26 June 2017

Tax Implications of Capital Reallocation

1.1 Overview of the Capital Reallocation

New Energy Solar (**NES**) reallocated capital from New Energy Solar Fund (ARSN 609 154 298) (**NES Fund**) to New Energy Solar Limited (**NES Company)** on 26 June 2017.

This was achieved by a capital return by NES Fund of $0.51 per issued unit in NES Fund, which was compulsorily applied as a capital contribution for existing shares in NES Company.

This transaction is referred to in this document as the "Capital Reallocation".

Securityholders do not need to take any further action at present in connection with the Capital Reallocation. The total number of securities held will not change and the combined net tangible assets of the stapled securities will remain the same.

The purpose for undertaking the Capital Reallocation is to simplify inter-entity arrangements and allocate available capital so that it sits in the entity which provides the best outcome to Securityholders.

The Capital Reallocation was approved by Securityholders at the Annual General Meeting held on 3 May 2017.

Set out below is a summary of the general Australian income tax implications of the Capital Reallocation for Securityholders.

1.2 Tax implications of the Capital Reallocation

The comments below are of a general nature only and do not constitute tax advice and should not be relied upon as such. The illustrative example provided assumes the Securityholder is an Australian resident individual who holds the NES securities on capital account.

A summary of the Australian income tax consequences of the Capital Reallocation for Australian resident Securityholders that hold NES securities on capital account is as follows:

Non-assessable capital return to Securityholders
Securityholders will not be required to include the value of the capital return from NES Fund in their ordinary assessable income.

Cost base of NES Fund units
Securityholders will be required to reduce the cost base or reduced cost base (**Cost Base**) of each of their NES Fund units by the amount of the capital return, being $0.51 per NES Fund unit.

If the capital return in respect of a NES Fund unit is less than the Securityholder's Cost Base in the unit, the Cost Base of the unit is reduced by that amount (refer to example below).

Cost base of NES Company shares
A Securityholder's Cost Base in a NES Company share will increase by the amount of the capital contribution, being $0.51 per NES Company share.

Securityholders should be aware that the actual Australian tax consequences of the Capital Reallocation may differ from those summarized above, depending on their individual circumstances. Accordingly, Securityholders may wish to obtain independent advice as to the tax consequences to them of the Capital Reallocation.

1.3 Illustrative Example

Example 1 – Securityholder reduces Cost Base of NES Fund unit
Keith purchased 100 NES securities for $160 on 21 January 2016 (i.e., Keith paid $1.60 per NES security).

Keith's Cost Base in each NES Company share is $0.10 and his Cost Base in each NES Fund unit is $1.50 (i.e. $1.60 per NES Security).

Following the Capital Reallocation:

- Keith's Cost Base in each NES Fund unit of $1.50 will be reduced by the capital return of $0.51. That is, Keith's new Cost Base in each NES Fund unit will be $0.99;
- Keith's Cost Base in each NES Company share of $0.10 will be increased by the capital contribution of $0.51. That is, Keith's new Cost Base in each NES Company share will be $0.61 ; and
- Keith's aggregate Cost Base in each NES Security is unchanged at $1.60.