



TransAlta Renewables Inc.

Conference Call

Conference Call & Webcast Transcript

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Speakers: **Jacqueline O'Driscoll**
Manager, Investor Relations

Brett Gellner
President and Designated Chief Executive Officer

OPERATOR:

At this time, I would like to turn the conference over to Jacqueline O'Driscoll, Manager, Investor Relations. Please go ahead.

JACQUELINE O'DRISCOLL:

Thank you, Pedro (ph 00:09.3). Good afternoon and welcome to the TransAlta Renewables Call. My name is Jacqueline O'Driscoll, Manager of Investor Relations. With me today from TransAlta Renewables is Brett Gellner, President and Designated Chief Executive Officer.

As you would have seen, about an hour ago we announced that TransAlta Renewables has entered into an agreement with TransAlta Corporation regarding its Western Australia assets. Today, Brett will provide an overview of the transaction. Because of the concurrent equity financing and the related securities law restrictions, we will not be holding a Q&A after his remarks.

The call today is webcast. For anyone listening on the phone lines, please review our supporting slides on the webcast link for the call. These slides have also been filed on SEDAR.

All information provided during this conference call is subject to the disclaimer, which is detailed in our presentation and will be detailed in our preliminary Prospectus and incorporated in full for the purposes of today's call. The amounts referenced are in Canadian currency unless otherwise stated. The non-IFRS terminology used, including comparable or adjusted EBITDA, comparable funds from operations, and cash available for distribution will be addressed in the Prospectus.

In addition, all information provided during this conference call is subject to the forward-looking statement qualification provided as part of our disclaimer and will also be addressed in our presentation and in our preliminary Prospectus and incorporated in full for the purposes of today's call.

Finally, this presentation does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction. The offering may be made in the United

States in reliance upon an exemption from registration under the US Securities Act of 1933. Please refer to the slide for the full details.

With that, I'll turn the call over to Brett.

BRETT GELLNER:

Okay. Thanks, Jacqui (ph 2:06) and good afternoon everyone and thank you for joining us. So, as Jacqui mentioned, we announced earlier this afternoon that TransAlta Renewables has entered into an agreement with TransAlta Corp. to make an investment based on the cash flows from its Australian portfolio for a transaction value of \$1.78 billion. This transaction is consistent with the strategy we established when TransAlta Renewables was formed in 2013, which included investing in not only renewable long-term contracted assets, but also other long-term contracted assets including gas-fired generation and other infrastructure assets.

You'll see this transaction significantly increases the size of the Company, both in terms of enterprise value and cash flow. As well, the deal is highly accretive to cash available for distribution per share, providing the support for an immediate dividend increase of 9% upon closing and we expect another increase of 6 to 7% once South Hedland is up and running in 2017.

Concurrent with today's announcement, the Company has entered into a bought deal arrangement with a syndicate of underwriters for \$200 million of subscription receipts. The underwriters have also been granted a 15% over allotment option. The net proceeds of this offering will be paid to TransAlta as part of the transaction consideration.

But now, just turning to the next slide, as you can see the transaction has a number of benefits to the Company and its shareholders. As mentioned, the deal significantly increases cash available for distribution per share, allowing for an attractive dividend increase upon closing and then another anticipated increase when South Hedland is commissioned.

TransAlta Renewables will continue to receive strong support from TransAlta as sponsor and majority shareholder by owning 76% after closing. TransAlta will continue to own and manage

the assets, bringing significant operational and customer expertise to the Company and providing opportunities for additional growth.

In addition, TransAlta is retaining any construction risk and timing risk associated with South Hedland. The portfolio is highly contracted for an average life of approximately 18 years and these are with high quality counterparties. This transaction significantly increases the cash flow diversification of the Company, as well as the size of the Company. This provides for more cash flow stability, but also provides a broader platform for future growth.

And finally, the Company has been granted a Right of First Offer on certain potential growth opportunities and continues to explore other possible drop down investments with TransAlta.

As you can see from this next chart, this transaction is transformational in terms of creating a much larger and more diversified company. The Company will have an enterprise value of approximately \$4 billion and a public float that is approximately 50% larger than the current float.

