

# Brookfield

Renewable Energy Partners

## LETTER TO SHAREHOLDERS

In the 15 years since its inception, Brookfield Renewable has produced a compelling track record of value creation for shareholders. In 2011, we successfully transitioned from a Canadian-focused income trust into a global renewable power business, now listed on both the New York and Toronto stock exchanges, with solid performance and outstanding prospects for continued expansion and total returns. We are very proud of our 2013 successes and believe we are well positioned for even stronger future growth and returns.

### Organic Growth Highlights

Our growth strategy is simple – to invest in and operate high-quality renewable power assets and accretively grow cash flow on a per-share basis. To do this, we focus on several key organic growth initiatives that should comfortably support the higher end of our long-term distribution growth target of 3-5% annually. In addition, we originate and execute an acquisition strategy that has a proven track record.

Our organic growth strategy is built upon the following principles:

***Position the portfolio to benefit from improving market conditions and rising power prices.*** Today, we have 2 million megawatt hours of annual hydroelectric generation that was acquired in the last 24 months in the U.S. at values reflecting the low power price environment in our core markets. These facilities (and BREP's cash flows) stand to benefit directly if power prices rise, either due to the need for new supply, the continued shift away from carbon producing technologies or increased demand as an economic recovery gains momentum.

Over the long term, our objective remains to have predominantly contracted cash flows (our portfolio is 93% contracted in 2014 and at least 80% contracted over the next five years), as this provides a high degree of cash flow stability and margin preservation given the inflation-linked nature of our power purchase agreements. However, we believe a prudent level of market-based cash flow today, underwritten in this environment, has embedded the business with attractive upside which we expect to lock in through long-term contracts once prices reach higher and more sustainable levels.

To put this into perspective, an increase of \$10 per MWh in power prices would add \$20 million of funds from operations (FFO) to our business, increasing current cash flow by approximately 3-4% annually.

***Commercialize our development pipeline at premium returns.*** Our development team has a 15-year track record of building renewable power projects on scope, schedule and budget. Over the last 12 months we have built two hydroelectric facilities comprising nearly 50 MW, we continue to build a 45 MW hydro on scope, schedule and budget and we are broadening our expertise into solar to ensure we maintain a healthy pipeline and strong growth prospects.

Accordingly, we continue to advance our 1,700 MW development pipeline and expect to invest approximately \$500 million of BREP equity over the next five years at 17%-20% returns. This pipeline is defined by high-quality hydro, wind and solar development projects in attractive markets and has the potential to add \$80-\$100 million of FFO to the business during this period.

**Leverage our unique operating platform to enhance efficiencies.** In 2013, we undertook the reorganization of our Canadian and U.S. businesses into a North American platform to benefit from scale and operating efficiencies and to support our anticipated growth. When it is completed early this year, this initiative will reduce operating expenses by approximately \$12 million annually. With mature operating platforms in North America and Latin America, and the early stages of a European platform we are positioning the business for global growth in what we believe are the most attractive renewable markets.

### **Acquisition Highlights**

We acquired 650 MW of renewable capacity in the last year, once again demonstrating our ability to work with sellers of a strategic, industrial or financial nature. In total, we reviewed more than \$20 billion worth of transactions last year, and despite this abundant deal flow we remain extremely disciplined and selective in our underwriting approach. It was particularly rewarding to see our patient approach to a European expansion result in us being named the preferred bidder in the privatization of Bord Gáis Energy, which owns one of the leading wind portfolios in Ireland and whose operating wind capacity is expected to surpass 500 MW by 2015. This would represent our first renewable investment in Europe and provide us with an established platform from which to grow our business through continued acquisition and development.

This year promises to be another active one and we have started it on strong footing with the announced acquisition, with our institutional partners, of a 33% stake in a 417 MW hydroelectric facility. This asset is one of the largest hydro facilities in the U.S. located in Pennsylvania with direct access to the PJM market and is consistent with our strategy of buying premium hydroelectric facilities with market based cash flows in this price environment.

### **Financial Strength**

Our financial position continues to be very strong and provides us with significant flexibility to carry out our growth objectives while keeping our risk profile low. We currently have over \$1 billion of liquidity available to fund the business. We generated a record \$594 million in FFO in 2013. We continue to pursue numerous cost savings and efficiencies in our operating platforms. And, in the current low rate environment, we have refinanced over \$3 billion of debt and credit facilities, lowering our total borrowing costs by 30 basis points while maintaining our average debt duration at approximately 11 years.

