

## TransAlta Corporation

### TransAlta Corporation Acquires TransAlta Renewables Conference Call

Event Date/Time: July 11, 2023 — 11:00 a.m. E.T.

Length: 42 minutes

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## PRESENTATION

### Operator

Good morning. My name is Joelle, and I will be your conference Operator today.

At this time, I would like to welcome everyone to the TransAlta Corporation Acquires TransAlta Renewables Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press \*, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press \*, 2. Thank you.

Ms. Valentini, you may begin your conference.

**Chiara Valentini** — Vice President, Strategic Finance & Investor Relations, TransAlta Corporation

Thank you, Joelle, and good morning, everyone.

My name is Chiara Valentini, Vice President, Strategic Finance and Investor Relations here at TransAlta.

This morning, we announced a transaction that will simplify our corporate structure, enhance our strategic position, and deliver strategic alignment between TransAlta Corporation and TransAlta Renewables.

We are here today to walk through the details of this announcement with everyone.

Today's call is being webcast, and I invite those listening on the phone lines to view the supporting slides and press release that are posted on the Investor Centre of the TransAlta Corporation and TransAlta Renewables websites.

A replay of the call will be available later today and the transcript will be posted to our websites shortly thereafter.

All of the information provided during this conference call is subject to the forward-looking statement qualification set out here on slide 2.

All amounts referenced during the call are in Canadian currency.

The non-IFRS terminology used in this presentation, such as adjusted EBITDA, are reconciled in your MD&A for your reference.

With me this morning are John Kousinioris, President and Chief Executive Officer of TransAlta Corporation; and Todd Stack, President of TransAlta Renewables and Chief Financial Officer and Executive Vice President of TransAlta Corporation.

I'll now turn the call over to John.

**John Kousinioris** — President & Chief Executive Officer, TransAlta Corporation

Thank you, Chiara. Good morning, everyone, and thank you for joining us.

As part of our commitment towards reconciliation, I want to begin by acknowledging that TransAlta's head office, where we are today, is located in the traditional territories of the Niitsitapi, a people of the Treaty 7 Region in Southern Alberta, which includes the Siksika, the Piikani, the Kainai, the Tsuut'ina, and the Stoney Nakoda First Nations, as well as the home of Metis Nation Region 3.

As Chiara mentioned, today TransAlta Corporation, or TA, together with TransAlta Renewables, or RNW, announced that we had entered into an arrangement agreement that will simplify our corporate structure, enhance our strategic positioning, fully align our strategies, and create value for our shareholders.

The energy landscape has undergone dramatic changes since our dual-company structure was set up a decade ago.

When TransAlta Renewables was launched in 2013, renewable energy assets represented approximately one-quarter of our portfolio, and TransAlta's business plan at the time envisioned us having coal-fired generation well into the 2060s.

Since then, TransAlta's decarbonization efforts have accelerated, focused on the energy transition and the reliability provided by our diversified fleet. The path to energy transition presents tremendous opportunities, and a combined company will be uniquely positioned to capture these opportunities, given our asset portfolio, skill set, and market position.

With the introduction of our clean electricity growth plan, the convergence of the investment strategies of the two companies is undeniable. There is strong alignment between the companies and there is less strategic rationale for maintaining them as two separately listed companies.

Importantly, the combination will unify our assets, capital, and capabilities to enhance cash flow predictability for both sets of shareholders while preserving the ability to realize future growth.

We believe that the combination of TransAlta and TransAlta Renewables will firmly establish the combined company as one of Canada's largest independent power producers, with an extensive North American renewables platform strengthened by our Alberta hydro and reliable thermal generation in Canada, Australia, and the United States.

The combined company will realize immediate benefits from its combined scale, development pipeline, ESG focus and commitments, strong balance sheet, and marketing and development capabilities, all of which will be driven under a common strategy to facilitate growth and maximize value for the shareholders of the combined companies.

Now on to the details of today's announcement.

