

## **CORPORATE PARTICIPANTS**

Sachin Shah, Chief Executive Officer

Wyatt Hartley, Chief Financial Officer

## **CONFERENCE CALL PARTICIPANTS**

Sean Steuart, TD Securities

Nelson Ng, RBC Capital Markets

Rupert Merer, National Bank Financial

Andrew Kuske, Credit Suisse

Jeff Zippel, BMO Capital Markets

Jeremy Rosenfield, Industrial Alliance Securities

## **PRESENTATION**

### **Operator**

Good morning. My name is Carol and I will be your operator today. At this time I would like to welcome everyone to the Brookfield Renewable Partners Second Quarter 2018 Earnings Call and Webcast. All lines have been placed on mute to prevent any background noise. After the speakers' remarks we will have a question-and-answer session. If you would like to ask a question at that time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

At this time I would like to turn the call over to Sachin Shah, Chief Executive Officer. Please go ahead.

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### **Sachin Shah, Chief Executive Officer**

Thank you, operator. Good morning, everyone, and thank you for joining us for our Second Quarter 2018 Conference Call. Before we begin, I'd like to remind you that a copy of our news release, investor supplement, and letter to shareholders can be found on our website. I also want to remind you that we may make forward-looking statements on this call. These statements are subject to known and unknown risks and our future results may differ materially. For more information you're encouraged to review our regulatory filings available on SEDAR, EDGAR, and on our website.

The business performed well in the second quarter as we continued to deliver strong availability rates, advanced our development and operating initiatives, and benefit from recent acquisitions. This was achieved despite lower than expected generation. With liquidity of \$1.7 billion at the quarter end and investment-grade balance sheet and no near-term material maturities, we are well positioned to execute on our investment in operating priorities.

During the second quarter, we invested \$450 million into growth and development initiatives. This includes our investment in additional shares of TerraForm Power, bringing the total ownership between ourselves and our partners up to 65% from 51% and increasing BEP's interest from 16% to 30%. The share issuance from TerraForm Power was used to fund its acquisition of Saeta Yield, a high-quality, stable, 1,000-megawatt European solar and wind portfolio with a \$1.2 billion equity valuation. Saeta's revenues are underpinned primarily by stable, rate

regulated Spanish rate base, which supports over 80% of the company's EBITDA and protects the business from both production and revenue variability. The balance of the business' revenues are subject to long-term power purchase agreements, which exceed 16 years in term. Looking forward, the portfolio provides a number of operational and balance sheet enhancement opportunities, which should provide meaningful margin expansion over time, consistent with our operations-oriented approach to investing.

We made our first investment in Europe five years ago with the acquisition of 320 megawatts of operating wind farms in Ireland. With this recent acquisition we now have approximately 5,100 megawatts of operating and development assets throughout Europe and the UK and a diversified portfolio comprised of wind, solar, and pumped hydro. We continue to see Europe as a strong growth market over the long term and, accordingly, continue to grow our operating and development capabilities in the region across multiple technologies.

With regards to the broader investment environment, while growth of renewables was initially driven by growing support for carbon reduction with continued declines in the cost for new renewables, adoption is increasingly being driven by economic rationale. Even with declines in subsidies for renewables, we continue to see higher renewable targets from governments around the world. These targets will require significant investment over the coming decades and, as subsidies decline or fall away, this opportunity will increasingly favor those investors who can drive value enhancement of cash flows from operating expertise as opposed to financial or tax-driven buyers. Accordingly, we continue to execute our long-term business plan of establishing strong operating and growth capabilities in our core markets around the world across multiple technologies such that we can pursue acquisition and development opportunities and integrate new assets efficiently.

Over the last decade we have grown our operating capabilities, built a global business, and have been patient but opportunistic in deploying capital. In the last five years we've invested nearly \$3.5 billion of capital into new opportunities globally, resulting in a portfolio today of 8,000 megawatts of utility-scale hydro, 6,000 megawatts of wind and solar facilities, and 3,000 megawatts of storage through our pumped hydro and battery facilities. In addition, we are now one of the largest owners of distributed solar generation in the United States and are targeting expanding this capability to key markets around the world.

