

An aerial photograph of a rural landscape, showing a patchwork of fields and some solar panel arrays. The image is overlaid with a semi-transparent dark blue filter. The text is centered on this filter.

bluefield

SOLAR INCOME FUND

INTERIM RESULTS FOR THE PERIOD ENDING DECEMBER 2018

CONFIDENTIAL

BLUEFIELD SOLAR INCOME

Interim results' highlights

- **Bluefield's Priorities:** maximise earnings; pay down long term debt; pay sector leading dividends
- **The Future:** subsidy-free solar; UK power markets
- **Financial¹:** NAV has increased to **114.41 pps** in the period (30 June 2018: 113.28pps). Underlying earnings of **£18.0m** in the period (31 December 2017: £14.6m)
- **FY 2018/19 dividend¹:** target increased to **7.68pps** (FY 2017/18: 7.43pps) after debt amortisation. Following the period end, in February 2019, the Company paid its 1st interim dividend for the FY of **1.90pps**
 - ✓ Dividend payments spread evenly across the calendar.
 - ✓ Next dividend announcements for the FY2018/19: April, August and October.

BLUEFIELD SOLAR INCOME

Introduction

BACKGROUND



- **Objective:** sterling income fund with dividends growing by RPI annually.
- **Focused Strategy:** mandate to invest exclusively in UK solar PV assets.
- **Diverse Portfolio:** 87 operating assets amounting to 465MWp¹.

BSIF'S FINANCIAL PERFORMANCE ^{2,3}



	<u>6-month to Dec 18</u>	<u>Cumulative since IPO⁴</u>
▪ Shareholder Total Return:	4.5%	56.4%
▪ NAV Total Return:	4.4%	51.7%
▪ Total Dividends Paid:	3.1 pence per share	33.2 pence per share
▪ FTSE 100 total return ⁵	-10.24%	26.6%

BSIF – 2018/19 INTERIM RESULTS HIGHLIGHTS

Excellent start to the financial year

Bluefield's Priorities in a 'steady state'

- **Maximise Earnings:** focus on operational performance and PPA strategy.
- **Pay down Leverage:** use regulated revenues period to pay down debt.
- **Pay Dividends:** pay dividends, rising with RPI (keeping prudent reserves).
- **Acquire selectively:** invest exclusively in opportunities that enhance the Company's returns

Earnings and dividends (pps)¹

	H1 FY18/19	H1 FY17/18	FY 2017/18	FY 2016/17
Total underlying earnings	4.90	3.95	9.67	8.32
Debt amortisation	2.10	1.98	2.24	1.00
Dividend distribution ²	1.90	1.80	7.43	7.25
Reserves carried forward	N/A	N/A	0.30	0.30
Net asset value	114.41	112.4	113.3	110.5
Annual Generation	45%	45%	100%	100%

OPERATIONAL PERFORMANCE

H1 FY18/19 delivers double digit revenue increase vs forecast

Commentary

Revenue (£m/MWp) in the period was **17% higher** than forecasts.

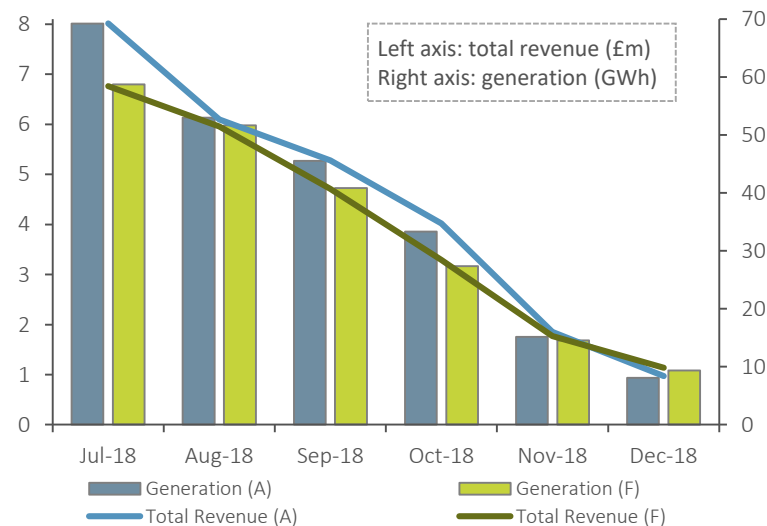
Driven principally by two key factors :

- **Irradiation** levels in July, September and October were all significantly **above budget**.
- Impact of **rising power prices** on contracts fixed during the period.