TransAlta and TransAlta Renewables have entered into a definitive agreement, pursuant to which TransAlta will acquire all of the issued and outstanding publicly held common shares of TransAlta Renewables.

Under the terms of the agreement, holders of TransAlta Renewables common shares will receive the equivalent of cash of \$7.51 per TransAlta Renewables share and 0.4362 of a common share of TransAlta.

Each TransAlta Renewables shareholders will have the ability to elect to receive \$13 cash per TransAlta Renewables share, or 1.0337 TransAlta shares per TransAlta Renewables share, or a combination of cash and shares, in each case subject to proration with the maximum cash consideration being fixed at \$800 million and the maximum share consideration being equal to 40.6 million TransAlta shares—sorry, 46.4 million TransAlta shares.

The offer from TransAlta represents an 18.3% premium to TransAlta Renewables' closing share price at July 10 and a 13.6% premium based on the prior 20-day volume-weighted average price of the TransAlta Renewables common shares.

Upon closing of the transaction, the pro forma ownership of the combined company will be approximately 85% held by current TransAlta shareholders and 15% held by current TransAlta Renewables shareholders.

The board of directors of each company has independently determined that the transaction is in the best interest of their company and fair to their shareholders.

TransAlta's board approved the transactions supported by a fairness opinion by RBC Capital Markets.

In the case of TransAlta Renewables, a special committee comprised entirely of independent board members was established to evaluate, negotiate, and approve the transaction.

TransAlta Renewables special committee was advised by independent legal counsel and each of National Bank Financial and TD Securities.

The transaction was unanimously approved by the TransAlta Renewables board and is subject to approval by TransAlta Renewables shareholders.

The TransAlta Renewables board has unanimously recommended that shareholders vote in favor of the transaction.

The transaction is expected to close early in the fourth quarter of this year, subject to shareholder and regulatory approvals and other customary closing conditions.

This arrangement brings together the contracted wind, solar, and industrial generation portfolio at TransAlta Renewables with TransAlta's merchant renewables and peaking capacity generation, along with TransAlta's marketing and business development capabilities and growth pipeline.

The combined company will unite a diverse portfolio of assets, both geographically and by fuel type, leading to cash flow diversification for added resiliency, while still retaining upside potential from our merchant renewables, peaking assets, and trading capabilities.

The transaction is strategically and economically attractive to TransAlta shareholders.

First, the combined company will enable execution of a single strategy. All future growth will be pursued in a simplified structure through the combined company. The transaction is expected to result in greater capital efficiencies through the removal of a dual-listed structure, and the transaction will consolidate our growth pipeline.

Second, the combined company will benefit from an enhanced strategic position. We will also be able to leverage our improved scale, more diversified asset portfolio and capabilities in all markets, grow our proportionately owned generating capacity by approximately 1.2 gigawatts, and retain cash flows from TransAlta Renewables to mitigate merchant market risk, particularly given the weaker forecasted power prices in Alberta in mid-2024 and beyond.

Third, the arrangement will deliver accretion, liquidity, and synergies. This is an accretive transaction for TransAlta on a free cash flow per share basis, providing support to a strong and sustainable dividend.

The transaction creates a larger combined shareholder base, increasing trading liquidity and providing greater transparency and ease of investing in the growing renewable energy portfolio.

The combined company will maintain a high cash retention ratio that provides strong cash flow for reinvestment, growth, and projects.

Lastly, the transaction is expected to maintain our financial strength. Our simplified structure will have a neutral impact to our credit rating, and we're confident that the transaction maintains appropriate balance sheet capacity to support our growth plans.

The arrangement will increase the proportion of contracted cash flows and EBITDA contribution being retained by TransAlta's shareholders.

Our overall contractedness on a proportional megawatt basis will improve by 33%. Our proportionate EBITDA adjusted for the pro forma ownership will increase by 14%. Our proportionate ownership of the Renewables fleet will increase by 40%, and overall owned capacity will increase by 23%.

