407 INTERNATIONAL INC.

Management's Discussion and Analysis

December 31, 2017

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Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of 407 International Inc. and its subsidiaries (the "Company") for the years ended December 31, 2017 and 2016 (the "MD&A"). The MD&A should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto for the years ended December 31, 2017 and 2016 (the "Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts in the Financial Statements and the MD&A are shown in millions of Canadian dollars unless otherwise indicated. Additional information relating to the Company, including the Company's 2017 Annual Information Form dated February 15, 2018 (the "AIF"), can also be accessed on the System for Electronic Document Analysis and Retrieval ("SEDAR") (www.sedar.com).

Forward-Looking Statements

The MD&A includes statements about expected future events and financial and operating results that are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These forward-looking statements, including those set out in the "Outlook" sections of the MD&A, reflect the internal projections, expectations, future growth, performance and business prospects and opportunities of the Company and are based on information currently available to the Company. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties discussed under the section entitled "Risks and Uncertainties" and are made based on certain assumptions including those relating to traffic and the operation and maintenance of Highway 407 ETR (as defined below). These forward-looking statements are also subject to the risks described in the AIF under the heading "Risk Factors". Readers are cautioned not to place undue reliance on the Company's forward-looking statements and assumptions as management of the Company and its subsidiaries ("Management") cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of February 15, 2018, the date of the MD&A, and are subject to change as a result of new information, future events or other circumstances, as discussed above, in which case they will be updated by the Company as required by law.

Non-IFRS Financial Measures

Earnings Before Interest and Other, Taxes, Depreciation and Amortization ("EBITDA") is not a recognized measure under IFRS and investors are cautioned that EBITDA should not be construed as an alternative to net income (loss) or cash flows from operating activities as an indicator of the Company's performance or cash flows. The Company's method of calculating EBITDA may differ from other companies' methods and may not be comparable to measures used by other companies. Management uses EBITDA to assist in identifying underlying operating trends and allows for a comparison of the Company's operating performance on a consistent basis. Investors may also use EBITDA, amongst other financial measures, to assist in the valuation of the Company.

The earnings coverage and the earnings coverage ratio are not recognized measures under IFRS and investors are cautioned that the earnings coverage and earnings coverage ratio should not be construed as alternatives to net income (loss) or cash from operating activities as an indicator of the Company's performance or cash flows. Earnings coverage, as defined by the Company, is income before income tax expenses and interest expense on long-term debt less interest expense on long-term debt. Earnings coverage ratio, as defined by the Company, is income before income tax expenses and interest expense on long-term debt, divided by interest expense on long-term debt. The earnings coverage and the earnings coverage ratio are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators.

Corporate Background

407 International Inc. was incorporated on March 17, 1999 under the *Business Corporations Act* (Ontario) (the "OBCA"). The Company was established for the purpose of submitting a bid to the Government of the Province of Ontario (the "Province") to acquire all of the issued and outstanding shares of 407 ETR Concession Company Limited ("407 ETR"). On May 5, 1999, the Company completed the acquisition of all of the issued and outstanding shares of 407 ETR. Currently, the principal business of the Company is the ownership of 407 ETR and, through 407 ETR, the operation, maintenance, management and expansion of Highway 407 ETR (as defined below). On October 10, 2003, the Company was continued under the *Canada Business Corporations Act* (the "CBCA").

On December 6, 2001, 2007466 Ontario Inc. was incorporated under the OBCA. On October 10, 2003, 2007466 Ontario Inc. was continued under the CBCA under the name Canadian Tolling Company International Inc. ("Cantoll"). Cantoll owns and is responsible for the development of the integrated automation systems, the implementation and management of road-side tolling technologies and back-office systems and transponder management. 9665641 Canada Inc. ("9665641 Inc.") was incorporated under the CBCA on March 11, 2016 to assist in the implementation of the Company's tax planning strategies.

The Company has no direct or indirect subsidiaries other than 407 ETR, Cantoll and 9665641 Inc. The registered and principal executive office of the Company, and the head office of 407 ETR, are located at 6300 Steeles Avenue West, Woodbridge, Ontario, L4H 1J1.

The current shareholders of the Company are 4352238 Canada Inc., a wholly-owned subsidiary of Cintra Global Holding Limited ("Cintra"), MICI Inc. and 7577702 Canada Inc., subsidiaries of Canada Pension Plan Investment Board ("CPPIB"), and SNC-Lavalin Highway Holdings Inc., a wholly-owned subsidiary of SNC-Lavalin Group Inc.

Our Business

The Company, through its wholly-owned subsidiary 407 ETR, operates, maintains and owns the right to toll the world's first all-electronic, open-access toll highway ("Highway 407 ETR") which is situated just north of Toronto and runs from Burlington to Pickering. The Company's mission is to serve the Greater Toronto Area (the "GTA") by providing customers a fast, safe, reliable travel alternative, maximizing both customer satisfaction and shareholder value. Highway 407 ETR consists of four, six, eight and ten-lane sections (expandable to eight and ten lanes) from Highway 403/Queen Elizabeth Way ("QEW") in Burlington in the west to Brock Road in Pickering in the east for a distance of 108 kilometres.

The Company, through its wholly-owned subsidiary Cantoll, is also responsible for the development and operation of its integrated automation systems and the implementation and management of roadside tolling technologies and back-office systems.

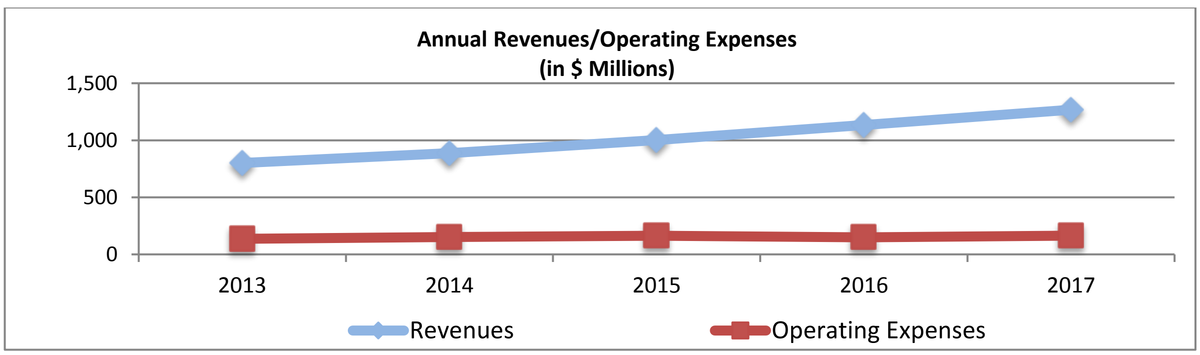
The Company's ability to create economic value depends largely on its ability to sustain revenue growth as well as to generate earnings and cash flows from operations growth by controlling the level of its operating expenditures while maintaining a safe highway and a high standard of customer service. Revenue growth depends mostly on the future demand for this alternate transportation route in the GTA and the levels of toll rates. The Company has continued to expand Highway 407 ETR to meet increasing demand and maintain a congestion-free experience for customers. Factors that could affect future demand include residential and commercial construction along the Highway 407 ETR corridor, economic conditions and the relative congestion of traditional alternative routes such as Highway 401 and the QEW, the addition of lanes on Highway 407 ETR, and additional traffic resulting from the opening of Highway 407 (see Highway 407 section), which begins at the eastern terminus of Highway 407 ETR and runs from Pickering to Oshawa.

The Company's ability to remain profitable and improve cash flow from operating activities also depends largely upon other factors, such as its ability to widen Highway 407 ETR and the availability of funds on commercially reasonable terms to finance such expansions as well as its ability to finance operating and capital expenditures, interest to bondholders and income tax payments. Management is confident of the Company's current ability to access sufficient financial resources to finance such future amounts on commercially reasonable terms.

Annual Financial Highlights

(In $ Millions, except per share amounts)	Selected Financial Information		
	2017	**2016**	**2015**
Revenues	1,267.7	1,134.7	1,002.2
Operating Expenses	163.9	149.7	162.2
EBITDA	1,103.8	985.0	840.0
Depreciation and Amortization	105.8	104.9	86.0
Interest and Other Expenses	358.4	372.8	326.9
Income Tax Expense	169.5	134.4	115.9
Net Income	470.1	372.9	311.2
Dividends per share	1.090	1.019	0.968
	As at December 31, 2017	**As at December 31, 2016**	**As at December 31, 2015**
Total assets	5,628.0	5,329.2	5,131.5
Total non-current liabilities	8,364.9	7,309.9	6,732.9

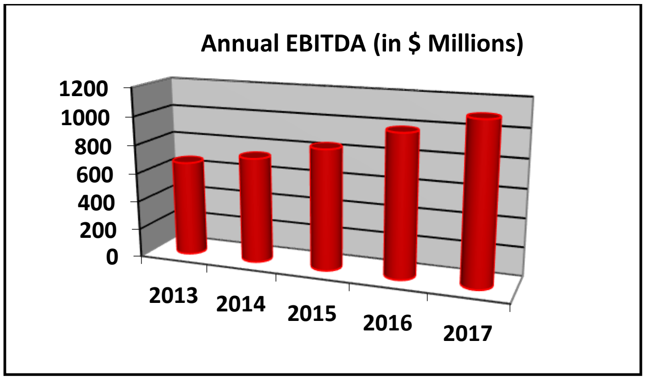
Revenues and Operating Expenses



Total revenues amounted to $1,267.7 million in 2017, an increase of $133.0 million or 11.7% compared to the same period in 2016, primarily due to higher tolling revenues attributed to a toll rate increase, coupled with higher trips and vehicle kilometres travelled ("VKTs"), and higher fee revenues due to the full year impact of Highway 407 service fees.

Total operating expenses amounted to $163.9 million in 2017, an increase of $14.2 million or 9.5%, when compared to 2016. The increase was mainly due to higher customer operations expenses due to a favourable adjustment of a customer litigation provision in the prior year, coupled with higher systems operations expenses due to higher support, licence and consulting costs and a higher provision for doubtful accounts.

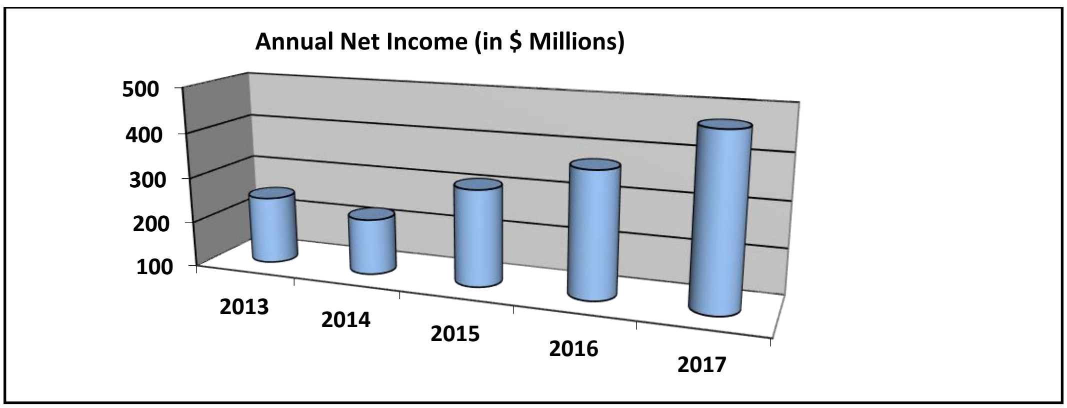
EBITDA



EBITDA (in $ Millions)	2017	2016
Net Income	470.1	372.9
Current income tax expense	155.6	66.6
Deferred income tax expense	13.9	67.8
Interest and other expenses	358.4	372.8
Depreciation and amortization	105.8	104.9
EBITDA	1,103.8	985.0

EBITDA increased by 12.1% or $118.8 million to $1,103.8 million in 2017 as compared to $985.0 million in 2016. The improvement in EBITDA was a result of growth in revenues, offset by higher operating expenses. EBITDA as a percentage of revenues was 87.1% in 2017, compared to 86.8% in 2016. Excluding contract revenues and expenses, EBITDA as a percentage of revenues was 87.5% in 2017 and in line with 2016. See "Non-IFRS Financial Measures".

