

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 solar panels are visible as rows of rectangular structures in the lower-left and central areas of the image.

# bluefield

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SOLAR INCOME FUND  
RESULTS FOR THE YEAR ENDED JUNE 2018

CONFIDENTIAL

# BLUEFIELD SOLAR INCOME

## Results' Highlights

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- **Financial:** Covered dividend of 7.43pps (after amortisation) and NAV of 113.3pps
- **Bluefield's Priorities:** maximise earnings; pay down long term debt; pay sector leading dividends
- **The Future:** subsidy-free solar; UK power markets

# BLUEFIELD SOLAR INCOME

## Introduction

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### BACKGROUND

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- **Objective:** sterling income fund with dividends growing by RPI annually.
- **Focused Strategy:** mandate to invest exclusively in UK solar PV assets.
- **Diverse Portfolio:** 86 operating assets amounting to 460MWp<sup>1</sup>.

### PERFORMANCE SINCE IPO (July 2013)<sup>2</sup>

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- Shareholder Total Return: 54.2%
- NAV Total Return: 50.5%
- Total Dividends Paid: 33.2 pence per share

# BSIF – 2017/18 FULL YEAR RESULTS HIGHLIGHTS

## Earnings drive excellent full year

### Bluefield's Priorities in a 'steady state'

- **Maximise Earnings:** optimise capital structure and focus on asset management.
- **Pay down Leverage:** use regulated revenues period to pay down debt.
- **Pay Dividends:** pay dividends, rising with RPI (keeping prudent reserves).

### Earnings and dividends (pps)<sup>1</sup>

	As at 30 June 2018	As at 30 June 2017	As at 30 June 2016
Total earnings	9.67	8.32	7.32
Debt amortisation	2.24	1.00	0.23
Dividend distribution	7.43	7.25	7.25
Reserves carried forward	0.30	0.30	0.23
Net asset value	113.3	110.5	99.4
NAV Total Return	9.25%		
Total Return to Shareholders	11.7%		

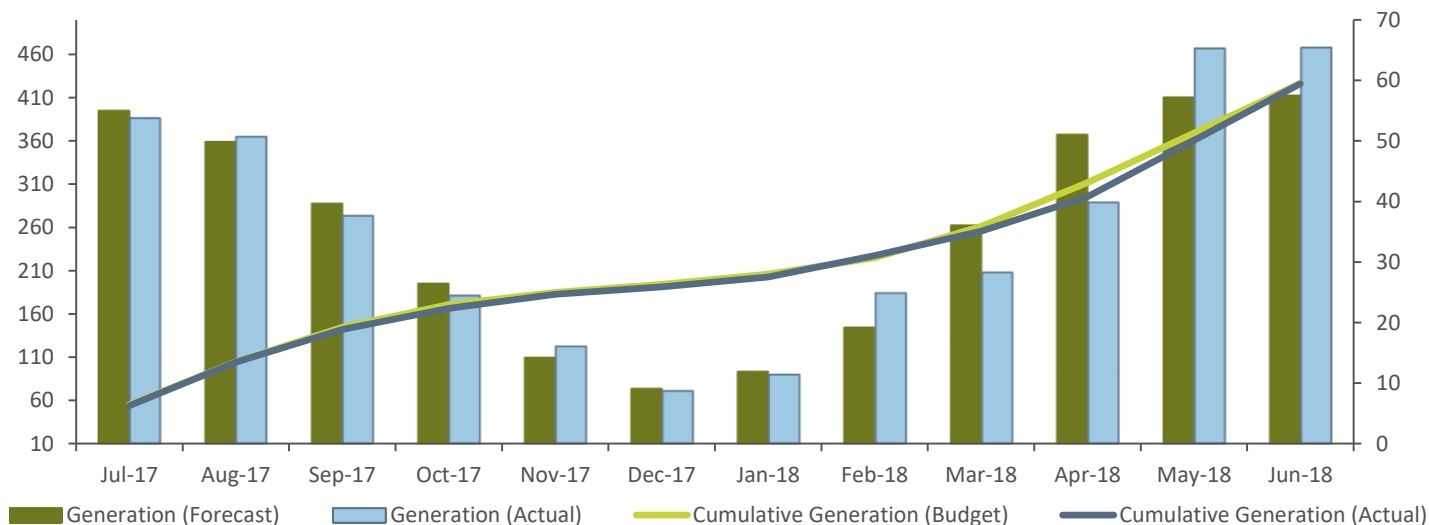
# BSIF – 2017/18 FULL YEAR RESULTS HIGHLIGHTS