Through the growth and expansion of TransAlta Renewables, the current structure has become complex and has created confusion and investment barriers for some investors.



Asset dropdowns, tracking shares, net investment debt, and management services arrangements have all led to complexity that makes the investment analysis process and decision-making more challenging than it should be.

The elimination of our current complex corporate structure will create greater ease and transparency in investing, unlocking value for investors.

The simplified and united structure will facilitate investment in a leading clean electricity platform and enable direct ownership in all our assets and growth pipeline.

The completion of the transaction will remove complicated tracking shares and related party transactions, with investors owning the combined portfolio directly while benefiting from future opportunities together.

And now, I'll hand it over to Todd to walk through the benefits to TransAlta Renewables shareholders.

**Todd Stack** — President of TransAlta Renewables and Chief Financial Officer and Executive Vice President of TransAlta Corporation, TransAlta Corporation

Thanks, John, and good morning, everyone.

I would first like to emphasize that this transaction has received the support and recommendation of the independent members of the board of TransAlta Renewables.

No member of TransAlta's management team participated in the deliberations for this transaction, and the decision to recommend the transaction to TransAlta Renewables shareholders was made solely by the independent members of TransAlta Renewables board who, together with their independent legal and financial advisors, thoroughly assessed the merits of the transaction.

The transaction offers TransAlta Renewables shareholders significant benefits.

First, this transaction offers TransAlta Renewables shareholders an expanded pool of assets and business capabilities.

Following the closing of the transaction, TransAlta Renewables shareholders will have direct ownership in an expanded pool of assets, which includes becoming owners of TransAlta's high-quality assets in Alberta, along with the full benefit of TransAlta's energy marketing and business development capabilities.

Second, the transaction provides a clear and simple glide path going forward. The combined entity will mitigate the impact of the decline in cash available for distribution that TransAlta Renewables will experience due to the near-term contract expiries, the financial impacts of the Kent Hills remediation, the challenging growth environments, and material increase in cash taxes.

These factors strain our cash available for distribution and our ability to maintain dividends at current levels going forward.

This arrangement will provide stronger dividend payout rate coverage while retaining significant cash flow to deploy to growth.

And the simplified structure provides clarity of ownership, including eliminating the complexities inherent in the tracking shares held by TransAlta Renewables to those assets directly owned by TransAlta.

Third, TransAlta Renewables shareholders will have upside potential due to the currently strong Alberta power price environment and TransAlta's diversified portfolio in the Alberta electricity market, which is currently generating significant cash flows through the efforts and expertise of TransAlta's leading asset optimization team.

Fourth, the transaction provides enhanced growth opportunities for TransAlta Renewables shareholders.

TransAlta Renewables shareholders will be able to directly participate in the upside from TransAlta's full development pipeline, which includes in excess of 4.3 gigawatts of renewable energy projects and provides clear growth opportunities going forward.

TransAlta Renewables shareholders will also benefit from TransAlta's evaluation and investment in early stage technologies, such as hydrogen and battery technology.

This transaction achieves attractive deal metrics for TransAlta Renewables shareholders.

The transaction provides an aggregate consideration of \$13 per TransAlta Renewables share, representing an 18.3% premium to TransAlta Renewables closing share price on July 10th; it provides a pipeline of growth opportunities and a sustainable dividend payout ratio aligned with growth objectives; and it provides 678 megawatts of renewable projects under construction that are expected to contribute to cash flow this year.

TransAlta and TransAlta Renewables' carbon intensities are now more aligned than ever and TransAlta is on track to achieve net zero by 2045.

TransAlta's track record in this area is notable with annualized emissions reductions of 32 million tonnes, a 76% reduction in emissions since 2005, which is equivalent of 10% of the emissions reductions necessary to achieve Canada's national emissions reductions target of 40% to 45% from 2005 levels.

TransAlta has also adopted a more ambitious near-term target for emissions reductions, targeting a 75% CO2 emissions reductions by 2026 from 2015 levels.

