

Quarterly Update

December 2016

Market Update

United States (US) renewable and solar market update

In Q3 2016, the US solar industry experienced its largest ever quarter, with more than 4,100 Megawatts (**MW**) installed, up 191% over Q3 2015. It is expected 2016 will reach the 10 Gigawatts (**GW**) annual installation mark for the first time in history. Around 75% of the total installation in Q3 came from the utility-scale solar market.

The US solar industry had 35.8 GW of total installed capacity at the end of Q3, enough to power 6.5 million homes.

According to Greentech Media Research (**GTM**), solar installations represented 60% of electric generating capacity additions in Q3 2016, demonstrating the continued shift to renewable energy and away from traditional fossil fuel generation.

Federal and state tax credits have helped the growth in the US solar market, which has in turn driven efficiencies and

Highlights

- At quarter end, the Fund secured its third and fourth assets in California, and both of these commenced selling power.
- The Fund completed its second capital raising, which closed oversubscribed with \$123m.
- Construction continues on the Fund's first and second assets in North Carolina.

cost reductions, but renewables are becoming economic without these subsidies. Economies of scale of existing technologies, continued rapid technological advance and increasing investment will make solar more competitive in the future, even if there are changes in regulations.

The election of Donald Trump as US President during the quarter has created some uncertainty regarding energy

Stanford SGS: Solar panels tilting to follow the sun



NC-31: Project site approaches mechanical completion



and environmental policy. The outlook for renewables is still favourable though, with Republican energy policy supporting “the cost-effective development of renewable energy sources — wind, solar, biomass, biofuel, geothermal, and tidal energy — by private capital”. Decisions to source energy from solar and wind are no longer primarily environmentally or subsidy-driven, meaning corporations and government can now source renewable energy cost-effectively compared with new non-renewable generation. From an energy independence perspective, a long-held US goal, these types of renewable energy also have security of supply and price volatility advantages over fossil-fuels, as they do not rely on extraction, importation, purchase or transport of fuels. Additionally, the construction and operation of renewable energy projects has created a substantial number of jobs in the US, with more people now employed in renewable energy than coal mining or oil and gas extraction. Many of these jobs are the types of construction roles that are vitally important in formerly industrialised areas of the US.

Australian renewable and solar market update.

Investment in large-scale Australian solar projects surpassed A\$2.5 billion in 2016, representing a record year for the industry. The development of utility-scale solar projects within Australia continues to gain traction; supported by federal and state government programs and

funding, improving economics, an increasing appetite from energy buyers to enter into long-term Power Purchase Agreements (**PPAs**), and demand from investors for quality infrastructure investments.

The 12 utility-scale solar projects that received a combined A\$92m of funding from the Australian Renewable Energy Agency’s (**ARENA**) competitive tender in the prior quarter, are continuing to progress through development, with most projects set to commence construction in early 2017. In October, all grant recipients satisfied their financial obligations to ARENA, depositing bonds of A\$20,000/MW. This is a positive indication for the projects, collectively worth more than A\$1 billion, which must be completed by the end of January 2018. Once complete, these projects will result in the addition of 482 MW of new solar capacity to the Australian market.

Whilst the ARENA grants program has helped facilitate development of large-scale solar projects within Australia, a substantial amount of additional development will still be required in order for Australia to meet the 2020 Renewable Energy Target (**RET**). Early 2016 reports from the Clean Energy Regulator and Green Energy Markets estimated around 3,000 - 4,400 MW of new renewable capacity would need to be committed in 2016 in order to meet the 2020 RET. However, Green Energy Markets estimates only 1,100 MW was committed by end 2016, with the majority of this capacity (581MW) committed in Q4 2016.

Large-Scale Generation Certificates (**LGC**) are a government subsidy awarded to large producers of renewable energy for each MWh of energy produced. Acquirers of wholesale electricity (usually large energy retailers) are required to purchase a legislated quantity of LGCs each year to offset the pollution of the energy they source from non-renewable producers, and face a penalty if they do not meet the specified threshold. Although there is a sufficient quantity of renewable energy projects in the development pipeline for Australia to meet the 2020 RET, a shortfall of currently operational renewable energy projects has resulted in a low supply of LGCs, thereby increasing prices.

