.0)	(146.0)	137.5	(34.5)
Earnings before income taxes and	**125.1**	**181.5**	**51.2**	**17.8**	**29.2**	**(9.1)**	**(3.0)**	**392.7**
non-controlling interests	139.4	178.9	39.7	13.3	27.8	(17.3)	(3.6)	378.2

BUSINESS SEGMENTS (continued)

1999 1998	Regulated Natural Gas Operations	Regulated Electric Operations	Power Generation	Manu-facturing & Leasing	Other Businesses	Corporate	Intersegment Eliminations	Consolidated
Earnings before income taxes and non-controlling interests	**125.1**	**181.5**	**51.2**	**17.8**	**29.2**	**(9.1)**	**(3.0)**	**392.7**
	139.4	178.9	39.7	13.3	27.8	(17.3)	(3.6)	378.2
Income taxes	**55.4**	**84.2**	**20.1**	**7.0**	**12.5**	**1.1**	**0.5**	**180.8**
	68.0	88.7	14.0	4.4	11.9	0.7	(0.4)	187.3
Net earnings	**69.7**	**97.3**	**31.1**	**10.8**	**16.7**	**(10.2)**	**(3.5)**	**211.9**
	71.4	90.2	25.7	8.9	15.9	(18.0)	(3.2)	190.9
Non-controlling interests	**35.6**	**50.5**	**14.8**	**-**	**8.3**	**1.7**	**0.3**	**111.2**
	35.8	45.4	12.5	-	6.8	1.8	(0.3)	102.0
Earnings attributable to	**$ 34.1**	**$ 46.8**	**$ 16.3**	**$ 10.8**	**$ 8.4**	**$ (11.9)**	**$ (3.8)**	**$ 100.7**
Class I and Class II shares	$ 35.6	$ 44.8	$ 13.2	$ 8.9	$ 9.1	$ (19.8)	$ (2.9)	$ 88.9
Total assets	**$ 1,517.7**	**$ 2,062.5**	**$ 783.7**	**$ 108.5**	**$ 255.2**	**$ 162.1**	**$ 45.2**	**$ 4,934.9**
	$ 1,478.8	$ 2,059.7	$ 747.5	$ 81.5	$ 237.8	$ 150.1	$ 38.3	$ 4,793.7
Capital expenditures	**$ 112.6**	**$ 134.0**	**$ 102.3**	**$ 31.4**	**$ 46.3**	**$ 0.1**	**$ (11.7)**	**$ 415.0**
	$ 143.5	$ 124.4	$ 143.3	$ 39.7	$ 18.2	$ 0.4	$ -	$ 469.5

(1) Intersegment revenues are recognized on the basis of prevailing market or regulated prices.

GEOGRAPHIC SEGMENTS

	Domestic		Foreign		Consolidated	
	1999	1998	**1999**	1998	**1999**	1998
Revenues	**$ 2,075.8**	$ 1,861.4	**$ 299.0**	$ 216.1	**$ 2,374.8**	$ 2,077.5
Capital assets	**$ 3,628.5**	$ 3,515.2	**$ 426.8**	$ 465.6	**$ 4,055.3**	$ 3,980.8

16. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Since the change in date has occurred, ATCO's computer systems have continued to operate as usual and, to date, ATCO's customers have not experienced any service interruptions as a result of Year 2000 problems. However, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect ATCO, including those related to customers, suppliers, or other third parties, have been fully resolved.

17. Subsequent event

On March 2, 2000, following hearings which concluded in March 1999, the AEUB issued a decision regarding ATCO Gas and Pipelines Ltd.'s (formerly Canadian Western Natural Gas Company Limited) application for 1997 return on common equity and capital structure and general rate application for 1998, both of which had been filed on August 17, 1998.

This decision reduced earnings attributable to Class I and Class II shares over the two years, 1997 and 1998, by approximately $10.2 million; of that amount, $2.9 million was accounted for in the 1998 consolidated financial statements as a result of a customer refund in that year. A further $4.7 million was provided for in the 1999 consolidated financial statements and the balance of $2.6 million will be recorded in 2000.