One of the key considerations in assessing the combination of the two companies was TransAlta's focus on delivering leadership and sustainability. We're proud of TransAlta's accomplishments and progress in sustainability and those efforts have been recognized across many measures.

In addition to carbon-reduction initiatives, TransAlta is a leader in ESG and has received an A rating from MSCI and an A-minus rating from CDP.

The combined company will continue to focus on ESG and on meeting its climate change targets.

And with that, I'll pass it back to John.

### **John Kousinioris**

Thanks, Todd. I'd like to close by summarizing the many compelling reasons for shareholders of both TransAlta and TransAlta Renewables to support the transaction.

The combination makes sense for both TransAlta and TransAlta Renewables.

We believe the proposed offer reflects fair value and allows shareholders of both companies to participate in the combined benefits.

The cash and share offer provides TransAlta Renewables shareholders with the option to receive immediate liquidity on a portion of their investment while also providing the opportunity to gain ownership in a more diversified and growing clean electricity company.

TransAlta obtained a fairness opinion from RBC Capital Markets that concluded that the consideration to be paid by TransAlta is fair from a financial point of view to TransAlta.

For TransAlta Renewables, National Bank Financial has determined the fair market value of a Renewables share as of July 10 to be in the range of \$12.25 to \$13.60, and that the consideration to be paid by TransAlta is fair from a financial point of view to TransAlta Renewables shareholders.

TransAlta Renewables also received a second fairness opinion from TD Securities, further confirming that the consideration to be paid by TransAlta is fair from a financial point of view to TransAlta Renewables shareholders.

All shareholders will receive a sustainable dividend of \$0.22 per share in the combined company that has the potential for growth, while the combined company will retain sufficient cash flow for reinvestment in projects to capitalize on that growth, which will enhance future cash flows.

We're confident this transaction will generate benefits for shareholders of both TransAlta and TransAlta Renewables.

We're excited about the simplified corporate structure and expect the aligned and focused strategy to position the Company well for realizing continued success in the future.

In terms of next steps, we expect to obtain an interim order from the Alberta Court of King's Bench establishing the process for TransAlta Renewables shareholder approval and mail out the Management Information Circular to TransAlta Renewables shareholders in August.

We're planning a special meeting of TransAlta Renewables shareholders to consider the arrangement in late September. The arrangement must be approved by at least two-thirds of the votes cast by TransAlta Renewables shareholders represented at the meeting and a simple majority of the minority of public shareholders of TransAlta Renewables. Once this has been carried out and a final order received, the transaction is expected to close in early October.

I'd like to close by highlighting the reasons I believe TransAlta remains a highly attractive investment and a great value opportunity.

First, this combination will provide shareholders with access to a high-quality and highly diversified portfolio. Our combined structure will enhance our focus and continue to drive our contracted wind and solar portfolio, our unique and perpetual hydro portfolio, and our reliable gas portfolio, all of which are complemented by our world-class asset optimization and energy marketing team.

Second, we're a clean electricity leader with a focus on tangible greenhouse gas emissions reductions, which will be very important for our ESG-focused investors.

Third, we have a united, diversified, and growing renewables development pipeline and a talented development team focused on realizing its value. This pipeline will now be completely concentrated in one corporate entity and will generate value for our unified shareholder base.

Fourth, our company has a sound financial foundation. This transaction will retain our financial strength. Our balance sheet is strong, and we will retain ample capacity to pursue and deliver growth.

We look forward to your questions, and I'll now turn the call back over to Chiara.

**Chiara Valentini**

Thank you, John.

Joelle, would you please open the call for questions from the analysts and media?

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**Q&A**

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

Should you have a question, please press \*, followed by 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received.

Should you wish to decline from the polling process, please press \*, followed by the 2.

If you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Your first question comes from Dariusz Lozny with Bank of America. Please go ahead.

**Dariusz Lozny** — Bank of America

Hey, guys. Good morning. Thank you for taking my question.