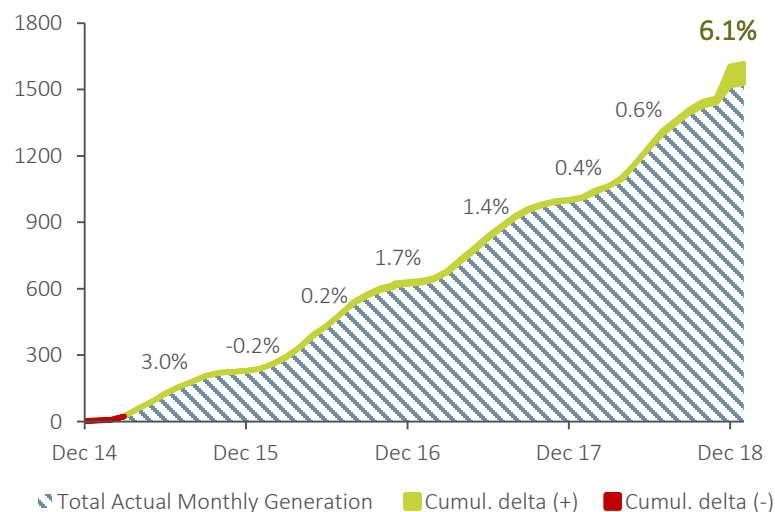
Operational performance (%)¹

	H1 2018/19	H1 2017/18	FY 2017/18	FY 2016/17
Irradiation	+10.2	-4.4	- 0.9	- 0.3
Operational	+0.9	+2.7	+ 0.7	+ 2.6
Generation	+11.1	-1.8	- 0.1	+ 2.3
Revenue	+17.2	-1.7	+ 3.6	+ 3.5

Generation & revenue H1 FY18/19: actual vs forecast¹



Historic cumulative generation vs budget (GWh)²



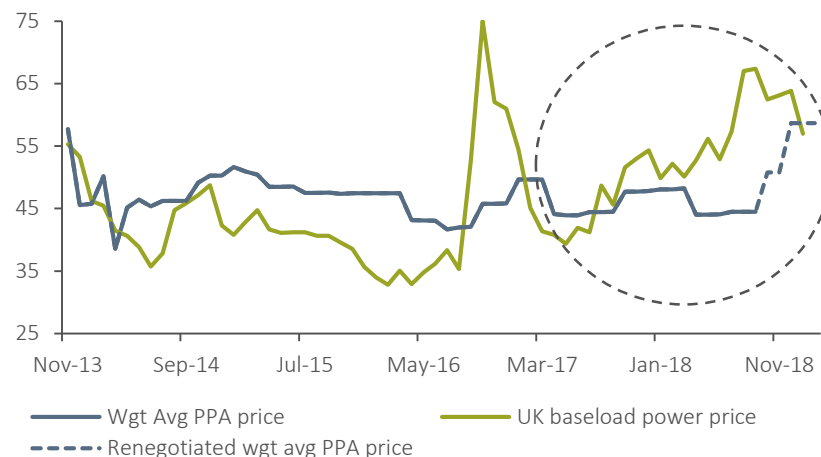
HIGHER POWER PRICES TO BOOST TOP LINE REVENUE