I will now turn over the call to Wyatt to discuss our operating results and financial position.

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**Wyatt Hartley, Chief Financial Officer**

Thank you, Sachin, and good morning, everyone.

We reported Funds From Operations of \$172 million or \$0.55 per unit in the second quarter. The business continues to perform well across all regions; however, we experienced low water levels in North America this quarter. On a normalized basis, we would have achieved FFO of \$206 million this quarter, which represents year-over-year growth of 16% on a per-unit basis, reflecting the continued strength of our operating business, as well as contributions from recent acquisitions.

Our hydroelectric assets contributed \$181 million of FFO. While hydrology remains close to long-term average levels in South America, we experienced lower rainfall in Ontario and New York, which impacted generation levels. During the quarter, we continued to focus on extending our contract profile at premium pricing. At PJM's recent capacity auction, we sold 964 megawatts into strong markets, securing \$17 million of revenue for the 2021/2022 delivery period, 70% higher than the prior year. In Colombia, we signed almost 20 new contracts with five- to ten-year terms. In Brazil, we secured five new contracts at average pricing of approximately R\$260 per megawatt-hour. We also commissioned our 28 megawatt Verde 4A hydroelectric facility in Brazil.

Our wind segment delivered \$34 million of FFO in the second quarter, \$10 million ahead of prior year, as we continue to benefit from new acquisitions and development projects coming online. At TerraForm Power, wind performance has been consistent with our expectations, and we continued to progress outsourcing of the wind fleet's operation and maintenance, which is expected to drive meaningful operating cost savings over the next few years. Our Brazilian wind business continues to deliver very strong results with capacity factors consistently around 40%.

Our solar business delivered \$16 million of FFO this quarter, as our global fleet continues to perform well, with strong availability across the portfolio. Our storage business delivered \$7 million of FFO in the second quarter, as these facilities continue to provide essential grid-stabilizing ancillary services and large-scale back-up capacity. At our First Hydro business in the U.K., we continue to work with our partner to optimize asset operation, dispatch, and trading.

We continue to pursue development across all business lines. We are currently advancing two hydro facilities in Brazil totaling 49 megawatts, two wind farms in Europe totaling 47 megawatts, and a 63-megawatt storage expansion project in the U.S. Our total equity investment in these projects is approximately \$75 million, the majority of which has already been funded, and all projects are advancing on scope, schedule, and budget. Once completed, these assets should contribute an additional \$20 million to our FFO.

Factoring in recent investments, we ended the quarter with \$1.7 billion of liquidity and continue to focus on strengthening our strong, investment-grade balance sheet. Our priorities remain the same: terming out our debt, extending maturities on a fixed-rate basis, reducing borrowing costs, and monetizing mature assets to redeploy capital into higher-value opportunities.

During the quarter we extended the duration of our corporate credit facility to five years and executed \$1.1 billion of refinancing initiatives across the portfolio. In the process, we increased the average duration of our asset-level debt to over 10 years and lowered our interest costs by 25 basis points. We have minimal interest rate exposure, having locked in low, long-term rates over the last several years. As a result, today only 14% of our debt is floating rate, of which less than 8% is in North America and Europe.

We also advanced our capital recycling initiatives. Post quarter-end we entered into an agreement to sell 100% of our 178-megawatt South African wind and solar portfolio for total proceeds of \$166 million, with BEP's share totaling approximately \$50 million. These assets were acquired as part of broader TerraForm Global portfolio in late 2017 and the sale will allow us to focus our investments on our core markets where we see considerable opportunity.

As always, we remain focused on delivering our unitholders long-term total returns of 12% to 15% on a per unit basis. We thank you for your continued support and we look forward to updating you on our progress in that regard.

That concludes our formal remarks. Thank you for joining us this morning. We would be pleased to take your questions at this time. Operator?

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. As a reminder, in order to ask a question, please press star followed by the number one on your telephone keypad. Our first question comes from Sean Steuart from TD Securities. Please go ahead.

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### **Sean Steuart, TD Securities**

Thanks. Good morning, everyone. Couple of questions. I appreciate its small net to Brookfield Renewable but can you give us some of the return parameters around the asset sale in South Africa?

