Ecofin Limited
15 Buckingham St
London WC2N 6DU
Tel: +44 (0) 207 451 2929
Fax: +44 (0) 207 451 2928

To the members of the
Board of directors of EDP Renovaveis SA

Plaza de la Gesta, 2
33007 Oviedo
Spain

20 April 2017

Dear EDP Renovaveis board members,

We understand you are currently reviewing the offer of €6.80 per share made by EDP for the minorities of EDP Renovaveis, and are due to respond as to whether you recommend the offer or not.

We firmly believe this offer significantly undervalues EDP Renovaveis, for reasons we will detail below. In accordance with your fiduciary duty to the minority shareholders, we also consider it vital that 1) the EDP affiliated directors abstain from reviewing the offer due to their inherent conflict of interest and 2) the Board receives a full independent fairness opinion which is made public.

We believe it is impossible that an independent fairness opinion could consider this offer full and fair, on the contrary it significantly undervalues the business for all of the following reasons:

- EDP Renovaveis has been selling stakes in projects for the past five years, effectively setting a market tested benchmark with which to value the assets. The average transaction multiple on asset sales since 2012 has been €1.5/MW, with most recent deals at €1.7/MW. The current offer from EDP at €6.80/share for EDPR implies approximately €1/MW (2017e);
- Shareholder equity per share at the end of 2016 was about €7 per share;
- The average analyst price target on the stock before the announcement of the offer was €7.11.
- However we believe there is significant upside to that level because:
  - Cashflows and earnings at the company are increasing through 2020 as the current “reinvestment cycle” sees projects coming online and generating earnings. Retained Cash Flow and Net Income are expected to increase each year through 2020. EDPR generated retained cash flow of €698mm in 2016 and the company has guided that cash flow to increase to €900mm by 2020. We see significant upside to that number for the reasons outlined below. This implies the company is being bought at a cash flow multiple in the mid single digits and declining significantly over time, dramatically below any peers transactions or indeed the cash flow multiples at which assets are being sold;
  - No value attribution to the pending offshore wind projects in France where EDPR has been awarded 1GW of PPAs. In addition there is the upcoming auction in the UK where EDPR is very well positioned;
  - No value ascribed to the upside potential to the 2016-2020 installation target. In the US, EDPR has signed PTC safeharbour orders that will allow for up to 1.3GW of installations above the current 2020 plan. EDPR management has very recently stated they see opportunities to install significant volumes above the 2020 plan and accept conditions are favourable.

Moreover,

- The offer is a meagre 8.5% premium to the previous day’s closing price or 10.5% to the average of the previous 6 months, and is only at the level at which the stock traded late last year
- EDP initially sold shares in EDP Renovaveis to the market in 2008 at €8 per share and has since then only paid minimal dividends. Since then capacity has significantly expanded and the relevant benchmark rates are lower which has driven down the cost of capital, hence the fundamental value has only increased

- Previous buybacks of renewables subsidiaries (Iberdrola Renovables, EDF Energies Nouvelles and Enel Green Power) have happened at 20%+ premia to unaffected prices and in the case where the premium was smaller and the takeout price was significantly below the IPO price, the offer price was increased (Iberdrola Renovables)

We have also been led to believe that EDP intends to delist the company once they own more than 90% of the equity implying just over 50% of the shareholders need to accept, again contrary to good corporate governance.

We would urge all shareholders not to accept this egregiously low offer and see no possible reason how the independent directors of EDPR could recommend it or how a fairness opinion is possible at these levels.

Yours sincerely,

Deirdre Cooper
Partner