We have a long track record executing our growth strategy and optimizing our operations. This has allowed us to consistently grow our distributions for 15 years. In light of all of the accomplishments of 2013, we are once again announcing an increase in our annualized distribution to \$1.55 per unit, representing a 7% increase from 2013 and nearly 20% since the end of 2011. This exceeds the high end of our target range and reflects the positive impact of the aforementioned initiatives and prospects.

On a final note, I would like to express my sincere appreciation to our employees, directors, shareholders and many business partners for their ongoing support. I believe Brookfield Renewable's brightest days are still ahead and look forward to reporting on our continued progress.

Sincerely,



Richard Legault  
President and Chief Executive Officer

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

*This Letter to Shareholders contains forward-looking statements and information, within the meaning of Canadian 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” of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations, concerning the business and operations of Brookfield Renewable. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Forward-looking statements in this Letter to Shareholders include statements regarding the quality of Brookfield Renewable’s assets and the resiliency of the cash flow they will generate, Brookfield Renewable’s anticipated financial performance, future commissioning of assets, contracted portfolio, technology diversification, acquisition opportunities, expected completion of acquisitions, future energy prices and demand for electricity, economic recovery, the future growth prospects, achieving long term average generation, project development and capital expenditure costs, diversification of shareholder base, energy policies, economic growth, growth potential of renewable asset class, and distribution profile of Brookfield Renewable and Brookfield Renewable’s access to capital. Forward-looking statements can be identified by the use of words such as “plans”, “expects”, “scheduled”, “estimates”, “intends”, “anticipates”, “believes”, “potentially”, “tends”, “continue”, “attempts”, “likely”, “primarily”, “approximately”, “endeavours”, “pursues”, “strives”, “seeks”, or variations of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information in this Letter to Shareholders are based upon reasonable assumptions and expectations, we cannot assure you that such expectations will prove to have been correct. You should not place undue reliance on forward-looking statements and information as such statements and information involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.*

*Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: our limited operating history; the risk that we may be deemed an “investment company” under the Investment Company Act; the fact that we are not subject to the same disclosure requirements as a U.S. domestic issuer; the risk that the effectiveness of our internal controls over financial reporting could have a material effect on our business; changes to hydrology at our hydroelectric stations or in wind conditions at our wind energy facilities; the risk that counterparties to our contracts do not fulfill their obligations, and as our contracts expire, we may not be able to replace them with agreements on similar terms; increases in water rental costs (or similar fees) or changes to the regulation of water supply; volatility in supply and demand in the energy market; our operations are highly regulated and exposed to increased regulation which could result in additional costs; the risk that our concessions and licenses will not be renewed; increases in the cost of operating our plants; our failure to comply with conditions in, or our inability to maintain, governmental permits; equipment failure; dam failures and the costs of repairing such failures; exposure to force majeure events; exposure to uninsurable losses; adverse changes in currency exchange rates; availability and access to interconnection facilities and transmission systems; health, safety, security and environmental risks; disputes and litigation; our operations could be affected by local communities; losses resulting from fraud, bribery, corruption, other illegal acts, inadequate or failed internal processes or systems, or from external events; general industry risks relating to the North American and Brazilian power market sectors; advances in technology that impair or eliminate the competitive advantage of our projects; newly developed technologies in which we invest not performing as anticipated; labour disruptions and economically unfavourable collective bargaining agreements; our inability to finance our operations due to the status of the capital markets; the operating and financial restrictions imposed on us by our loan, debt and security agreements; changes in our credit ratings; changes to government regulations that provide incentives for renewable energy; our inability to identify and complete sufficient investment opportunities; the growth of our portfolio; our inability to develop existing sites or find new sites suitable for the development of greenfield projects; risks associated with the development of our generating facilities and the various types of arrangements we enter into with communities and joint venture partners; Brookfield Asset Management’s election not to source acquisition opportunities for us and our lack of access to all renewable power acquisitions that Brookfield Asset Management identifies; our lack of control over our operations conducted through joint ventures, partnerships and consortium arrangements; our ability to issue equity or debt for future acquisitions and developments will be dependent on capital markets; foreign laws or regulation to*

*which we become subject as a result of future acquisitions in new markets; the departure of some or all of Brookfield's key professionals; and the completion and expected benefits of announced transactions..*

*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 Letter to Shareholders and should not be relied upon as representing our views as of any date subsequent to February 6, 2014, the date of this Letter to Shareholders. 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" in our Annual Information Form and Form 20-F.*

#### **CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS MEASURES**

*This Letter to Shareholders contains references to funds from operations which is not a generally accepted accounting measure under IFRS and therefore may differ from definitions of funds from operations used by other entities. We believe that funds from operations is a useful supplemental measure that may assist investors in assessing the financial performance and the cash anticipated to be generated by our operating portfolio. Funds from operations should not 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.*