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### **Sachin Shah, Chief Executive Officer**

Sean, we have not closed on that transaction yet and so, although it's announced, we are still waiting for regulatory approvals. I think all I would say is it's in line with our target long-term returns and we're obviously happy with the outcome.

**Sean Steuart, TD Securities**

Okay. Second question is on China. In early June it looks like the government there has backed away in terms of policy support subsidizing solar growth in China. Can you give us an update on your thinking around your joint venture prospects for rooftop solar developments in China and if that's changed at all?

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**Sachin Shah, Chief Executive Officer**

Sure. So, for anyone who doesn't know, we have a 50-50 joint venture with GLP, which is a global owner of logistics properties for development of rooftop solar in China, on both their roofs and third-party roofs and really anything that sort of distributed generation in the country. With the removal of the policy support from the government and really the reduction of subsidies, in our view, it actually makes our JV more competitive and puts us in a far better position to deploy capital in the country, in particular, because if you look at the country today, pollution is a significant problem. They still produce a meaningful amount of electricity from coal. The capacity in the country is about 1.5 times that of the U.S. but their population is obviously four times that of the U.S. So there's a very, very meaningful growth profile in the country over the next 25 years.

Removing subsidies has a number of implications. One, it favors companies like ourselves, who are really able to do development more by extracting and reducing costs and integrating assets efficiently. It also means that the embedded rooftops the GLP owns become that much more valuable as a source growth for us given that they're also in the JV. And then lastly, what it's led to, and we've seen early signs of this, is we've seen a glut panels in the country from solar manufacturers because much of their growth was predicated on subsidies, which was then leading to higher sales channels with the SOEs and so, if anything, it's actually led to declines in panel prices as they look to shed some of that overcapacity in the market. And if you layer in tariff actions and trade actions in the U.S., which was previously a large destination for these panels, that's now also killing demand for these panels and it means that, that supply glut for us gives us more purchasing power from a balance of plant perspective.

So we think, all in all, it's pretty good on the short term. It's probably very good long term because it will favor strategics as opposed to financial investors. And the reason we focused on DG is because it's an area that the SOEs and the large state-owned utilities really don't spend the time on given that they want to do much bigger projects.

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**Sean Steuart, TD Securities**

Understood. Last question for me for now: we've seen a really active M&A environment in North America. Can you give thoughts on recent valuation trends and how that might inform your plans for potential capital recycling in North America?

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**Sachin Shah, Chief Executive Officer**

Yeah, look, I mean, we have been, I'd say the last five years has been a very fully valued marketplace when it comes to renewables and we have not seen that subside all. And there are a lot of investors who are attracted to the space for different reasons, whether that is because they have renewable companies, they have renewable targets, they're looking for tax incentives like we saw in the U.S., they want government subsidies. So there's a myriad of reasons why people are attracted to the space. And it's not just strategic financial investors, it's insurance companies, tech firms. And I don't think we envision an environment where valuations come down in the near term. It's going to be an expensive market for a while and we're okay with that.

I think it does two things for us. One is it really allows us to take advantage of our approach to value investing and looking for unique off-the-run type opportunities where we can patiently deploy capital, reduce costs, improve margins, we can do development, and really just bring a different angle to investing, which we've been able to do over the last five years. And then I think more importantly for the portfolio we do own, it just continues to provide a

very healthy bid in the market and those assets become tremendously valuable. And if you compare how our business trades from a public valuation perspective relative to private valuations, we obviously trade at a deep discount in public markets, and so then it would lead one to conclude that capital recycling should be an important part of our strategy to raise capital. And so you've seen us do that in the last few years and you continue to see us do that with South Africa. And I would say, for our investors and for analysts, you should just assume that that's a core part of our fundraising program, as we have mature assets and a strong bid in the marketplace for them.

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**Sean Steuart, TD Securities**

Thanks for the context, Sachin. That's all I have.

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**Sachin Shah, Chief Executive Officer**

No problem.

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**Operator**

Our next question comes from Nelson Ng from RBC Capital Markets. Please go ahead.

