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THIS ANNOUNCEMENT CONTAINS INFORMATION WHICH CONSTITUTES INSIDE INFORMATION.

11 November 2016

## **NextEnergy Solar Fund Limited ("NESF" or the "Company")**

### **Net Asset Value Update and Further Details of Proposed Share Issuance Programme**

#### **Highlights**

- Unaudited net asset value ("**NAV**") at 30 September 2016 of £350.1m (30 June 2016: £283.1m).
- NAV per share at 30 September 2016 (ex-dividend) increased to 100.4p (30 June 2016: 98.7p, ex-dividend).
- Increase in NAV principally driven by portfolio's energy generation outperformance relative to budget, as well as uplift in power price forecasts provided by NESF's market consultants and increase in NESF's inflation forecasts.
- Prospectus relating to proposed share issuance programme to issue up to 350,000,000 new ordinary shares and/or C shares ("**Share Issuance Programme**") expected to be published on or around 15 November 2016 ("**Prospectus**").
- Initial issue pursuant to Share Issuance Programme of up to 100,000,000 new ordinary shares at 104.5p per share by way of initial placing and initial offer for subscription to raise up to £104.5m ("**Initial Issue**").
  - New shares will rank for interim dividend for three months ending 31 December 2016 (expected to be 1.5775p per share and paid in March 2017).
  - Initial Issue expected to close on or around 18 November 2016.
  - As previously announced, one institutional investor intends to subscribe for £55.0m of new shares.
  - Directors may, in consultation with NESF's investment manager and with agreement of joint bookrunners, increase the size of the Initial Issue, subject to investor demand.

- NESF has entered into letters of intent for a project pipeline of c.170MWp with an investment value of c.£175m. In addition, discussions underway with counterparties regarding further pipeline opportunities of c.440MWp with a total investment value of c.£405m.

### **NAV Update**

The Board is pleased to announce the unaudited pre-dividend NAV per share at 30 September 2016 of 102.0p (30 June 2016: 101.9p). After adjusting for the interim dividend for the three months ended 30 September 2016 of 1.5775p per share payable on 30 December 2016 to shareholders on the register at 18 November 2016 (the "**Second Interim Dividend**"), the NAV per share at 30 September 2016 was 100.4p (30 June 2016: 98.7p, after adjusting for the interim dividend for the six months ended 31 March 2016 of 3.125p per share paid on 22 July 2016).

The Company's NAV as at 30 September 2016 was £350.1m (30 June 2016: £283.1m).

The increase in the NAV per share over the past quarter was principally driven by:

- the strong operating performance of NESF's portfolio, with energy generation of c.6.0% above budget;
- an uplift in power price forecasts provided by the Company's market consultants, which reflect the recent increase in forward power prices; and
- an increase in the Company's inflation forecasts.

During the first six months of the Financial Year ending March 2017, solar irradiation across the portfolio was in line with expectations. Asset management alpha amounted to 3.2% over the period.

The unlevered and levered discount rates remain unchanged at 7.5% and up to 8.5% respectively.

### **The Project Pipeline**

The Company has secured a significant pipeline of acquisition opportunities under letters of intent that include exclusivity terms and pricing arrangements. These letters of intent cover projects with a total generating capacity of c.170MWp and an investment value of c.£175m. The majority of these projects are expected to fall under the 1.2 Renewable Obligate Certificate ("**ROC**") regime.

In addition, NESF is currently pursuing an additional set of acquisition opportunities totalling c.440MWp and with an investment value of c.£405m. It expects to secure additional letters of intent from this set of acquisition opportunities before the end of 2016.

### **The Share Issuance Programme**

The Share Issuance Programme will open on publication of the Prospectus (expected to be on or around 15 November 2016) and will close 12 months later (or, if earlier, once all the new shares available under the Share Issuance Programme have been issued). The Company intends to issue up to 350,000,000 new ordinary shares and/or C shares under the Share Issuance Programme pursuant to one or more issues (including the Initial Issue). Issues of new shares under the Share Issuance Programme will be at the discretion of the Directors, and each issue will comprise a placing and may, at the discretion of the Directors, comprise an offer for subscription and/or open offer. The Share Issuance Programme will not be underwritten.

All new ordinary shares issued pursuant to the Share Issuance Programme on a non-pre-emptive basis will be issued at a premium to the NAV per ordinary share sufficient to at least cover the costs and expenses of the relevant issue. The issue price of any C shares issued pursuant to the Share Issuance Programme will be 100p and the costs of the issue of C shares will be deducted from the gross proceeds of the C share issue.

## The Initial Issue

The Initial Issue is being implemented by way of the initial placing and initial offer for subscription. The Company is targeting an initial issue of up to 100,000,000 new ordinary shares at an issue price of 104.5p per share ("**Issue Price**"), which is equivalent to a premium of 4.1% to the NAV per share at 30 September 2016 (ex-Second Interim Dividend) of 100.4p (this premium takes into account earnings since 30 September 2016 and the costs of establishing the Share Issuance Programme and of the Initial Issue).

