

# Letter to Unitholders

2018 was another strong year for the business as we continued to execute on our operating, funding and growth initiatives. We invested considerable time during the year enhancing our operational and investment capabilities around the world. We also raised significant amounts of capital to ensure we are well positioned to invest, on a value basis, during this next cycle. Since our inception in 1999, we have delivered a 15% per unit compounded annual return to unitholders and we remain focused on delivering long-term, stable returns as we build the business.

Highlights for the year include:

- Our Funds from Operations increased 14% on a per unit basis over the prior year, as all of our businesses performed in line with expectations
- We executed on cost reduction initiatives in the U.S. and Colombia. This should improve margins by approximately \$20 million annually in the future
- We enhanced our operating teams in the U.S, Europe, India and China over the year to support our longer-term plans in these markets
- We commissioned approximately 60 megawatts of new wind and hydro development, advanced over 350 megawatts of development in our pipeline and maintained our opportunistic approach to development which minimizes funding obligations and ongoing costs
- We invested \$550 million into growth initiatives during the year, including acquisitions, development and unit buy backs
- We capitalized on market volatility and repurchased approximately 2 million units at \$27 per unit
- We executed on our asset recycling strategy, selling a partial interest in mature assets and exiting non-core markets
- We extended all near-term debt maturities during the year, increasing the average duration of our debt to 10 years. We now have no material debt maturities until 2023
- We maintained an investment grade balance sheet, increased available liquidity (which should exceed \$2.2 billion once signed asset sales and the announced sale of an additional interest in our portfolio of select Canadian hydroelectric assets are closed), and improved our distribution payout ratio to 95% of FFO on an actual basis and 90% of FFO on an annualized basis

## Operations

In 2018, we generated FFO of \$676 million, a 16% increase over the prior year.

During the year our focus was on integrating recently-acquired assets and enhancing our operational depth. At TerraForm Power, post the acquisition and sponsorship by Brookfield, the company was able to stabilize operations, reinstate preventative maintenance programs, engage with suppliers and establish new teams and processes. This should lead to improved asset availability, more predictable capital expenditures and enhanced

operating margins over time. In addition, in TerraForm Power, we completed a significant acquisition of recently built wind and solar assets in Spain which almost doubled the cash flows of the company on an annualized basis and facilitated the overall improvement of the company's capital structure. This also assisted us to eliminate negative financing covenants and improve TerraForm Power's balance sheet rating. The acquisition should provide stable long-term cash flows to TerraForm Power at accretive low-teen returns and based on recent announcements of improving tariffs in Spain, could exceed our expectations.

We have one of the largest hydroelectric businesses in the world which we have doubled in size and expanded across multiple geographies over the last 5 years. These assets contributed \$671 million to FFO in 2018. Hydroelectric assets benefit from long useful lives (often over 100 years), low operating and ongoing capital costs, and the ability to match power supply with demand given their embedded battery-like characteristics.

Operationally, we continue to lengthen the term of our power purchase contracts in Colombia and Brazil, where power price volatility provides opportunities to enhance and stabilize future revenues. Our contracts in both markets are generally at or below market and therefore we see term extension as a unique opportunity to lock in upside. In North America, power prices remain low and therefore we continue to sign shorter term contracts at our hydro facilities to ensure we retain upside optionality if prices spike. We have several large legacy PPAs rolling off over the next three years for assets that deliver power to New England. Fortunately, these contracts, on a net basis, deliver power at prices in the range of the current market. Therefore, on renewal, we expect overall revenue to be impacted by +/- \$5 million to BEP. Beyond these contracts, we do not have any material PPA maturities in North America until 2029.

Our wind assets delivered \$160 million of FFO in 2018. Over the last 18 months, we more than tripled the installed capacity of our wind fleet through large-scale and tuck-in acquisitions, and development projects coming online. Given that we now have a portfolio of wind assets across ten countries and four continents, this geographic diversification provides a significant mitigating benefit to resource variability and is a good example of why we prioritize diversification as a key value driver of our business.

Our solar, storage and other operations contributed \$104 million of FFO in 2018 as we benefitted from large-scale acquisitions in 2017 and 2018. Today we have nearly 1,800 megawatts of photovoltaic, concentrated thermal (CSP) and distributed generation solar, as well as 2,700 megawatts of both pumped and battery storage. Our solar facilities are underpinned by highly contracted cash flows with an average remaining PPA term of 17 years. Our storage facilities continue to provide critical grid-stabilizing ancillary services and back-up storage capacity – products that are becoming increasingly valuable given the intermittency of wind and solar.

## **Balance Sheet and Liquidity**

We currently have no material debt maturities over the next four years and our overall debt duration is 10 years. We have limited exposure to rising rates, with only 7% of our debt in North America and Europe exposed to rising rates. We are well protected from foreign exchange volatility, hedging all our developed market currencies. We also hedge currencies when we are in the process of an asset sale as we did, for example, with our select Canadian hydroelectric assets and our South African portfolio, locking in very attractive returns on these disposals. Accordingly, an overall 10% move in the currencies of markets we operate in (developed or emerging) would have an overall 4% impact to our FFO.

