

Quarterly Update

March 2017

Market Update

United States (US) renewable and solar market update

For the first time ever, solar was the number one source of capacity additions, demonstrating the continued shift to renewable energy. According to Greentech Media Research (GTM), photovoltaic (PV) installations represented 39% of all new capacity additions in 2016.

In Q4 2016, the US solar industry experienced another record quarter, with more than 6.3 Gigawatts (GW) installed, up 93% over Q4 2015. The US solar market saw 14.76 GW of solar PV installations in 2016, nearly doubling the previous record of 7.5 GW set in 2015. Approximately 81% of total PV installations in Q4 were utility-scale installations.

The US reached 42.4 GW of total installed PV capacity at the end of 2016, enough to power 8.3 million homes. SEIA forecasts that the US will have 100 GW of installed capacity by 2021.

NC-31: Site overview



Highlights

- At quarter end, the Fund completed its acquisition of a majority interest in the NC-31 asset in North Carolina which is now operating and selling power to Duke Energy Progress
- The final stages of construction are progressing on NC-47, the Fund's second asset in North Carolina, with the project on track to become operational in Q2 2017

Historically, California, North Carolina, Arizona and Nevada have dominated utility-scale PV additions. Whilst California is expected to remain the largest state market over the next five years, new capacity additions are anticipated to become more geographically diverse, including Texas, Oregon and the Southeast region.

Renewable portfolio standards (**RPS**) set legislated or regulatory mandated targets for utilities to procure a certain amount of solar and renewable energy. For instance, California's RPS require 33% of electricity consumption to be procured from renewable energy sources by 2020 and 50% by 2030. Whilst RPS have driven installations to date, as RPS targets have been met and renewable economics have improved, 64% of projects in development are now driven by factors other than RPS.

The outlook for solar continues to be positive, despite energy policy uncertainty in the months following the election of Donald Trump. Solar now accounts for 43% of all US power generation jobs, making it the largest employer in the industry. The significant decline in solar costs, and the resulting decreasing reliance on subsidies and other forms of government support means that solar is now positioned as the lowest cost and most rapidly deployed new generation source. Further, over half of all US states employ their own RPS and will likely continue with these and other supportive policies. For example, California has released a new plan to cut carbon emissions to 40% below 1990 levels.

Despite the Trump administration's plan to roll back implementation of the Clean Power Plan (**CPP**), utility-scale PV installations are still expected to grow year-on-year in 2019. The 30% Investment Tax Credit (**ITC**), which was extended with bipartisan support to the end of 2019, continues to incentivise development. Utilities will continue to procure solar energy to replace aging coal fleets and diversify their generation portfolios. Additionally, with the step down of the ITC to 26% for projects placed in service in 2020, utilities and developers are expected to maximise PV build in 2019 to capture the 30% ITC.

Australian renewable and solar market update

Q4 2016 and Q1 2017 saw an increase in proposed PV projects and power purchase agreement (**PPA**) signings in the utility-scale segment, partly driven by the Australian Renewable Energy Agency's (**ARENA**) funding grants in September, 2016. Q1 2017 saw cumulative solar installations (including residential) reach 5.9 GW, across over 1.58 million individual installations. This represents approximately 9% of Australia's total electricity generation capacity of 63 GW, however solar still only accounts for approximately 2% of total generation volume.

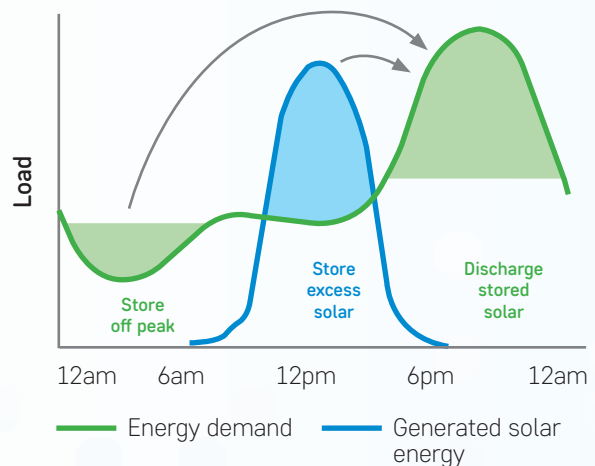
Over 8,000 Australians are now employed in the solar industry. These job types range from sales representatives to manufacturers and plant operators. It is expected that the job reductions resulting from coal-fired closures will be more than offset for by increased employment in the renewable energy sector.

Sustainable Energy Research Analytics (**SERA**), expects utility-scale PV investment to be A\$1.3 billion in 2017. Growing to A\$2 billion in 2018. 202 Megawatts (**MW**) of utility-scale PV is slated to come online in 2017, with a total of 3.7 GW of utility-scale PV in the development pipeline. To put this into perspective, the total operating utility-scale PV capacity in Australia at the end of Q1 2017 was 321 MW.

