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16 October 2018

NEXTENERGY SOLAR FUND LIMITED (THE "COMPANY")

Issue of Preference Shares, amendments to the Company's articles of incorporation and investment policy (the "Proposals")

Introduction

The Company announces that it has entered into a conditional subscription agreement with AIP Solco Limited (the “Investor”), a wholly owned subsidiary of AIP Infrastructure LP, an investment vehicle backed by three BAE Systems pension schemes and managed by Arjun Infrastructure Partners, pursuant to which the Investor had conditionally agreed to subscribe £100,000,000 for 100,000,000 new non-voting Preference Shares (the "Subscription").

The Preference Shares will carry a preferred right to dividends, at a rate of 4.75%, and to capital in a liquidation. From 1 April 2036, the holders of the Preference Shares (the "Preference Shareholders") will have rights to convert all or some of their Preference Shares into either ordinary shares of no par value in the capital of the Company (the "Ordinary Shares”) or a new class of unlisted B shares, at the election of the holder, with the B shares carrying rights to dividends and capital in a liquidation that are pari passu with those of the Ordinary Shares.

In parallel, the Company will have the right, at its sole discretion, to redeem the Preference Shares at nominal value in part or whole, at any time starting from1 April 2030, 6 years prior to the conversion rights awarded to the Preference Shareholders becoming exercisable.

The entitlements of the Preference Shares to Ordinary Shares and / or B shares upon conversion will be calculated by reference to the net asset value (“NAV”) of the Ordinary Shares and the issue price of the Preference Shares respectively as at the date of conversion.

While the Company will initially raise £100,000,000 from the Subscription, it is seeking authority to issue up to 200,000,000 Preference Shares in total.

Background

The Company has identified an opportunity to optimise its capital structure by raising funding on attractive terms in the form of the Preference Shares.

Currently the total debt outstanding is £365m representing 38% of the Company's gross asset value. Of this total debt, £122m is long-term, fully amortising project financing that can be optimised through refinancing and £40m is a short-term credit facility to be reimbursed by 2020. The remainder is long-term fully-amortising debt financing already optimised and not available for refinancing.

The proceeds of the Subscription will be used to repay a portion of the existing long-term project financing facilities associated with its portfolio investments. The Preference Shares represent a cheaper source of funds in terms of lower yearly cash cost compared to alternative financing sources, ranging from long-term debt financing to issuance of new Ordinary Shares. This reduced cost is achieved mainly in exchange for priority of dividend payments over the Ordinary Shares.

The Subscription proceeds will be used to repay existing debt facilities and, in so doing, holders of Ordinary Shares (the "Ordinary Shareholders") and the Company will benefit from a lower service cost than could be obtained for borrowing facilities traditionally available for financing solar photovoltaic ("PV") assets (where the yearly debt service cost includes both interest and principal repayment components, and there is also the refinancing at maturity of any non-amortised debt amounts).

The lower yearly service cost of the Preference Shares will increase the free cash flow to the Company, allowing the Company to use the additional cash for general corporate purposes, including all matters permitted by the Company's investment policy (the "Investment Policy") from time to time, including but not limited to investment in new assets or extension/optimisation of current portfolio assets owned by the Company or any of its subsidiaries, and payment of dividends by the Company in accordance with its latest published dividend policy. Comparing the fixed dividend entitlement of the Preference Shares to the return expected on the Company's portfolio, the additional free cash flow is expected to increase the dividend cover available to the Ordinary Shareholders and have a positive effect on NAV over time.

Further Preference Shares may be issued under the authority conferred by the resolutions to be proposed at the upcoming extraordinary general meeting ("EGM") (the "Resolutions") (which expires at the next annual general meeting ("AGM") (or 15 months after the passing of the Resolutions, and which the Company intends to renew at the next AGM).

Alternative funding sources

The application of the proceeds of the Preference Shares issued pursuant to the Proposals to the financing of a typical UK solar PV investment of the Company is expected to enhance the average dividend cover for Ordinary Shareholders by 0.12x and increase levered internal rate of return ("IRR") by 0.75%. For comparison, an issuance of long-term debt financing at current best market terms would have an impact on the dividend cover and IRR of 0.03x and 0.64% respectively.

In net present value terms, the proposed Subscription would generate cash savings of £34m compared to issuing Ordinary Shares as a result of the lower total dividend cost of the Preference Shares over the period to 31 March 2036 (under current 2.75% long term retail price index ("RPI") estimates and using the Company's unlevered discount rate of 6.75%). When compared to the total debt service (principal and interest) of an illustrative debt financing at best market terms, the lower fully-costed cost of capital of the Preference Shares represents cash savings of £17.9m in net present value for the Subscription.