Net Income



Net income of $470.1 million in 2017 increased by $97.2 million or 26.1% as compared to 2016 mainly due to higher EBITDA and lower interest and other expenses, offset by higher income tax expenses.

Dividends

Dividends paid to shareholders in 2017 amounted to $845.0 million, compared to $790.0 million in 2016 and $750.0 million in 2015.

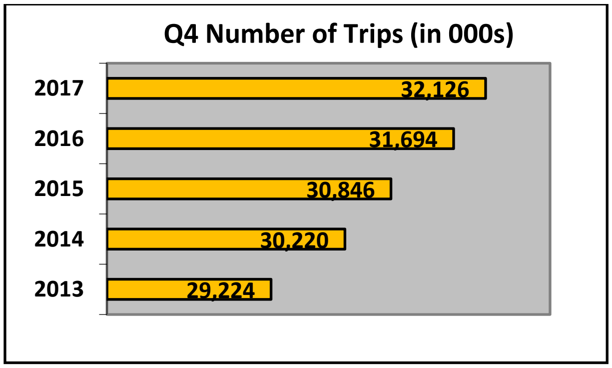
Statement of Financial Position Items

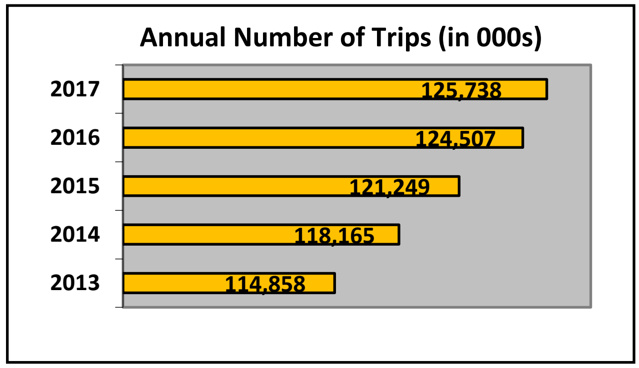
Total assets were $5,628.0 million at December 31, 2017 compared with $5,329.2 million at December 31, 2016. The increase was primarily due to higher cash and cash equivalents and higher restricted cash and investments mainly due to the establishment of debt service reserve funds for Senior Bonds, Series 17-A1 and Senior Bonds, Series 17-A2, coupled with higher trade receivable balances due to higher revenues. These increases were offset by a decrease in deferred tax assets due to the utilization of tax losses.

Total non-current liabilities at December 31, 2017 amounted to $8,364.9 million compared with $7,309.9 million at December 31, 2016. The increase in non-current liabilities of $1,055.0 million in 2017 was mainly due to the issuance of Senior Bonds, Series 17-A1 on March 24, 2017 for $250.0 million, issuance of Senior Bonds, Series 17-A2 on September 8, 2017 for $500 million, issuance of Subordinated Bonds, Series 17-D1 on September 8, 2017 for $300 million, increase in the non-cash inflation compensation component of the Real Return Bonds ("RRBs") due to an increase in the Consumer Price Index ("CPI"), offset by a decrease in fair value of Senior Bonds, Series 04-A2, a decrease in the non-cash accretion of Senior Bonds, Series 04-A2 and the partial repayments of Senior Bonds, Series 99-A3 and Senior Bonds, Series 00-A2. In addition, deferred tax liabilities increased by $11.0 million while long-term finance leases increased by $2.9 million.

The share capital and contributed surplus remained unchanged at December 31, 2017 at $775.0 million (775,000,003 number of common shares issued and outstanding) and $29.6 million, respectively, as compared to December 31, 2016.

Traffic Results





	Q4 2017	Q4 2016	YTD 2017	YTD 2016
Traffic/Trips (in millions) (1)	32.126	31.694	125.738	124.507
Average Workday Number of Trips (in thousands)	422.860	416.928	413.381	408.213
VKTs (in millions) (2)	688.887	674.644	2,708.588	2,640.770
Average Trip Length (kilometres) ("ATL") (3)	21.44	21.29	21.54	21.21
Unbillable Trips (percent) (4)	2.19	2.42	2.26	2.30
Average Revenue per Trip ($) (5)	10.06	9.30	9.96	9.02
Transponder Penetration Rate (percent) (6)	82.5	82.8	82.1	82.5
Transponders in Circulation as at December 31 (7)			1,434,485	1,342,290

1. *Trips are measured during the reporting period based on the number of vehicle transactions recorded on Highway 407 ETR.*
2. *VKTs refer to the sum of distances travelled on Highway 407 ETR during the reporting period.*
3. *Average Trip Length is calculated as the total VKTs divided by the total number of trips in the reporting period.*
4. *Unbillable Trips represents the number of trips that were not billed divided by the number of trips in the reporting period. Unbillable Trips includes unreadable transactions where a licence plate image was not captured, trips taken by vehicles from jurisdictions in which 407 ETR is unable to bill and trips taken by certain toll-exempt vehicles (such as emergency and 407 ETR service vehicles and vehicles with diplomatic plates).*
5. *Average Revenue per Trip is calculated as total tolls and fee revenue over total number of trips in the reporting period.*
6. *Transponder Penetration Rate is the ratio of transponder trips to total trips in the reporting period.*
7. *Transponders in Circulation are measured at the end of the reporting period based on the number of transponders registered to customers.*

Fourth Quarter

Total trips in the fourth quarter of 2017 were 1.4% higher than the same period in 2016. VKTs increased by 2.1% to 688.9 million in the fourth quarter of 2017 when compared with the same period in 2016 mainly due to overall economic growth and a positive impact on traffic on the eastern section of Highway 407 ETR as a result of the opening of Phase I of Highway 407. Average workday trips were higher by 1.4% when compared to the same period in 2016. Unbillable trips decreased by 9.5% when comparing the fourth quarter of 2017 to the same period in 2016 due to a regulation change effective July 1, 2017 requiring certain vehicles to have registered and billable commercial plates. Average revenue per trip was $10.06 in the fourth quarter of 2017 compared to $9.30 in the fourth quarter of 2016 representing an increase of 8.2%. The opening of Highway 407 has generated more video trips, resulting in a slightly lower transponder penetration rate compared to the same period in 2016.

2017 vs 2016

Total trips for 2017 were 1.0% higher than the same period in 2016, despite one less workday in 2017. VKTs increased by 2.6% to 2,708.6 million and ATL increased by 1.6% in 2017 when compared to 2016 mainly due to overall economic growth and a positive impact on traffic on the eastern section of Highway 407 ETR, coupled with longer trips. Average workday trips were higher by 1.3% in 2017 when compared to 2016. Unbillable trips decreased by 1.7% in 2017 compared to 2016. The decrease was mainly due to the ability to bill certain vehicles requiring registered commercial licence plates as mentioned above, offset by increased travel by unbillable jurisdictions. The average revenue per trip was $9.96 in 2017 compared to $9.02 in 2016, representing an increase of 10.4%.

Overview of Current Operations

Construction

The Company continues to improve Highway 407 ETR through construction projects designed to increase capacity and improve traffic flow and customer convenience, including investments in widening bridge structures and adding new lanes to Highway 407 ETR. The Company also regularly undertakes various rehabilitation initiatives designed to improve and replace existing elements of the infrastructure, such as resurfacing the asphalt pavement, replacing concrete pavement, replacing and relining culverts under and along Highway 407 ETR, and rehabilitating various bridge structures in order to continue to provide customers with fast, safe and reliable travel.

In 2017, the construction of the widening of Highway 407 ETR between Highway 410 and Highway 427 was completed with 20.1 new lane kilometres opened to traffic on August 31, 2017. The widening of the northbound and southbound Highway 427 bridge structures over Highway 407 ETR's infrastructure, for which the Company acts as agent and construction manager on behalf of the Province of Ontario (the "Province"), is on schedule and is expected to be completed by mid-2018.

During 2017, the Company continued with the construction of the widening of Highway 407 ETR from Markham Road to just west of Brock Road, including the Sideline 26 interchange work being completed on behalf of the Province. The construction work related to the section between York-Durham Line and Brock Road, including the Sideline 26 interchange work, is expected to be completed and opened to traffic in the second half of 2018. Construction work between Markham Road and York-Durham Line is expected to be completed and opened to traffic in the second half of 2019.

During the fourth quarter of 2017, the Company commenced the detailed design of the inside widening of Highway 407 ETR between Highway 410 and Highway 401 and between Highway 404 and Markham Road.

Information Technology

The Company continues to maintain and enhance its back-office systems. Formal processes are in place to identify, evaluate and implement potential system enhancements to ensure continued alignment with business strategies. The Company continues to focus on enhancing the core capabilities of capturing and processing vehicle information with continued investments in roadside equipment, automated licence plate recognition, complementary metal-oxide semi-conductor (CMOS) camera technology, and the operation of a front-capture camera enforcement system. The Company continues to enhance the security, functionality, scalability and usability of its self-service (website and interactive voice response) systems. As part of the Company's evaluation of a new enterprise resource planning platform, the Company has selected a new billing and customer resource management solution. The Company is currently engaged in business process optimization efforts in preparation for the software implementation, which is scheduled to begin in early 2018.

Customer Service

The Company offers customers a broad range of services through its website, operations centre and automated telephone attendant and is committed to increasing customer awareness and customer service. The Company engages an external call centre specialist in benchmarking customer satisfaction to continually survey its customers. The results of recent surveys continue to show high levels of customer satisfaction and are consistent with other market research studies commissioned by the Company. In addition, the Company conducts email-based communications from the President and Chief Executive Officer thanking customers and seeking their feedback on the services provided by the Company.

Many 407 ETR customers continue to enjoy the 407 ETR Rewards Program. The program provides free kilometres on Highway 407 ETR and gas savings to qualified 407 ETR customers. Since inception, the program has offered more than $158.7 million in benefits and savings to over 100,000 frequent light-vehicle transponder users.