Within the Australian marketplace, the concept of "renewable energy intermittency" has received substantial media attention in recent months after extreme weather conditions in NSW and weather-related transmission failures in South Australia. Intermittency refers to energy sources not being continuously available throughout the day (in the absence of energy storage solutions). Solar projects are characterised as being intermittent as they can only generate electricity during daylight hours, and wind projects experience variability in production due to fluctuating wind speeds.

With the addition of energy storage through batteries, pumped hydro or other technologies, the issue of intermittency can be solved, and susceptibility to weather-related transmission failures can be reduced.

Figure 1: Solar + Energy Storage vs. Energy Demand



More than 6,500 households in Australia installed batteries in 2016, and uptake is expected to triple this year. The amount of battery storage installed by households and businesses in Australia is expected to rapidly increase, driven by high power prices, changing retail tariffs and falling battery costs

Battery storage has been at the forefront of policy discussion in Australia in Q1 2017, with both the South Australian and Victorian governments initiating tenders for battery storage. As part of its A\$550 million energy plan, the South Australian government sought expressions of interest

(EOI) for a 100 MW, A\$150 million grid-scale battery, with the intention to call on it during times of peak demand. The tender was met with an overwhelming response with 90 proposals received. The Victorian government also initiated a tender in early 2017 for a 20 MW/80 Megawatt hours (MWh) battery storage array and received an astounding 110 proposals, reflecting the appetite of the energy industry to meet the “intermittency” challenge.

Outside government tenders, several utility-scale “PV plus storage” projects have been announced in recent months. Most notable is a A\$1 billion, 330 MW solar farm and 100 MW/400 MWh battery project in South Australia which would be the largest in the world.

Global renewable and solar market update

Solar costs have fallen 58% over the last five years and are expected to continue to fall by a further 40-70% by 2040. The solar sector employs 2.8 million people globally, comprising a third of all renewable energy jobs and providing more jobs than coal. The global solar market is now reducing greenhouse gas emissions by 200-300 metric tons of carbon dioxide per year – equivalent to three quarters of Australia’s annual carbon dioxide emissions.

Cumulative global installed PV capacity now exceeds 306 GW. This is equivalent to approximately five times Australia’s total power generation capacity and is enough to power 60 million homes. This follows the installation of 78 GW of PV in 2016 – the highest on record, up 53% from 2015.

According to GTM, global demand for PV is expected to grow by 9.5% in 2017. The global PV market is seeing a concentration of global demand share, with the top four markets – China, the US, Japan, India – expected to account for 73% of total installations in 2017. This year, global PV demand growth is expected to be largely driven by China, whose demand has far exceeded consensus expectations. China had a record year in 2016 with 34 GW of solar capacity additions and is expected to continue this in 2017 with a further 30 GW of solar capacity additions.

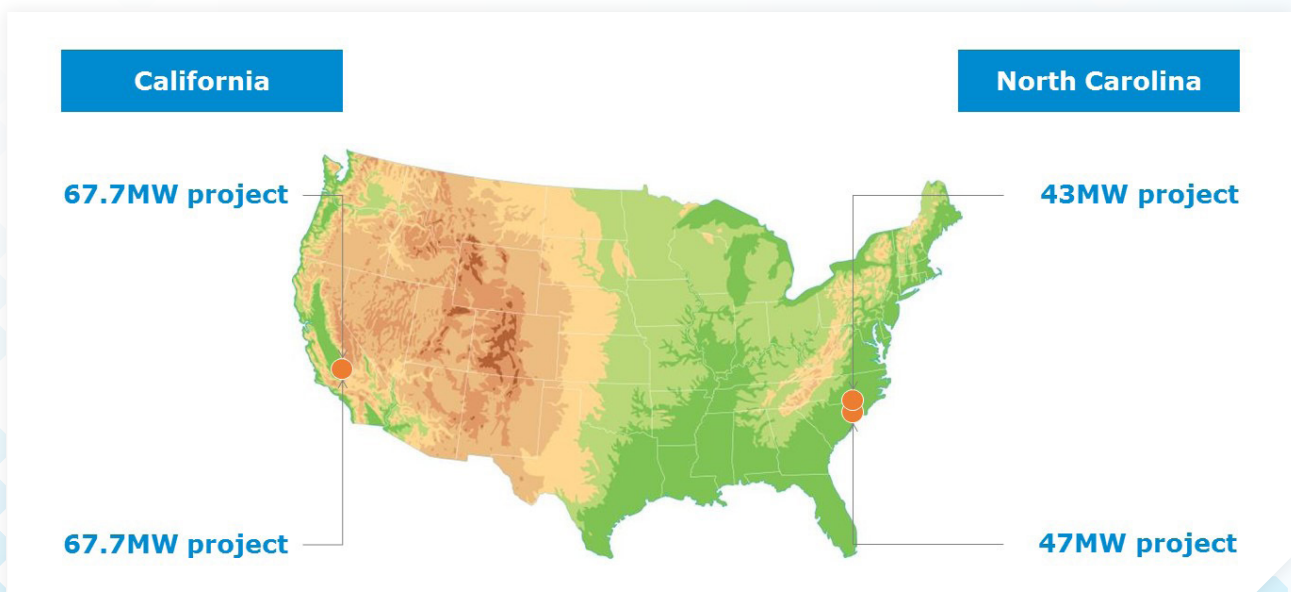
India’s PV growth is expected to be 100% for the second year in a row, with 9.9 GW of projects to be deployed this year.

