

## **CORPORATE PARTICIPANTS**

**Jackie DeSouza**

*Director, Corporate Communications*

**Jeff Lyash**

*President and Chief Executive Officer*

**Ken Hartwick**

*Chief Financial Officer and Senior Vice President of Finance*

## **PRESENTATION**

### **Operator**

Good morning, ladies and gentlemen. Welcome to the OPG Investors Call. I would now like to turn the meeting over to Jackie DeSouza. Please go ahead, Ms. DeSouza.

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**Jackie DeSouza, Director, Corporate Communications**

Thank you and welcome to our investor call to discuss Ontario Power Generation's 2018 Annual Financial Results. My name is Jackie DeSouza. I'm joined today by OPG Chief Executive Officer and President Jeff Lyash; and OPG's Chief Financial Officer, Ken Hartwick. Mr. Lyash and Mr. Hartwick will present a slide deck that you will be able to follow on your computer if you are logged on to this WebEx. Once the presentation is finished, we will be open to questions from investors. I will facilitate the question-and-answer session and the Operator will provide instructions to investors with questions. Just a reminder, this is an investor call. Media and others are welcome to listen but only investors will be able to ask questions.

Before I turn things over to Jeff, I want to bring to your attention Slide 3, disclaimers for a caution on forward-looking statements and the use of non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from what is stated. This slide also indicates where to find more information on topics, and what factors could cause actual results to differ materially from those stated. You'll also see a slide for the agenda for today's call.

I will now turn the call over to Mr. Lyash.

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**Jeff Lyash, President and Chief Executive Officer**

Thank you, Jackie. Good morning and thank you all for joining this call to discuss our annual results. We're pleased to have this opportunity to update you and to share these results.

In 2018, OPG made significant strides financially and operationally, while working to ensure we remain a low-cost clean power generator. For the full year of 2018, we recorded net income of more than \$1.1 billion for our shareholder, the Province of Ontario. This figure reflects the positive impact of new regulated prices for our generation and also the impact of the gain on sale of the former Lakeview Generating site.

This past year, OPG also completed the acquisition of Eagle Creek Renewable Energy, which currently owns and operates 63 hydroelectric facilities across the United States. This acquisition expands OPG's renewable generation portfolio to new markets outside Ontario and adds additional carbon-free generation that aligns to our strategic goals. It's an investment that will produce an attractive return for Ontario and help OPG expand its core business. And more importantly, it will not impact Ontarian's electricity bills.

We were also very pleased that the Canadian Nuclear Safety Commission granted our Pickering Nuclear Generating Station a 10-year license renewal. The renewed license allows for continued operations to 2024, followed by safe storage activities, such as removal of fuel and water up to 2028. The CNSC's decision reaffirmed Pickering's importance to the province. Pickering remains a valuable asset that is primed to provide clean, safe and reliable baseload electricity during the Darlington and Bruce Power nuclear refurbishments.

Pickering is safer now than it has ever been, and we are committed to continue to safely operate the station until 2024 and to ensuring Pickering's last day will be its very best day. Our dedication to safety was recognized last year as Pickering and Darlington once again received the CNSC's highest safety rating. We expect to maintain the same excellent safety performance in 2019 and beyond.

On the Darlington refurbishment, we continue to make great headway on Canada's largest clean energy project. Today, I'm proud to say the refurbishment remains on time and on budget. Last year, we finished disassembling Unit 2, the first reactor to undergo midlife refurbishment, and we started the work to put it all back together again

with new reactor components. We were pleased with the Auditor General of Ontario's recent report, which acknowledged the project's progress and execution. With just under a year to go, I'm confident Unit 2 will be returned to commercial service and once again generate electricity for Ontario by February of 2020.

Across our nuclear hydroelectric and thermal generating fleet, we continue our solid performance to cement OPG's reputation as one of the largest low carbon generators in North America. Today, we continue to produce about half of Ontario's electricity at a cost that is about 40 percent less than the average of other generators.

All in all, 2018 was a very successful and eventful year for OPG. We remain committed to operating safely and reliably and executing on all our key projects to deliver good value and low-cost electricity to our customers.

Now I'd like to turn things over to Ken Hartwick, OPG's Chief Financial Officer and Senior Vice President of Finance, to go over the full year results in more detail. Ken?

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**Ken Hartwick, Chief Financial Officer and Senior Vice President of Finance**

Thanks, Jeff.

And just turning to Slide 6, for the full year December 31st, 2018, OPG reported net income attributable to shareholders of \$1.195 billion compared to \$860 million in 2017. As Jeff mentioned, this figure includes an after-tax gain of \$205 million from the sale of the Lakeview Generating Station site. It should also be noted that the net income for 2017 included a one-time after-tax gain of \$283 million on the sale of OPG's head office property. The increase in our 2018 earnings are primarily driven due to higher revenues of approximately \$359 million, reflecting a full year impact of new regulated rates issued by the Ontario Energy Board on December 2017 for the '17 to '21 period. This was offset by higher depreciation and amortization expense of \$58 million.

