

QUARTERLY UPDATE

September 2017

HIGHLIGHTS

- Initial distribution of 3.2 cents paid in August 2017
- Post quarter end, in October, NES announced a 130MW_{DC} portfolio acquisition of 14 projects across two US states
- US\$62.5 million long-term debt issuance closes (post-quarter end) to support further growth
- NES announces Offer of Stapled Securities and potential ASX listing

Market Update

United States (US) renewable and solar market update

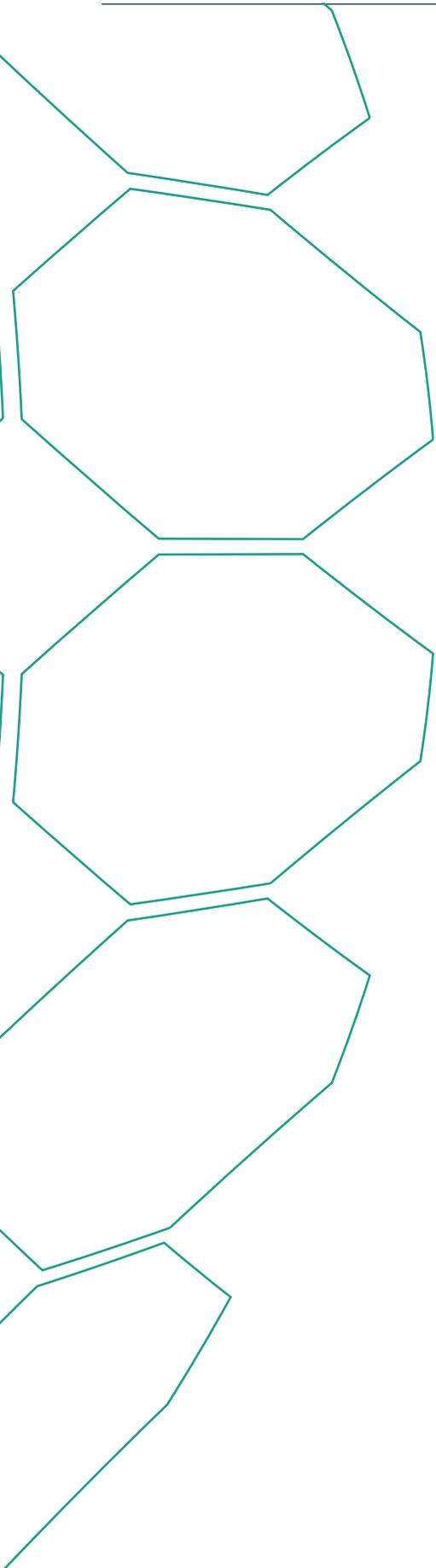
Investment in US solar has remained robust so far this year, with 2.4 gigawatts (GW) of solar photovoltaic (PV) capacity installed in the second quarter, representing an increase of 8% from Q2 of the prior year. This growth was achieved despite some headwinds, including utilities in some states meeting their renewable targets and a flattening of demand for rooftop solar. Utility-scale solar developments continued to drive growth in the market with 1.4GW installed in the quarter; the 7th consecutive quarter in which utility-scale solar added over 1GW. The US utility-scale PV pipeline has now reached a record high of 22GW of projects currently in development.

The utility-scale solar PV market is being driven by competitive economics and, more broadly, the transition to renewables is evident in recent US production metrics. The US Energy Information Administration (EIA) reported that utility-scale renewable generators produced more electricity than nuclear generators for the first time since July 1984. The EIA went on to detail that generation from wind and solar assets rose to record levels while substantial rainfall in the country's West supported increased hydroelectric power generation, pushing nuclear generation to its lowest monthly share of generation since 2014.



Aerial view of Stanford SGS and TID SGS





Several US states and cities continue to independently strengthen their commitment to carbon reduction and energy efficiency plans. Hawaii remains committed to a 100% renewable electricity target, to be achieved by 2045. In September, California passed legislation mandating the adoption of 500MW of battery storage for major utilities and reducing reliance on gas generation. California, Texas and North Carolina continue to dominate the State Solar PV Installation Rankings while Minnesota was a major climber in the rankings, rising from 14th to 5th as a community solar program in the state continues to gain momentum.

The impact of renewables is also being seen in improved environmental metrics. A September report by the California Independent System Operator (**CAISO**) shows that greenhouse gas (**GHG**) emissions in the state have fallen for the third consecutive year. This improvement in GHG emission levels has occurred in parallel with the growth of in-state renewable (GHG-free) generation, rising from meeting 30% of state electricity demand in 2014 to 47% in 2017.