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**Nelson Ng, RBC Capital Markets**

Great, thanks. A quick one on Colombia. I think you flagged that you entered into about 20 new contracts that were in the 5- to 10-year term. I think you also had longer-term contracts in the previous quarters as well. But I guess roughly how much of those contracts, like how much of the generation do those contracts reflect? Are we talking about like 20 contracts out of hundreds or thousands? Could you just give context into that?

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**Sachin Shah, Chief Executive Officer**

Yeah, it's still small. It's 20 contracts out of hundreds. I'd say what's more important, and maybe this is more for long-term investors who are looking at structural changes, we are generally trying to create a long-term, we are originating a long-term contracting market in the country, and what we're finding is that there is a very healthy appetite from smaller distribution companies, industrial loads and commercial counterparties for term, which didn't exist until we came into marketplace there.

So I think from our perspective, one element of our investment thesis in the country was that if you could bring term to that market you could drive a much more efficient capital structure, which then allows you to drive cost of capital down, and we're seeing that. So it's encouraging for us. These are obviously very, very long-term assets. They're 100-year assets. Everything takes time. And for us, we have a business plan that goes out over a decade, and this is obviously a very, very encouraging sign, and the management team we have in there is pushing this forward and doing a tremendous job.

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**Nelson Ng, RBC Capital Markets**

Okay. Quick one on capital recycling: As part of the TerraForm Global acquisition I believe you also picked up some solar assets in Malaysia and Thailand. Are those—I guess it's geographically close to India and China where you have a large portfolio, but are those countries considered core or non-core?

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**Sachin Shah, Chief Executive Officer**

Look, Nelson, we've sold assets. We sold assets in Ireland last year. We sold assets in California the year before. I don't think we are looking at it from a core and non-core perspective. I think we're looking at it from a relative value perspective. Can we create further value? And if we can't, then they should be on our list of things that we could potentially sell if there's a strong bid. So I would just say that today we look at everything that way and obviously Malaysia and Thailand would be on the list from that perspective.

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**Nelson Ng, RBC Capital Markets**

Okay, got it. And then just one final follow-up on capital recycling: Obviously there's been a lot wind facilities changing hands in Canada this year, like are there any, I guess, negative consequences or tax consequences or any impediments for you in potentially selling your Canadian wind portfolio?

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**Sachin Shah, Chief Executive Officer**

Not on our side. We have a very healthy level of NOLs in the business in Canada to the point where we probably have more NOLs than we can use over a very long period of time. And given that we've built most of these, we have obviously used up a lot of the depreciation, but we could push basis down to the assets for a potential buyer. So we don't have any impediments in terms of selling the assets and I would argue that, in fact, given the level of NOLs we have, we probably have a bit more flexibility than those who would be reticent to use their finite pool of NOLs to absorb any gains on their balance sheet. So I think we're in really good shape and if we wanted to sell something in Canada from a wind perspective, I don't think it would be difficult for us to do that.

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**Nelson Ng, RBC Capital Markets**

Okay, thanks. I'll get back in the queue.

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**Operator**

Our next question comes from Rupert Merer from National Bank. Please go ahead.

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**Rupert Merer, National Bank Financial**

Good morning. Can we talk about cost savings? You target 2% to 4% per year margin expansion in the near term. Give us an update on cost and synergy initiatives, maybe what did we see in Q2 and what's the outlook for the near and long-term at this point.

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**Sachin Shah, Chief Executive Officer**

Sure. I'd say the two big areas of focus that we had in the last 18 months, one was Colombia, where we bought a government utility, and it was just not sized to sort of a private sector investment model. And so we've been chipping away and we have a program in place that takes five to seven years to right-size that, combined with development, combined with balance sheet efficiency, or capital efficiency, and it is on track. We have no reason to believe we can't deliver on that and, in fact, I'd say in the first two years of ownership we have delivered better than we expected. So that is underway. These are all long-term initiatives but they contribute meaningfully to that 2% to 4%.

The other region for us off the back of TerraForm deal was really around North America where we now have just a very large bulk presence of assets, people, operators, and management folks. And so there we've been able to find \$20 million of productivity initiatives that we actually achieved the last year but are coming through results this year. We see there being further opportunities there to drive productivity. And a lot of it just comes from the fact that you can be more efficient when you've got more assets in a similar region. And so, again, much of that has already been done, but it's actually just coming through our results this year.

