

# Brookfield

Renewable Partners

## LETTER TO SHAREHOLDERS

The business performed well in the second quarter, in spite of weak generation. The investment environment is strong, supported by market fundamentals that are presenting opportunities to acquire assets with growing revenues and significant upside in the long run, while offering downside protection in the near term. Our access to capital remains excellent given our investment grade balance sheet, contractually protected revenues and high cash margins.

### Premium Value Portfolio

As we continue to grow in scale, diversify geographically and add new renewable technologies to the business, our focus remains on keeping the portfolio predominantly hydro based. Our view is that hydro assets are the most valuable form of power generation and that their valuations will only increase over time as new technologies such as wind and solar replace traditional thermal supply.

Hydro assets have a useful life of hundreds of years and produce utility scale volumes of power that is needed for both large commercial and industrial users and high population regions. The power can be stored and released to satisfy spikes in demand or to stabilize power fluctuations on the grid. The technology has not changed meaningfully since the early 1900's. Ongoing capital expenditures needed to sustain hydro assets are both modest and predictable, providing high cash margins. For example, we invest approximately \$110 million or less than 1% annually, on average, for our \$25 billion portfolio of hydro assets to keep them in best-in-class quality. Few assets have these free-cash characteristics. Finally, hydro assets generate carbon-free power from irreplaceable facilities on scarce river systems. We have always held the view that these attributes were unique, however as we have seen significant change in our sector from new technologies, we believe these attributes are becoming even more valuable.

The replacement of aging coal plants with wind and solar is already resulting in greater power fluctuation (intermittency) on the grid. This requires increased investment in transmission lines, increased capital expenditures to rebuild wind and solar facilities with a relatively shorter useful life of 20 – 30 years (vs 50 years for the coal plants), and the need for diverse and reliable storage solutions (such as pumped storage hydro, batteries and fly wheels). All of this is resulting in higher demand for the ancillary services that our hydro assets provide, such as grid stability and utility scale storage, in the midst of much more volatile supply.

The revenue we earn from these services has steadily increased in the last 5 years from \$5 - \$7 per megawatt hour to \$10 - \$15 per megawatt hour today and we expect the value of these ancillary services to increase further over time. In response to changes in supply, governments and regulators are now specifically targeting procurement of these services through long term contracting programs. For example, Massachusetts, Maine, New York and Quebec are all currently targeting long term supply through contracting initiatives, with a specific focus on carbon-free power sources and the provision of grid stability and backup power services. All of these markets have specifically identified hydro as a desired resource to provide a long term solution.

## Investment Environment

The investment environment for premium renewable assets remains extremely attractive. Long term power market fundamentals continue to support our ability to acquire assets for value and provide significant upside to the cash flows while enjoying strong downside protection. In all of our markets across North America, Europe and Latin America, we are seeing the following three themes:

1. Short term wholesale power prices are below the level needed to drive large scale investment in the power sector;
2. Government policies and incentives continue to be needed to support investment in new renewable technologies as a means to reduce carbon; and
3. Traditional power supply in developed markets is under pressure to be replaced from policies targeting carbon reduction. Supply in developing markets is tight due to economic growth.

In North America, we continue to see very weak wholesale energy prices across most markets to the point where even top quartile nuclear plants that must run and have very low variable costs, are starting to lose money in certain regions. This has not happened since markets deregulated, is not sustainable, and demonstrates why hydro assets that can earn ancillary service revenues and positive cash margins in this environment are so valuable. We are currently active on multiple large merchant hydro opportunities to continue to grow the portfolio.

In addition, we are also seeing a meaningful gap between public and private market transactions, in particular due to balance sheet distress in certain public vehicles. We recently acquired a significant stake in TerraForm Power Inc. (TERP), the owner of a 3,000 megawatt portfolio of contracted wind and solar assets, predominately situated in North America. While we continue to believe that hydro is the premium renewable asset class, this represents an attractive, scale entry into solar and wind at accretive returns. Our operating expertise, strong liquidity and investment capabilities also make us one of the few strong candidates to provide TERP with much needed sponsorship.

In Europe, returns for contracted assets remain very low. As a result, we continue to focus on building out our development pipeline to achieve our targeted returns. We continue to advance 80 megawatts of contracted wind for entry into construction phase in 2017. These projects are expected to deliver mid-teens returns in a market that trades at significantly higher valuations. Accordingly, we are exploring the opportunistic sale of contracted, operating wind farms to surface value and recycle capital.