Maybe just to start off with, you mention this being accretive on a free cash flow per share basis for TA. Can you maybe put a little bit of specifics around that maybe on a percentage basis or any other more granularity that you can give on the level of accretion that you expect in this transaction? Thank you.

**John Kousinioris**

Sure. Good morning, Darius. What I'll do is I'll maybe pass that over to Todd to give you some of the details.

**Todd Stack**

Yeah. Morning, Dariusz.

Look, first and foremost, when we're looking at accretion we're looking at a proportional accretion calculation. We're looking at what free cash flow we're acquiring from the 40% public interest in the transaction and so we can guide you through that with our Investor Relations team.

As far as levels go, a lot of it depends on where you peg TransAlta's stand-alone assets, free cash flow, and as you know last year was exceptionally strong. This year we're on track for great results and looking forward to the next couple years we see it drop down a little bit from historical run rates. So it really depends on which year you're looking at.

I would say there is some modest operational synergies in the transaction and there's also some opportunity for tax efficiencies going forward. When we look at those numbers, I would say it's a high-single-digit to double-digit accretion numbers looking into 2024.

**Dariusz Lozny**

Okay. Great. Thank you. That's helpful.

Maybe just to touch on the future dividend payout for TransAlta. Have you made any decisions as far as payout ratio, or keeping the dividend more or less in line or proportional with what you're getting from RNW? Maybe just kind of if you can speak about any future plans for that payout, please.

**John Kousinioris**

Yeah. Happy to, Dariusz.

So I think we've talked a number of times about kind of the capital allocation approach that the Company takes in terms of the amount from a de-consolidated perspective that we set aside for dividends.

Right now, there is no change to the TransAlta dividend that is being contemplated, at least in the immediate term, so that's a \$0.22 per share on an annualized basis dividend for the Company.

Our board reviews the dividend and our dividend payout ratio annually as part of our budgeting processes, and I know that we'll be taking a look at it in the fourth quarter or in the early part of the year. But right now, we're very comfortable with the dividend that we have and are not proposing any changes.

**Todd Stack**

And maybe I can just add as well just for clarity. The TransAlta Renewables board has previously declared their dividends for July, August, and September, and those dividends are also in place through to transaction close.

**Dariusz Lozny**

Great. Thank you very much.

One more, if I could squeeze it in. Maybe just kind of like a big-picture rationale for the transaction, this specific transaction at this specific time. You guys have discussed various possible M&A strategies in the past at the TA level and there are certainly other assets for sale out there. Maybe just kind of can you talk about the balance of wanting to bring these specific assets in-house at this level versus



the benefits that you're getting from the simplification and the operational synergies and how those two factors balance in making the decision to do this transaction now?

**John Kousinioris**

Yeah. I think, Dariusz, there was kind of a confluence of events that resulted in us being in a position to pursue the transaction at this particular point in time. And as we mentioned on the call, we think there are a number of compelling reasons for the transaction.

I think that creating that simple single strategy for the Company going forward, I think, is a critical part of the benefit that we see going forward. I think the Company will have an enhanced strategic position.

To a certain extent, we did view this as essentially the acquisition of 1.2 gigawatts of generation that the Company doesn't own, and those are assets that we know well.

And then so from a due diligence perspective, it's very low risk for us to contract it and I think adds stability to and diversification to the parent company.

We do believe the transaction is accretive. Todd talked about 2024. We see that extending into subsequent years: 2025, 2026, 2027.

We think there's benefits from the increased public float and trading liquidity that will arise, and at the same time, we're able to maintain our financial strength and the optionality that we have in the balance sheet going forward.

The Company has performed very well operationally over the last two years. We're having another strong year.

We have projects from the development pipeline that we're looking to bring forward in the latter part of the year, many of which are advanced-stage projects. And we continue to be active in assessing M&A opportunities that we have going forward.

So we don't feel that we're capital constrained, and we think we can execute the strategy that the Company has embarked on without being restricted from a financial perspective.