On Slide 7, and looking at our segmented performance, we can see that earnings from our regulated hydroelectric generation and contracted generation portfolios remain solid in 2018. This reflects the stable nature of returns from our hydroelectric assets. While the one-time real estate sales have resulted in some earnings variability in 2017 and '18, our core generation business remains strong and growing.

On the regulated nuclear side, our segmented earnings improved significantly compared to 2017. The increased performance in the 2018 results in the nuclear segment is largely attributable to the full year impact of new regulated rates set by the OEB that were effective June 1st, 2017, as well as an increased performance from our Darlington Nuclear Station and continued strong outage execution at our Pickering Nuclear Station.

Slide 8, with respect to the generation for the year, our performance has remained largely consistent with the prior-year. We saw an increase in nuclear electricity generation due to fewer plant outage days at our Darlington Station, which was offset by a larger number of planned outage days at Pickering. This was in line with our expectations and is largely due to the Pickering Station's cyclical maintenance schedule.

Our regulated hydroelectric front generation was down slightly compared to the previous year, primarily due to low water flows across most river systems in Ontario. Water levels across the province were generally back to normal in 2018 compared to the exceptionally high flows in the first half of 2017 that were caused by record rainfall and rapid snow melt.

We also received higher generation from our contracted and other generation assets, primarily due to higher demand for electricity in Ontario and partially due to the generation from our recently purchased Eagle Creek facilities. Our biomass facility at Atikokan and our dual-fired station at Lennox, both responded well to demand as and when needed in the province.

On Slide 9, our enterprise total generation cost, or TGC, is the cost to generate 1 megawatt hour of electricity in Ontario. In 2018, our TGC increased slightly compared to 2017. This was as anticipated and mainly due to a decrease in hydroelectric generation as a result of lower water flows. Also impacting cost was higher sustaining capital expenditures for the year, ensuring our fleet continues to generate clean energy.

Slide 10, as Jeff mentioned earlier, in November, we acquired Eagle Creek, and in December, Eagle Creek was integrated into OPG's operational portfolio. Eagle Creek owns 63 small hydroelectric facilities throughout the United States, including New England, Michigan and New York, and a total in-service generating capacity of approximately 226 megawatts. This figure includes ownership interest in 13 other hydroelectric facilities and 2 solar facilities in New England. This exciting acquisition represents an opportunity to expand OPG's renewable generation portfolio to markets outside Ontario. With this acquisition, OPG will also continue to build upon Eagle

Creek's existing commitment to create renewable energy that delivers real value to customers across North America.

In August of 2018, we submitted an application to recover deferral and variance accounts. Last month, the OEB approved a full settlement agreement reached by OPG and interveners on OPG's requested disposition of regulatory accounts, resulting in an approval to recover a total of approximately \$1.3 billion recorded in these deferral and variance accounts. The OEB's decision and order authorized OPG to collect \$535 million of the approved balances through nuclear and regulated hydroelectric rate riders for the period from January 1st, 2019 to December 31st, 2021. This will help to provide further cash flow from operations for the Company in 2019. The balance of the approved deferral and variance accounts will be collected post 2021.

Slide 12, on the Darlington refurbishment, we continue to make steady progress and the overall project remains on schedule and on budget. In 2018, we finished disassembling Unit 2, first reactor to undergo midlife refurbishment, and we started work on the third major segment, the installation and reassembly of reactor components. The new fuel channel installation series is now underway and we are targeting completion of this work in the first half of 2019. This work involves meticulous preparing, cleaning, inspecting and assembling of 480 fuel channels that support the fuel bundles in the reactor, as well as piping, called feeder tubes, that help transport heat from the reactor steam generators.

We also continue construction of the heavy water storage facility and drum handling facility. The heavy water storage facility's expected to be completed by the second quarter of 2019. We continue the planning and prerequisite activities for the refurbishment of the next reactor, Unit 3. This include incorporating lessons learned on Unit 2's execution as well as receiving long lead materials that will be needed for Unit 3's refurbishment.

Finally, the Darlington refurbishment project was a subject of a value-for-money audit in the Auditor General of Ontario's 2018 Annual Report. We were pleased by the report, which reaffirm that OPG has a clear accountability structure to monitor and ensure the project remains on track. We appreciate the Auditor General's feedback and continue to diligently monitor progress of this complex project.

In 2018, OPG committed to support the recommendations of the Financial Stability Board Task Force for climate-related financial disclosures mandate.

As highlighted in our annual disclosures, our carbon-friendly generation mix and in-service capacity provides a solid foundation for the future. This is particularly noteworthy in that OPG acts as a moderating influence on customer prices with generation continuing to be priced approximately 40 percent lower than the average of other generators in the province. We continue to evaluate the long-term scenarios that we as a company may face in response to our evolving climate and continue to support climate change resilience efforts across the province.