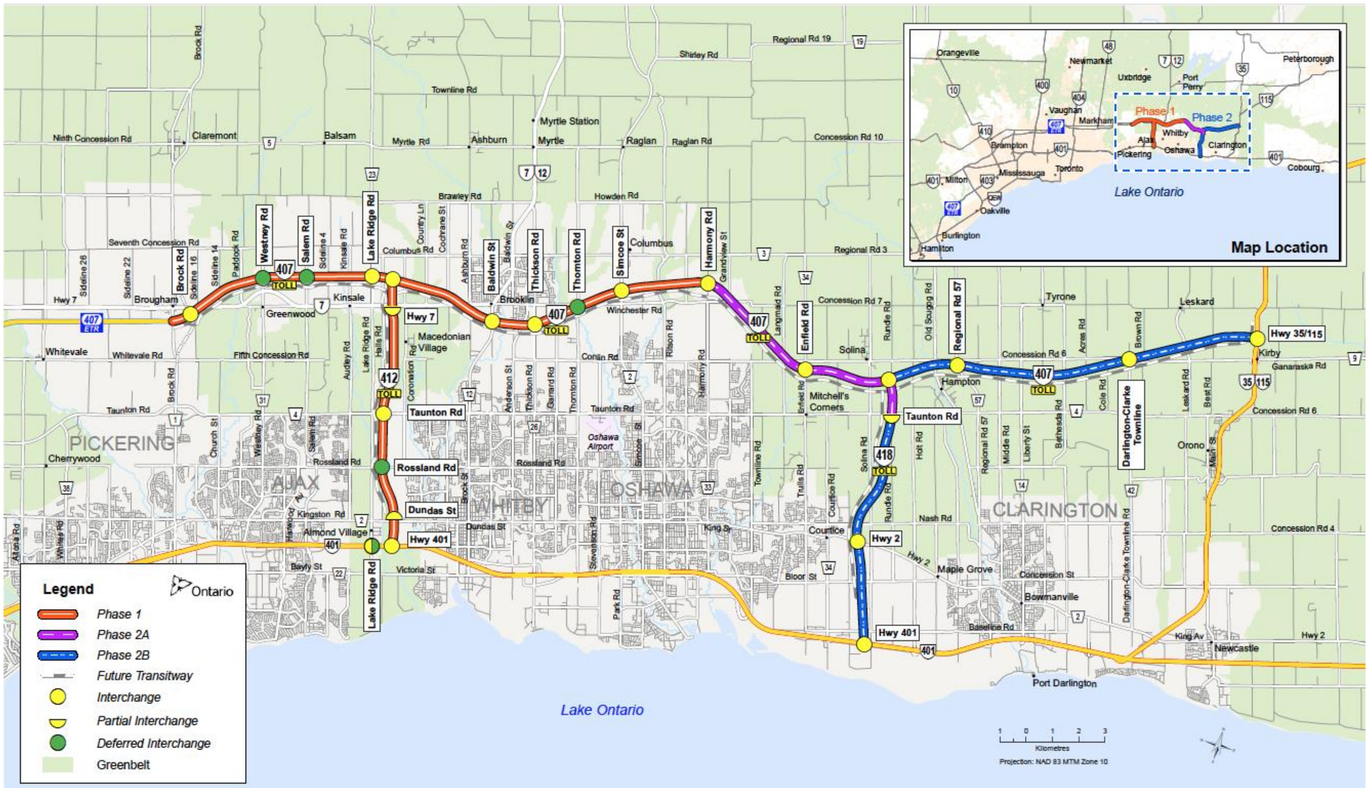
407 ETR in the Community

407 ETR and its employees continued to serve the communities surrounding the Highway 407 ETR corridor and support its corporate social responsibility goals in the GTA. 407 ETR directly supported many hospitals and rehabilitation centres across the Greater Toronto and Hamilton area and sponsored various children and youth sports teams during the year. The Company continued its participation in the Icewave and HeatWave volleyball tournaments supporting the Hospital for Sick Children and encouraged employees to participate in charitable giving through payroll deductions to the United Way of Toronto/York Region or the charity of their choice, with the Company making a 2-to-1 matching donation to the United Way. During 2017, 407 ETR was a proud supporter of both the Invictus Games in Toronto and the Women's Rogers Cup.

In addition to engaging its employees in volunteerism through the '407 For Our Communities' program, the Company is focused on supporting the communities it serves through donations and sponsoring community organizations, such as the United Way, sponsoring university graduate program scholarships and the Lassonde School of Engineering at York University, funding research into cures for childhood cancers, and sponsoring ongoing driver safety/education initiatives.

Highway 407

Highway 407 begins at the eastern terminus of Highway 407 ETR at Brock Road in Pickering and extends towards Highways 35/115 ("Highway 407"). The Province maintains public ownership of Highway 407, sets tolls and receives toll revenues in respect of its use.



Highway 407 is being constructed by the Province in two phases ("Phase 1" and "Phase 2" respectively), as further described below:

- Phase 1 extends from Brock Road (at the eastern terminus of Highway 407 ETR) in Pickering to Harmony Road in Oshawa and includes Highway 412, which runs north-south and connects Highway 407 to Highway 401. Phase 1 was completed and opened to the public on a toll-free basis on June 20, 2016 until February 1, 2017, when tolling commenced.

- Phase 2, which is being constructed in two parts, will extend from Harmony Road in Oshawa to Highway 35/115 in Clarington and includes Highway 418, which will run north-south and connect Highway 407 to Highway 401.

- The first part of Phase 2 between Harmony Road to Taunton Road in Clarington ("Phase 2a") was completed and opened to the public on January 2, 2018, with tolling commencing immediately. The second part of Phase 2 ("Phase 2b") will complete the extension of Highway 407 to Highway 35/115, and will include the connection of Highway 418 from Taunton Road to Highway 401. Phase 2b is expected to be completed by 2020.

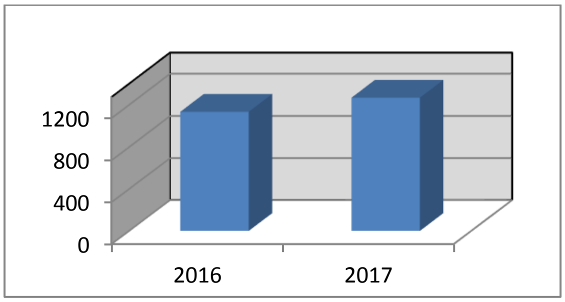
Cantoll continues to implement and maintain the roadside tolling technology and provide tolling, billing and back-office services (the "Tolling Services Contract") for Highway 407. The operational aspect of the Tolling Services Contract, which commenced in December 2015, has an initial term of 10 years and is renewable by 10-year increments for up to 30 years in total.

Highway 407 has increased the traffic levels on the eastern section of Highway 407 ETR.

The Company continues to perform the contract work associated with the second part of Phase 2 and maintains a $9.0 million segregated funds account which will be released upon full completion of Phase 2.

2017 Results of Operations

Revenues



Revenues (In $ Millions)	2017	2016
Tolls	1,178.4	1,055.8
Fees	82.0	68.3
Contract	7.3	10.6
Total Revenues	1,267.7	1,134.7

The Company's revenues are generated from toll charges for trips on Highway 407 ETR including camera charges for non-transponder trips ("Tolls"), monthly fees ("Fees") and contract revenues. Fees include transponder lease fees, account fees relating to the maintenance and billing of non-transponder customer accounts, late payment charges, enforcement fees for past due amounts sent to the Ontario Registrar of Motor Vehicles (the "Registrar") to refuse to renew or issue vehicle permits until outstanding amounts are paid or settled ("Licence Plate Denial") and service fees related to tolling, billing and back-office services. Account fees are driven by the number of non-transponder customers that travel on Highway 407 ETR and are subject to seasonal fluctuation. Enforcement fees and late payment charges are applied to customers with overdue accounts. Contract revenues include the implementation of the roadside tolling technology and back-office systems work performed under the Tolling Services Contract.

Toll Revenues

2017 vs 2016

Toll revenues amounted to $1,178.4 million in 2017, an increase of $122.6 million or 11.6%, compared to $1,055.8 million in 2016. The increase in toll revenues was primarily attributable to a toll rate increase effective February 1, 2017, coupled with an increase in VKTs.

Fee Revenues

2017 vs 2016

Fee revenues amounted to $82.0 million in 2017, an increase of $13.7 million or 20.1% when compared to $68.3 million in 2016. The increase was mainly due to the full year impact of service fees from Highway 407, coupled with higher transponder lease fees resulting from an increase in the number of transponders in circulation and higher account fee revenue due to higher rates.

Contract Revenues

2017 vs 2016

Contract revenues amounted to $7.3 million in 2017, a decrease of $3.3 million when compared to $10.6 million in 2016. Contract revenue mainly relates to work completed for Phase 2a and was lower mainly due to a higher volume of work completed in 2016 relating to Phase 1.

Outlook

Management anticipates higher revenues in 2018 compared to 2017 primarily due to the new toll rate structure that took effect on February 1, 2018 and higher traffic volumes, coupled with higher service fees.

Toll Rates

Toll rates changed effective February 1, 2017. The following table illustrates the Company's toll rates in effect on February 1, 2017. For further details on the Company's toll rates, please visit www.407etr.com.

	2017 [1] (in $CAD)					
	Light Vehicle (LV)		Heavy Single Unit Vehicle (HSU)		Heavy Multiple Unit Vehicle (HMU)	
TOLL RATE PER KM	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
Zone 1 [2] (AM Peak Periods) [3]	0.3597	0.3465	0.7194	0.6930	1.0791	1.0395
Zone 2 [2] (AM Peak Periods) [3]	0.3597	0.3597	0.7194	0.7194	1.0791	1.0791
Zone 3 [2] (AM Peak Periods) [3]	0.3465	0.3597	0.6930	0.7194	1.0395	1.0791
Zone 1 [2] (PM Peak Periods) [4]	0.3595	0.3732	0.7190	0.7464	1.0785	1.1196
Zone 2 [2] (PM Peak Periods) [4]	0.3732	0.3732	0.7464	0.7464	1.1196	1.1196
Zone 3 [2] (PM Peak Periods) [4]	0.3732	0.3595	0.7464	0.7190	1.1196	1.0785
Zone 1 [2] (AM Peak Hours) [5]	0.4242	0.3942	0.8484	0.7884	1.2726	1.1826
Zone 2 [2] (AM Peak Hours) [5]	0.4242	0.4092	0.8484	0.8184	1.2726	1.2276
Zone 3 [2] (AM Peak Hours) [5]	0.3942	0.4242	0.7884	0.8484	1.1826	1.2726
Zone 1 [2] (PM Peak Hours) [6]	0.4085	0.4474	0.8170	0.8948	1.2255	1.3422
Zone 2 [2] (PM Peak Hours) [6]	0.4474	0.4240	0.8948	0.8480	1.3422	1.2720
Zone 3 [2] (PM Peak Hours) [6]	0.4474	0.4085	0.8948	0.8170	1.3422	1.2255
Midday - Weekdays [7]	0.3088		0.6176		0.9264	
Midday - Weekends & Holidays [8]	0.2829		0.5658		0.8487	
Off Peak Period [9]	0.2248		0.4496		0.6744	
Camera charge per trip	4.10		50.00		50.00	
Trip toll charge per trip	1.00		2.00		3.00	

Note 1: Toll rates are effective from February 1, 2017.
Note 2: Effective February 1, 2017, Zone 1 means the area of the Highway between QEW to Highway 401. Zone 2 means the area of the highway between Highway 401 to Highway 404. Zone 3 means the area of the highway between Highway 404 to Brock Road.
Note 3: AM Peak Period means weekdays between 6am-7am, 9am-10am.
Note 4: PM Peak Period means weekdays between 2:30pm-4pm, 6pm-7pm.
Note 5: AM Peak Hours means weekdays between 7am-9am.
Note 6: PM Peak Hours means weekdays between 4pm-6pm.
Note 7: Midday - Weekdays means between 10am-2:30pm.
Note 8: Midday - Weekends/Holidays means between 11am-7pm.
Note 9: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Effective February 1, 2017, the Company implemented a new toll structure, including the introduction of differing toll rates for AM and PM Peak Hours and Peak Periods and direction of travel, to address customer travel patterns and to manage overall traffic flow along Highway 407 ETR, while optimizing its revenues. It is possible that traffic volumes in certain zones of Highway 407 ETR may be lower than the prescribed thresholds under the Concession Agreement, which could lead to a congestion payment to the Province. The Company monitors the traffic thresholds along Highway 407 ETR in an effort to mitigate such payments. Toll revenue is influenced by the mix of customers on Highway 407 ETR, which includes video and transponder customers, the type of vehicle, time, direction and zone of travel, distance travelled per trip, trip toll charge and toll rates.

On February 1, 2017, toll rates for light vehicles, heavy single unit vehicles ("HSU") and heavy multiple unit vehicles ("HMU") for eastbound travel increased by a weighted average of 12.2% and 13.7% during AM and PM Peak hours, respectively; by 9.5% and 9.6% during AM and PM Peak Periods, respectively; for westbound travel increased by a weighted average of 11.0% and 11.5% during AM and PM Peak Hours, respectively; by 9.6% and 9.5% during AM and PM Peak Periods, respectively; by 9% during Midday-Weekday and Midday-Weekend, respectively; and by 4% during Off-Peak Periods. Camera charge for light vehicles increased by 1.2%, with no change to trip toll charge when compared to the 2016 pricing structure.