In Brazil, we are seeing early signs of power demand growing again, albeit very slowly. In the last four months, wholesale market prices have started to increase and commercial and industrial power customers are starting to seek us out for contracting opportunities. This is a positive sign, and our focus continues to be on acquiring high quality assets at a significant discount to replacement cost. We are also advancing three hydro projects through construction totaling 72 megawatts. These projects are fully contracted under long term power sales agreements and should generate 20% returns over the life of the assets.

In Colombia, we are advancing 100 megawatts of development projects that were part of our Isagen acquisition. The power market in Colombia continues to be very tight as the country was close to experiencing power shortages during the first half of the year. This is consistent with our thesis that power demand in South America's third largest country will continue to grow and both our assets and the development pipeline we acquired will be very valuable in the long run.

## **Operations**

After experiencing strong generation in the first three months of the year, the second quarter brought continued improvement in hydrology in Brazil, but lower inflows across a number of our North American watersheds. New assets helped to offset some of this impact and our reservoirs are near planned levels and well positioned to capture premium summer pricing. Adjusted EBITDA and funds from operations were \$377 million and \$105 million, respectively, for the second quarter. On a year-to-date basis funds from operations is in line with the same period of the prior year.

In Brazil, revenues are returning to more normalized levels along with improved hydrology. Power prices have shown recent resilience and increased sharply quarter-on-quarter despite the country's near-term recessionary pressures.

The business in Colombia is performing in line with our expectations. Generation in 2016 has been impacted by drought conditions which resulted in a sharp increase in short term prices. This is consistent with our underwriting of the business in the first year of ownership and points to the long term value of our 3,800 megawatt development pipeline in the region.

Our European platform, which represents about 5% of our business, remains well protected and positioned in the face of the recent UK referendum. Over 90% of our invested capital and cash flows of this business are based in Ireland and Portugal, denominated in Euros, and protected by long term contracts with an average duration of 10 years. Despite a lower wind resource in Ireland this quarter we continue to maintain a high availability and reliability in the region.

## **Transaction Update**

We and our institutional partners launched our second required tender offer to the remaining Isagen shareholders in mid-July and anticipate that once the transaction is complete, we and our partners will collectively own virtually all of the shares of Isagen. Our interest in Isagen will be approximately 25%.

During the quarter, we also completed the acquisition of a 296 megawatt hydroelectric portfolio in Pennsylvania. This acquisition complements our existing hydro fleet in the northeastern U.S. and is currently being integrated into our operations.

## **Financial Position and Liquidity**

Our liquidity position at quarter-end remains at \$1.2 billion, in line with the prior quarter. We funded all of our recent growth while maintaining our strong financial position. During the quarter, we issued \$670 million of units in a treasury offering and \$150 million of preferred shares. Proceeds were used to repay \$500 million of short term debt issued to fund our Isagen acquisition and replenish our liquidity for future growth. Our revolving credit facility was increased by \$130 million to \$1.7 billion and its maturity was extended to June 2021. We also continue to advance additional capital recycling and upfinancing initiatives to support further growth.

## **Looking Ahead**

We continue to expand on our energy marketing strategy and position our hydro portfolio as an attractive source of clean power, complementing wind and solar development.

In the months ahead, we will continue to advance our transaction pipeline and work towards the completion of the Isagen transaction. We are always focused on maintaining high availability of our asset fleet, advancing our development pipeline and recycling capital on an opportunistic basis.

We look forward to reporting on our progress next quarter and are grateful for your continued support.

Sincerely,



Sachin Shah  
Chief Executive Officer

August 4, 2016

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

*This shareholder 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”, “should”, “could”, “potential”, “tend to”, “target” “future”, “growth”, “expect”, “believe”, “goal”, “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 shareholder letter include statements regarding the quality of Brookfield Renewable’s business, the expectation for future cash flows and growth, the availability of acquisition opportunities, liquidity, and the timing and completion of acquisitions and development projects. 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 shareholder 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 shareholder 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; changes to government regulations, including incentives for renewable energy; 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; 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; we do not have 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 shareholder letter and should not be relied upon as representing our views as of any date subsequent to the date of this shareholder letter. 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 shareholder letter contains references to Adjusted EBITDA and Funds From Operations, which are not generally accepted accounting measures under IFRS and therefore may differ from definitions of Adjusted EBITDA and Funds From Operations 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 Adjusted EBITDA nor Funds From Operations 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.*

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