In addition, issue costs associated with this transaction as a percentage of the amount raised are significantly lower compared to alternative sources as per the estimate below:

- c.1.7% for an issue of new Ordinary Shares.
- c.1.3% for long-term debt.
- c.0.6% for the issue of the Preference Shares as per the Subscription.

The Preference Shares carry a fixed dividend and capital entitlement to 31 March 2036 and, from 1 April 2036, the Preference Shareholders will also have rights to convert all or some of their Preference Shares into either Ordinary Shares or B shares, at the election of the holder, with the non-voting B shares carrying rights to dividends and capital in a liquidation that are pari passu with those of the Ordinary Shares. The entitlement of the Preference Shares to Ordinary Shares or B shares (as the case may be) will be proportionate to the amount of Preference Shares outstanding at the date of conversion valued at their initial subscription price of 100 pence per Preference Share plus accrued but unpaid dividends (if any, at that time), as compared to the net asset value per Ordinary Share of the Company (by reference to the Preference Shares and the Ordinary Shares together (plus B shares if any are in issue)).

The Preference Shares and any B shares arising from the conversion of Preference Shares will be accounted for as equity by the Company. As such, under the terms of the investment management agreement and the administration agreement, the assets attributable to them will be subject to the ad valorem fees of NextEnergy Capital IM Limited (the "Investment Manager") and the administrator at the applicable rates. The marginal rate for the fees of the Investment Manager is 0.8% per annum.

The Subscription

The Investor has, pursuant to the subscription agreement dated 15 October 2018 between the Investor and the Company (the "Subscription Agreement"), agreed conditionally to subscribe for 100,000,000 new Preference Shares at an issue price of £1.00 per Preference Share to raise gross proceeds of £100 million (net proceeds £99.4 million). The closing of the Subscription Agreement is conditional only upon the passing of the Resolutions, following which the Preference Shares will be issued to the Investor. The net proceeds can be used for general corporate purposes, including all matters permitted by the Company's Investment Policy from time to time including investment in new assets or extension/optimisation of current portfolio assets owned by the Company or any of its subsidiaries, and payment of dividend by the Company in accordance with its latest published dividend policy. The proceeds of the initial £100m Subscription will be immediately used to repay existing long-term project financing facilities associated with portfolios recently acquired by the Company.

Benefits of the Proposals

The Company's board of directors (the "Board") believes that the issue of Preference Shares and the associated change in the Investment Policy are in the best interests of the Company's shareholders for the following reasons:

- The issuance of Preference Shares allows the Company to optimise its capital structure and increase the dividend cover and equity returns for its Ordinary Shareholders.
- Preference Shares are an efficient source of funding compared to debt and equity alternatives available to the Company. The Subscription of £100m will allow refinancing of a portion of the Company's borrowings at terms beneficial to Ordinary Shareholders and the Company in terms of lower cash service cost than could be obtained for borrowing facilities traditionally available for financing solar PV assets (where the service cost includes an interest component and repayment of capital).
- Subsequent issues of up to 100,000,000 preference shares may take place (assuming the resolutions are passed) and these may repay further debt facilities or finance new investments consistent with the Company's Investment Policy, thus optimising further the Company's capital structure to the benefit of Ordinary Shareholders. The Company intends to issue the balance of the Preference Shares within 12 months of the Subscription and expects to carry out a further issue before the end of the calendar year.
- The application of proceeds of Preference Shares issued pursuant to the Proposals to the financing of a typical UK solar PV investment of the Company is expected to enhance the average dividend cover for Ordinary Shareholders by 0.12x and increase levered IRR by 0.75%. For comparison, an issuance of long-term debt financing at current best market terms would have an impact of 0.03x and 0.64% respectively and imply significant restrictive debt covenants.
- The option to redeem Preference Shares at the sole discretion of the Company is valuable for Ordinary Shareholders: should more competitive sources of capital become available, the Company may issue new capital (debt or equity) to fund the redemption. The Preference Shares are only redeemable by the Preference Shareholders in limited circumstances, i.e. in the event of a delisting or change of control of the Company, and otherwise only at the option of the Company at any point after 1 April 2030.

- The proceeds of the Subscription will be promptly applied to repay existing long-term project financing facilities, thereby generating cash savings starting in the current financial year. Should the Company repay £162m of debt financing through issuance of Preference Shares, the total debt outstanding would reduce from 38% to 21% of Gross Asset Value.
- In net present value terms, the proposed Subscription of £100m of Preference Shares would generate cash savings of £34.0m compared to issuing Ordinary Shares and lower total dividend cost of the Preference Shares over the period to 31 March 2036 (under current 2.75% long term RPI estimates and using the Company's unlevered discount rate of 6.75%).