So we're able to deal with something on the TransAlta/TransAlta Renewables side while absolutely being able to continue to execute the strategy that we've laid out for the Company.

**Dariusz Lozny**

Great. Thank you very much, guys. I'll pass it along here.

**John Kousinioris**

Thanks.

**Operator**

Your next question comes from Ben Pham with BMO. Please go ahead.

**Ben Pham — BMO**

Hi. Thanks. Good morning. Can you also clarify the cash side of things? Is this straight, simply just the cash on your balance sheet? Or are you going to take on more debt to fund the cash?

And then the second one is, can you provide me with a high-level bridge of how you plan to fund Renewables post the RNW?

**Todd Stack**

Yeah. Maybe I'll start with that. You're right, we are looking at using the cash on the balance sheet. At Q2 on a consolidated basis we had about \$1.2 billion of cash. About \$200 million of that was in

TransAlta Renewables and the other \$1 billion was in TransAlta Corp. But that's the primary source of the cash going forward.

And again, remember, we're having a very strong year this year and we'll continue to generate cash for the balance of the year through even through the closing of this transaction.

And then sorry, the other part of the question was?

**John Kousinioris**

I think you've answered both parts of the question. But, Ben, if we were unclear, just give us a follow-on.

**Ben Pham**

Yeah. I mean, I guess just simple arithmetic. I mean, you're basically like you're using almost all of your cash balance to fund the proposed RNW. And I know you mentioned you're going to generate some free cash going forward, but you also mentioned Alberta power prices are going to come down and you have a contract expiring in a couple years at more, I guess, at the RNW level.

With that outlook, can you actually fund your renewable growth plans on your balance sheet? Or how do we think about that then pro forma?

**Todd Stack**

Yeah. Absolutely, Ben. I mean, when we looked at this, we wanted to make sure that the amount of cash that we're using in the transaction didn't impede our ability to execute not only the projects that are currently under construction and will be finished at the end of this year, or throughout this year, but also our objective target of adding, call it, 400 or 500 megawatts of renewables growth or new energy growth every year.

And so that was absolutely taken into consideration. We see the cash flow generation of the Company being sufficient to support for funding that growth plan.

**John Kousinioris**

And actually, Ben, when we look at it, we feel very confident going, frankly, to the end of the decade from that perspective, so no issues from our perspective in doing that.

**Ben Pham**

Okay. I got it. And maybe a follow-up on the question on accretion. And so it sounds like when you—your communication of accretion it is a range, but it's also it's not just looking at 2024, you're looking out a number of years as well.

**Todd Stack**

Absolutely. And in fact, the accretion remains strong through the end of the decade.

And look, that's just looking at some of the mean guidance from the analyst community, as well as our internal forecasts.

**Ben Pham**

Okay. Got it. Okay. Thank you.

**John Kousinioris**

Thank you, Ben.

**Operator**

Your next question comes from Patrick Kenny with National Bank Financial. Please go ahead.

**Patrick Kenny** — National Bank Financial

Thank you. Good morning. And here I thought the bull riding would be the biggest event of the day.

**John Kousinioris**

Good morning, Patrick.

**Patrick Kenny**

Good morning. I guess just given the benefits here of simplifying the corporate structure, curious how you're thinking about further steps towards the ultimate goal of achieving an easy-to-understand story.

I'm not sure if there's anything else you could do over the near term with respect to Brookfield's investment in the Alberta hydro fleet, or perhaps if there's any other consolidation or divestment opportunities within your Alberta thermal fleet that might align with goals, your goals of achieving a simplified corporate structure.

**John Kousinioris**

Yeah. No, thank you for that, Patrick. Look, we're focused on primarily getting our clean electricity growth plan executed out to 2025 and have already begun thinking about kind of what appropriate targets should be sort of for the back half of the decade, and we'll be outlining all of that during the course of Investor Day.

So I think for us, the key is to continue to be disciplined, grow with good-quality projects that create cash flow for us on a go-forward basis.