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**Rupert Merer, National Bank Financial**

Okay. Excellent. Turning to FX, it was a small tailwind in the quarter. Your sister company, Brookfield Infrastructure, reported that it's hedged some of its cash flows from Colombia recently benefiting from lower hedging costs. Can you comment on your hedge position today? Are you changing that position in any way to benefit from these lower hedging costs?

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**Wyatt Hartley, Chief Financial Officer**

So we, as you have known well, Rupert, we hedge across what we would call our currencies that are affordable, and so that includes our Canadian dollar and European exposures. In the context of Brazil and Colombia, we historically haven't hedged those because of the cost. Because of where rates have gone in each of Brazil and Colombia compared to the U.S., it's become much more affordable to hedge those currencies. Similar to BIP, we have been adopting on that Colombian peso. We have been hedging forward our cash flows in that region. We've hedged forward around the next 12 months. We haven't done the same on Brazil, despite they're becoming more affordable, just because at these levels we don't think the real is really attractive, but to the extent that changes and the cost is the same, that something we may look to implement when it comes to the Brazilian real.

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**Rupert Merer, National Bank Financial**

And looking at the real, you've signed some new contracts recently. Those contracts, I believe they're typically in real. Do they have good inflation protection? Assuming this devaluation we've seen recently sticks, do you get it back with inflation?

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**Wyatt Hartley, Chief Financial Officer**

Yes, exactly. We get full inflation pass-through through both our Brazilian and our Colombian contracts.

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**Rupert Merer, National Bank Financial**

Okay. Excellent. Thank you very much.

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**Operator**

Our next question comes from Andrew Kuske from Credit Suisse. Please go ahead.

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**Andrew Kuske, Credit Suisse**

Thank you. Good morning. A question probably for Wyatt and it's just on debt spreads in the capital markets, as there's a bunch of different data points we can look at that. There doesn't really seem to be enough corporate supply

in the market and spreads look very attractive, so maybe just give us some color on what you're seeing from a Brookfield perspective overall and then maybe highlight a couple core markets in, say, EM versus DM.

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**Wyatt Hartley, Chief Financial Officer**

Yes. So I think, just starting from the Canadian perspective, where we issue into that the Canadian market from a corporate perspective, that market is really strong, as you noted. We do have a maturity coming up, C\$200 million in November of 2018. We likely will look to access that market, given the strength, to refinance that. And then just broadly across most of the regions we are seeing that capital markets, especially for high-quality assets such as ours, continue to be strong and so we will opportunistically look to access those markets when it makes sense.

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**Andrew Kuske, Credit Suisse**

Now does the strength in the markets change your views on how you should capitalize the underlying assets? Will you tilt it a little bit more, especially, you know, some of the assets you have you've locked in contracts on a longer duration or you've got utility-like contract structures?

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**Wyatt Hartley, Chief Financial Officer**

No, Andrew, we take a very focused approach on how we look at capital structure in that on each of the assets that we invest in we do so on an investment-grade basis, and so irrespective of where markets are we look to lock in fixed-rate long-term duration debt so that we are locking in the returns of our assets. One area where we may have an opportunity to increase our leverage is in Brazil, just because that market historically hasn't made sense. Given where the currency is right now it probably wouldn't make sense to access that market and pull capital out, but that would be one area where you may see an opportunity to increase leverage. But otherwise it doesn't impact the way we approach financing our assets.

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**Andrew Kuske, Credit Suisse**

Okay, that's very helpful. And then one final question: Given the increased interest in TERP, how do you think about just the interplay between Brookfield Renewable and then TerraForm? And we could look at a long list of past examples in the Brookfield group of an affiliate relationship. Does this just embed optionality and give you greater flexibility on capital market segmentation?

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**Sachin Shah, Chief Executive Officer**

The short answer is yes, Andrew. I think we are hoping that it achieves a cost of capital that makes it very attractive to use as a growth vehicle in markets that are highly competitive in North America and Europe and for assets that are highly competitive, and that's all consistent with some of the earlier questions that came in on the call. So I think, therefore, we're happy that it's public. We were happy to be a large buyer of its stock. And obviously today the other public shareholders don't have or share a similar view of value in the company, but from our perspective it has a very attractive valuation and we think that it has a significant amount of room to run and could be a great vehicle to use to help us continue to grow.