BSIF's PPA strategy captures recent increases in power prices

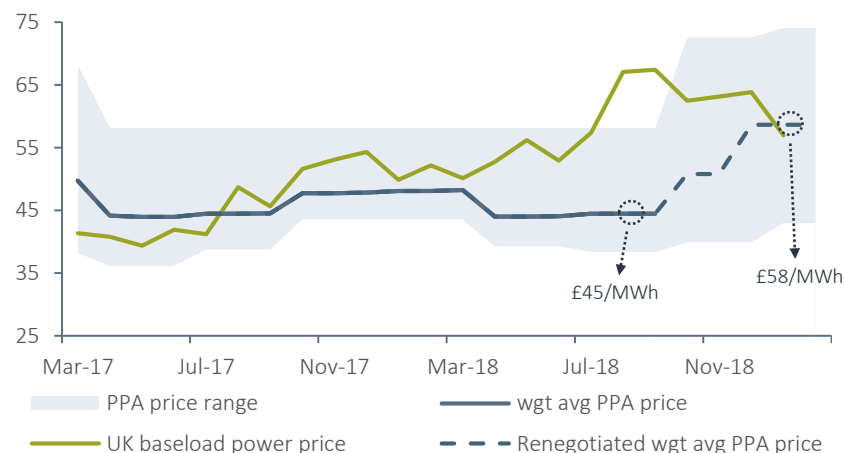
Taking advantage of higher power prices

- Wholesale power markets have shown significant improvement during the reporting period and **UK power prices hit an 8-year monthly average high in September 2018**, with an average price of £67/MWh.
- The Company has taken advantage of the increase in power prices seen after June 2018 by re-striking the majority of its PPA contracts.
- As a result, **BSIF's latest weighted average PPA price has increased significantly to new post-IPO highs**, lifting the portfolio's PPA price range accordingly.
- The average PPA price for contracts fixed post Jun 18, has increased from a weighted average price of c.£45/MWh in September 18 to an average **in excess of c.£58/MWh** from December 2018 onwards.
- Due to the fixing cycle, **material benefit from the price increases takes effect in H2 FY2018/19**.

BSIF's average PPA price and UK power price (£/MWh)¹



BSIF's seasonal PPA fixing range (£/MWh)¹



SOLAR PV: REVENUE GENERATION

Converting power generation to revenues

Power Generation Process

Solar irradiation

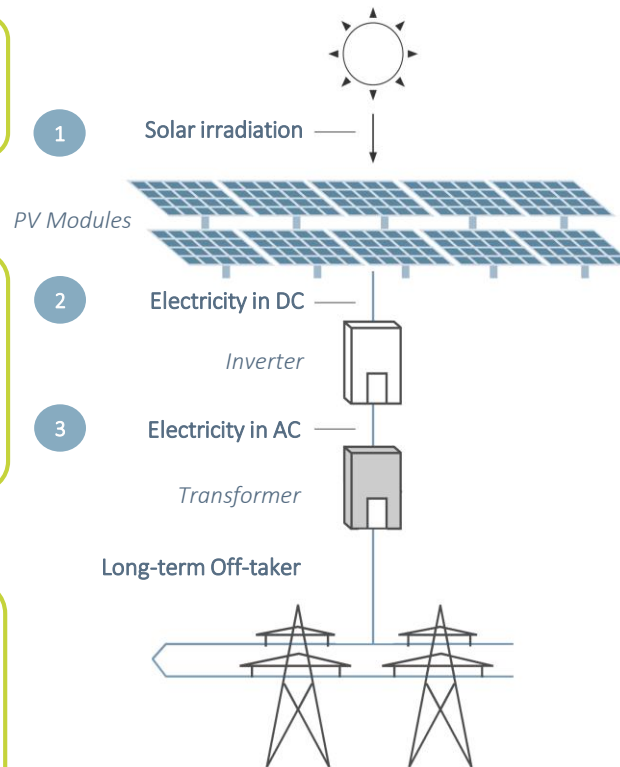
- Expected variability +/- 7% based on 90% confidence interval

Plant performance

- Warranted by contractor
- Expectations set by lenders technical advisor based on analysis of plant design and expected losses