CONSOLIDATED SUMMARY OF OPERATIONS

(Millions of Canadian Dollars, except share data)

	1999	1998	1997	1996	1995
Revenues	2,374.8	2,077.5	2,045.1	1,934.1	1,736.9
Costs and expenses	2,014.2	1,733.8	1,719.8	1,615.8	1,465.0
	360.6	343.7	325.3	318.3	271.9
Interest and other income	32.1	34.5	29.4	22.7	21.3
Earnings before income taxes					
and non-controlling interests	392.7	378.2	354.7	341.0	293.2
Income taxes	180.8	187.3	173.2	175.9	152.3
Net earnings	211.9	190.9	181.5	165.1	140.9
Non-controlling interests	111.2	102.0	100.3	91.8	84.1
Earnings from					
Continuing operations	100.7	88.9	81.2	73.3	56.8
Discontinued operations	-	-	-	6.8	1.1
Earnings attributable to					
Class I and Class II shares	100.7	88.9	81.2	80.1	57.9
Earnings per Class I and					
Class II share ($)					
Continuing operations	3.36	2.96	2.68	2.41	1.86
Discontinued operations	-	-	-	0.22	0.04
	3.36	2.96	2.68	2.63	1.90
Dividends paid per Class I and					
Class II share ($)	0.80	0.68	0.56	0.52	0.36
Equity per Class I and					
Class II share ($)	24.98	22.68	20.42	18.63	16.48
Class I and Class II shares					
outstanding (thousands)	29,792	30,048	30,026	30,475	30,465
Market price of shares ($)					
Class I High	43.75	39.00	34.00	24.00	19.25
Low	32.20	30.00	23.50	17.63	13.75
Close	39.80	39.00	34.00	23.75	18.75
Class II High	43.85	38.00	33.00	24.00	18.50
Low	33.00	30.25	23.50	17.63	14.00
Close	40.00	38.00	33.00	22.50	18.50

ATCO LTD. Corporate Information

ATCO LTD. PRINCIPAL OPERATIONS

Canadian Utilities Limited

ELECTRIC POWER OPERATIONS

ATCO Electric Ltd.

- Norven Holdings Inc.
  - *Ashcor Technologies Ltd.*
  - *ATCO Energen Inc.*
  - *Northland Utilities Enterprises Ltd.*
  - *Northland Utilities (NWT) Limited*
  - *Northland Utilities (Yellowknife) Limited*
- The Yukon Electrical Company Limited

ATCO Power Ltd.

- ATCO Power Canada Ltd.
  - *Primrose Cogeneration Project*
  - *McMahan Cogeneration Project*
  - *Poplar Hill Project*
  - *Rainbow Lake Project*
- ATCO Power Australia Pty Ltd
  - *Osborne Cogeneration Venture*
- ATCO Power Generation Ltd.
  - *Thomes Power Limited*
    - *Thames Power Services Limited*
    - *Barking Power Limited*
  - *Thames Valley Power Limited*
    - *Heathrow Project*

NATURAL GAS OPERATIONS

ATCO Gas

ATCO Midstream Ltd.

- Edmonton Ethane Extraction Plant

ATCO Pipelines

ENERGY SERVICES & MARKETING

ATCO I-Tek

ATCO Singlepoint Ltd.

ATCO Energy Ltd.

TECHNICAL SERVICES & FACILITIES MANAGEMENT

ATCO Frontec Corp.

- ATCO Airports Ltd.
- ATCO Frontec Logistics Corp.
  - *Aloska Radar System*
- ATCO Frontec Offshore Inc.
- ATCO Frontec Property Management
- ATCO Frontec Pty Ltd
- ATCO Frontec Security Services
- ATCO Frontec Services Ltd.
  - *Tli Cho Logistics Inc.*
  - *Narwhal Arctic Services*
  - *Uqsuq Corporation*
- ATCO Frontec Services Inc.
- ATCO Travel Ltd.
- Genics Inc.
- North Warning System
- Torngait Services Inc.

OTHER

- CU Water Limited

ATCO Ltd.

MANUFACTURING

ATCO Noise Management Ltd.

ATCO Structures Inc.

- ATCO Europe kft.
- ATCO Structures Pty Ltd
- ATCO Structures (USA) Inc.
- Tecno Fast ATCO S.A.

ATCO LTD. Directors & Officers

DIRECTORS

W.L. Britton, Q.C. (2) (4)
Partner, Bennett Jones, Calgary, Alberta

B.P. Collomb
Chairman and Chief Executive Officer, Lafarge S.A., Paris, France

B.P. Drummond (1) (2) (3)
Corporate Director, Montreal, Quebec

B.K. French (1) (2) (3) (4)
President, Karusel Management Ltd., Calgary, Alberta

H.E. Joudrie
Chairman of the Board Gulf Canada Resources Limited, Toronto, Ontario

Rt. Hon. D.F. Mazankowski, P.C., D. Eng., LL.D.
Business Consultant and Corporate Director, Vegreville, Alberta

H.M. Neldner (1) (3)
Corporate Director, Edmonton, Alberta

N.C. Southern (3) (5)
Co-Chairman and Chief Executive Officer, ATCO Ltd.