Calculated Tolls

The Company continues to charge a calculated toll, in addition to the trip toll charge, for trips taken on Highway 407 ETR where either the entry or exit point of a vehicle is not recorded by the Company's tolling systems:

- For any vehicle (light or heavy), with a transponder for which there is a sufficient transponder trip history, a transponder vehicle median trip (referred to as a calculated trip) is charged using the median distance of the trips taken with the transponder in the preceding 72 days.
- For all light vehicles with a transponder for which there is insufficient transponder trip history, or if more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a transponder minimum trip toll is charged using the entry or exit nearest the recorded part of travel (in the same direction).
- For all light vehicles without a transponder, a flat toll charge plus the camera charge is charged.
- For all heavy vehicles without a transponder, a camera charge of $50.00 plus a heavy vehicle minimum trip toll using the entry or exit nearest the recorded part of travel (in the same direction) is charged.
- For all heavy vehicles with a transponder for which there is insufficient transponder trip history, or if more than 25% of trips over the past 72 days did not accurately record either the entry or exit point, a heavy single or heavy multiple unit vehicle flat toll is charged.

The following table illustrates the flat toll charge for light and heavy vehicles:

	2017 and 2016 (1) (In $CAD)		
	Light Vehicle (2)	Heavy Single Unit Vehicle ("HSU")	Heavy Multiple Unit Vehicle ("HMU")
Flat toll charge (up to) (Peak Period/Hours) (3)	4.50	19.85	36.95
Flat toll charge (up to) (All Other Periods) (4)	3.20	12.80	23.85

(1) Flat toll charge effective since February 1, 2017 and February 1, 2016.
(2) Applicable to light vehicles without a transponder.
(3) In 2016: Peak Period/Hours means weekdays between 6am-10am and 3pm-7pm.
In 2017: AM Peak Period means weekdays between 6am-7am, 9am-10am; PM Peak Period means weekdays between 2:30pm-4pm, 6pm-7pm.
AM Peak Hours means weekdays between 7am-9am; PM Peak Hours means between 4pm-6pm.
(4) In 2016: All Other Periods means weekdays between 10am-3pm and 7pm-6am, weekends and holidays.
In 2017: All Other Periods mean midday-weekdays between 10am-2:30pm; midday-weekends/holidays between 11am-7pm.
Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Effective February 1, 2018, the toll rate structure was revised and is illustrated in the following table:

	2018 [1] (in $CAD)					
	Light Vehicle (LV)		Heavy Single Unit Vehicle (HSU)		Heavy Multiple Unit Vehicle (HMU)	
TOLL RATE PER KM	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
Zone 1 [2] (AM Peak Periods) [3]	0.3933	0.3708	0.7866	0.7416	1.1799	1.1124
Zone 2 [2] (AM Peak Periods) [3]	0.3957	0.3849	0.7914	0.7698	1.1871	1.1547
Zone 3 [2] (AM Peak Periods) [3]	0.3921	0.3921	0.7842	0.7842	1.1763	1.1763
Zone 4 [2] (AM Peak Periods) [3]	0.3638	0.3921	0.7276	0.7842	1.0914	1.1763
Zone 1 [2] (PM Peak Periods) [4]	0.3811	0.4255	0.7622	0.8510	1.1433	1.2765
Zone 2 [2] (PM Peak Periods) [4]	0.4105	0.4255	0.8210	0.8510	1.2315	1.2765
Zone 3 [2] (PM Peak Periods) [4]	0.4217	0.4217	0.8434	0.8434	1.2651	1.2651
Zone 4 [2] (PM Peak Periods) [4]	0.4068	0.3775	0.8136	0.7550	1.2204	1.1325
Zone 1 [2] (AM Peak Hours) [5]	0.4709	0.4218	0.9418	0.8436	1.4127	1.2654
Zone 2 [2] (AM Peak Hours) [5]	0.4666	0.4378	0.9332	0.8756	1.3998	1.3134
Zone 3 [2] (AM Peak Hours) [5]	0.4624	0.4460	0.9248	0.8920	1.3872	1.3380
Zone 4 [2] (AM Peak Hours) [5]	0.4139	0.4624	0.8278	0.9248	1.2417	1.3872
Zone 1 [2] (PM Peak Hours) [6]	0.4330	0.5100	0.8660	1.0200	1.2990	1.5300
Zone 2 [2] (PM Peak Hours) [6]	0.4921	0.4834	0.9842	0.9668	1.4763	1.4502
Zone 3 [2] (PM Peak Hours) [6]	0.5055	0.4791	1.0110	0.9582	1.5165	1.4373
Zone 4 [2] (PM Peak Hours) [6]	0.4876	0.4289	0.9752	0.8578	1.4628	1.2867
Midday - Weekdays [7]	0.3381		0.6762		1.0143	
Midday - Weekends & Holidays [8]	0.3083		0.6166		0.9249	
Off Peak Period [9]	0.2338		0.4676		0.7014	
Camera charge per trip	4.15		50.00		50.00	
Trip toll charge per trip	1.00		2.00		3.00	
Flat Toll Charge (up to) (Peak Period and Peak Hours) [3 to 6]	5.50		19.85		36.95	
Flat Toll Charge (up to) (All other times of the day) [7 to 9]	3.75		12.80		23.85	

Note 1: Toll rates are effective from February 1, 2018.

Note 2: Effective February 1, 2018, Zone 1 means the area of the Highway between QEW to Highway 401. Zone 2 means the area of the highway between Highway 401 to Highway 427. Zone 3 means the area of the highway between Highway 427 to Highway 404. Zone 4 means the area of the highway between Highway 404 to Brock Road.

Note 3: AM Peak Period means weekdays between 6am-7am, 9am-10am.

Note 4: PM Peak Period means weekdays between 2:30pm-3.30pm, 6pm-7pm.

Note 5: AM Peak Hours means weekdays between 7am-9am.

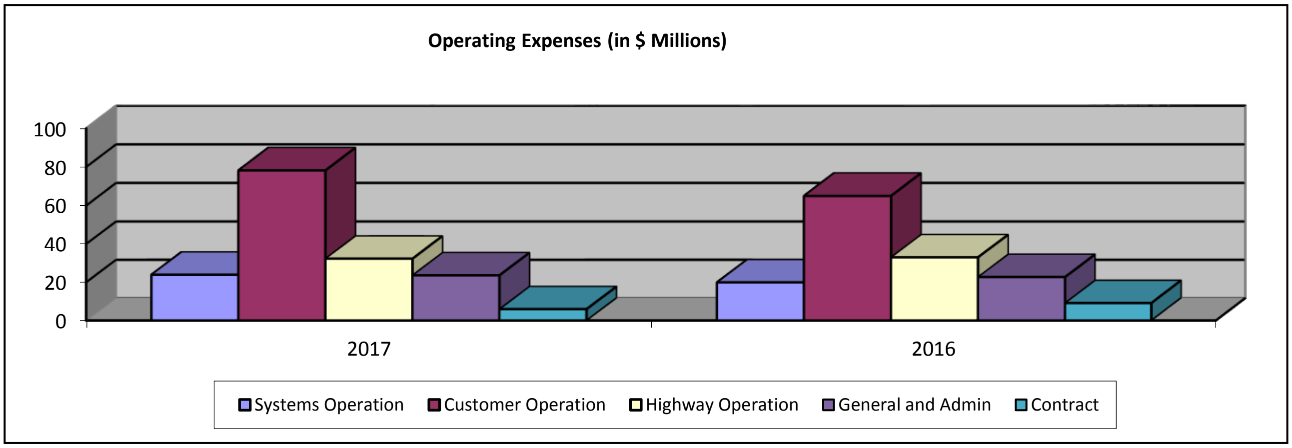
Note 6: PM Peak Hours means weekdays between 3.30pm-6pm.

Note 7: Midday - Weekdays means between 10am-2:30pm.

Note 8: Midday - Weekends/Holidays means between 11am-7pm.

Note 9: Off-Peak Period means weekdays between 7pm-6am, weekends and holidays between 7pm-11am.

Operating Expenses



Operating Expenses (in $Millions)	2017	% of revenues	2016	% of revenues
Systems Operations Expenses	23.9	1.9%	19.9	1.8%
Customer Operations Expenses	78.2	6.2%	65.0	5.7%
Highway Operations Expenses	32.3	2.5%	33.0	2.9%
General and Administration Expenses	23.6	1.9%	22.7	2.0%
Contract Expenses	5.9	0.5%	9.1	0.8%
Total	163.9	12.9%	149.7	13.2%

Systems Operations Expenses

This category includes staff salaries and other costs for developing, operating and maintaining the Company's tolling system, office computer network, and integrated automation systems.

2017 vs 2016

Systems operations expenses amounted to $23.9 million in 2017, an increase of $4.0 million when compared to $19.9 million in 2016 mainly due to higher support and license costs related to upgraded hardware and software and higher consulting costs.

Outlook

Systems operations expenses for 2018 are expected to be higher than 2017 expenses mainly due to higher consulting costs related to the new billing and customer resource management solution, higher support and tolling services costs.

Customer Operations Expenses

This category includes costs incurred to operate the customer service centre and service existing customer relationships as well as general inquiries. These costs include the call centre, customer service centre, account management salaries, transponder distribution channels, billing, customer address system access fees, ombudsman services, collection of overdue accounts, customer litigation expense and the provision for doubtful accounts.

2017 vs 2016

Customer operations expenses amounted to $78.2 million in 2017, an increase of $13.2 million when compared to $65.0 million in 2016. The increase was mainly due to a favourable adjustment of customer litigation provision in the prior year, and a higher provision for doubtful accounts, coupled with higher bank charges and billing costs driven by higher revenues.

The Company's customer service approach is focused on enhancing customer satisfaction as the needs and expectations of customers continue to develop. This customer-focused approach is reflected in the service results of the call centre. During 2017, the Company's call centre received 579 thousand telephone calls compared to 641 thousand calls received in 2016. The higher volume of calls in 2016 was mainly due to the opening of Phase 1 of Highway 407. As a result of the decrease in call volumes, the average wait time required for a customer to speak with a customer service representative decreased to 31 seconds in 2017, when compared to the average wait time of 63 seconds in 2016. The target level of service for customers calling into the 407 ETR call centre is 80% of all calls being answered within 30 seconds and the level of service in 2017 was 76%. Customers continue to have the ability to access various self-service options through the Company's interactive voice recognition system and website, through which customers can perform a number of transactions without having to speak with a customer service representative.

The Company continues to use bill inserts, promotions and targeted advertising to communicate to customers about the benefits of using Highway 407 ETR, as well as to educate drivers about environmentally and customer-friendly options such as paperless billing, annual transponder leases and preauthorized payment services. The Company continues to see growth in customers registering for paperless billing, preauthorization, and other services on the 407 ETR website which benefit customers and also result in lower costs for the Company.

Outlook

Customer operations costs for 2018 are expected to be higher than 2017 due to higher bank charges and staffing costs, coupled with a higher provision for doubtful accounts resulting from higher revenue.

Highway Operations Expenses

This category of expenses relates to operating activities such as maintenance of the major elements of the highway system including roadway surfaces, bridges, culverts, drainage, and lighting, together with seasonal maintenance, highway patrol operations, road safety enforcement and police enforcement. Highway operations expenses are seasonal in nature as winter maintenance expenses such as snow plowing and salt application occur in the first and fourth quarters of the year and most other repairs and maintenance take place in the second and third quarters of the year.

2017 vs 2016

Highway operations expenses amounted to $32.3 million in 2017 and were lower by $0.7 million when compared to $33.0 million in 2016, due to lower maintenance work relating to structural repairs and road surfaces.

Highway maintenance cost per lane kilometre in 2017 amounted to $2,680 and was lower compared to $2,790 in 2016. The decrease was mainly due to the reasons mentioned above.

Outlook

Management anticipates highway operations expenses in 2018 to be higher than 2017 costs mainly due to higher winter maintenance costs and higher police enforcement costs due to price increases.

General and Administration Expenses

General and administration expenses include public relations, finance, administration, facilities, human resources, business process, legal, audit and executive costs.