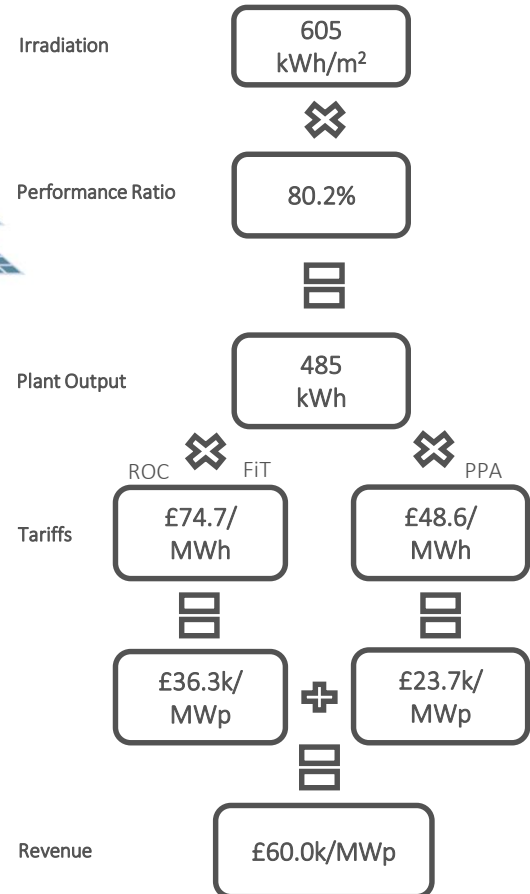
Output

- Power revenues based on PPAs fixed contracts
- ROC/FiT tariffs fixed on commissioning for 20-25 years



Revenue Generation Process

H1 FY 2018/19 per MWp^{1,2}



CONSOLIDATED PORTFOLIO EARNINGS

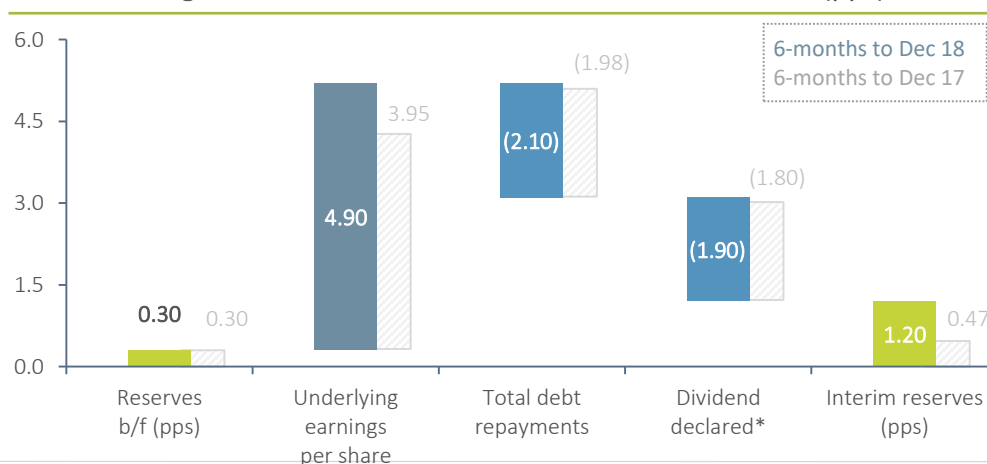
Higher revenue and stable costs boost portfolio's bottom line

	Half year period to 31 Dec 18 (£m) ¹	Half year period to 31 Dec 17 (£m) ¹	Dec 18 Commentary
Portfolio Income	29.0	25.0	Includes £0.1m liquidated damages earned in the period
Portfolio and project finance interest costs	(6.4)	(6.2)	£0.3m interest payments for Project Durrants
Total Portfolio Income Earned	22.6	18.8	
Group Operating Costs ^{**}	(2.3)	(2.2)	Ongoing charges (annualised FY17/18): 1.04%
Group Third Party Interest Costs	(2.3)	(2.0)	Interest on Aviva long-term & RCF financing
Underlying Earnings	18.0	14.6	

Underlying earnings of £18.0m
 =
 4.90 pps
 +
 FY17/18 Reserves of 0.30 pps
 =
 5.20 pps