Bluefield's asset management continues to drive revenue performance higher

## Operational performance (%)<sup>1</sup>

	As at 30 June 2018	As at 30 June 2017	As at 30 June 2016
Irradiation	- 0.9	- 0.3	- 3.7
Operational performance	+ 0.7	+ 2.6	+ 1.8
<i>Performance ratio</i>	<i>82.1</i>	<i>83.4</i>	
Generation performance	- 0.1	+ 2.3	- 2.5
Revenue performance	+ 3.6	+ 3.5	- 5.9

## Summary of BSIF portfolio generation (GWh)<sup>1</sup>



# SOLAR PV: REVENUE GENERATION

## Converting power generation to revenues

### Power Generation Process

#### Solar irradiation

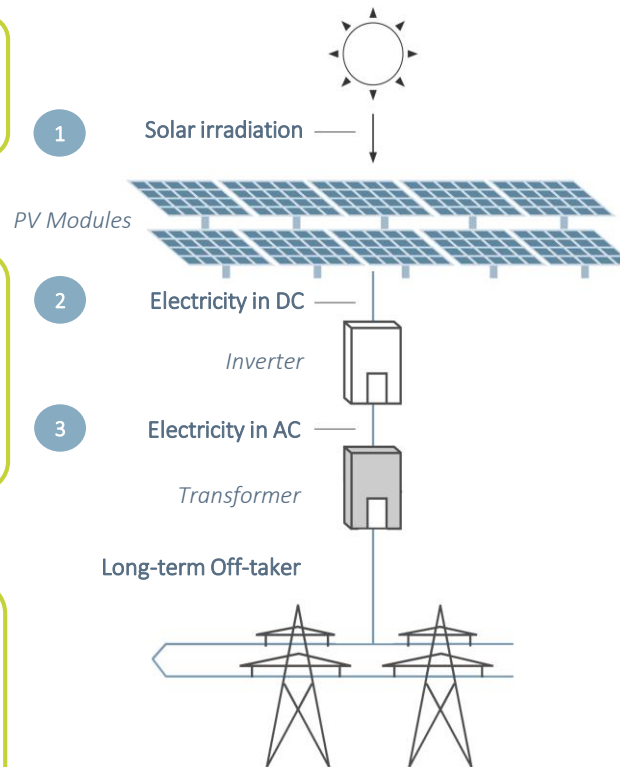
- Expected variability +/- 7% based on 90% confidence interval