As the penetration of renewables increases, the next major challenge becomes the development of grid storage to ensure flexible energy supply. In September, two US Senators introduced a bill that, if signed into law, would provide more than US\$1 billion to aid research and deployment of energy-storage systems around the country.

Counter to the positive initiatives and programs that are supporting solar growth in the US, the US International Trade Commission (**USITC**) is currently considering a petition filed by a former solar module manufacturer requesting the imposition of tariffs on foreign-manufactured solar modules. President Donald Trump will decide whether to implement any action USITC may recommend. If a tariff is implemented it would likely increase the price of modules and may cause issues with short-term supply in the US, but could lead to excess supply and cheaper modules in the rest of the world. Further details are expected in the coming months.

Australian renewable and solar market update

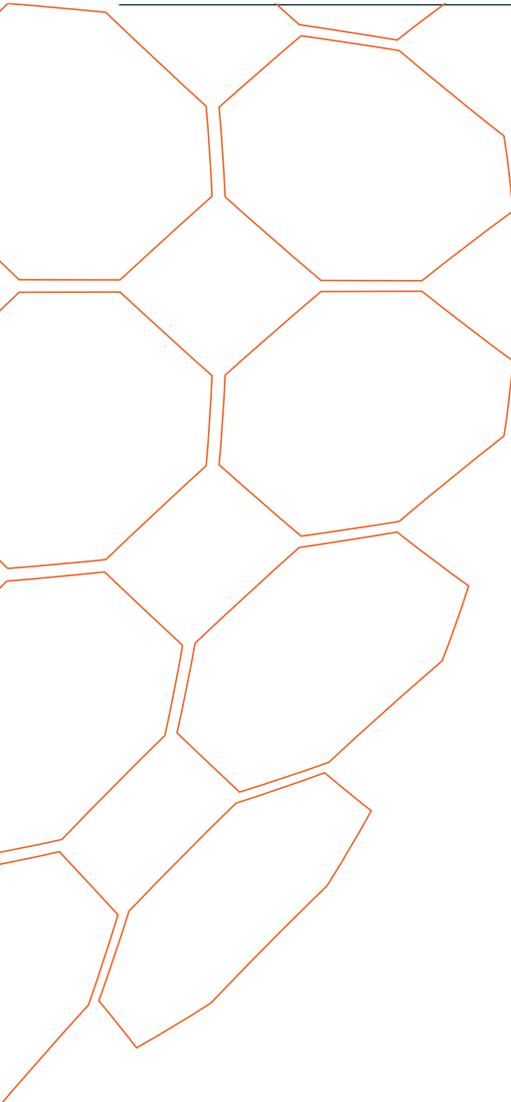
According to Bloomberg New Energy Finance (**BNEF**), approximately A\$800 million¹ was invested in Australian utility-scale solar projects in Q3 2017. This represents a substantial increase over Q3 2016, when approximately A\$100 million was invested, and is consistent with the Australian market transitioning from a slow start into the early phases of a “utility-scale solar construction boom”. As at September 2017, operational utility-scale solar projects totalled 342MW, with a further 1GW of projects under construction. The size of the utility-scale market is set to grow rapidly, with Sustainable Energy Research Analytics (**SERA**) noting an additional 9GW of utility-scale Australian projects have reached detailed design stage.

Rapid growth in the utility-scale solar market is occurring despite energy policy uncertainty. The ongoing debate over the future of energy came to the fore at the Australian Financial Review’s National Energy Summit in early October, when the Federal Government announced it would not adopt a Clean Energy Target (**CET**), and instead pursue a National Energy Guarantee (**NEG**), which will place a greater reliance on electricity retailers to provide energy security.

The NEG imposes two key requirements upon electricity retailers; a Reliability Guarantee which aims to secure sufficient electricity production to meet demand, and an Emissions Guarantee which attempts to drive down the electricity sector’s greenhouse emissions.

The Reliability Guarantee will require retailers to contract or own a yet-to-be-determined level of “dispatchable” power generation (generation that can ramp

1. BNEF data is reported in US\$. The A\$ figure has been converted based on an average exchange rate during the quarter of 78 cents.



up and down to meet demand). The purpose of the Reliability Guarantee is to ensure sufficient generation capacity always exists to meet demand and reduce system instability and price volatility caused by supply shortages. Once in place, the Reliability Guarantee is likely to encourage renewable generators, such as solar PV and wind, to include on-site, commercial-scale battery storage. However, the Reliability Guarantee is still some years away from implementation, with the government yet to provide precise detail of how the policy is expected to work and how market rules and regulations will need to be adapted.