Consequential changes to the Investment Policy

The Company's existing Investment Policy includes limitations on the use of leverage. In recognition of the priority of payment (in relation to dividends and assets in a liquidation) given to the holders of Preference Shares, it is proposed to amend the Investment Policy in order to include Preference Shares in the calculation of the 50% leverage limit over the Company's gross asset value.

Amendments to the articles of incorporation

In addition to the insertion of the rights attaching to the Preference Shares and B shares into the articles of incorporation of the Company (the "Articles"), including a new Article 53 which sets out the rights attaching to the Preference Shares and a new Article 56 which sets out the rights attaching to the B shares, the Company wishes to make some further amendments which are intended to address recent changes to the Companies (Guernsey) Law 2008 (as amended) and regulation in order to ensure the Articles are current and compliant.

Article	Change	Rationale
Article 2	New defined term "B Shares"	Required in relation to the Preference Shareholders' rights of conversion.
	New defined term "Change of Control"	Required for new Article 53.6
	Amended defined term "Conversion Ratio"	Required to clarify that the relevant ratio is of a comparison between C Shares and Ordinary Shares
	New defined term "Delisting"	Required for new Article 53.6
	Amended defined term "Disclosure and Transparency Rules"	Amended to refer to the Disclosure Guidance rather than Disclosure Rules
	New defined term "Investment Policy"	As discussed in this document
	New defined term "Preference Shares"	As discussed in this document
	New defined term "Purchase Price"	As discussed in this document
	Amended defined term "Share"	Required to include Preference Shares and B Shares

	New defined term "Working Day"	Required for amended Article 48.2.
Article 5.3	Deletion of provisions relating to Sections 292 and 293 of the Companies Law which relate to the authority of the Board to issue shares.	Sections 292 and 293 of the Companies Law have been repealed in September 2015.
Articles 33.3, 36.7 and 36.8	Amended to clarify that the directors can participate provided they are not in the UK, regardless of their place of residence.	Required for practical reasons and to reflect current guidance and practice.
Article 34.1(A)	Deletion of Article 34.1(A) which relates to the disclosure of a director's interests in a transaction.	The deletion reflects an amendment to section 162 of the Companies Law in September 2015.
Article 48.2	Amendment of statutory notice periods for documents to be given or served under the Companies Law.	The amendment reflects a change to section 523 the Companies Law in September 2015.
Article 53	Rights of the Preference Shares	As discussed in this document
Article 56	Rights of the B Shares	Required in relation to the Preference Shareholders' rights of conversion.

A copy of the new Articles showing the proposed changes to the Company's current Articles is available for inspection at the offices of NextEnergy Capital Limited at Heathcoat House, 20 Savile Row, Mayfair, London, W1S 3PR and at the registered office of the Company.

Risk factors

Shareholders should have regard to and carefully consider the risk factors described below in addition to the other information set out in this announcement. The following are those risk factors which the Board considers to be material as at the date of this announcement. If any of the adverse events described below actually occur, the Company's business, financial condition, results or prospects could be materially and adversely affected. Additional risks and uncertainties which were not known to the Board at the date of this announcement or that the Board considers at the date of this announcement to be immaterial may also materially and adversely affect the Company's business, financial condition, results or prospects.

- **Impact of Preference Share dividend**

  The fixed cumulative dividend on the Preference Shares is at a lower rate than the target dividend yield on the Ordinary Shares and is not linked to growth in UK inflation. The issue of the Preference Shares therefore provides an opportunity for the Company to raise additional capital on more favourable terms than a further Ordinary Share issue, and in a manner which does not adversely affect the returns to Ordinary Shareholders. However, there can be no assurance that the Company will be able to continue to meet its Ordinary Share dividend targets. In the event that the Company does not receive sufficient income to fund the Preference Share dividends and the target Ordinary Share dividends in full, then the Preference Share dividends will be paid in priority to the Ordinary Share dividends and returns to Ordinary Shareholders may be reduced. To the extent Preference Share dividends remain unpaid or undeclared, this will increase the proportional entitlement of the holders of the Preference Shares to Ordinary Shares / B shares upon conversion on or after 1 April 2036 and may therefore reduce the proportional holdings on the Ordinary Shares.