#### Plant performance

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

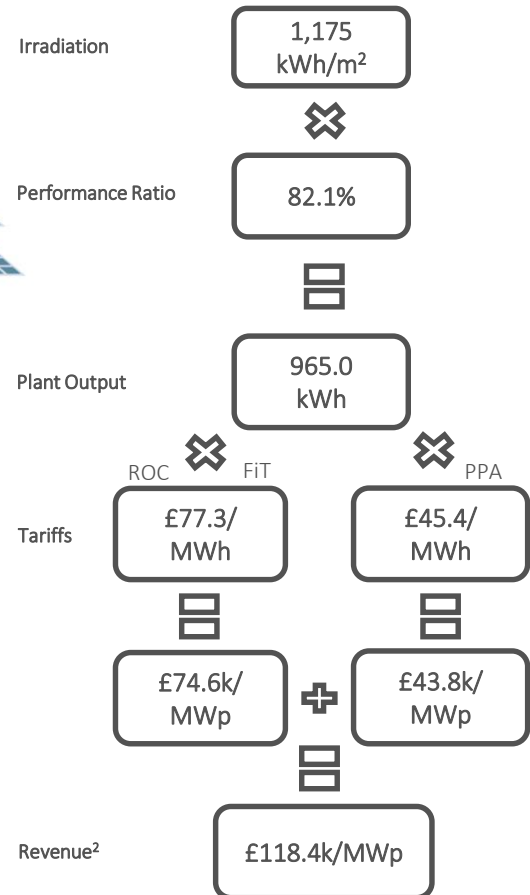
#### Output

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



### Revenue Generation Process

*Actuals achieved in 2018 per MWp<sup>1</sup>*

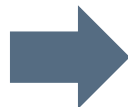


# CONSOLIDATED PORTFOLIO EARNINGS

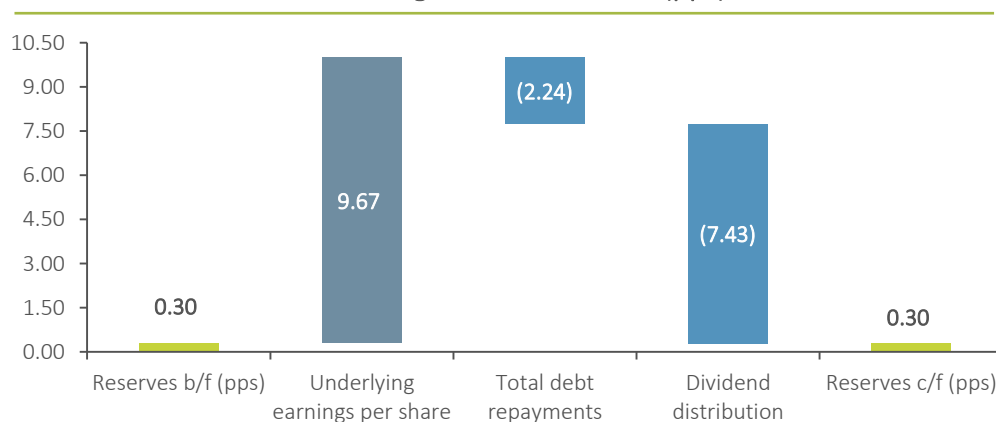
Strong portfolio income allows debt amortisation and 7.43p distribution

	Full year ending June 2018 (£m) <sup>1</sup>	Full year ending June 2017 (£m) <sup>1</sup>	17/18 Commentary
Portfolio Income	57.9	49.2	Includes £1.7m liquidated damages earned in the period
Portfolio and project finance interest costs	(13.6)	(12.1)	£0.7m interest payments for Project Durrants
<b>Total Portfolio Income Earned</b>	<b>44.3</b>	<b>37.1</b>	
Group Operating Costs*	(4.3)	(4.2)	Ongoing charges (annualised): 1.04%
Group Third Party Interest Costs	(4.2)	(4.4)	Interest on Aviva long-term & RCF financing
<b>Underlying Earnings</b>	<b>35.8</b>	<b>28.5</b>	

Underlying earnings of £35.8m =  
 9.67 pps  
 +  
 Reserves of 0.30 pps  
 =  
 9.97 pps



BSIF earnings & dividend flows (pps)<sup>2</sup>



# BSIF VALUATION PARAMETERS

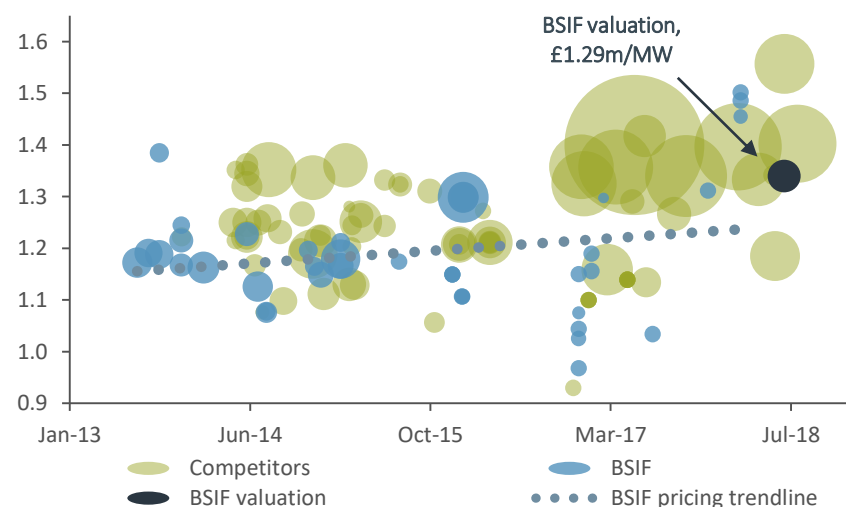
## Market activity maintains pricing tension for UK solar assets