Earnings & dividend flows: 6-months to Dec 18 vs Dec 17 (pps)²



BSIF VALUATION PARAMETERS

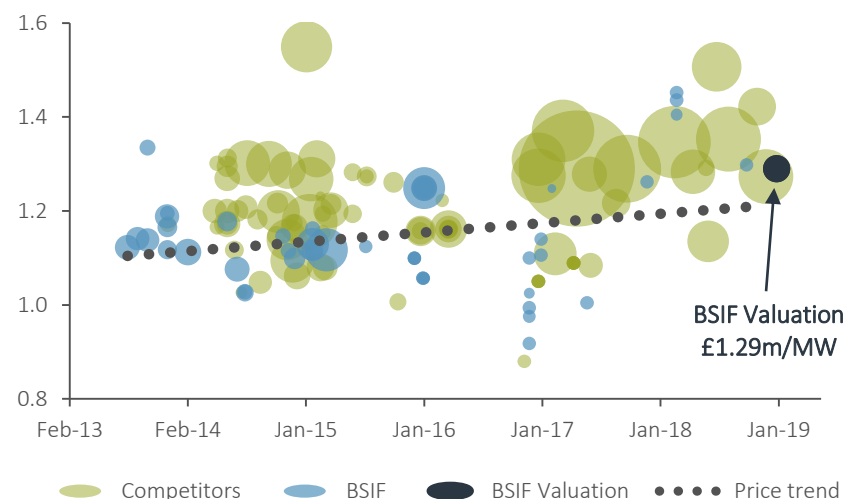
Solar PV secondary market continues to be benchmarked at £1.29/MWp

Commentary^{1,2}

- Sustained competition for large scale UK solar assets means the Directors' valuation continues to be benchmarked at **£1.29m/MWp** (30 June 2018: £1.29m/MWp).
- Underpinned by:
 - ✓ The typical pricing of secondary purchases remaining between £1.27m/MWp and £1.35m/MWp
 - ✓ Latest power curves from two leading forecasters
 - ✓ Levered equity discount rate of **7.20%** (7.26% 30 June 2018)
 - ✓ WACC **unchanged at 5.65%** (30 June 2018: 5.65%)
 - ✓ **Zero terminal value** of each asset after c.25 years of operational life
- NAV of **£423m** as of 31 December 2018, compared to £419m in June 2018.
- Total NAV return of **c.4.4%** for the half year to 31 December 2018, including dividends of 3.1pps.
- Underlying EPS of **4.90pps** in the six months to 31 December 2018 vs 3.95pps over the same period in 2017.

Valuation (£m) ¹		Valuation Parameters (%) ¹	
Component	Dec 2018	Component	Dec 2018
Portfolio EV	601.8	Cost of equity	7.20
Project Co Debt	-12.1	Cost of debt	2.7
Project Net Current Assets	20.0	Leverage	35
Directors' Valuation	609.7	WACC	5.65