2017 vs 2016

General and administration expenses amounted to $23.6 million in 2017 an increase of $0.9 million when compared to $22.7 million in 2016 mainly due to higher consulting costs, coupled with higher tolling service and staffing costs.

Outlook

General and administration expenses for 2018 are expected to be higher than 2017 due to higher staffing costs, coupled with higher operations facility costs.

Contract Expenses

The Company's contract expenses relate to costs incurred for work performed in completing its contract obligations under the Tolling Services Contract.

2017 vs 2016

Contract expenses amounted to $5.9 million in 2017 and were lower by $3.2 million when compared to $9.1 million in 2016. The volume of work completed in 2017 for Phase 2a was lower when compared to the volume of work for Phase 1 completed in 2016.

Outlook

Contract expenses are expected to be higher in 2018 as the volume of work related to Phase 2b is higher than that associated with Phase 2a, which was substantially completed in 2017.

Depreciation and Amortization

2017 vs 2016

Depreciation and amortization expenses amounted to $105.8 million in 2017, an increase of $0.9 million when compared to $104.9 million in 2016. The increase was primarily a result of the completion of certain development projects and leased asset additions, offset by lower toll highway depreciation due to certain highway assets becoming fully depreciated at the end of the prior year.

Outlook

Management expects overall depreciation and amortization expenses in 2018 to be higher than 2017 due to new additions.

Interest and Other Expenses

	2017	2016
Interest expense	$ 363.8	$ 350.1
Non-cash inflation component of:		
Interest expense, RRBs	14.9	19.6
Interest recovery, Senior Bond, Series 04-A2	(1.8)	(0.9)
Fair value adjustment, Senior Bond, Series 04-A2	(3.8)	15.2
Capitalized interest	(1.0)	(0.6)
Total Interest Expense on long-term debt	372.1	383.4
Interest income on financial assets designated as FVTPL	(15.7)	(10.6)
Other expense	2.7	0.8
Reclassification of gains and losses on cash flow hedges	(0.7)	(0.8)
	$ 358.4	$ 372.8

Interest and other expenses include interest expense on long-term debt and obligations under finance leases, reclassification of gains and losses on cash flow hedges from accumulated other comprehensive income, interest income on fair value through profit or loss ("FVTPL") of financial assets, and fair value adjustment of derivative financial instruments.

2017 vs 2016

Interest and other expenses amounted to $358.4 million in 2017 compared to $372.8 million in 2016. Interest expense on long-term debt decreased to $372.1 million in 2017 compared to $383.4 million in 2016, primarily due to the favourable non-cash fair value adjustment on Senior Bonds, Series 04-A2 of $19.0 million. During 2017, the non-cash fair value adjustment recovery on Senior Bonds, Series 04-A2 was $3.8 million due to a decrease in the Break-Even Inflation Rate (the "BEIR") offset by a decrease in the nominal discount rate. Adding to the decrease in interest expense on long-term debt was the favourable non-cash inflation compensation component of the RRBs of $4.7 million and the favourable non-cash accretion on Senior Bonds, Series 04-A2 of $0.9 million mainly due to lower increase in inflation compared to the previous year and the repayment of Senior Bonds, Series 99-A4 on December 1, 2016. These favourable variances to interest expense on long-term debt were offset by higher interest expense on long-term debt of $13.7 million resulting from the full year interest expense on Senior Bonds, Series 16-A1 issued on May 19, 2016, the issuance of $250.0 million of Senior Bonds, Series 17-A1 on March 24, 2017, the issuance of $500.0 million of

Senior Bonds, Series 17-A2 on September 8, 2017 and higher interest expense on the senior bank credit facilities. The higher net interest expense on long-term debt of $13.7 million was offset by the refinancing of Senior Bonds, Series 99-A4 with Senior Bonds, Series 16-A2 at a lower interest rate and lower interest expense resulting from the refinancing of Subordinated Bonds, Series 10-D1 with Subordinated Bonds, Series 17-D1 at a lower interest rate. Interest income was favourable by $5.1 million primarily due to higher interest yields on investments and higher average cash balances.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects interest and other expenses for 2018 to be higher than 2017, primarily due to the full-year impact of bonds issued in 2017.

Income Taxes

Income Tax Expense		
	2017	**2016**
Current income tax expense	155.6	66.6
Deferred income tax expense	13.9	67.8
Total income tax expense	169.5	134.4

The combined current and deferred annual effective tax rate was 26.5% in 2017 and in 2016.

2017 vs. 2016

Current income tax expense amounted to $155.6 million during 2017 compared to $66.6 million in 2016 primarily due to higher earnings before taxes, as well as the utilization of the Company's non-capital losses in the prior year. Correspondingly, deferred income tax expense reduced to $13.9 million during 2017 compared to $67.8 million for the same period in 2016.

Outlook

With the exception of the non-cash inflation component of interest expense relating to the RRBs and Senior Bonds, Series 04-A2 and the non-cash fair value adjustment on Senior Bonds, Series 04-A2, the Company expects income tax expenses for 2018 to be higher than 2017 due to a higher income before tax.

Liquidity and Capital Resources

Cash Flow

Cash Flows for the year ended December 31 (In $ Millions)	2017	2016
Cash from operating activities	669.3	551.2
Cash used in investing activities	(165.5)	(141.6)
Cash used in financing activities	(298.3)	(228.9)
Increase in cash	205.5	180.7
Cash beginning of period (1)	557.6	376.9
Cash end of period (1)	763.1	557.6
(1) includes cash equivalents		

Cash and cash equivalents at December 31, 2017 was $763.1 million, an increase of $205.5 million from December 31, 2016. The cash and cash equivalents amount includes a $10.0 million reserve required by the by the Master Trust Indenture dated as of July 20, 1999 and effective as of May 5, 1999 between the Company, 407 ETR and The Trust Company of Bank of Montreal (now BNY Trust Company of Canada) ("the Indenture").

2017 vs. 2016

The cash increase of $205.5 million in 2017 was mainly due to proceeds from issuance of long-term debt and draws from the senior bank credit facilities of $1,534.0 million and cash generated from operating activities of $669.3 million. These inflows were offset by partial repayments of long-term debt and senior bank credit facilities of $976.2 million, dividends paid to shareholders of $845.0 million, increase in restricted cash and investments of $58.1 million, purchases of property, plant and equipment and intangibles of $103.6 million, payments of debt issue costs of $6.9 million, advance payments to suppliers of $4.5 million and payments of obligations under finance leases of $4.2 million.

Cash generated from operating activities was $669.3 million in 2017 compared with $551.2 million in 2016. The increase in cash generated from operating activities of $118.1 million was mainly due to higher cash receipts of $131.6 million resulting primarily from higher toll revenues and higher interest income received of $3.8 million. These increases to cash flow from operations were offset by higher interest expense payments of $9.0 million primarily due to the additional long-term debt issued in 2016 and 2017, higher operating expense payments of $5.7 million and higher payments for income taxes of $2.6 million.

Cash used in investing activities was $165.5 million in 2017 compared with $141.6 million for the same period in 2016. Included in investing activities are investments in the widening of certain segments and replacement of certain components of Highway 407 ETR, enhancements and replacements of toll equipment, continuing development and enhancement of the information systems, construction of a new patrol yard building and the purchase of new transponders. Payments for property, plant and equipment and intangibles amounted to $103.6 million during 2017 compared with $71.9 million for the same period in 2016, an increase of $31.7 million due to Highway 407 ETR infrastructure and rehabilitation work, coupled with operation building additions. Advance payments to suppliers amounted to $4.5 million during 2017 compared to $2.0 million for the same period in 2016. Included in investing activities are changes in the restricted cash and investments required to be maintained by the Indenture. The net increase in restricted cash and investments was $58.1 million during 2017 compared to $67.2 million during the same period in 2016. The increase in restricted cash and investments of $58.1 million was due to the contributions to the debt service fund of $363.7 million, the establishment of a refunding bond fund of $300.0 million to refinance Subordinated Bonds, Series 10-D1, the establishment of a debt service reserve fund for Senior Bonds, Series 17-A2 of $27.6 million, the establishment of a debt service reserve fund for Senior Bonds, Series 17-A1 of $13.4 million and interest received from restricted cash and investments of $8.0 million and contribution towards additional reserve requirements for the Operating and Maintenance and Renewal and Replacement fund of $0.8 million. These increases to restricted cash were offset by coupon payments of $342.9 million, the repayment of Subordinated Bonds, Series 10-D1 of $300.0 million, partial repayment of Senior Bonds, Series 00-A2 of $6.3 million, partial repayment of Senior Bonds, Series 99-A3 of $4.9 million and transfers of $1.3 million to the general fund. Non-trade receivables and other decreased by $0.7 million during 2017 compared with an increase of $0.5 million for the same period in 2016.

Cash used in financing activities was $298.3 million in 2017 compared with cash used in financing activities of $228.9 million in 2016. Repayments of long-term debt were $976.2 million in 2017 representing repayments of advances under the Senior Bank Credit Facilities of $665.0 million, repayment of Subordated Bonds, Series 10-D1 of $300.0 million, partial repayment of Senior Bonds, Series 99-A3 of $4.9 million and partial repayment of Senior Bonds, Series 00-A2 of $6.3 million compared to repayments of long-term debt of $764.6 million in 2016, representing repayments of advances under the senior bank credit facilities of $465.0 million, repayment of Senior Bonds, Series 99-A4 of $289.0 million, partial repayment of Senior Bonds, Series 99-A3 of $4.7 million and partial repayment of Senior Bonds, Series 00-A2 of $5.9 million. Dividend payments to shareholders amounted to $845.0 million in 2017 compared to $790.0 million in 2016. Debt issue costs in 2017 were $6.9 million compared to $5.8 million for the same period in 2016. Payments for obligations under finance leases amounted to $4.2 million in 2017 compared to $3.8 million for the same period in 2016. Proceeds from issuance of long-term debt in 2017 amounted to $1,534.0 million representing issuance of $249.8 million of Senior Bonds, Series 17-A1 on March 24, 2017, issuance of $499.2 million of Senior Bonds, Series 17-A2 on September 8, 2017, issuance of $300.0 million of Subordinated Bonds, Series 17-D1 on September 8, 2017 and advances under the senior bank credit facilities of $485.0 million compared to proceeds of issuance of long-term debt of $1,335.3 million representing issuance of $499.4 million of Senior Bonds, Series 16-A1 on May 19, 2016, issuance of $349.9 million of Senior Bonds, Series 16-A2 on November 4, 2016 and advances under the Senior Bank Credit Facilities of $486.0 million.

The supplemental indenture for RRBs Series 99-A5, 99-A6 and 99-A7 requires the Company to fund a series excess inflation reserve should the principal outstanding multiplied by the difference between the applicable CPI at the time of measurement divided by the applicable CPI at the time of issue exceed a pre-established threshold level. As at December 31, 2017 and December 31, 2016, CPI had not reached the levels to require funding of the excess inflation reserve and Management does not anticipate CPI to reach these levels. Sufficient cash from operations will be generated in the event that funding of the reserve becomes necessary.

Certain Events of Default under the Indenture would allow bondholders to declare the bonds to be immediately payable. These Events of Default are described in the Company's AIF available at www.sedar.com. As at December 31, 2017 and December 31, 2016, the Company is in compliance with the terms of the Indenture.

Outlook

The Company is committed to maintaining its current credit ratings on all debt obligations. The Company expects to maintain sufficient liquidity and to generate cash from operations to meet all of its ongoing obligations and to pay dividends to its shareholders. The Company expects to gradually increase its financial leverage to fund operating and capital expenditures, to pay interest to debtholders, and to pay income tax while maintaining healthy debt service coverage and earnings coverage ratios.

