Fiscal 2015 Second Quarter Results

Conference Call

May 14, 2015 at 3:00 p.m. (ET)

<u>DISCLAIMER</u>

The following speaker notes, in addition to the webcast and accompanying presentation materials, have been provided solely for information purposes, are current only as of the webcast date, and may be superseded by more current information. Except as required by law, Valener Inc. (Valener) does not undertake any obligation to update the information, whether as a result of new information, future events or otherwise. Forward-looking information contained in these speaker notes, the webcast and the accompanying presentation materials is subject to risks and uncertainties. For additional information about forward-looking statements, refer to the “Cautionary Note” section of the accompanying presentation materials, and for information on some of the factors that might cause results to differ from expectations, refer to the “Risk Factors Relating to Valener” and the “Risk Factors Relating to Gaz Métro” sections of Valener’s and Gaz Métro’s Management’s Discussion and Analysis for the fiscal year ended September 30, 2014, as well as to Valener’s and Gaz Métro’s disclosure filings, all of which are available on SEDAR at www.sedar.com.

These speaker notes are not a transcript of the webcast and may not be identical to the comments made during the webcast. The entire webcast can be replayed on Valener’s website (www.valener.com) in the Investors section under “Events & presentations.”

In no way does Valener assume any responsibility for any investment or other decisions made based on the information provided on its website or in these speaker notes. Users are advised to review the webcast itself and Valener’s filings with the Canadian Securities Regulators before making any investment or other decisions.

Only the delivered speech shall be considered as authoritative.

(Introduction by the operator)

[Caroline Warren]

Good afternoon, and welcome to our conference call covering Valener's results for the second quarter of fiscal 2015.

With me today from Gaz Métro are Sophie Brochu, President and Chief Executive Officer and Pierre Despars, Executive Vice President, Corporate Affairs and Chief Financial Officer.

Before we begin, please note that during this conference call, we may refer to or talk about forward-looking information. Please refer to the "Cautionary Note" section, which can be found on the second page of our presentation, as well as in our quarterly MD&A, which was published today and is available on Valener's website and on SEDAR. We may also refer to certain indicators that are not standardized in accordance with Canadian GAAP and should not be considered in isolation or as substitutes for other performance measures that are in accordance with GAAP.

I will now turn the call over to Sophie Brochu.

[Sophie Brochu] Merci Caroline, bonjour à tous and good afternoon everyone.

Let's begin, if you will, on page 3 of the presentation, which shows normalized operating cash flows per common share of Valener, a key metric used to measure ability to pay dividends. During the second quarter, these cash flows were strong, reaching 41 cents per share, an increase of 15 cents or nearly 58% compared with last year. The first distribution from the Seigneurie de Beaupré Wind Farms, contributed to this increase. It represented $4.7 million or 12 cents per share for Valener. Moreover, the tax benefit arising from an accelerated depreciation of these wind power assets also contributed favourably to Valener's cash flows.

Let's turn to the dividend discussion on page 4. Valener has declared a quarterly dividend of 26 cents per common share, payable on July 15, which reflects the 4% increase announced last quarter and corresponds to an annualized dividend of $1.04 per share. This provides a yield of 6.23% based on yesterday's closing price.

As mentioned during our last conference call, Valener also set a targeted annual dividend growth rate of 4% for the next three fiscal years through to 2018. This will be supported by the reliable distributions from Gaz Métro and by the distributions from Seigneurie de Beaupré Wind Farms, which continue to perform above our expectations.

As shown on page 5, during the first six months of fiscal 2015, Wind Farms 2 and 3 generated $28.5 million in operating cash flows thanks to favourable winds. This translated into a solid utilization factor of more than 43% (nearly 48% during the second quarter). Thanks to these strong cash flows, Wind Farms 2 and 3 was able to make a distribution of $19.1 million to its partners in February, with Valener having received its pro rata share of $4.7 million. The next distribution is expected to be paid during the fourth quarter of the current fiscal year.

On to page 6. During the second quarter, Wind Farm 4 generated $4.7 million in operating cash flows. This Wind Farm also performed very well, reaching a utilization factor of about 45% during the second quarter, the first full one since its commissioning. We still expect Wind Farm 4 to begin paying distributions during the course of this fiscal year.

Needless to say, we are very happy with the performance of our wind farm assets.

Let's now turn to page 7. For the second quarter, Valener's recurring net income was $34.0 million, up $4.9 million or nearly 17% from last year.

As shown on the next page, Gaz Métro's recurring net income was up $11.2 million or 8.5% compared to last year, driven by the strong performance of the energy distribution activities in both Québec and Vermont. The appreciation of the US dollar had a positive impact on the results of our US operations and, as for Valener, the Seigneurie de Beaupré Wind Farms contributed positively to Gaz Métro's results.

Before I turn the call over to Pierre, I think it is worthwhile to take a look at Gaz Métro's recent evolution and long-term plan. As you know, over the past few years, Gaz Métro has grown. We have grown from being a Québec natural gas distributor to become a diversified energy player. Today, more than 35% of our annual net income is now generated in the United States, where we distribute both natural gas and electricity. Gaz Métro has also become a successful and significant wind power producer and as such, we can count on additional and significant cash flows. Our next big move will be the commercialization of liquefied natural gas, which will become an important growth vector for us over the coming years.