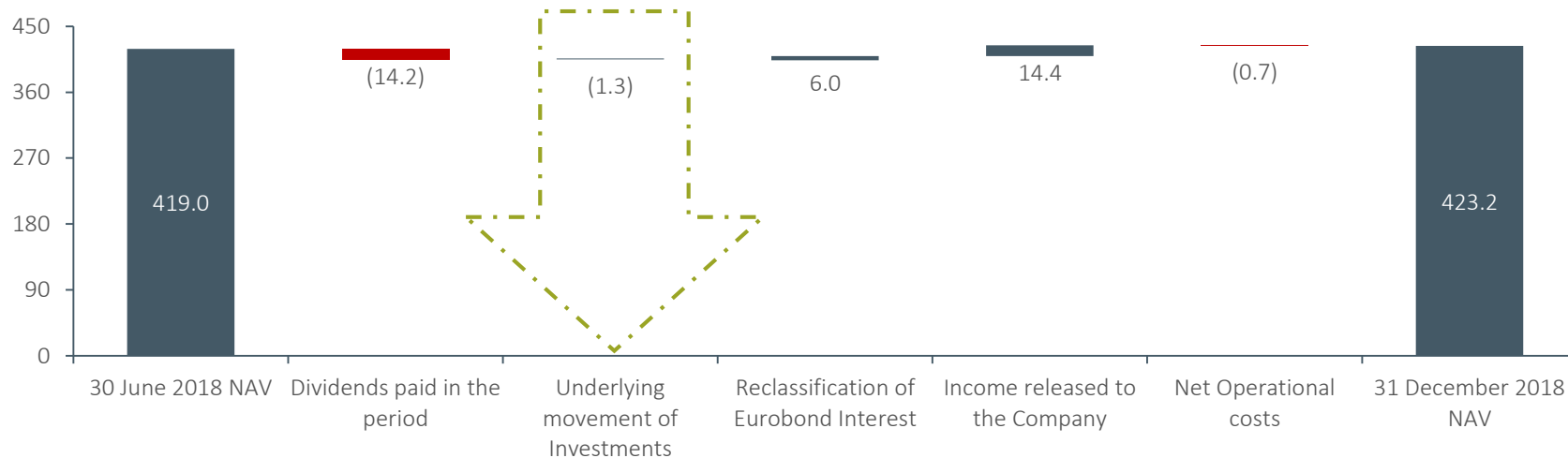
UK solar market pricing (£m/MW)²



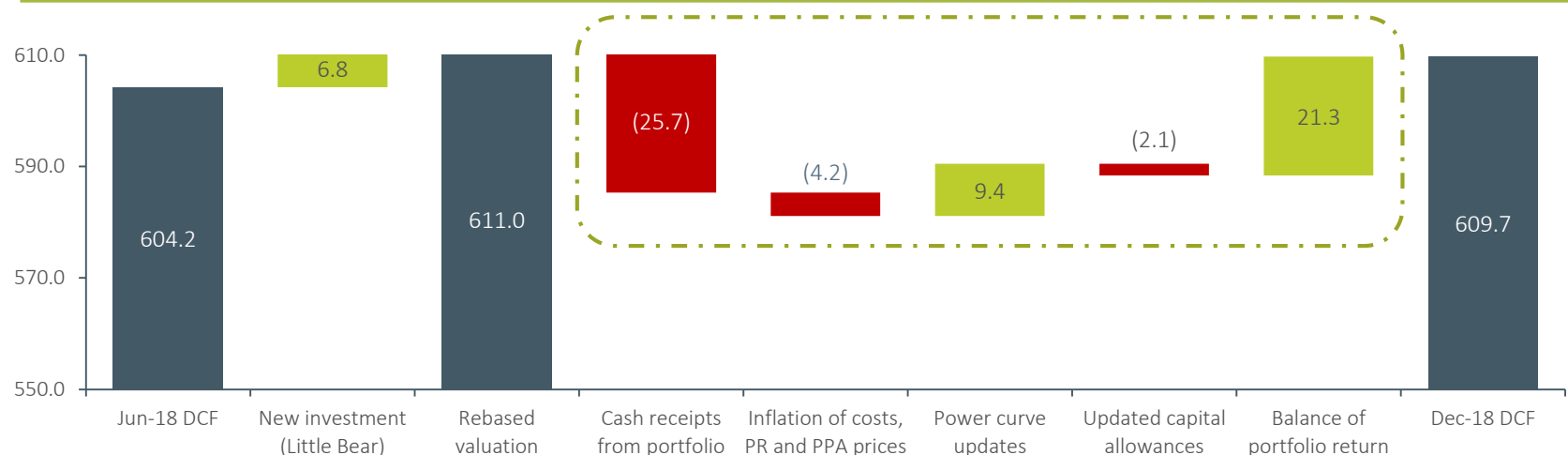
NAV CONSISTENT WITH MARKET PRICE OF £1.29m/MW