The second component of the NEG is the Emissions Guarantee, which will require retailers to purchase or generate electricity with carbon dioxide emissions per MW-hour (emissions intensity) below a certain threshold. This threshold will reduce each year in order to meet Australia's obligations under the Paris Climate Accord. The Emissions Guarantee is expected to encourage retailers to build, purchase or sign contracts with electricity generators with a low level of emission intensity; primarily renewables and efficient gas. In contrast to the CET which imposed quotas or limits on generation technology, the Emissions Guarantee allows retailers to source the cheapest form of electricity that will meet their emissions obligation.

Despite the positive aspects of the Emissions Guarantee, policy challenges remain. The Emissions Guarantee fails to consider a reduction in Australia's absolute emissions, which is the metric relevant to the Paris targets. Additionally, the scheme will only be implemented within the National Electricity Market; meaning the Northern Territory and Western Australia will be excluded and may not have a federal emissions reduction policy after 2020.

The combination of policy uncertainty, an ageing fleet of coal-fired power stations, and high gas prices in recent years have driven high electricity prices, which has incentivised Australian households and businesses to install rooftop solar panels at one of the highest rates in the world. Research by Roy Morgan shows that almost one in every four Australian households (23.2%) have installed rooftop solar. Despite the high take up, rooftop solar generation is estimated to account for only 2.8% of Australia's total electricity generation.

Whilst Australia has to date lagged behind other countries in the adoption of utility-scale solar PV, the country appears to be more proactive in the adoption of large-scale battery storage technology. Earlier in the quarter, US company Tesla and the South Australian (SA) government signed an historic agreement to construct the world's largest lithium ion battery. Tesla's battery is part of a raft of state government measures, some controversial, including the purchase of a gas-fired power plant. The 100MW battery will store energy from a wind farm in Jamestown and will be supported by up to A\$50 million in funding from the SA government. The battery will be used to prevent load shedding blackouts, with Tesla estimating that the battery will be capable of powering approximately 30,000 homes at full capacity for one hour. Tesla declared the project "50% complete" at the end of September.

Australian corporates are also increasingly active in energy storage. Earlier in October, Telstra announced a review of its existing battery storage fleet of more than 1GWh.

Global renewable and solar market update

According to BNEF, US\$66.9 billion was invested in clean energy around the world during Q3 2017, representing a 3% increase from the prior quarter and a 40% increase from Q3 2016. Investment in solar comprised US\$30.5 billion of the total invested in renewables in Q3, representing a 45% increase from Q2 2016 (US\$21 billion).

China continued its strong performance of solar PV installations, accounting for slightly over half of global investment in solar during the quarter, representing an 8% increase from the prior quarter and a 196% increase from Q3 of the prior year.

There was a softening in the Indian market, with the US\$0.4 billion invested during the quarter representing a steep decline from preceding quarters of 2017, where investment in solar had averaged US\$1.9 billion. However, more supportive government policy is expected to bolster the market in future years. During the quarter, the Indian government established a renewable capacity addition target of 14.6GW for 2017-18, with solar expected to represent the bulk of these additions at 10GW. As part of the country’s transition to renewable energy, India’s Central Electrical Authority (CEA) announced the retirement of a 5.5GW coal fired power plant earlier in the quarter. The CEA announced this closure as part of a broader scheme to retire coal fired power plants that are considered ‘inefficient and uneconomic’.

Whilst government policies such as renewable energy targets can encourage adoption of renewables, other technology innovations can also have a profound impact on the way the world produces and consumes energy. Electric vehicles (EV) are an example of a technology that is poised to have a significant impact on the future of energy consumption globally. As EV technology continues to improve and EVs become more affordable, global transport will become less dependent on fossil fuels and more reliant on electricity. Increased adoption of EV technology is expected to have social benefits from the reduction of urban pollution and associated health problems. It is also projected that EVs will become cheaper to build and operate than petrol based vehicles over the medium to longer term.