Falling solar panel costs and high LGC prices have also incentivised the development of large-scale solar projects on a 'merchant' basis whereby projects sell electricity directly into the spot electricity market, without a PPA providing price certainty. These projects are exposed to electricity price volatility. There are now over 500 MW of solar projects in Australia which are operating or intend to operate on a merchant basis initially. Some of these projects may later seek to enter into PPAs with energy buyers to achieve revenue certainty and increase the attractiveness of these projects for sale to investors.

The Commonwealth Government ratified the Paris Agreement in December, committing to reduce emissions to 26-28% below 2005 levels by 2030. This expands on the existing 2020 target of reducing emissions by 5% below 2000 levels. Greater federal support will continue to create a favourable environment for the development of more solar projects and will increase the confidence of investors and developers. Renewable energy investment is also receiving support at a state level with Queensland and Victoria implementing ambitious renewable energy targets for 2030 and beyond. In November, New South Wales also introduced the Draft Climate Change Fund Strategic Plan, which intends to invest up to A\$200 million in renewable energy projects over the next five years.

Global renewable and solar market update

In 2016, the costs of key inputs used in the construction of solar plants continued to decline, meaning that more MW can be installed for the same price.

2015 marked a record year of solar installations globally, with 55 GW of capacity additions. Whilst final data is still

being collated, it is expected that 2016 will be an even larger year for the global solar industry with 73 GW (33% increase from prior year) of capacity additions.

China is forecast to be the leader in installed capacity in 2016 at 26.4 GW, in line with its 143 GW goal by 2020 for solar energy. The second largest market for solar in 2016 was the US followed by Japan, India and the UK.

After strong growth in renewables in recent years thanks to some of the world's most generous feed-in tariff (FiT) subsidies, China and Japan are now cutting back on direct subsidies for large-scale projects. In particular, China has begun to decrease FiTs as solar has become economic on an unsubsidised basis.

India is now part of the small group of countries with 10 GW or more of solar capacity. According to Mercom Capital Group, there are 14 GW of solar projects in different stages of development, and another 7 GW waiting for auctions. The medium term challenge for the Indian electricity market will be the upgrade of outmoded transmission infrastructure in order to connect new projects to the grid.

For the same reasons, several government subsidies for renewables were cut last year in the UK as the solar industry has become more economic. Moving forward, it is anticipated battery storage will play an important role in the future growth of the UK solar market as it will enable a higher reliance on renewable sources of energy which are otherwise intermittent. "Diversification into areas like storage could involve the kind of innovation that proves game-changing for the UK energy market", said the head of PwC's UK Renewables Centre for Excellence.

According to GTM, Latin America is set to reach 1.8 GW additional capacity installed in 2016, reaching 4 GW cumulative capacity. Growth is expected to continue in 2017 and 2018 as projects which secured contracts in capacity auctions are constructed to meet required start dates. The PPA prices in these auctions have been lower each year, in line with other recent global auctions.

As solar rapidly becomes cost competitive with other thermal and renewable sources of energy, there will be an increasing number of opportunities in the growing global market.

Fund Update

Transaction Update

At the end of the quarter, the Fund announced it had acquired a substantial majority interest in two large-scale solar projects, totalling 135 MW DC (67.4 MW DC each). The projects are located in Kern County, California and were developed by SunPower, who will retain a minority ownership interest and provide ongoing operation and maintenance services. These two projects are expected to generate a 5-year average yield of approximately 6.5% per annum (before the impact of borrowing and tax).

Sunpower, who were also vendor of the California projects, is a leading, global, vertically integrated solar company that manufactures solar cells and panels, roof and ground products, develops and finances projects, and provides construction and operational services around the world. Sunpower's cells and panels produce more power and degrade more slowly, resulting in lower energy costs and longer project lives. They have developed over 3GW of projects utilising their Oasis® Power Plant Platform, a fully integrated platform based on 1.5MW power blocks that reduces construction time, maximises energy output and reduces cost in large-scale deployments.