Fourth Quarter 2017 Financial Performance

(In $ Millions)	Q4 2017	Q4 2016
Revenues	327.3	297.3
Operating Expenses	43.0	42.2
EBITDA	284.3	255.1
Depreciation and Amortization	27.1	25.2
Interest and Other Expenses	101.1	97.0
Income Tax Expense	41.2	34.9
Net Income	114.9	98.0

Revenues were $327.3 million in the fourth quarter of 2017, an increase of $30.0 million or 10.1% compared to the same period of 2016 primarily attributed to higher toll rates coupled with higher trips and VKTs.

Operating expenses were $43.0 million in the fourth quarter of 2017, $0.8 million higher than the same period in 2016. The increase was mainly due to higher support and license costs, higher consulting costs and higher billing costs, offset by lower highway operations expense.

Depreciation and amortization expenses were $27.1 million in the fourth quarter of 2017, $1.9 million higher than the same period in 2016 mainly due to accelerated depreciation of certain assets and timing of completion of certain development projects.

Interest and other expenses amounted to $101.1 million for the fourth quarter of 2017 compared with $97.0 million for the same period in 2016. Interest expense on long-term debt increased to $104.8 million during the fourth quarter of 2017 from $99.6 million during the fourth quarter of 2016; an increase of $5.2 million. This increase was primarily due to the higher interest expense of $4.6 million due to interest expense on the issuance of $250.0 million of Senior Bonds, Series 17-A1 on March 24, 2017, and the issuance of $500.0 million of Senior Bonds, Series 17-A2 on September 8, 2017. The increase in interest expense on long-term debt was offset by the favourable interest expense resulting from the refinancing of $289.0 million of Senior Bonds, Series 99-A4 with $350.0 million Senior Bonds, Series 16-A2 at a lower interest rate, and the favourable interest expense resulting from the refinancing of $300.0 million of Subordinated Bonds, Series 10-D1 with $300.0 million of Subordinated Bonds, Series 17-D1 at a lower interest rate. The non-cash inflation compensation component of the RRBs was unfavourable by $3.3 million and the non-cash accretion expense on Senior Bonds, Series 04-A2 was unfavourable by $1.1 million due to a higher increase in the CPI during the fourth quarter of 2017 as compared to the increase in CPI in the fourth quarter of 2016. These unfavourable variances to interest on long-term debt were offset by the favourable variance on the non-cash fair value adjustment on Senior Bonds, Series 04-A2 of $3.7 million. During the fourth quarter of 2017, the non-cash fair value adjustment interest expense on Senior Bonds, Series 04-A2 of $7.1 million was primarily due to a decrease in the nominal discount rate. Interest income was higher by $3.1 million primarily due to higher investment yields earned on investments and higher average cash balance.

The 2017 combined current and deferred annual effective tax rate of 26.4% for the fourth quarter of 2017 was slightly higher than the combined current and deferred annual effective tax rate of 26.3% for the fourth quarter of 2016 due to favourable prior period adjustments being recorded in the fourth quarter of 2016.

The Company recorded current income tax expense of $41.3 in the fourth quarter of 2017 compared to $18.0 million in the same period in 2016 primarily due to the full utilization of the Company’s non-capital tax losses. Correspondingly, deferred income tax recovery was $0.1 million in fourth quarter of 2017 compared to expense of $16.9 million in same period in 2016.

<u>Cash Flow</u>

Cash Flow for the fourth quarter ended December 31
(In $ Millions)

	Q4 2017	Q4 2016
Cash from operating activities	169.1	87.0
Cash from/(used in) investing activities	284.0	(20.0)
Cash from/(used in) financing activities	(400.1)	41.4
Increase in cash	53.0	108.4
Cash in the beginning of the period (1)	710.1	449.2
Cash end of period (1)	763.1	557.6

(1) includes cash equivalents

Cash generated from operating activities was $169.1 million for the fourth quarter of 2017 compared with $87.0 million for the fourth quarter of 2016. The increase in cash generated from operating activities of $82.1 million was a result of lower cash payments for income taxes of $42.8 million due to timing of payments, higher cash receipts of $33.2 million due to higher revenues, lower cash payments for operating expenses of $3.2 million primarily due to timing of payments and higher interest income received from investments and cash balances of $2.3 million due to higher investment yields and a higher average cash balance.

Cash generated from investing activities was $284.0 million for the fourth quarter of 2017 compared with cash used in investing activities of $20.0 million for the fourth quarter of 2016. The net decrease in restricted cash was higher by $327.6 million mainly due to repayment of Subordinated Bonds, Series 10-D1 from the refunding bond fund of $300.0 million coupled with timing of contributions and coupon payments on debt service funds. Payments for property, plant and equipment and intangible assets were higher by $13.7 million when compared to the same period in 2016. Non-trade receivables and other increased by $7.7 million primarily due to timing of payments from third-party vendors and higher advance payments to suppliers of $2.2 million over the fourth quarter of 2016.

Cash used in financing activities was $400.1 million in the fourth quarter of 2017 compared with cash generated from financing activities of $41.4 million in the fourth quarter of 2016. Proceeds from draws under the Senior Bank Credit Facilities amounted to $120.0 million in the fourth quarter of 2017 compared to proceeds from long-term debt in the fourth quarter of 2016 of $543.9 million, representing issuance of $349.9 million of Senior Bonds, Series 16-A2 on November 4, 2016 and draws under the Senior Bank Credit Facilities of $194.0 million. Repayment of long-term debt amounted to $303.2 million in the fourth quarter of 2017, representing repayment of Subordinated Bonds, Series 10-D1 of $300.0 million and partial repayment of Senior Bonds, Series 00-A2 of $3.2 million compared to $292.0 in the fourth quarter of 2016, representing repayment of Senior Bonds, Series 99-A4 of $289.0 million and partial repayment of Senior Bonds, Series 00-A2 of $3.0 million. Dividend payments to shareholders amounted to $215.0 million in the fourth quarter of 2017 compared to $207.5 million in the fourth quarter of 2016.

Quarterly Financial Information

Net Income and Net Income per Share
(in $Millions, except per share amounts)

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenues	327.3	348.7	331.0	260.7	297.3	321.3	290.8	225.3
Operating expenses	43.0	40.9	39.8	40.2	42.2	36.4	33.4	37.7
Depreciation and amortization	27.1	27.8	26.5	24.4	25.2	26.9	27.0	25.8
Interest and other expenses	101.1	85.7	94.4	77.2	97.0	100.4	101.6	73.8
Income tax expenses	41.2	51.1	45.7	31.5	34.9	41.7	34.4	23.4
Net income	114.9	143.2	124.6	87.4	98.0	115.9	94.4	64.6
Net income per share (basic and diluted)	0.148	0.185	0.161	0.113	0.126	0.150	0.122	0.083

Toll and fee revenues are subject to seasonal fluctuations that may materially impact quarter-to-quarter financial results; therefore one quarter's revenues are not necessarily indicative of another quarter's revenues. Seasonal and other trends affecting the Company's revenues include factors such as economic activity, recreational travel, weather conditions, pricing structure, fuel prices and traffic volumes on neighbouring infrastructure. In particular, this seasonality generally results in relatively lower revenues during the first quarter, relatively higher levels of toll and fee revenues in the second and fourth quarters and the highest revenue in the third quarter. Contract revenues may fluctuate depending on the amount of contract work awarded, completed and accepted by the customer. Interest expense on RRBs and Senior Bonds, Series 04-A2 is calculated based on changes in CPI; as such, interest expense in respect of RRBs and Senior Bonds, Series 04-A2 will fluctuate due to the volatility of CPI.

Net income of $94.4 million in the second quarter of 2016 was $29.8 million higher than the first quarter of 2016, mainly due to seasonally-higher revenues and lower operating expenses, offset by higher income tax expense due to higher earnings before tax, coupled with higher depreciation and amortization expenses primarily due to the change in the method of amortizing concession rights and higher interest and other expenses due to an unfavourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2 and additional debt issued during the quarter. Net income of $115.9 million in the third quarter of 2016 was $21.5 million higher than the second quarter of 2016, mainly due to seasonally-higher revenues, offset by higher income tax expense due to higher earnings before tax and higher operating expenses. Net income of $98.0 million in the fourth quarter of 2016 was $17.9 million lower than the third quarter of 2016, mainly due to seasonally-lower revenues coupled with higher operating expenses, partially offset by lower income tax expense due to lower earnings before tax and lower interest and other expenses due to a favourable non-cash inflation compensation of RRBs and Senior Bonds Series 04-A2. Net income of $87.4 million in the first quarter of 2017 was $10.6 million lower than the fourth quarter of 2016, mainly due to seasonally lower revenues, offset by lower interest and other expenses due to lower fair value adjustments on Senior Bonds, Series 04-A2, lower income tax expense due to lower earnings before tax and lower operating expenses. Net income of $124.6 million in the second quarter of 2017, was $37.2 million higher than the first quarter of 2017, mainly due to seasonally higher revenues and lower operating expenses, offset by higher interest and other expenses due to higher inflation compensation of RRBs, lower interest recovery on Senior Bonds Series 04-A2 and higher interest expense on Senior Bonds Series 17-A1, higher income tax expense due to higher earnings before tax and higher depreciation expense. Net income of $143.2 million in the third quarter of 2017, was $18.6 million higher than the second quarter of 2017, mainly due to seasonally higher revenues and lower interest and other expenses due to a decrease in inflation resulting in a recovery of inflation compensation of RRBs and Senior Bonds Series 04-A2, offset by higher interest expense on Senior Bonds Series 17-A2 and Subordinated Bonds Series 17-D1, which were issued on September 8, 2017, and higher fair value adjustment on Senior Bonds Series 04-A2 due to unfavourable market conditions. These increases were offset by higher income tax expense due to higher earnings before tax, higher operating expenses and higher depreciation expense.

The Company recorded a net income of $114.9 million in the fourth quarter of 2017, $28.3 million lower than the third quarter of 2017, mainly due to seasonally lower revenues, lower income tax expense and lower depreciation expense, offset by higher interest and other expenses due to the full year impact of interest expense on the issuance of Senior Bonds, Series 16-A1 on May 19, 2016, coupled with interest expense on the issuances of Senior Bonds, Series 17-A1 on March 24, 2017 and Senior Bonds, Series 17-A2 on September 8, 2017 and higher operating expenses.

Earnings Coverage

Earnings Coverage (in $ Millions)	2017	2016
Income before income tax expenses and interest expense on long-term debt	1,012.6	891.4
Interest expense on long-term debt	373.0	384.1
Earnings coverage	**639.6**	**507.3**

The Company experienced earnings coverage ratios of 2.71 times and 2.32 times for the years ended December 31, 2017 and 2016, respectively. The Company expects income before income tax expenses and interest expense on long-term debt to continue to be sufficient to cover interest expense on long-term debt. The earnings coverage ratio is different from the Company's debt service coverage ratio as such is defined in the Indenture. See "Non-IFRS Financial Measures".

Financial Instruments and Other Instruments

Financial instruments used by the Company consist of cash and cash equivalents, restricted cash and investments, trade receivables and other, contract receivables, amounts due from customers for contract, trade and other payables, long-term debt and derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents of $763.1 million as of December 31, 2017 consist of cash, guaranteed investment certificates, government treasury bills and provincial promissory notes with maturities of three months or less. Cash and cash equivalents are used for working capital and other general corporate purposes.

Restricted cash and investments

Restricted cash and investments are required to be maintained in reserve accounts under the Indenture and various supplemental indentures for the benefit of the bondholders and a segregated funds account under an agreement between Cantoll and the Province to implement and maintain the roadside tolling technology and back-office systems relating to the Tolling Services Contract. Restricted cash and investments consist of cash, bankers' acceptances, bank deposit notes, floating rate notes, government treasury bills, provincial promissory notes and federal notes with, from time to time, both short-term and long-term maturities.

Long-term debt

Long-term debt was used to finance the acquisition of Highway 407 ETR from the Province and to finance the construction of Highway 407 ETR extensions, widening projects, deferred interchanges, operating and capital expenditures, interest to bondholders and other general corporate purposes.