Subsequently, a number of countries and major corporations have taken a proactive stance in promoting EV technology. Earlier this year Volvo announced it would only make fully electric or hybrid cars from 2019 onwards. Volkswagen also recently announced its plan to invest US\$1.7 billion in new EV technology including electric drivetrains and battery powered commercial vehicles. Volkswagen intends to have battery powered ‘e-Delivery’ vans ready for commercial use by 2020 and wholly electric buses operational in European cities next year. Volkswagen chief Andreas Renschler expects electric trucks will exceed 5% of market share by 2025 which compares to a forecast of 25% for battery power cars by 2025.

Portfolio Update

During the quarter, the Business’ four operational solar power plants (with a total capacity of 225MW_{DC}) generated in excess of 135,000MWh. This represents enough electricity to power over 68,000 homes for the quarter.

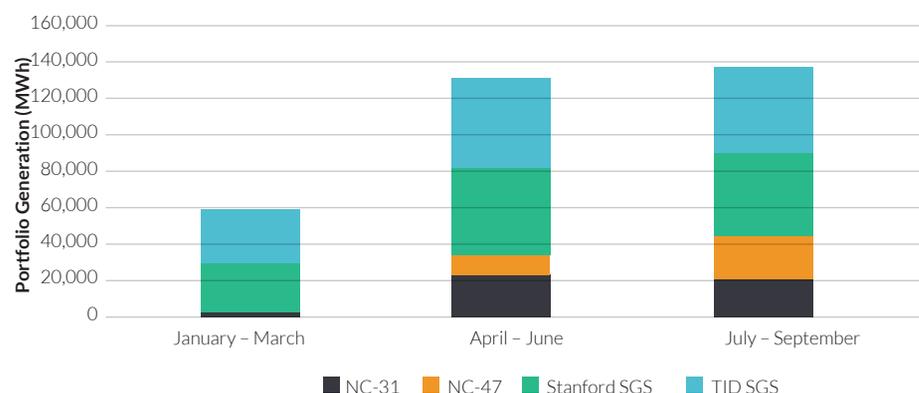
The electricity production displaced the equivalent of 155,000 tonnes of CO2 emissions; an impact in line with 39,000 cars being removed from the road for a year.

NES Operating Projects – 2017

Quarterly Production:

This chart illustrates the significant increase in production seen in the Business’ Californian assets (Stanford SGS and TID SGS) during the June and September quarters compared with the March quarter – which was negatively impacted by one of the wettest winters in California on record and the commencement of the NC31 and NC47 projects.

NES Operating Projects – 2017 Quarterly Production





NC31: Site walkthrough



NC47: Solar panels harnessing the sun



Stanford SGS: Aerial view of solar panels



TID SGS: O&M staff performing a routine inspection

Electricity generation during the quarter was in line with Management’s expectations, with the Business’ solar power plants benefitting from strong production conditions associated with the Northern Hemisphere summer.

Management is pleased to note that during the quarter post-commissioning and optimisation activities at the Stanford SGS and TID SGS were completed, leading to increased plant availability.

At the end of the quarter, a small number of post-commissioning activities remain outstanding on the NC-31 and NC-47 sites. These are currently expected to be completed before the end of calendar 2017.

Initial Distribution Paid

On 15 August, the Business paid its initial distribution of a 3.2 cents per Stapled Security for the period ended 30 June 2017. NES expects to pay distributions semi-annually, with the next distribution scheduled for the period ended 31 December 2017.

For further details on the initial distribution, see the Business announcement dated 15 August 2017 on the NES website.

The Cypress Creek portfolio

Throughout the quarter the NES investments team was focussed on due diligence on the 130MW_{DC} portfolio of utility-scale projects (**CCR Portfolio**) being developed by Cypress Creek Renewables (**CCR**). The diligence process culminated in NES agreeing, shortly after quarter end, to acquire the 14 projects from CCR for approximately US\$108 million. The first tranche of projects will commence construction in 2017, with all 14 projects expected to become operational over the course of 2018.

Ten of the plants, totalling 71MW_{DC}, will be constructed in North Carolina and, once constructed, will connect to the electrical systems of Duke Energy Progress and Duke Energy Carolinas, both subsidiaries of Duke Energy Corporation (NYSE: DUK), the largest electric power holding company in the United States. The other four plants, totalling 59MW_{DC}, will be constructed in Oregon and have approval to connect to the electrical system of PacifiCorp, a subsidiary of Berkshire Hathaway Energy (NYSE: BRK.A).

The developer and builder of the projects, Cypress Creek Renewables, is one of the US' leading solar companies with 1,000MW of operating facilities across eight states, and an active development pipeline in more than a dozen. For more information about Cypress Creek Renewables, visit www.ccrenew.com.