Stanford University (**Stanford**) has a long-term PPA to purchase 100% of the power and renewable energy credits (**RECs**) generated from one of the Stanford Solar Generation Station projects (**Stanford SGS**). Turlock Irrigation District (**TID**), a water and energy utility in California, has a similar agreement to buy the power and RECs generated from the second project (**TID SGS**). The projects are operational and commenced selling power to Stanford University and TID on 22 December 2016.

Stanford is one of the world's leading teaching and research universities, and also a substantial user of energy for their campus in Northern California. The Stanford

SGS will provide more than half of Stanford's electricity requirements on an annual basis.

TID, established in 1887, is a publically-owned power and water utility servicing Californian agricultural areas. From 2018, TID will cease to purchase coal-fired electricity, and the output of the TID SGS will complement TID's other owned and contracted electricity purchases from hydroelectric, wind and natural gas generators.

The transaction was fully completed, and New Energy Solar took control of the project companies, on 31 December 2016 when the transaction received Federal Energy Regulatory Commission approval.

With the addition of the California projects, New Energy Solar now owns a portfolio of over 220 MWDC of utility-scale solar farms underpinned by highly creditworthy off-takers, with a weighted average PPA term of 17 years.

For further details, see the Fund announcement dated 12 December, 2016.

Completion of capital raising and allotment of units

The Fund closed its second capital raising oversubscribed, with applications totalling approximately A\$123 million. Allotment of the stapled securities to investors commenced 9 December 2016. Post-allotment, the Fund converted 100% of the raised capital into US Dollars which was then used in the acquisition of the two projects in California.

The Fund also established a US\$21m debt facility which brings the gearing of the Fund to 7.5%. The Fund has significant gearing capacity under its target long term gearing ratio of around 50%. Such additional gearing may be used to continue to grow and diversify the portfolio

Stanford and TID: Layout



1 The yield received by investors will be lower once the agreed fees of the Manager and Responsible Entity are deducted.

Portfolio Update

NC-31

NC-31: View of Block 12 of the site

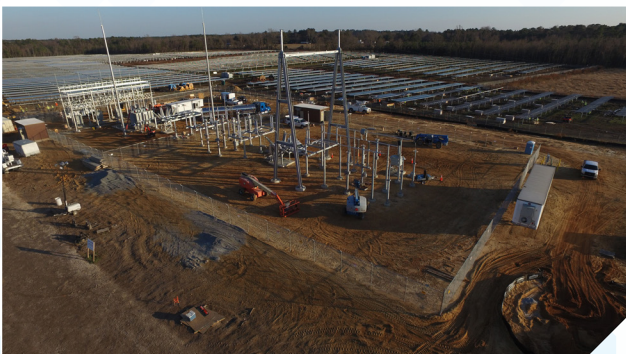


Construction of the North Carolina 43 MW Project (NC-31) was ongoing during the quarter with 70% of modules installed at the end of December and 99% complete in early January.

Remaining tasks include finalising installation of inverter and combiner boxes and underground cable installations. The engineering team has also commenced commissioning the trackers upon which the solar panels are mounted. These trackers tilt the solar panels so they can follow the positioning of the sun throughout the day and maximise energy production. The trackers also stow the panels to protect them in extreme weather events.

Adverse weather conditions during the quarter have slowed some aspects of construction. However, the project remains on track to become fully operational in the first quarter of 2017.

NC-31: Construction of Duke Substation



NC-47

NC-47: Panel installation



Construction of the North Carolina 48 MW Project (NC-47), has been progressing during the quarter. All permits for the site have been received to ensure the site is in regulatory compliance and site preparation is largely complete.

All modules except for the spares have been received on site. Module rails have been installed in two arrays and initial module distribution/installation has commenced.

Heavy rainfall in North Carolina has slowed trenching and the installation of some of the electrical equipment, but the project remains on target to commence commercial operations in the second quarter of 2017.

NC-47: Inverter being loaded for install



² Based on US\$17.6m drawn at 31 December 2016.

Stanford SGS and TID SGS

Robotic cleaning technology used on Stanford & TID SGS



The Stanford SGS and TID SGS reached commercial operations with the system operator on 21 December 2016 and the PPA counterparties on 22 December 2016. This followed satisfaction of a number of conditions precedent under the PPAs, interconnection agreement, and other project documents. This included a period of performance testing where the projects generated test power for a number of weeks, and important aspects of output and performance were measured for compliance with construction, connection and customer specifications. The projects have been selling energy to their respective energy buyers since that date.