Ordinary shares issued pursuant to Initial Issue will not rank for the Second Interim Dividend but will receive the third interim dividend for year ending 31 March 2017, which is expected to be 1.5775p per share and payable in March 2017.

If the Initial Issue achieves its target size, the gross proceeds will be £104.5m. As previously announced, the Company has received a firm commitment from one institutional investor to subscribe for new ordinary shares with an aggregate value, at the Issue Price, of £55.0m pursuant to the Initial Issue. The Directors have reserved the right, in consultation with the Company's investment manager and subject to agreement with the joint bookrunners (Cantor Fitzgerald, Fidante, Macquarie and Shore Capital), to increase the size of the Initial Issue.

The Initial Issue will be conditional on, *inter alia*, admission of the new ordinary shares to the FCA's Official List and to trading on the London Stock Exchange's main market for listed securities, which is expected to occur on or around 25 November 2016.

The net proceeds of the Initial issue may be used to repay short-term borrowings and, to the extent not so used, will enable the Company to take advantage of its significant pipeline of investment opportunities and new investment opportunities, thereby further growing and diversifying its portfolio.

## The Investment Opportunity

### Attractive risk-adjusted investment opportunity

The Directors believe that within the renewable energy sector, solar energy infrastructure assets represent the most attractive risk-adjusted investment opportunity:

- **Low volatility of solar irradiation:** Solar PV systems rely predominantly on daylight hours rather than direct sunlight, ensuring that solar energy production is highly predictable and has a low level of volatility due to weather patterns, particularly when compared to the other main renewable energy source (wind).
- **Solar PV is a mature technology:** Solar PV systems rely on well proven technology that has a demonstrated lifespan in excess of its guaranteed life of 25 years and low technical degradation over time.

- **Low ongoing operating costs and capital expenditure:** The investments targeted by the Company have an average EBITDA margin of 70-80%. Capex is mostly paid upfront and there is little capex risk over the lifetime of the assets.

#### **UK solar energy assets offer stable, inflation-linked returns with upside potential**

- **Regulated revenues, mainly linked to RPI:** The UK regulatory framework for solar energy is designed to provide predictable long-term revenues. This framework provides the Company with a degree of stability in its future revenue (and, therefore, its ability to pay dividends). The Company's investment adviser estimates that, of the revenues derived from the Company's current portfolio, regulated revenues (ROCs, feed-in tariffs and embedded benefits, mainly linked to RPI) will account for c.62% for the year ending 31 March 2017 and c.53.5% for the period to 2034/5. The balance of the revenues will be derived by selling electricity on the wholesale market.
- **Contracted revenues:** The Company trades the electricity it generates bilaterally (that is, directly between a generator and a supplier). This bilateral trading can be used to mitigate the risk of declines or fluctuations in the wholesale electricity price by entering into power purchase agreements ("**PPAs**"), which can include a fixed price for a certain period of time. The Company's investment adviser estimates that, for the year ending 31 March 2017, c.94% of the revenues derived from NESF's current portfolio will be fixed, either as regulated revenues or through PPAs (with c.83% of PPA revenues for the year being fixed, and c.68% of those PPA revenues currently fixed to 2021) thereby mitigating NESF's exposure to volatility in the power price market.
- **Upside potential:** The UK price of energy is forecast to continue to experience real long-term growth. Whilst the Company's exposure to wholesale electricity prices may be limited in the short- to medium-term, increasing exposure to wholesale electricity prices over time is expected to allow the Company to benefit from any real long-term growth in wholesale power prices. In the meantime, the Company has adopted a prudent view on energy inflation with an inflationary neutral model for long-term value of energy assets that correlates to RPI.

#### **Opportunity for growth**

- **Immediate, substantial and growing opportunity to acquire primary assets:** There has been an acceleration in the rate of new installations to be commissioned ahead of the ROCs regime ending in its entirety for new plants on 31 March 2017, which has significantly increased the availability of primary assets for purchase.
- **Substantial opportunities to acquire further secondary assets:** There is projected to be over 13GW of installed solar PV assets in the UK by March 2017 (significantly exceeding expectations at the time of the Company's IPO in 2014 and, in the view of the Directors, reflecting an acceleration in the rate of installation as a result of the closure of the ROCs regime). The Directors believe that a material proportion of these solar PV assets are held by investors who are not intending to hold them for the life of the asset and therefore that the secondary market will continue to mature as many of these assets become available for sale.

#### **Access to the NEC Group, a leading specialist investment and asset manager in the solar sector**

- **Experienced and well-resourced:** Founded in 2007, the NextEnergy Capital Group ("**NEC Group**") now has an over 70-strong team focussed exclusively on the solar energy sector, with an operating presence in two of the most attractive solar markets globally (Italy and the UK). The

NEC Group's senior management have extensive renewable energy and public markets expertise, including over €100 billion in energy and infrastructure transactions.

- ***Proven track record of raising and deploying capital (equity and debt) for the Company efficiently:*** The NEC Group has demonstrated its skills in raising and deploying capital rapidly and efficiently on behalf of the Company. The diligent investment approach followed by the NEC Group has allowed the Company to acquire its current portfolio through transactions closed at prices which the Directors believe are lower than market average by c.2%.