Underpinned by higher power prices; discount rate remains unchanged

NAV Movement in Period (£m)¹



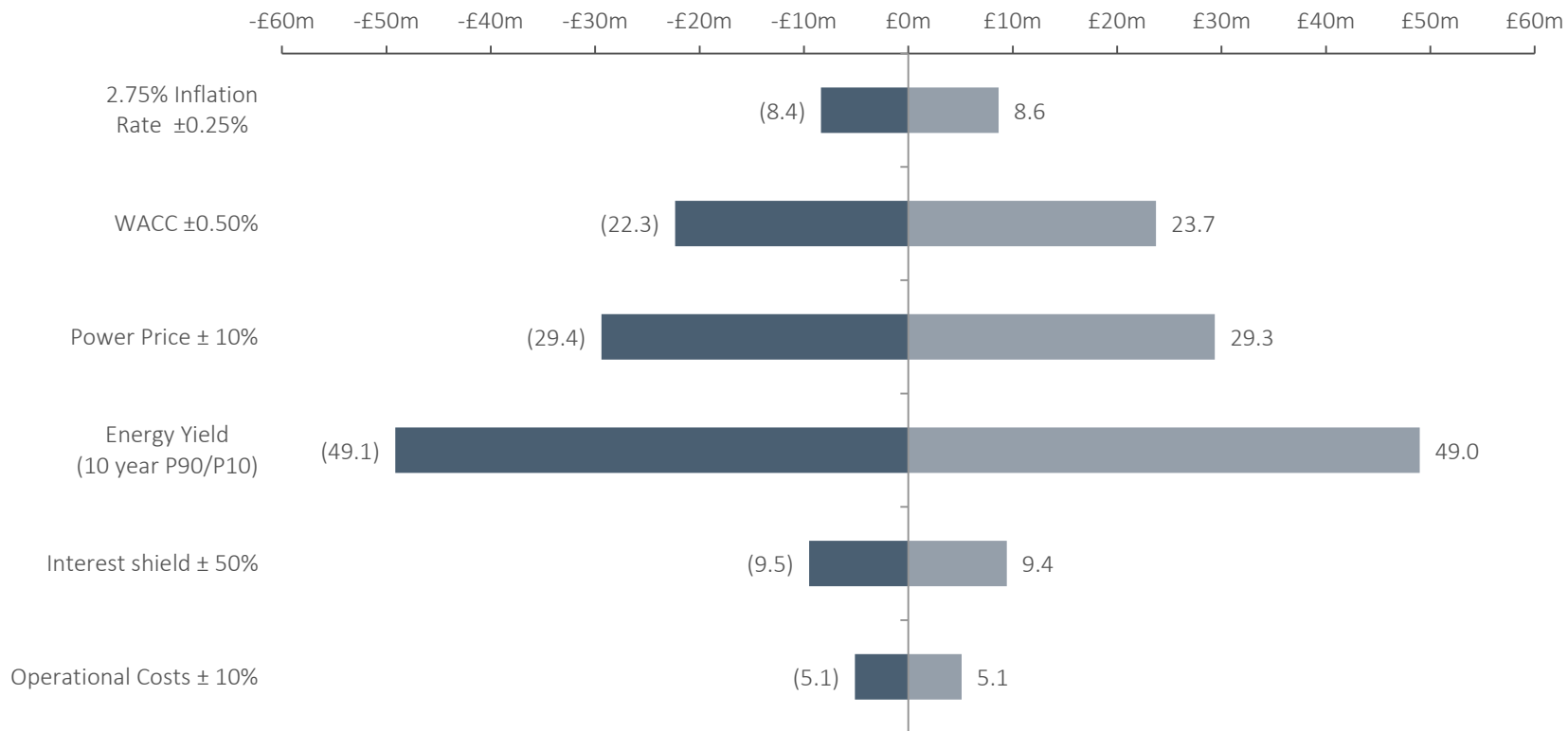
Portfolio Valuation Movement in Period (£m)¹