Senior bank credit facilities

The Company has credit agreements with respect to three revolving credit facilities with Canadian chartered banks. The aggregate principal amount of the three revolving credit facilities is currently up to $465.0 million and is being used to refinance existing debt, fund future operating and capital expenditures, interest payments and for general corporate purposes. The obligations under the credit facilities rank pari passu with the senior debt of the Company. The Company issued to the Canadian chartered banks senior pledged bonds with an aggregate principal amount of $1,200.0 million, resulting in the indebtedness arising from the credit facilities being secured under the Indenture.

The credit facilities bear interest at floating rates based, at the option of the Company, on the prime rate for Canadian dollar loans, and the interbank bid rate for Canadian dollar bankers' acceptances, plus an applicable fixed margin. The Company paid an upfront fee and is also obligated to pay a commitment fee to the banks, calculated on the undrawn portion of the credit facilities.

The Company may draw on these credit facilities until the maturity date. The maturity date is December 1, 2020. The Company may also repay a portion or all of the obligations owing under the credit facilities at any time during the term. As at December 31, 2017, the Company has drawn $422.0 million (2016 - $602.0 million) under the credit facilities and has classified the drawn amount under current liabilities.

Derivative financial instrument

The Senior Bonds, Series 04-A2 is a derivative financial instrument and is reported at fair value. The Company is obligated to make semi-annual cash payments to the holders of Senior Bonds, Series 04-A2 (consisting of principal and interest), determined by the product of $13.0 million and the applicable CPI at the time of payment divided by the applicable CPI at time of issue.

Accounting and Control Matters

Accounting Policies

The Financial Statements are prepared in accordance with IFRS. The Company has identified the accounting policies and estimates that are critical to the understanding of the Company's operations and financial results which have been disclosed in the Financial Statements. The following amendments have been adopted on January 1, 2017, Amendments to IAS 7 *Statement of Cash Flows* and IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*. There was no impact to the Financial Statements as a result of adopting these amendments, except for IAS 7 which resulted in additional disclosures by way of supplementary cash flow information and net changes in financial liabilities, which have been included in the Financial Statements.

Critical Accounting Estimates

The preparation of the Financial Statements in conformity with IFRS requires Management to make certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Financial Statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the notes accompanying the Financial Statements. Judgement is commonly used in determining whether a balance or transaction should be recognized in the Financial Statements, and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgements and estimates are often interrelated. These estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ materially from these estimates.

Allowance for Doubtful Accounts

The Company provides for doubtful accounts based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Registrar through the Licence Plate Denial process as well as Management's expectation of success rates for collection through legal proceedings. The Company's provision for overdue accounts could materially change and may result in significant changes to trade receivable balances as Management continues to monitor the collection of outstanding 407 ETR charges and gains further experience with the Licence Plate Denial and litigation processes.

Deferred Tax

Deferred tax assets arising from the carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable income will be available against which the unused tax losses and unused tax credits can be utilized. The Company's projected taxable income is based on reasonable and prudent operating projections, assumptions and hypotheses. Taxable income is primarily impacted by traffic volume, toll rates, operating and maintenance expenses, interest income and interest expense on long-term debt. Based on these projections, the Company anticipates that it will generate sufficient taxable income to utilize existing tax losses and tax credits prior to their expiration dates. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the assets to be utilized in the future.

407 ETR Rewards Program

The 407 ETR Rewards Program has been designed to reward eligible frequent customers with free weekend kilometres on Highway 407 ETR in conjunction with discounts on gas purchases. When rewards are earned by such customers, the Company defers the revenues relating to the future free kilometres and records an expense for the gas discounts, thereby establishing a liability for future redemption. The deferred revenue is determined by multiplying the number of free weekend kilometres offered by the estimated price per kilometer and expected future redemption. The expense for gas discounts is determined by multiplying the number of litres offered by the estimated cost per litre and expected usage. The actual revenue and discounts on gas purchase redemptions are charged against the liability for the 407 ETR Rewards Program, which is included in trade and other payables on the Financial Statements.

Toll Revenues

Toll revenues are recognized on the date trips are taken on Highway 407 ETR. Certain exit and entrance transactions which are unbilled remain in queues to create the best match to form a complete trip. The Company estimates the unrated toll revenue in the queue using certain attributes of recently-rated trips which are applied to the traffic transactions in the queue.

Contract Revenues

When the outcome of a construction contract can be reliably estimated, contract revenues are recognized using the percentage of completion method, based on the ratio of cumulative costs at the end of the reporting period over the total anticipated costs to perform the contract. In the event that the total anticipated costs to perform the contract exceed the total anticipated revenues on a contract, such contract losses are recognized in full in the period when such losses become probable.

Long-Term Debt

The Company accounts for the Senior Bonds, Series 04-A2 as a derivative financial instrument and is reported at its fair value. Given that the market for this financial instrument is not active, the Company establishes fair value by using a valuation technique that employs the BEIR as a market proxy for future inflation and discounted cash flow analysis. BEIR is highly volatile and may lead to significant non-cash changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the holders of Senior Bonds, Series 04-A2.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization and net of any impairment loss. Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment loss is measured as the amount by which the carrying amount of an asset exceeds the higher of: (i) its fair value less costs to sell; and (ii) its value in use. On an annual basis, the Company reviews the useful lives, depreciation methods and depreciation rates of its property, plant and equipment.

Future Changes in Accounting Policies

IFRS 9 *Financial Instruments ("IFRS 9"):* This standard replaces the current IAS 39 Financial Instruments Recognition and Measurement. This standard sets out revised guidance for classifying and measuring financial assets and liabilities, introduces a new expected credit loss model for calculating impairment of financial assets, and includes a reformed approach to hedge accounting. The standard also requires that when a financial liability at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, that the adjustment to the amortized cost of the financial liability is recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

In 1999, the Company issued Real Return Bonds, Series 99-A4, Series 99-A5, Series 99-A6, and Series 99-A7. In 2002, the Company amended the contractual terms of these bonds resulting in a revision of the cash flow payments. Under IFRS 9, the amendments to the RRBs would have resulted in a gain on remeasurement of the carrying amount of the bonds for Series 99-A5, Series 99-A6 and Series 99-A7 as of the date of modification. There is no impact on Series 99-A4 as these bonds matured during the fiscal year ended December 31, 2016. The gain of approximately $5.3 million ($3.9 million after tax) is due to the revaluation of the carrying amount of the bonds by discounting the revised cash flows using the original effective interest rate and continuing to apply the effective interest method. The Company will adopt the modified retroactive approach, and will record the adjustment as a decrease in the carrying amount of the bonds and a credit to opening retained earnings as at January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers ("IFRS 15*"): This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 introduces a single comprehensive model for recognizing revenues from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services, applying the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies the performance obligation.

The standard also provides guidance relating to treatment of contract acquisition and fulfillment costs.

IFRS 15 will principally affect the timing of revenue recognition for transactions by each element in an arrangement (distinct goods or services in a bundled price or deliveries of multiple services that occur at different points in time and/or over different periods of time). Similarly, the measurement of total contract acquisition costs to be recognized in operating expenses over time and contract fulfillment costs recognized over the life of the contract.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Qualitative disclosures showing disaggregation of revenues by types of performance obligations, nature of services provided and when obligations are satisfied will be made as per the disclosure requirements under IFRS 15. Quantitative disclosures by way of reconciliation of certain contract asset/liability balances with relevant comparative information will be made. The above-mentioned additional disclosures will provide sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. With the exception of additional note disclosures, there is no significant impact to the Financial Statements as a result of adopting this standard.

IFRS 16 *Leases ("IFRS 16"):* This standard replaces IAS 17 Leases. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is that lessees and lessors provide relevant information in a manner that faithfully represents lease transactions and gives a basis for users of financial statements to assess their effect on the financial position, financial performance and cash flows of an entity. The latest date of mandatory implementation of IFRS 16 is January 1, 2019. The Company is currently evaluating its impact on the financial statements.

Risks and Uncertainties

Litigation

Class Action Regarding Bankruptcy and Consumer Proposals

In April 2012, 407 ETR was served with a statement of claim for a proposed class action commenced in the Ontario Superior Court of Justice. The proposed class of plaintiffs included all 407 ETR customers that had been placed or kept in Licence Plate Denial, pursuant to the Highway 407 Act (Ontario), for Highway 407 ETR tolls and related fees incurred prior to their bankruptcies or consumer proposals.

The class action plaintiffs sought damages of $20.0 million for general and special damages, $5.0 million for aggravated, exemplary and punitive damages, the granting of a $20.0 million constructive trust in favour of class members, and disgorgement of pre-bankruptcy tolls and fees paid by the plaintiffs.

In October 2011, in the separate legal proceeding of Matthew Moore v. 407 ETR, Justice Newbould of the Ontario Superior Court of Justice ruled that Licence Plate Denial survives bankruptcy, which is a central issue in the proposed class action. This decision of Justice Newbould was appealed by the Superintendent of Bankruptcy to the Ontario Court of Appeal. In December 2013, the Ontario Court of Appeal set aside the lower court's decision. The Court of Appeal decision was appealed by 407 ETR and upheld by the Supreme Court of Canada which released its decision on November 13, 2015. The result was that pre-bankruptcy amounts can no longer be collected by 407 ETR through Licence Plate Denial. The decision by the Supreme Court of Canada in the Matthew Moore case has had no material effect on the Company's financial position.

A settlement was reached with class counsel at a mediation concluded in August 2016, and approved at a settlement hearing before the Ontario Superior Court on November 15, 2016. The settlement provided for a voluntary settlement payment by 407 ETR of $8.0 million on an all-inclusive basis and was subject to an opt-out process which concluded in March 2017. The settlement amounts were distributed to eligible class members, net of proposed class counsel fees of $2.9 million (inclusive of disbursements and taxes) and class administration fees of $0.6 million. The settlement also included refinements to 407 ETR's business practices for bankruptcies and consumer proposals. The amount available per eligible class member has been determined by eligibility and compensation criteria applied by class counsel, with accountability to the Court. The distribution of settlement funds has been undertaken by class counsel. A final report is expected to be filed by class counsel with the Court in 2018.

Toll Revenues

The Company's ability to derive revenue depends on a wide variety of factors, many of which are not within the control of the Company. These factors include population growth, volatility of the economy of the GTA and southern Ontario, fuel prices, weather conditions and the construction of competing infrastructure. In addition, toll rate increases are subject to economic, price elasticity and political risks. To mitigate these risks, Management prepares a detailed operating budget consistent with the Company's strategic objectives which includes revenue projections based on traffic growth and price elasticity assumptions supported, from time to time, by studies performed by third party expert traffic consultants. The operating budget and actual price setting is approved by the Company's board of directors (the "Board"). Actual results are monitored against the revenue projections on a monthly basis, giving Management adequate time to analyze and respond to variances.

Capital Structure

The Company has a complex capital structure that may give rise to unforeseen challenges by tax authorities of the Company's interpretation of certain tax legislation. To mitigate such risks, Management seeks the advice of external tax experts.

Operations and Maintenance

The Company's operating and maintenance expenses for the future operation of Highway 407 ETR are impacted by uncertainties related to costs of services, materials and equipment, changes in regulatory requirements, useful lives of productive assets, critical accounting estimates, weather conditions, and other matters that are not certain. To address these risks, Management prepares a detailed operating budget in the third quarter of each year. This budget is approved by the Board. Management monitors the level of operating expenditures each month in comparison to the budget. Department heads are accountable for cost overruns, and Management compensation is based, in part, on adherence to the approved spending limits. In addition, the Company follows a periodic maintenance and rehabilitation program for Highway 407 ETR and its tolling system to avoid unexpected significant repairs.