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**Andrew Kuske, Credit Suisse**

Are there further opportunities to spin another vehicle into the public market? Or is it really you're stuck on the public/private market valuations and the private market valuations are just better for your capital recycling?



**Sachin Shah, Chief Executive Officer**

Yes, I'd say that's a fair comment. And remember, we did not design the structure. This was something that the creditors of SunEdison really wanted as a preferred transaction to keep TerraForm public. So it's not something that's part of our strategy to create public vehicles to use them as a low cost of capital vehicle, but of course, given our history at Brookfield, we're flexible and we can adapt to situations and we did in this case.

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**Andrew Kuske, Credit Suisse**

Okay. That's great. Thank you.

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**Operator**

As a reminder, if you would like to ask a question, please press star followed by the number one on your telephone keypad.

Our next question comes from Jeff Zippel from BMO Capital Markets. Please go ahead.

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**Jeff Zippel, BMO Capital Markets**

Great. Thanks. So I guess just following on that last question with TerraForm, does your increased interest impact your thoughts on the geographical focus going forward, like specifically looking at Europe?

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**Sachin Shah, Chief Executive Officer**

No. I mean, look, I think we always had set the mandate to be Western Europe and North America and the company did have assets in the UK prior to our ownership and they sold them through the bankruptcy. So it's not a new market. And then obviously we have a very large presence in Europe absent the Saeta transaction. So it doesn't change the company's mandate and I think all it does is give it better diversity, gives it a market, in particular in Spain, it's a regime where people are anticipating a regulatory rate reduction, and so, in our view, it was a nice way to buy into a market where people already have an embedded view of downside occurring, which meant that we felt we had more protection, because we were going into a market that people were a little bit negative on. And if the world turns out better than people thought, there's meaningful upside in that portfolio, and if it turns out like people thought, we underwrote on that basis and we're going to do just fine. So I think we are happy to be the owners of that business through TerraForm and I think we have meaningful upside in that portfolio given the timing of when we bought in.

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**Jeff Zippel, BMO Capital Markets**

Okay, great. I guess my next question would be about Brazil. We're seeing like the hydrology improving, like the past two quarters have been really around the long-term average; is this an indicator that the reservoir levels have recovered or at least kind of moving towards getting back to normal?

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**Sachin Shah, Chief Executive Officer**

They're getting there slowly. They're now north of 40% of where they should be. But they're still far from where they should be just given how deep the drought was. But remember, at the same time we're starting to see power demand finally pick up again and we've also seen a meaningful delay or I'd say not delay but under performance of the large

hydros that were built in the country. So I think there's a lot of headwinds in that market from a supply perspective. On the opposite side of that argument, there's a lot of wind and solar coming on to the market that's intermittent. So our expectation is Brazil will be volatile for a number of years to come and if you've got a large development pipeline and if you've got an M&A capability there, it should be a good market to invest into.

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**Jeff Zippel, BMO Capital Markets**

Okay. That was all my questions. Thanks guys.

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**Operator**

Our next question comes from Jeremy Rosenfield from Industrial Alliance Securities. Please go ahead.

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**Jeremy Rosenfield, Industrial Alliance Securities**

Yeah, just one quick clean-up question: I noticed that the contracted wind and solar output has increased on a quarter-over-quarter basis and I'm just wondering if that was from the incremental ownership stake in TerraForm or if there was something else that was impacting that.

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**Wyatt Hartley, Chief Financial Officer**

Jeremy, you're exactly right. That would be the increase in TerraForm Power.

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**Jeremy Rosenfield, Industrial Alliance Securities**

Okay, perfect. That's it for me. Thanks.

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**Operator**

And we have no further questions in queue at this time. I'll turn the call back for any closing remarks.

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**Sachin Shah, Chief Executive Officer**

All right. Thank you everyone. We appreciate your support, as always, and we look forward to continuing to provide you updates throughout the year. We'll talk to you during the third quarter call. Thanks, everyone. Bye.

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**Operator**

This concludes today's conference. You may now disconnect.

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