The Fund will provide a more detailed operational update at the end of Q1 2017.

Transaction pipeline

During the quarter, the Fund's primary focus was the successful acquisitions of the second North Carolina asset, the two California assets, and the second capital raising. The Fund also continued to investigate other investment opportunities.

The Fund is continuing to engage with highly regarded developers, contractors, manufacturers, utilities and other stakeholders to identify quality acquisition and partnership prospects. In particular, the Fund has observed an increasing number of US investment opportunities being presented to the Fund as a result of an expanding market presence and credibility from recently completed transactions.

Relative to the US, there were more limited investment opportunities in Australia throughout 2016. Australia's excellent natural solar resources, coupled with a domestic solar industry that is still in a state of relative infancy compared with other markets, supports the Fund's optimistic outlook for future domestic investment opportunities. With the completion of the latest ARENA funding round, the Fund expects opportunities in Australia to ramp up through 2017 – 2018.

The Fund also continues to assess further investment opportunities in other geographies, with the Investment Manager remaining optimistic of the opportunity to continue acquiring attractive assets.

About the Fund

New Energy Solar is a sustainable investment fund initially focused on investing in large-scale solar farms.

The Fund's objective is to help investors generate positive social impact alongside attractive financial returns through the combination of distributions from operating solar assets and growth through to new acquisitions and developments in the solar and renewables sectors.

The Fund will focus on acquiring and maintaining a diversified portfolio of solar and renewable energy assets across the globe, with an initial focus on solar assets with contracted cash flows in the US, Australia, and select Asian Markets.

The Fund is an unlisted stapled entity consisting of New Energy Solar Fund (**Trust**) and New Energy Solar Limited (**Company**) (together **New Energy Solar** or the **Fund**).

IMPORTANT NOTICE

This Quarterly Update (**Update**) has been prepared by the Investment Manager (**New Energy Solar Manager Pty Limited**) of New Energy Solar. An investment in the Fund is subject to various risks, many of which are beyond the control of the Investment Manager and the Responsible Entity of the Fund. The past performance of the Fund is not a guarantee of the future performance of the Fund.

This Update contains statements, opinions, projections, forecasts and other material (**forward looking statements**), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Investment Manager and the Fund, their officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward looking statements or any of the assumptions upon which they are based.

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Board of the Fund



Alex MacLachlan

Chairman of the Responsible Entity and the Company

- CEO Funds Management Dixon Advisory.
- Previously Head of Energy, Australasia, for UBS AG.
- Advised many of the world's leading energy companies, including BHP Billiton, Woodside, Oil Search, and Shell.



Tom Kline

Director of the Responsible Entity and the Company

- Chief Executive Officer, New Energy Solar.
- Previously a member of the Power, Utilities and Infrastructure team at UBS AG where he advised some of Australia's largest energy generators such as EnergyAustralia.



Tristan O'Connell

Director of the Responsible Entity

- Chief Financial Officer, Dixon Advisory.
- 20 years' experience in corporate, financial and management roles.
- Previously financial controller of Tullett Prebon in Australia, one of the world's leading inter-dealer broker firms.
- Advised Australian energy and utility companies on the proposed introduction of the Carbon Pollution Reduction Scheme.



Warwick Keneally

Director of the Company

- Head of Finance, Funds Management Dixon Advisory.
- Previously worked at a number of chartered accountancy firms including KPMG in Australia and London.
- Expertise in complex insolvency and restructuring engagements across Europe, UK and Australia.

Key Advisors

Alistair Craib

Industry Consultant

- 15 years' of funds/asset management, principal investment, debt finance, corporate advisory, construction and operations experience.
- Previously CEO of the A\$800 million Collgar Wind Farm in Western Australia. Oversaw initial project assessment, asset acquisition and financing, construction and initial operations.
- Previously worked at UBS Asset Management and Macquarie Infrastructure and Specialised Funds division.

For additional information see: <http://www.newenergysolar.com.au/>