On Slide 14, 2018 saw the Company's financial initiatives aligned with the strategic imperatives, the establishment of a green bond framework. In June, OPG issued their first green bond, successfully closing a \$450 million 30-year green bond offering at a coupon rate of 3.838. Financing of this kind was the first for the Canadian energy sector. Net proceeds from the bond issuance are being used for investment in OPG's hydroelectric facilities which generate clean, renewable electricity, like the construction of Peter Sutherland Senior Generating Station and the expansion of the Ranney Falls Generating Station. This was followed up in January with a further \$500 million 30-year issue from the Company's medium term note program, with the net proceeds largely being used in financing the acquisition of Eagle Creek. OPG's green bond framework has been deemed credible and impactful by Sustainalytics, a leading provider of corporate, environmental, social and governance research ratings and analysis.

In terms of our capital structure, the Company continues to diversify its financing base through a mix of public debt and funding through the OEFC. The Company also continues to be positioned well in terms of liquidity, with a long maturity timeframe on its debt. This is further indicative of OPG's strong balance sheet in support of future opportunities for the benefit of the shareholder and rate payers.

I'd now like to turn it back to Jeff to leave you with some closing thoughts.

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**Jeff Lyash, President and Chief Executive Officer**

Thanks very much, Ken. In closing, I'd like to reiterate how pleased I am with our operational and financial performance in 2018. This past year we continued to receive steady and reliable performance from our generating fleet, kept the Darlington refurbishment on time and on budget, achieved a 10-year license renewal for Pickering Nuclear, and completed our first U.S. acquisition. OPG remains in a solid standing of financial

strength. We will continue to use this strength to make important investments in our operations and in strategic investments, like the Eagle Creek acquisition that will help grow our core business. Looking to 2019, we expect to continue performing well against expectations and executing on all our major projects, our planned maintenance outages, and the Darlington refurbishment.

On the labour front, we expect no disruptions this year after the potential labour action that arose late in 2018. OPG has agreed to a new one-year contract with the Society of the United Professionals, while a mediator arbitrator will rule on a new contract for PWU workers soon.

I'm also happy to announce Dominique Minière, who recently joined us as OPG President of Nuclear. Dominique began earlier this week and comes to OPG from Électricité de France where he served as Chief Operating Officer of one of the world's largest nuclear and thermal fleets overseeing more than 35,000 employees. Dominique's decades of experience will be a great asset to OPG as he oversees all of OPG's nuclear operations and focuses on growing OPG's nuclear business.

On a closing note, I regret to say this will be my last conference call with OPG as I'll be leaving the Company on March 31st. This is not an easy decision to make. Since I arrived in August of 2015, OPG has been like a second family to me and I thoroughly enjoyed working with everyone here. Most of all, I've been impressed by all of our employees' dedication and commitment to working safely and making OPG a better organization.

I'm pleased with the progress we've made collectively in the Darlington refurbishment, on operational and safety excellence, and our growth efforts, and I will continue to track OPG's progress with pride.

With that said, I want to wish my colleague, Ken Hartwick, all the best as he takes over for me as President and CEO effective April 1st. Ken has played a strong leadership role as CFO and SVP of Finance since joining in 2016. Under his guidance, we launched Canada's first utility green bond and expanded to the U.S. with the Eagle Creek acquisition. I know OPG will be in very good hands under Ken's leadership and I'm confident he will continue to successfully move the organization forward.

Finally, I want to acknowledge the ongoing commitment of every employee at OPG. I thank each and every one of them for their continued professionalism and commitment to safety, and I know they will continue to bring value to

Ontario while generating safe, reliable, low-cost power for the province.

I'll now turn the call back to Jackie DeSouza. Jackie?

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**Jackie DeSouza, Director, Corporate Communications**

Thank you, Jeff. We will now begin the question-and-answer session, and I will ask the Operator to run through the process for investors to introduce their questions. Just a reminder, this is an investor call, and therefore only investors are able to ask questions. I'll remind investors to follow the Operator instructions and please identify yourself before asking a question. Operator?

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**QUESTION AND ANSWER SESSION**

**Operator**

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If you have a question, please press star, one on your telephone keypad. You may at any time cancel your question by pressing the pound sign. Please press star, one at this time, if you have a question. There will be a brief pause while participants register. Thank you for your patience. Once again, please press star, one on your telephone keypad if you have a question.

We have no questions registered at this time. I would like to turn it back over to you, Ms. DeSouza.

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**Jackie DeSouza, Director, Corporate Communications**

Thank you. As always, investors with follow-up questions can call OPG's Investor and Media Relations line, as noted on our website at [opg.com](http://opg.com). Thank you very much for participating, and have a great day.

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**Operator**

Thank you. The conference call has now ended. Please disconnect your lines at this time and we thank you for your participation.