With respect to our fleet generally, in addition to sort of the clean electricity growth, we see increasing and compelling opportunities, frankly, to provide reliability services to the grid. That's another area that we're focusing on from a strategic perspective.

So things like the thermal fleet that we have in Alberta lends itself well to being able to provide the kind of services that we expect the market will need going forward.

We constantly look at the asset mix that we have in the Company to see if it might make sense for us to dispose of assets and realize value that way in the sense of assets that might be worth more in the hands of others than they are into the Company.

There's no kind of large, I think, an imminent transaction in that regard I would say, Todd, that we're currently contemplating, but it is something that we look at.

I'm not sure that there's an easy transaction that kind of adjusts, I would say, the composition or the mix of assets the Company has going forward. And in terms of other transactions—you alluded, for example, to the Brookfield position on the hydro—I mean, our perspective is that that arrangement remains in place and will sort of play out in the fullness of time.

So a bit of a long answer to kind of say we're just focused on hitting the targets and executing our plan and actually see benefits to sort of the generation mix that we currently have in the diversity of the portfolio.

**Todd Stack**

Patrick, I would just add that, as you're aware, the structural complexity between the two companies is probably one of the top three subjects that we have with investors.

So moving this forward to a successful close, I think will remove a lot of the distracting discussion that we have around this issue.

**Patrick Kenny**

Okay. Thanks for that.

And you mentioned, John, no real change to asset mix. But I'm just curious, does today's transaction change how you're thinking about Centralia at all, either potentially accelerating monetizing the asset before contract expiry? Or perhaps looking at converting the site to more of a natural gas asset

and leaning into the Washington market a little bit more by developing renewables with a natural gas backstop?

**John Kousinioris**

Yeah. It's something that comes up a lot, Patrick. I'm glad you asked that question.

Right now, our base plan has us running the Centralia plan right to the end of 2025. It is an important cash flow component for the Company. It is performing well. The Pacific Northwest market is strong, candidly stronger than we've seen it for an extended period of time now. So we feel pretty good about it.

So the focus is shifting, though, on—so it is unlikely that we would see either an accelerated shutdown of that facility. That certainly isn't something that we're contemplating. And remember, we've got the Puget contract to serve under that facility going to the end of 2025. And I'm not sure that there's a buyer for it naturally that would give us the kind of value that we see extracting from that facility in the run-up to its legislated shutdown at the end of 2025.

It's a great site, though, to your point. We are in exploratory talks for a variety of potential different types of generation that could sort of jump into the site ranging, candidly, from fusion right through to hydrogen power generation.

We are looking at the potential for renewables there and storage, given the grid connection that's there. So everything from solar opportunities right through to having a significant battery investment that could be made there. So more to come there. It's a very valuable site, and my bet is that it will generate significant value for the Company going forward.

I just want to adjust the gas point that you had. Very hard for us to see putting a gas facility there, largely because the supply of gas is super constrained there. Just we wouldn't—even if we wanted

to look at it, I'm not sure we'd be able to get the kind of volume of gas that we would need to see a conversion, for example, or the development of a thermal facility on-site.

**Patrick Kenny**

Okay. Great. I appreciate that color.

Last one for me, if I could. Todd, you mentioned the neutral impact to the credit rating. I wonder if you could provide a little bit more granularity around the impact here on your pro forma debt to EBITDA or FFO to debt metrics.

And then also just given you're still not investment grade, curious if post-transaction close you might look to achieve an investment-grade balance sheet at some point down the road?

**Todd Stack**

Yeah. Patrick, I don't have a specific number for you on the combined metric just not off the top of my head. I know when we were looking at the analysis, we were well below on our forecast as we look forward to be under sort of our 3.5 to 4 times debt to EBITDA target that we maintain for the Company. Really, we were sub-2 times as we went into this transaction, so we're in really great shape on the balance sheet.

The argument you made, one of the discussions we have with the rating agencies is the composition of the quality of the cash flows, and not that we don't love the great cash flows coming off of the merchant assets, but they get a little bit less credit with the rating agencies.