R.D. Southern, C.B.E., C.M., LL.D. (5)
Co-Chairman and Chief Executive Officer, ATCO Ltd.

C.O. Twa (3) (4)
President and Chief Operating Officer, ATCO Ltd.

L.C. van Wachem, K.B.E.
Chairman of the Supervisory Board, Royal Dutch Petroleum Company, The Hague, The Netherlands

(1) Member - Audit Committee

(2) Member - Corporate Governance - Nomination, Succession and Compensation

(3) Member - Risk Review Committee

(4) Member - Crisis Management Committee

(5) Each of N.C. Southern and R.D. Southern was appointed Co-Chairman of the Board and Chief Executive Officer effective January 1, 2000.

OFFICERS

R.D. Southern (1)
Co-Chairman and Chief Executive Officer

N.C. Southern (1)
Co-Chairman and Chief Executive Officer

C.O. Twa
President and Chief Operating Officer

J.A. Campbell
Senior Vice President, Finance and Chief Financial Officer

D.R. Cawsey
Assistant Corporate Secretary and Manager, Human Resources

D.T. Davis
Vice President, Internal Audit

P.J. House
Vice President, Corporate Secretary

S.W. Kiefer
Vice President, Information Technology and Chief Information Officer

C.S. McConnell
Treasurer

L.J. Vegh
Vice President, Insurance

K.M. Watson
Vice President, Controller

S.R. Werth
Vice President, Administration

(1) Each of N.C. Southern and R.D. Southern was appointed Co-Chairman of the Board and Chief Executive Officer effective January 1, 2000.

PRESIDENTS OF PRINCIPAL OPERATING SUBSIDIARIES

J.E. Barrett
President, ATCO Noise Management Ltd.

G.K. Bauer
President, ATCO Power Ltd.

D.M. Ellard
President, ATCO Singlepoint Ltd.

J.R. Frey
President, ATCO Electric Ltd.

J.D. Graham
President, ATCO Pipelines

S.W. Kiefer
President, ATCO I-Tek

W.A. Kmet
President and Chief Executive Officer, ATCO Structures Inc.

G.N. Paicu
President and Chief Executive Officer, ATCO Frontec Corp.

M.M. Shaw
President, ATCO Midstream Ltd.

C.K. Sheard
President, ATCO Gas

G.W. Welsh
President, ATCO Energy Ltd.

ATCO LTD. Shareholders' Information

ATCO LTD.

Office of the Chairman & Corporate Office
1500/1600, 909 – 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Tel: (403) 292-7500 Fax: (403) 292-7643

Shareholders and security analyst inquiries should be directed to:

Senior Vice President, Finance and
Chief Financial Officer
ATCO Ltd.
1600, 909 – 11th Avenue S.W.
Calgary, Alberta T2R 1N6
Telephone: (403) 292-7502

Dividend information and other inquiries concerning shares should be directed to:

CIBC Mellon Trust Company
Stock Transfer Department
600 The Dome Tower
333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1
Telephone: 1-800-387-0825
e-mail: inquiries@cibcmellon.ca

The shares of ATCO Ltd. are listed on

The Toronto Stock Exchange and
The Canadian Venture Exchange

Under the ticker symbols

ACO.X (Class I Non-Voting Shares)
ACO.Y (Class II Voting Shares)

The fiscal year of ATCO Ltd. ends on December 31. Dividends are mailed approximately the end of March, June, September and December.

ATCO Ltd. is incorporated under the laws of the Province of Alberta.

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

COUNSEL

Bennett Jones
Calgary, Alberta

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Wednesday, May 17, 2000 at

The Palliser Hotel
133 – 9th Avenue S.W.
Calgary, Alberta

ATCO GROUP
ANNUAL REPORTS

Annual Reports to Shareholders and Management's Discussion and Analysis for ATCO Ltd. and ATCO publicly traded company, Canadian Utilities Limited, are available upon request from:

ATCO Ltd. & Canadian Utilities Limited
Corporate Offices
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Calgary, Alberta T2R 1N6
Telephone: (403) 292-7500
Website: www.atco.com

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