The assets included in the portfolio are shown on this next slide. As you can see, it includes 575 megawatts of power generation, 270 kilometers of gas pipeline, and 500 kilometers of electric transmission. The majority of the gas turbines are GE LM6000s, which is a very reliable and proven technology, and one that TransAlta has been operating in Australia and the rest of its fleet for many years. All of the assets except South Hedland are operating and South Hedland is targeted to be fully commissioned in the first half of 2017.

This action further diversifies the Company in terms of the number of regions, the number of assets, the type of assets, and counterparties. After closing of the transaction, the Company will receive cash flows from 37 facilities spanning seven regions.

Western Australia has been a significant growth market for TransAlta. During the last few years, TransAlta has been very successful in three competitive processes, all three projects of which were initiated by customers to meet the growing load growth in Western Australia. As you can see from this slide, Western Australia has grown significantly in terms of gross state

product, but also in terms of population. As well, Port Hedland, the largest export port in all of Australia and the largest bulk minerals port in the world, has seen its export volumes increase significantly. TransAlta's South Hedland project is being built to service the growth at the port and while market conditions are expected to soften over the next few years, Western Australia is expected to continue to be a market for additional power generation and our sponsor, TransAlta, is well positioned to invest more in that region.

Cash available for distribution, which is shown here in millions of dollars, is expected to more than double from this transaction, with a significant increase expected immediately from the existing assets, including the gas pipeline which TransAlta just commissioned, and then again in 2017 when South Hedland is targeted to be completed.

The transaction is expected to deliver mid-teen accretion levels on a cash available for distribution basis per share, which supports the initial dividend increase of 9% and a further planned increase of 6 to 7% once Hedland is commissioned, and this is based on a target payout ratio of 80 to 85%.

There continue to be additional opportunities for growth going forward. In terms of the Australian portfolio, TransAlta has granted TransAlta Renewables a Right of First Offer on any expansions at the South Hedland project, as well as any expansion opportunities associated with the natural gas pipeline that was just commissioned.

In addition, TransAlta continues to pursue contracted greenfield projects and third party acquisitions in all of its core markets, and all of these projects could become candidates for TransAlta Renewables in the future.

And finally, TransAlta continues to investigate the potential for additional investments by TransAlta Renewables in some of its existing renewable and gas assets.

The transaction has been structured to minimize risks to TransAlta Renewables. TransAlta will hedge the foreign exchange risk for the first five years and then we intend to evaluate further hedges once we get closer to the end of the five years.

Secondly, TransAlta is retaining the funding and timing risks associated with South Hedland.

Also, because South Hedland does not start generating cash flows 'til 2017, part of the consideration paid to TransAlta is the issuance of Class B shares, which are non-dividend paying until Hedland is fully commissioned.

And finally, some of the PPAs have aspects that provide more cash flow stability such as fuel and CapEx flow through provisions and escalators.

As mentioned, we've entered into an agreement with the underwriters for a bought deal offering of subscription receipts. The proceeds will be put into escrow until the transaction closes. Furthermore, as mentioned, the Class B shares issued to TransAlta are non-dividend paying and will convert to dividend paying common shares once South Hedland is commissioned.

This next chart shows the sources and funding for the transaction. The proceeds from the offering will be paid to TransAlta in the form of cash. In addition, TransAlta will receive approximately \$1.1 billion of additional shares in TransAlta Renewables. For South Hedland, a combination of internally generated cash flow and a credit facility will be used to fund the project. Funding of the project will take place over the 2015 to 2017 timeframe.

This next diagram shows the general structure of the transaction. TransAlta Renewables will receive the full benefits of its economic interest from the cash flows from the Australian portfolio and this is through a combination of fixed coupon preferred shares directly invested into Australia and tracking preferred shares in a Canadian owned subsidiary of TransAlta that owns other contracted renewable and gas fired assets.

In terms of process and timing, the transaction is subject to receiving shareholder approval from the minority shareholders, as well as approval from the Australian Foreign Investment Review Board. The shareholder meeting is targeted for May 7th. An application has already been made to the Foreign Investment Review Board.

So, in summary, as you can see, this transaction is not only highly accretive to TransAlta Renewables, but transforms the Company in terms of size and diversification. It also retains the strong sponsorship of TransAlta for facilitating future growth.

And, with that, we're going to end the call and want to thank everybody for participating.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.