And so by bulking up the portfolio and bringing this cash available to TA shareholders and bondholders, it does give them that better foundation of stable cash flows. So that is an additional piece of ammunition that we'll be using with the rating agencies to discuss with them going forward.



But I wanted to point out we're, again, comfortable with where our rating is today. We have a strong business, even at the BB+ rating. And I think we're just getting stronger as we go.

**John Kousinioris**

Yeah. Patrick, it's kind of interesting. If you consider kind of the strength that the Company has from a balance sheet perspective and whether you'd be, for lack of a better way of expressing it, to be eligible to be sort of investment grade, to Todd's point, we kind of like the flexibility of where our credit rating is now.

I think if we sort of bumped up, I think we'd probably be a bit more constrained, I would say, Todd, in terms of what we can do. And right now I would say broadly speaking, the covenants that we have in our debt is investment grade-like I would say, Todd. So I think we're in a pretty good spot.

**Patrick Kenny**

Okay. Great. Thanks very much.

**John Kousinioris**

Thank you.

**Operator**

Ladies and gentlemen, as a reminder should you have a question, please press \*, followed by the 1.

Your next question comes from Naji Baydoun with iA Capital Markets. Please go ahead.

**Naji Baydoun — iA Capital Markets**

Hi. Good morning. Congrats on announcing the transaction.

I just wanted to start with some details about the cash versus a share consideration, maybe just some background information on how sort of you decided on those percentages, and if there's any leeway to change that before this transaction is completed.

**John Kousinioris**

Yeah. Good morning, Naji. Thank you for your question. Look, the proportion of cash and shares that we put into the transaction was based on discussions that took place with RNW and really from a TransAlta Corporation perspective just to focus on what made sense for our company and our shareholders going forward, both from a strategic and from a financial perspective.

It is our perspective that the, and I think the reality is, that the consideration sticks now. We do not anticipate any changes in the composition of the consideration being offered at all as part of the transaction going forward.

**Todd Stack**

Yeah. And, Naji, I'd just add this topic has come up over the last year, as you can imagine, and we've probably spoken about it.

There were four criterias that we had that we were talking about of what needed to be true and two of those criterias were, one was no impact to our credit rating, which we talked about; and the other one was to make sure that it doesn't limit our clean electricity growth plan. And both of those goals are achieved with the capital structure that we put forward here.

**Naji Baydoun**

Okay. Understood. And just a couple of sort of bigger questions, bigger-picture questions on capital allocation.

I know you said there's no changes to the dividend, but just broadly with this transaction, I guess you'll have more cash retention because there'll be less dividend payments at the RNW level, but assuming growth stays at the pace that you mentioned with more cash in the door, any preliminary thoughts on sort of changes to capital allocation, or higher dividend increases? More buybacks? Potentially both? Just some thoughts on that would be helpful.

**Todd Stack**

Well, let me answer it in a couple different ways. First of all, the dividend we understand is very important to shareholders as part of the value proposition, so it's top-of-mind always, and a discussion point with the board. But I'll kick the can down the road a little bit.

We are meeting with our board coming up here later in July and August. Capital allocation will be part of that discussion, and then we are planning to have an Investor Day towards the end of the year here. We'll have more clarity on it, but definitely dividend level is top-of-mind, but we're very comfortable with where it's at today.

**Naji Baydoun**

Okay. So just thinking through it, I know we'll have more dates before the end of the year. Okay. That's all I have. Thank you very much.

**John Kousinioris**

Thank you so much.

**Todd Stack**

Thanks.

**Operator**

There are no further questions at this time. Please proceed.

**Chiara Valentini**

Thank you again for your participation, and appreciate everyone joining us on short notice for this exciting news.

As always, our Investor Relations team will be available to take any follow-up questions that folks may have.

Thank you, everyone, for your time this morning, and have a great day.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and ask that you please disconnect your lines.