As you can see on page 9, there has been a significant increase in the demand for LNG. This is evidenced by the rise in the current deliveries as well as the numerous discussions we are having with many interested offtakers. In relation thereto, last week, Hydro-Québec Distribution filed an application with the Régie de l'énergie, which aims to use LNG from Gaz Métro's liquefaction facility to meet peak demand for electricity starting in winter 2018 and this for the next 20 years. This innovative solution involves allowing the TransCanada Energy power plant in Bécancour, which has not produced electricity for several years now, to become a strategic tool for meeting the needs of Quebecers during very cold spells. The idea is to supply it with LNG for the equivalent of approximately 100 hours per year. With this project, Gaz Métro, through its subsidiaries, would supply, build and operate an LNG storage and vaporization site close to the TCE power station, in order to supply the natural gas required to generate electricity during winter peak demand periods. This is an exciting project that adds up to many other discussions we are having. This supports the sound decision we have made to invest in this market. And I am pleased to report that the expansion of our liquefaction facility is proceeding as planned, with commissioning expected by the end of 2016.

I will now turn the call over to Pierre, who will give you colour on what we are doing in Vermont and more details on our financial results.

[Pierre Despars] Thank you Sophie.

In Vermont, GMP continues to invest in the state's electric transmission system through Transco. Over the last 18 months, more than $50 million were invested in Transco, increasing GMP's rate base and allowing it to generate additional net income.

As for GMP's operational integration with CVPS, efficiencies and synergies continue to meet expectations. GMP is right on track to reach the US$8 million in synergy savings that will be attributable to its customers for fiscal 2015. Any additional synergy savings realized this year will be retained by GMP, as per the sharing mechanism.

Allow me to provide you with an update on the VGS natural gas distribution system extension project, called project Addison, which should be completed during fiscal 2016. As shown on page 10, the updated budget was submitted to the Vermont Public Service Board last December, with costs now estimated at US$153.6 million. To date, VGS has invested US$61.4 million in the project. The company remains fully committed to the efficient and proper management of the project, and continues to focus on obtaining remaining rights-of-way and on reaffirming the Certificate of Public Good at the higher budgeted level. The VPSB has scheduled public hearings to that effect by the end of the month of June.

As mentioned during our last conference call, Phase II of the project has been abandoned further to the termination of the contract by International Paper.

In the long run, in both Québec and Vermont, we believe that natural gas will remain a sound energy choice for consumers, thanks to its environmental attributes and its competitive position in relation to other fossil fuels. This bodes well for our future.

Now let's look at the results of our energy distribution activities in Québec and Vermont on page 11.

During the second quarter, the Québec distribution activities generated $114.2 million in net income, up $4.1 million from last year. The main reason for this increase was a timing difference between the revenue recognition profile and that of costs, partly mitigated by an increase in financial expenses. This timing difference is expected to partly reverse during the remainder of the fiscal year, as shown on page 12.

Moving on to the results from our energy distribution activity in Vermont, during the second quarter, net income totalled $22.2 million, up $3.8 million compared with last year. The main drivers for this increase were,

- first, an appreciation of the US dollar;
- second, an increase in GMP's rate base; and
- finally, a return on VGS's non-rate-base investments related to its distribution network extension.

Looking now at page 13, we review the results of our other segments.

During the second quarter, net income generated by the energy production segment was up $1.8 million from last year.

This increase was driven by strong revenues generated by Wind Farms 2 and 3 as well as Wind Farm 4, due to favourable winds and the fact that Wind Farm 4 was commissioned in December of last year.

For the other segments, net income totalled $5.5 million during the second quarter, up $1.5 million from last year. The main drivers for this increase were,

- first, at PNGTS, an increase in its short-term and interruptible sales, partly mitigated by the FERC's recent decision on its rates;
- second, higher LNG deliveries due to an increase in short-term contracts; and
- lastly, higher profitability at Climatisation et Chauffage Urbains de Montréal due to lower fuel supply costs.

On page 14, we present Gaz Métro's expected cash requirements for the second half of fiscal 2015.

Gaz Métro expects to require about $200 million to fund its investments in property, plant and equipment, in particular for the extensions and improvements of the energy distribution systems in Québec and Vermont, as well as for the LSR plant expansion project.

The sources of financing will be equity contributions from Valener and Gaz Métro inc. totalling $255 million and a contribution from Investissement Québec representing its pro rata share of the costs associated with the expansion of our LSR plant.

In this context, Valener's expected cash requirements for the remainder of the fiscal year are estimated at $74 million, including the recent subscription of $39 million to Gaz Métro units.

Valener's sources of financing will come from its operating cash flows, which now include distributions from the Seigneurie de Beaupré Wind Farms, as well as from its largely unused credit facility.

That concludes our presentation. Thank you for your attention. We will be pleased to answer your questions.

[Question and answer period]

Thank you very much for your participation this afternoon. Have a great day.