Information Technology

The Company's operations for Highway 407 ETR and Highway 407 are substantially dependent on the information technology employed in its tolling and billing systems, including the roadside tolling equipment and the back-office systems used for account processing and collections. The Company continues to monitor and enhance the core system capabilities to mitigate risk. The integrity, reliability, availability and confidentiality of information and supporting systems is critical to the Company's daily and strategic operations. Cyber security continues to be a focus with ongoing threat monitoring and improvements in areas of data and network security given that cyber attacks and breaches could result in corruption of the Company's data, a breach of customer privacy, damage to information technology infrastructure, loss of sensitive corporate information, and reputational damage. To address these risks, the Company's corporate security group is accountable for the planning, execution and governance of the framework-based security program. The Company uses an iterative risk-based approach to manage information technology and cyber security threats, addressing identified gaps in a prioritized and systematic manner within the security framework. The Company ensures it has adequate controls and procedures to detect, identify and address cyber security events, including security incident response, business continuity and data recovery plans. Execution of the security program relies on internal expertise, strong partnerships, industry leading security technologies, and consultation with third-party experts on cyber security strategies and remediation plans.

Debt Rating

The Company seeks to maintain an appropriate debt rating to ensure access to capital on commercially reasonable terms to finance its operating and capital expenditures and interest payments to bondholders, provide an appropriate investment return to its shareholders and refinance its existing indebtedness without, in each case, exceeding its debt capacity or resulting in a downgrade to the credit ratings assigned to its existing indebtedness. The Company's ability to do so depends upon a number of factors including, among other things, market conditions, rating agencies' criteria, and the Company's debt structure. To control this risk, Management is focused on maintaining an optimal level of liquidity through maximizing cash flows by actively pursuing the collection of its trade receivables and by controlling operating and capital expenditures.

Environmental and Climate Change Risk

407 ETR strives to avoid significant adverse effects from its activities on individuals, communities and the natural environment within which Highway 407 ETR is located or, where this is not possible, to minimize such effects. To ensure regulatory compliance, 407 ETR stays abreast of new and evolving environmental laws and regulations and incorporates relevant changes into its Environmental Management Plan ("EMP"). Periodically, with the assistance of an external advisor, 407 ETR conducts a review of the EMP, including a review of environmental laws and regulations relevant to 407 ETR.

In addition, 407 ETR recognizes the effects of the increased frequency and potential impacts of extreme weather events due to climate change, such as heavy rainfall resulting in flooding and more extreme winter conditions. These effects may lead to more frequent or extensive damage to infrastructure or roadside tolling equipment, localized disruption to highway operations and traffic levels. Increasingly severe weather events could lead to additional costs, including those for managing response times, maintaining service levels, and addressing actual or potential impacts to infrastructure or equipment. 407 ETR follows a preventative maintenance plan that takes into account the effects of climate change in the design, rehabilitation and construction of highway infrastructure, and roadside tolling equipment. 407 ETR will continue to assess and mitigate the impact of environmental climate change on its longer-term operations and will adjust its preventative maintenance, infrastructure, rehabilitation and construction plans accordingly.

Risks Arising from Financial Instruments

Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, trade receivables and other, contract receivables, amounts due from customer for contract, and restricted cash and investments.

The Company is exposed to credit loss in the event of non-performance by counterparties to derivative instruments that have a positive fair value, cash and cash equivalents, short-term investments and restricted cash and investments. The Company manages this risk by dealing with reputable organizations having high-quality credit ratings from independent credit rating agencies. The Board sets exposure limits and these are monitored on an ongoing basis.

Concentration of credit risk with respect to trade receivables is minimized due to the millions of accounts comprising the Company's customer base. The amounts disclosed in the statements of financial position are net of the allowance for doubtful accounts and certain amounts that are billed to customers but excluded from revenues in accordance with the Company's revenue recognition policy for toll and fee revenues. The amounts are estimated based on prior experience, anticipated collection strategies and ultimate recovery of balances for which collection is uncertain.

Trade receivables and other are aged as follows:

($ Millions)	As at December 31, 2017	As at December 31, 2016
Unbilled	$ 73.1	$ 64.0
0-60 days	72.9	64.7
61-90 days	8.6	7.0
91-120 days	6.8	4.9
121-150 days	7.1	4.3
151+ days	25.6	25.9
Sub total [1]	194.1	170.8
Other [2]	20.1	16.0
	$ 214.2	$ 186.8

1. Amounts are net of allowance for doubtful accounts and certain amounts that are billed to cutomers but excluded from revenues in accordance with the revenue recognition policy for toll and fee revenues.
2. Other consists of salt inventory, prepaids, contract retention receivable, other non-trade related receivables and an advance payment to supplier.

In accordance with the revenue recognition policy, toll revenues are recognized on the date trips are taken on Highway 407 ETR. Tolls and other charges are recorded in trade receivables as "Unbilled" until invoiced. The provision for doubtful accounts is based principally on historical collection rates and Management's expectation of success rates for collection of overdue accounts by the Ontario Registrar of Motor Vehicles (the "Registrar") through refusing to renew or issue vehicle licence plate permits until outstanding amounts are paid or settled ("Licence Plate Denial") as well as Management's expectation of success rates for collection through legal proceedings. When a licence plate associated with a customer's unpaid 407 ETR account becomes unattached from the vehicle or expired, the Registrar is required to refuse to renew another single vehicle permit issued to the same customer or issue a vehicle permit to that customer. The legislation affording 407 ETR the right to Licence Plate Denial requires that a series of notices be sent to customers with delinquent accounts. This process takes a minimum of 150 days from the date an invoice is sent until a customer is subject to Licence Plate Denial, followed by up to two years before a customer's licence plate is subject to renewal. The Licence Plate Denial process, together with other collection strategies, results in the successful collection of net trade receivables that are more than 151 days past due. The provision for doubtful accounts could materially change and may result in significant changes to trade receivables balances as Management continues to monitor the collection of outstanding 407 ETR charges through the Licence Plate Denial process with the Ontario Ministry of Transportation (the "MTO"), as well as collections through legal proceedings.

In addition to the collection of 407 ETR customers' overdue accounts through the Licence Plate Denial process, Management continues to assign certain delinquent accounts to third party collection agencies utilizing various programs, employ internal collections staff and take legal action where necessary. In conducting collections litigation, 407 ETR may from time to time receive judicial decisions that impact its ability to recover delinquent amounts through civil proceedings and could result in a material change to the provision of overdue accounts.

Management continuously monitors the collection of overdue accounts including the allowance for doubtful accounts. In determining the allowance for doubtful accounts, the Company considers a number of factors affecting the likelihood of collection. In determining the collectability of customer accounts, the Company does not obtain information about the credit quality of customers whose accounts are not overdue or not impaired.

An increase of 1% in the weighted-average provision rate would have increased the provision for doubtful accounts by approximately $12.7 million (2016 - $11.3 million) and decreased equity by approximately $9.3 million (2016 - $8.5 million) for the year ended December 31, 2017.

The Company is exposed to credit risk with respect to contract receivables in the event of non-payment by customers. The Company manages this risk by dealing with reputable customers with good credit ratings.

Interest rate risk

As at December 31, 2017, all long-term debt is fixed rate debt (except for the drawn portion of the Senior Bank Credit Facilities and the inflation-linked bonds as described below); therefore, changes in interest rates do not impact interest payments on its current bonds but may impact the fair value of such long-term debt.

The Company also manages this risk by investing its cash and cash equivalents and restricted cash and investments in debt instruments with credit ratings equal to or higher than those required by the Indenture. A decrease of 25 basis points in interest rates would have decreased interest income by approximately $2.3 million (2016 - $2.5 million) and equity by approximately $1.7 million (2016 - $1.8 million).

Inflation risk

The Company is exposed to inflation risk as interest expense and debt service payments relating to Senior Bonds, Series 99-A5, Series 99-A6, Series 99-A7, Series 00-A2 and Series 04-A2 (collectively, the "RRBs") are linked to CPI. An increase of 50 basis points in the CPI would have increased interest expense by approximately $8.6 million (2016 - $8.6 million), decreased equity by approximately $6.3 million (2016 - $6.3 million) and increased debt service payments by approximately $0.8 million (2016 - $0.8 million). BEIR is highly volatile and may lead to significant changes in the fair value of Senior Bonds, Series 04-A2 that may not be representative of actual inflation paid or to be paid to the Senior Bonds, Series 04-A2 noteholders. An increase of 10 basis points in the BEIR would have increased interest expense by approximately $6.0 million (2016 - $6.3 million) and decreased equity by approximately $4.4 million (2016 - $4.6 million). A decrease of 10 basis points in the BEIR would have reduced interest expense by approximately $5.9 million (2016 - $6.2 million) and increased equity by approximately $4.3 million (2016 - $4.5 million). This inflation risk is partially mitigated by the Company's right to increase toll rates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Cash flow projections are prepared by Management and reviewed by the Board to ensure sufficient continuity of funding. The Company manages its liquidity risk by dispersing the contractual maturity dates of its financial liabilities, thereby ensuring the Company is not exposed to excessive refinancing risk during any given year. Further, the Company maintains an optimal level of liquidity through maximizing cash flows by actively pursuing the collection of its trade receivables and contract receivables, and by controlling the level of operating and capital expenditures. Cash and cash equivalents and restricted cash and investments are invested in highly-liquid interest-bearing investments.

The following are the Company's commitments, contractual maturities and related interest obligations as at December 31, 2017:

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years
Trade and other payables	$ 85.9	$ -	$ -	$ -	$ -	$ -
Income tax payable	88.2	-	-	-	-	-
Obligation under finance leases	3.3	2.7	2.0	1.8	0.9	-
Interest payments on finance leases	0.5	0.3	0.3	0.1	-	-
Long-term debt	436.5	15.4	316.3	711.0	18.3	6,366.0
Derivative financial liability	6.4	6.4	6.4	6.4	6.4	109.1
Interest payments on long-term debt	361.1	351.2	342.8	325.7	300.5	4,492.5
	$ 981.9	$ 376.0	$ 667.8	$ 1,045.0	$ 326.1	$ 10,967.6

Interest payments on long-term debt and obligations under finance leases are funded by proceeds from long-term debt and the Company's cash generated from operations.

Additional Information

Related Party Transactions

The Company entered into the following transactions with related parties:

($ millions) Related Party	Relationship	Classification in the Financial Statements	Nature of transaction with the related party		2017		2016
Cintra	Parent of shareholder	Operating expenses	Payment for administration costs	$	0.8	$	1.0
SNC-Lavalin Inc.	Parent of shareholder	Property, plant and equipment	Payment for design costs	$	0.2	$	2.3
SNC-Lavalin Inc.	Parent of shareholder	Operating expenses	Payment for administration costs	$	0.1	$	-
407 East Development Group	Subsidiary of some parents	Operating expenses	Reimbursement of administration costs	$	(0.1)	$	(0.3)
Blackbird Infrastructure Group	Subsidiary of some parents	Operating expenses	Reimbursement of administration costs	$	(0.6)	$	(0.5)

Transactions with related parties are measured at their exchange amounts, which is the consideration agreed to by the parties.

Amounts owed to (by) related parties were as follows:

($ millions) Related Party	Relationship	Classification in the Financial Statements		As at December 31, 2017		December 31, 2016
SNC-Lavalin Inc.	Parent of shareholder	Trade and other payables	$	-	$	0.8
Cintra	Parent of shareholder	Trade and other payables	$	0.4	$	0.2
Cintra	Parent of shareholder	Trade and other receivables	$	(0.1)	$	-
Blackbird Infrastructure Group	Subsidiary of some parents	Trade and other receivables	$	(0.2)	$	(0.1)

Overall Outlook

The outlook for 2018 is positive with revenue growth primarily due to higher toll rates, higher traffic volumes and additional revenues from the operations of Highway 407 and the Tolling Services Contract. Management's goals and objectives are focused on driving business growth while containing expenses, maintaining a high level of customer satisfaction, and achieving efficiencies throughout the organization, as well as strengthening Highway 407 ETR's presence in the GTA. As a result, 2018 income before income tax expenses and interest expense is expected to be higher than in 2017.