Post completion of recently announced asset sales we will have \$2.2 billion of available liquidity. Over the course of the year we announced or completed key capital raising initiatives across the portfolio. These initiatives included the sale of a 25% interest in a portfolio of select Canadian hydroelectric assets as well as the announced sale of an additional 25% interest, a small wind development project in the U.K., as well as sales of our non-core assets in South Africa, Thailand and Malaysia, which were agreed in 2018 and which we expect to close in the first half of 2019. Looking forward we have a robust pipeline of assets that we believe would attract low cost of capital buyers in a sale process. Therefore, we expect the majority of our growth to be funded by the proceeds from asset sales, cash flows retained in the business and issuances of preferred equity or corporate debt. As such, while we may issue equity when it makes financial sense, given the above noted funding sources we are not reliant on accessing this market to fund our growth.

## Distribution Increase

In light of our recent growth, strong balance sheet and access to capital, we are pleased to announce that our Board of Directors has approved a 5% increase to BEP's quarterly distribution, bringing our annual distribution to \$2.06 per unit.

## Outlook

Our long-term goal is to continue to deliver 12% to 15% long-term total returns to unitholders, on a per unit basis. We do this through cash flow growth from existing operations and opportunistic capital deployment. Looking ahead, we have substantial financial resources and balance sheet strength to execute on our capital deployment targets.

We also have a track record of operational excellence and a global business with scale in major markets around the world. These attributes allow us to look at a significant number of investment opportunities around the world and be highly selective of the types of assets and businesses we acquire, ensuring the risk-reward profile matches our long-term objectives.

On a final note, on behalf of our employees and directors, we would like to express our sincerest appreciation to our unitholders and many business partners for your contributions to our success. Thank you for your continued support. We look forward to updating you on our progress in 2019.

Sincerely,



Sachin Shah  
Chief Executive Officer

February 8, 2019

### **Cautionary Statement Regarding Forward-looking Statements**

*This unitholder letter contains forward-looking statements and information within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. The words “will”, “intend”, “should”, “could”, “target” “future”, “growth”, “expect”, “believe”, “plan”, derivatives thereof and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify the above mentioned and other forward-looking statements. Forward-looking statements in this unitholder letter include statements regarding the quality of Brookfield Renewable’s and its subsidiaries’ businesses and our expectations regarding future cash flows and distribution growth. They include statements regarding our expected liquidity, the expected closing of the sales of our non-core portfolios in South Africa, Thailand and Malaysia, the proceeds from opportunistically recycling capital, expected improvements in TerraForm Power’s asset availability, capital expenditures and operating margins, as well as the benefits from acquisitions and Brookfield Renewable’s global scale and resource diversity. They also include statements regarding the strengthening of its trading and commercial capabilities, statements regarding the progress towards completion of development projects, and the expected contribution of development projects to future generation capacity and cash flows. Additionally, they include statements regarding the opportunities for Brookfield Renewable as a result of volatility in emerging markets and divergence in the valuation of public stocks in the U.S. Although Brookfield Renewable believes that these forward-looking statements and information are based upon reasonable assumptions and expectations, you should not place undue reliance on them, or any other forward-looking statements or information in this unitholder letter. The future performance and prospects of Brookfield Renewable are subject to a number of known and unknown risks and uncertainties. Factors that could cause actual results of Brookfield Renewable to differ materially from those contemplated or implied by the statements in this unitholder letter include economic conditions in the jurisdictions in which we operate; our ability to sell products and services under contract or into merchant energy markets; weather conditions and other factors which may impact generation levels at our facilities; our ability to grow within our current markets or expand into new markets; our ability to complete development and capital projects on time and on budget; our inability to finance our operations or fund future acquisitions due to the status of the capital markets; the ability to effectively source, complete and integrate new acquisitions and to realize the benefits of such acquisitions; health, safety, security or environmental incidents; changes to government regulations; regulatory risks relating to the power markets in which we operate, including relating to the regulation of our assets, licensing and litigation; risks relating to our internal control environment; our lack of control over all of our operations; contract counterparties not fulfilling their obligations; and other risks associated with the construction, development and operation of power generating facilities.*

*We caution that the foregoing list of important factors that may affect future results is not exhaustive. The forward-looking statements represent our views as of the date of this unitholder letter and should not be relied upon as representing our views as of any subsequent date. While we anticipate that subsequent events and developments may cause our views to change, we disclaim any obligation to update the forward-looking statements, other than as required by applicable law. For further information on these known and unknown risks, please see “Risk Factors” included in our Form 20-F.*

### **Cautionary Statement Regarding Use of Non-IFRS Measures**

*This unitholder letter contains references to Funds From Operations (FFO) and Funds From Operations per Unit, which are not generally accepted accounting measures under IFRS and therefore may differ from definitions of Funds From Operations and Funds From Operations per Unit used by other entities. We believe that these are useful supplemental measures that may assist investors in assessing the financial performance and the cash anticipated to be generated by our operating portfolio. Neither Funds From Operations nor Funds From Operations per Unit should be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS. For a reconciliation of Funds From Operations and Funds From Operations per Unit to the most directly comparable IFRS measure, please see “Financial Performance Review on Proportionate Information – Reconciliation of Non-IFRS Measures” included in our Form 20-F.*

*References to Brookfield Renewable are to Brookfield Renewable Partners L.P. together with its subsidiary and operating entities unless the context reflects otherwise.*