Tender-driven growth in South Asia, and the Middle East, as well as an improved outlook for demand in Europe will also contribute to higher expectations in 2017.

Latin America saw 2.1 GW of solar capacity additions in 2016, reaching 4.6 GW of installed PV capacity. The region is poised for strong growth in PV demand, with a forecast growth rate of 105% this year, resulting in 8.9 GW of installed solar capacity by year end. Utility-scale PV is leading commercial and industrial (C&I) and residential solar segments due to PV beating out prices for other technologies in utility-scale auctions. For example, at a national electricity supply auction in August, Chile set the lowest global price for power from utility-scale PV at US\$29/MWh.

Fund Update

Location of US assets



Portfolio Update

NC-31

NC-31: Duke substation



At the end of the quarter, the Fund announced it had completed its acquisition of a majority interest in its 43 MW_{DC} utility-scale solar project, NC-31. The project is in Bladen County, North Carolina and was developed by Vivo Power USA LLC (**Vivo**). Vivo will retain a minority interest and will be involved in the ongoing management of the asset. The Project's target initial 5-year average annual yield is 6.4% based on the Fund's US\$41.7 million investment¹.

The completion of NES' investment was subject to the satisfaction of certain conditions including the Project reaching its Commercial Operations Date, which required certification of mechanical completion, connection to the North Carolina electrical system, satisfaction of certain testing criteria and readiness to sell power to Duke Energy Progress, Inc (**Duke**). These conditions were satisfied by the project in late March.

For further details, see the Fund announcement dated 28 March, 2017.

NC-47

NC-47: Block 11 during construction



Construction of the North Carolina 47 MW_{DC} Project (**NC-47**) progressed well throughout the quarter, with the project achieving mechanical completion (the installation of all hardware) on April 17, 2017.

Following the achievement of this significant milestone, the project will now undergo a period of performance testing and commissioning. During this time, the project builder will optimise production and ensure that all equipment is functioning as intended whilst synchronising the project with the wider North Carolina electricity grid.

NES' full investment in the NC-47 project will occur after the project achieves its Commercial Operations Date, which is expected during Q2 calendar year 2017.

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

Stanford SGS and TID SGS

Stanford SGS and TID SGS: Solar panels harnessing the sun



Following the acquisition and commencement of operations of the Stanford & TID Solar Generating Stations (**Stanford SGS** and **TID SGS**, respectively) at the end of December 2016, this quarter saw the continued optimisation and completion of remaining commissioning activities at the Stanford SGS and TID SGS projects. These activities had a minor impact on production during the quarter but nearly all post completion items are now finalised and at the end of the quarter both projects were producing at full capacity. Energy production from the TID SGS facility commenced in late December, and the power purchase agreement commenced in February after some minor delays. In the intervening period, energy produced was sold into the market.

As the projects move out of winter and into the higher production months of spring and summer, production is

expected to materially increase especially after California experienced one of its wettest winters on record. The winter saw the end of the drought which has been in place in most of the state since 2013. Electricity production from the Stanford SGS and TID SGS is expected to be at its highest during the months of May, June, July and August.

Transaction pipeline

During the quarter, while the Fund was closing the NC-31 acquisition, monitoring NC-47 construction progress, and monitoring Stanford and TID SGS production, the Acquisition Team continued to evaluate new investment opportunities. The focus was primarily on potential assets in the US and Australia.

The Fund continues to assess a large number of US investment opportunities as established relationships with key developers in the market results in increased information flow. The Fund met with developers of new projects and owners of existing assets to identify quality opportunities and partnership prospects. In particular, the Fund is building relationships with developers who can provide access to a pipeline of attractive opportunities.

Whilst 2016 presented limited investment opportunities in the Australian market, 2017 and 2018 are expected to represent a turning point. The latest ARENA funding round has stimulated the development of numerous projects, and the unsubsidised cost competitiveness of solar generation is also resulting in a greater number of developers announcing ambitious pipelines.

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 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, Walsh & Company (the funds management division of 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, Walsh & Company (the funds management division of 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.

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