For further details on the CCR Portfolio acquisition, see the Business announcement dated 6 October 2017.

Transaction pipeline

Along with the Cypress Creek Transaction throughout the quarter, the team has continued to evaluate new investment opportunities across the US and Australia. The Business continues to focus on transacting with developers that can offer access to a substantial pipeline of future acquisitions. The Business is pleased to report the execution of separate Memorandums of Understanding (MOUs) (post-quarter end) with CCR and VivoPower International Services Ltd (Vivo). These MOUs establish a non-binding framework for NES to work with those developers to evaluate the potential acquisition of over 750MW_{DC} of projects which would be operational in 2018 and 2019. For further information please see the Offer Document at www.newenergysolar.com.au.

Australia

Despite an increased number of developers seeking to monetise projects there have been a limited number of solar assets in Australia with long-term contracted offtakes being offered for sale, driving asset prices up and investor returns down. NES does expect, however, that current high electricity prices will motivate large corporates to enter into PPAs and install large rooftop systems, which should increase potential acquisition opportunities for evaluation.

US

In addition to the CCR Portfolio, and the MOUs with CCR and Vivo, NES has continued discussions with a number of potential development partners who have a successful model for identifying and developing attractive opportunities in the utility-scale and commercial and industrial market segments. During the September quarter, NES has evaluated opportunities in North Carolina, Oregon, South Carolina, California, Colorado, Maryland, Texas, and Florida.

US private placement

On 3 October 2017, NES announced the financial close for the issue of US\$62.5 million of senior secured 24-year amortising notes (Notes) in the US private placement market. The issue was undertaken through a 100%-owned US subsidiary and the Notes have a weighted average life of 13.2 years and a final maturity of September 2041. The Notes priced on 8 September 2017 (US Time) and settled on 2 October 2017 (US Time).

This was the Business' inaugural private debt issue in the US and NES received strong interest from debt investors who were attracted to the portfolio of long-life, solar assets with stable cash flows. The proceeds will be used to pursue the NES investment strategy and for general corporate financing purposes.

For further details on the US Private Placement, see the Business' announcement dated 3 October 2017.

New Energy Solar – Offer

On 2 November 2017, New Energy Solar lodged a product disclosure statement and prospectus (**Offer Document**) with ASIC with the intention of raising gross proceeds of up to \$200 million (with the ability to accept oversubscriptions for a further \$100 million) by issuing units in the New Energy Solar Fund (each a **Unit**) and ordinary shares in New Energy Solar Limited (each a **Share**) (**Offer**). Units and Shares are stapled together and cannot be traded or dealt with separately (**Stapled Securities**).

Participants in the Offer will also be issued, at no additional cost, one class A option and one class B option (**Options**) for every two Stapled Securities issued to them. These Options provide Offer participants with the opportunity to acquire additional Stapled Securities at a fixed price in the future, whilst benefiting the Business by providing potential future capital.

In connection with this Offer, the Responsible Entity and the Company will apply for the Trust and the Company to be admitted to the official list of Australian Securities Exchange and for the Stapled Securities and Options to be admitted to official quotation, which if granted will provide a simple and convenient platform for investors to access a sustainable investment business with a focus on operating large scale solar power plants.

The Offer will assist in funding the acquisition of the CCR Portfolio (please refer to the description of the CCR Portfolio on pages 5 and 6 above) as well as future opportunities including a pipeline of projects currently being reviewed or investigated, representing capacity of over 3,000MW_{DC} in Australia and the United States.

Click to view the Offer Document: www.newenergysolar.com.au/offer

The Offer will be made in the Offer Document. Carefully consider the Offer Document before deciding whether to apply. Applicants can only apply by completing the application form accompanying the Offer Document.

Stapled Security issuers - Walsh & Company Investments Limited (ACN 152 367 649, 410 433) as responsible entity for New Energy Solar Fund (ARSN 609 154 298) (**Responsible Entity**) and New Energy Solar Limited (ACN 609 396 983). Options issuer – the Responsible Entity.

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 Business 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 Business is not a guarantee of the future performance of the Business. 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 Business, 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.

This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant PDS or offer document before making any decisions to purchase the product. For additional information see: www.newenergysolar.com.au

Weekly news updates

To help readers stay informed on emerging themes in global renewable energy markets New Energy Solar circulates a weekly summary of the top news articles covering the renewable energy sector. If you, or someone you know, would like to receive this free weekly summary you can subscribe at www.newenergysolar.com.au/sign-up/.

About the Business

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

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