- **Risks relating to liquidation**

  In the event of a future liquidation of the Company, the holders of the Preference Shares will be entitled to receive the amount subscribed for the Preference Shares plus any unpaid or undeclared Preference Share dividends in priority to the Ordinary Shareholders. The amounts which Ordinary Shareholders will receive on a liquidation may therefore be reduced by the amounts paid to Preference Shareholders.

- **Redemption of the Preference Shares**

  On or after 1 April 2030, the Company may elect (at the sole discretion of the Directors) to redeem all or some of the Preference Shares. Such redemption would reduce proportionately the future entitlement of the Preference Shareholders to future dividends and distributions; also the funds applied to such redemption would not be available for making investments or for the Company's general purposes and this could reduce the returns to Ordinary Shareholders or impact the Company's ability to repurchase the Company's Ordinary Shares in order to manage discounts to the Company's net asset value.

- **Leverage**

  Under the International Financial Reporting Standards, the Preference Shares will be accounted for as equity but the Board is of the view that, given the priority of payment of dividends (and assets in a liquidation) granted to its holders, the Ordinary Shareholders should be protected by amending the current Investment Policy to ensure the maximum leverage of 50% of the Company's gross asset value (as it was set at the time of the Company's admission to the Official List of the FCA) is intended as total debt plus Preference Shares, divided by the Company's gross asset value. There is a risk that this may reduce the Company's ability to borrow even where borrowing is at a lower cost of capital than the issue of Preference Shares (but note the Company's redemption rights after 1 April 2030). In addition, the Company has covenanted in the Subscription Agreement not to exceed a maximum adjusted gearing ratio of 50% of GAV in the context of new borrowings, new issues of Preference Shares and redemption or repurchases of the Ordinary Shares. These limits may impact on the Company's ability to repurchase Ordinary Shares or obtain any new borrowings.

- **Management fee**

  The Investment Manager is entitled to receive an annual fee which is payable monthly in advance, accruing daily on the basis of the prevailing NAV and calculated on a sliding scale, as follows below:

    - for the tranche of NAV up to and including £200 million, 1% of NAV.
    - for the tranche of NAV above £200 million and up to and including £300 million, 0.9% of NAV.
    - for the tranche of NAV above £300 million, 0.8% of NAV.

  The Preference Shares are an equity instrument and therefore the assets attributable to Preference Shareholders will form part of the NAV, including for the purpose of calculating the management fee. Based on the current NAV, the Preference Shares will therefore attract a marginal fee rate of 0.8% of the assets attributable to them.

- **NMPI status**

  At present in the UK, the Company is not a "non-mainstream pooled investment" as a consequence of being a company which, if it were incorporated in the UK, would qualify as an investment trust. The issue of the Preference Shares will not result in the loss of this status, but if any Preference Shares are converted into B Shares on or after 1 April 2036, and there is no change to the existing UK regime relating to "non-mainstream pooled investments", then the Company may at that point in future lose this status.

Extraordinary general meeting

The EGM will be held at 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey, GY1 2HL, on 8 November 2018 commencing at 4:00 p.m.

Analyst meeting

NESF's Investment Adviser will host a conference call for analysts at 09:00 hours (UK time) today. If you would like to attend or have any further questions, please contact MHP Communications on 020 3128 8778 or nextenergy@mhpc.com.

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Important information

The information contained in this announcement does not constitute an offer of securities for sale in any jurisdiction.

Notes to Editors:

NESF is a specialist investment company that invests primarily in operating solar power plants in the UK. It has the authority to invest up to 15% of its Gross Asset Value in operating solar power plants in OECD countries outside the UK. The Company's objective is to secure attractive shareholder returns through RPI-linked dividends and long-term capital growth. The Company achieves this by acquiring solar power plants on agricultural, industrial and commercial sites.

NESF has raised equity proceeds of £592m since its initial public offering on the main market of the London Stock Exchange in April 2014. It also has credit facilities outstanding of c.£365m in place (£149m from a syndicate including MIDIS, NAB and CBA; MIDIS: £54m; ING £32m; UniCredit £32m; Santander £40m; and Bayerische Landesbank £58m).

NESF is differentiated by its access to NextEnergy Capital Group (NEC Group), its Investment Manager, which has a strong track record in sourcing, acquiring and managing operating solar assets. WiseEnergy is NEC Group's specialist operating asset management division and over the course of its activities has provided operating asset management, monitoring, technical due diligence and other services to over 1,300 utility-scale solar power plants with an installed capacity in excess of 1.9 GW.

Further information on *NESF*, *NEC Group* and *WiseEnergy* is available at www.nextenergysolarfund.com, www.nextenergycapital.com and www.wise-energy.eu.