SENSITIVITY ANALYSIS

BSIF valuation remains robust against fluctuations of key parameters

Directors' Valuation¹: **£609.7m**



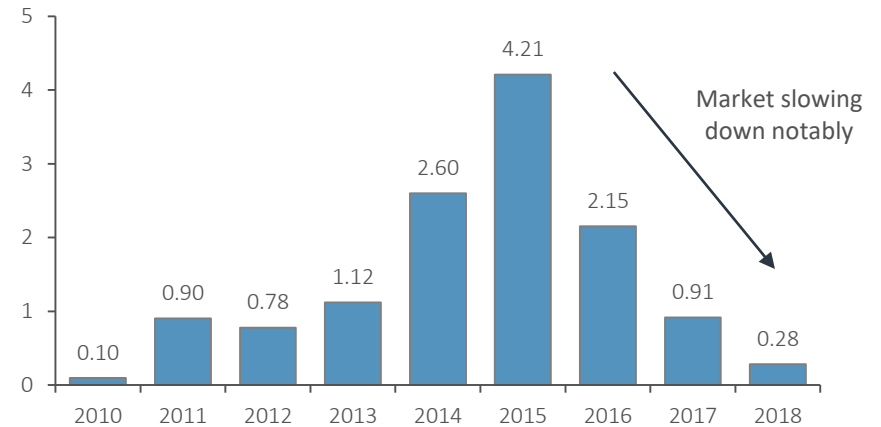
UNSUBSIDISED RENEWABLE ENERGY IN THE UK

Lower costs of producing electricity to drive next wave of solar PV

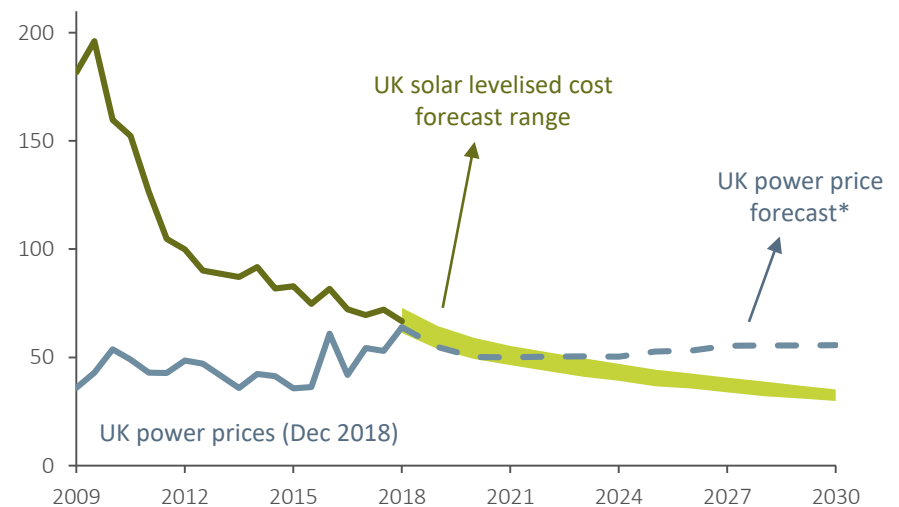
BSIF's strategy for the future

- The last three years have been dominated by two factors:
 - ✓ the **disappearance of the primary market** in the UK due to the closure of the ROC programme in 2017 (top right chart).
 - ✓ The **fall of the cost of producing electricity** from solar PV, which dropped from close to £200/MWh to around £60/MWh in 2017 (bottom right chart).
- Over this period, and despite the availability and low cost of liquidity in the market, BSIF acquisition strategy was to remain on the sidelines. Competition to acquire secondary assets has been high due to a shortage of secondary projects.
- The fall of the cost of producing electricity is expected to drive the **next wave of subsidy-free** solar PV primary market.
- BSIF's existing portfolio was built on the basis of the Investment Adviser's investment, technical and development expertise, assisting during all stages of the construction of the assets. The Investment Adviser is preparing to employ this expertise in the forthcoming wave of primary activity in the UK.

Solar PV primary activity in the UK (GW)¹



UK solar LCOE vs power prices (£/MWh)^{1,2}



CONCLUSION

Message from the Chairman

Over the first six months of the financial year, the Company has laid the foundations for another strong year. Higher than average irradiation and higher power prices have been matched by a high performing portfolio, producing above expected generation.

The Company continues along the pathway of patience and discipline I described in my Statement in September 2018. We have sought to maximise revenues in the existing portfolio, have continued to amortise our long term financing and have continued to elect not to expand our asset base due to high valuations and/or poor quality portfolios.

We expect that this patience and discipline will soon be rewarded with the potential arrival of an economic UK market for solar assets without subsidy, for which the Company is well prepared to apply its highly effective investment model for primary market assets by funding through construction. This is the strategy that has allowed the Company to create a high quality and well-priced portfolio, delivering in excess of 50% total return to our shareholders since IPO in July 2013.

John Rennocks, Chairman, 26 February, 2019

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