The projects in NESF's c.170MWp pipeline of short-term acquisition targets are at different stages in the NEC Group's evaluation process. Whilst there are currently no binding contractual obligations to acquire any of those projects, NESF has entered into letters of intent regarding them which include exclusivity terms and pricing arrangements.

The Directors are confident that, with the NEC Group's experience and resources, suitable assets can be acquired within a short time period, either from the identified pipeline of short-term acquisition targets or pursuant to other investment opportunities that the NEC Group is actively pursuing.

- ***Proven track record in optimising operating assets performance:*** NESF's current portfolio has performed materially above the targets set in the budget used in acquiring each of the solar assets, with an average over performance of 4.7% (partly explained by the solar irradiation being 1.6% higher than expected during the period), which the Directors believe compares favourably with other, comparable portfolios.

The NEC Group's operating asset management division, WiseEnergy, is one of the largest specialist operating asset managers in the solar sector. WiseEnergy has developed proprietary software, hardware, IT platform and risk management solutions to enable it to efficiently and proactively manage and monitor data, and analyse the long-term technical, international and financial performance of solar plants.

WiseEnergy provides asset management and monitoring services in respect of more than 1,250 utility-scale solar power plants and c.3,000 solar rooftop installations with a total capacity of c.1.7GW and an estimated £3.5 billion of asset value. Its client base includes leading European banks and equity investors (including private equity funds, publicly listed funds and institutional investors).

- ***Focus on maximising portfolio performance and value:*** In the mid- to long-term period following the acquisition of an asset, the NEC Group seeks to add value by optimising the technical and financial performances of the asset and by extending the useful lifespan of the plant.

Furthermore, the NEC Group remains fully engaged in monitoring technological change in the energy sector and is already exploring the feasibility of the application of energy storage facilities to the Company's portfolio of solar PV plants. Consequently, the Company is well-positioned to incorporate the continuing innovation in energy technology and benefit from the associated incremental returns and/or cost reductions in solar energy generation and storage.

#### **The Company is targeting attractive returns\***

- ***Targeting current annual dividend of 6.31p per ordinary share, paid quarterly:*** The Company is targeting an aggregate dividend (to be paid quarterly) of 6.31p per ordinary share in respect of its financial year ending 31 March 2017.

- **Prospect of annual dividend growth in line with inflation:** The Company aims to increase its aggregate dividend per ordinary share in respect of each financial year in line with RPI growth.
- **Potential for capital growth:** The Company seeks to provide investors with an element of capital growth through the re-investment of net cash generated in excess of the target dividend in accordance with the Company's investment policy.
- **Targeting unlevered IRR of between 7 and 9%:** The Company is targeting aggregate returns to investors that equate to an unlevered IRR of between 7 and 9% (after fees and expenses) based on the Company's IPO issue price of 100p per ordinary share.

*\*Note: These are targets only and not profit forecasts. There can be no assurance that these targets can or will be met and it should not be seen as an indication of the Company's expected or actual results or returns. Accordingly, investors should not place any reliance on these targets in deciding whether to invest in the New Shares or assume that the Company will make any distributions at all.*

#### **For further information:**

**NextEnergy Capital Limited** 020 3239 9054

Michael Bonte-Friedheim

Aldo Beolchini

**Cantor Fitzgerald Europe** 020 7894 7667

Sue Inglis

**Fidante Capital** 020 7832 0900

Robert Peel

Justin Zawoda-Martin

**Macquarie Capital (Europe) Limited** 020 3037 2000

Nick Stamp

**Shore Capital** 020 7408 4090

Bidhi Bhoma

Anita Ghanekar

**MHP Communications** 020 3128 8100

Andrew Leach / Jamie Ricketts / Rebecca Emery

#### **Notes to Editors:**

##### ***NextEnergy Solar Fund***

NESF is a specialist investment company that invests in operating solar power plants in the UK. Its 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 approximately £350m since its initial public offering on the main market of the London Stock Exchange in April 2014. It also has credit facilities of £209.8m in place (Macquarie and Santander: £88.5m, of which £43.0m is drawn; MIDIS: £54.7m; Bayerische Landesbank: £44.9m; NIBC: £21.7m).

NESF is differentiated by its access to NextEnergy Capital Group (NEC Group), its investment manager and adviser, which has a strong track record in sourcing, acquiring and managing operating solar assets. WiseEnergy is NEC Group's specialist operating asset management division, providing solar asset management, monitoring and other services to over 1,250 utility-scale solar power plants with an installed capacity in excess of 1.7GW. NextPower II is NEC Group's private equity fund with initial commitments of €150m, investing in operating solar power plants and focused on consolidating the substantial, highly fragmented Italian solar market.

Further information on NESF, NEC Group and WiseEnergy is available at [www.nextenergysolarfund.com](http://www.nextenergysolarfund.com), [www.nextenergycapital.com](http://www.nextenergycapital.com) and [www.wise-energy.eu](http://www.wise-energy.eu).

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The contents of this announcement, which has been prepared by and is the sole responsibility of the Company, have been approved by NextEnergy Capital Limited (authorised and regulated by the FCA), for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000.