### Commentary<sup>1,2</sup>

- Continued competition for large scale UK solar assets has meant the Director's valuation is benchmarked at £1.29m/MWp (£1.28m/MWp in June 2017) and underpinned by three main assumption changes:
  - Fall in the blended **long term power forecast** (c.8% from Jun 17);
  - Adoption of **interest shielding** from £80m Eurobonds following passing of the Finance Bill in November 2017;
  - **Reduction in WACC of 0.50%** in FY 2017/18 to 5.65% (June 2017: 6.15%).
- The **£1.29m/MW benchmark** is conservatively backed by the last two years of solar market transactions in the UK.
  - The pricing of secondary purchases has been reported at prices between £1.29m/MW and £1.35m/MW (see bottom right chart).
- **NAV of £419m** as of 30 June 2018, compared to £409m in June 2017.
- **Total NAV return** (inc. dividends) of **c.9.25%** for the financial year ending 30 June 2018.
- **Underlying EPS of 9.67pps** as of 30 June 2018 vs 8.32pps in June 2017.

Valuation (£m) <sup>1</sup>		Valuation Parameters <sup>1</sup>	
Component	June 2018	Component	June 2018
Portfolio EV	592.5	Cost of equity	7.26%
Project Co Debt	-12.5	Cost of debt	2.7%
Project Net Current Assets	24.2	Leverage	35%
<b>Directors' Valuation</b>		<b>WACC</b>	
	<b>604.2</b>		<b>5.65%</b>

### UK solar market pricing (£m)<sup>2</sup>

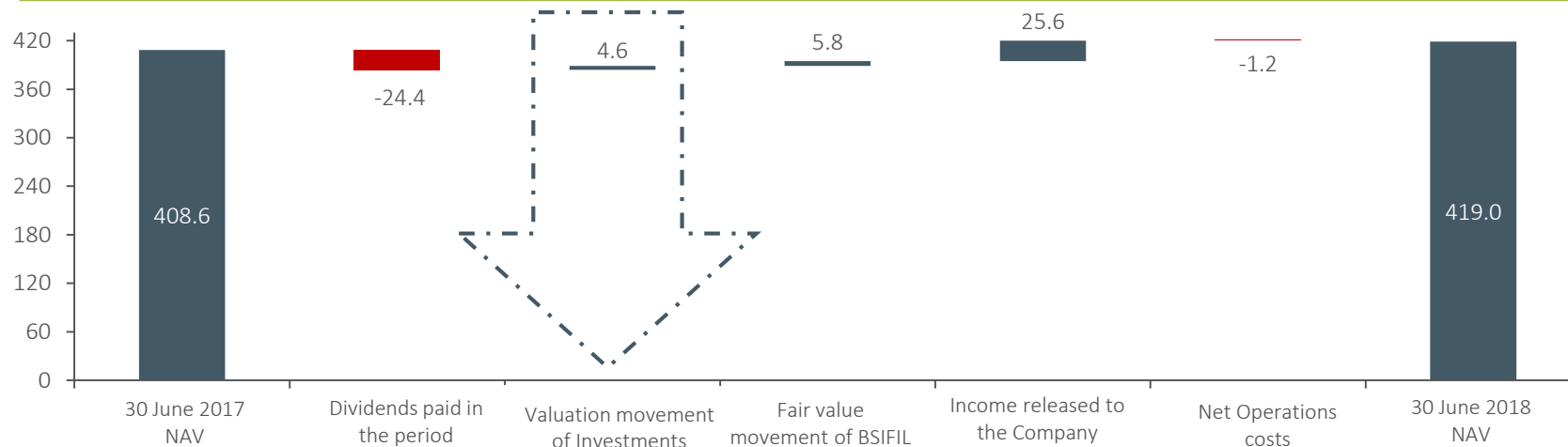




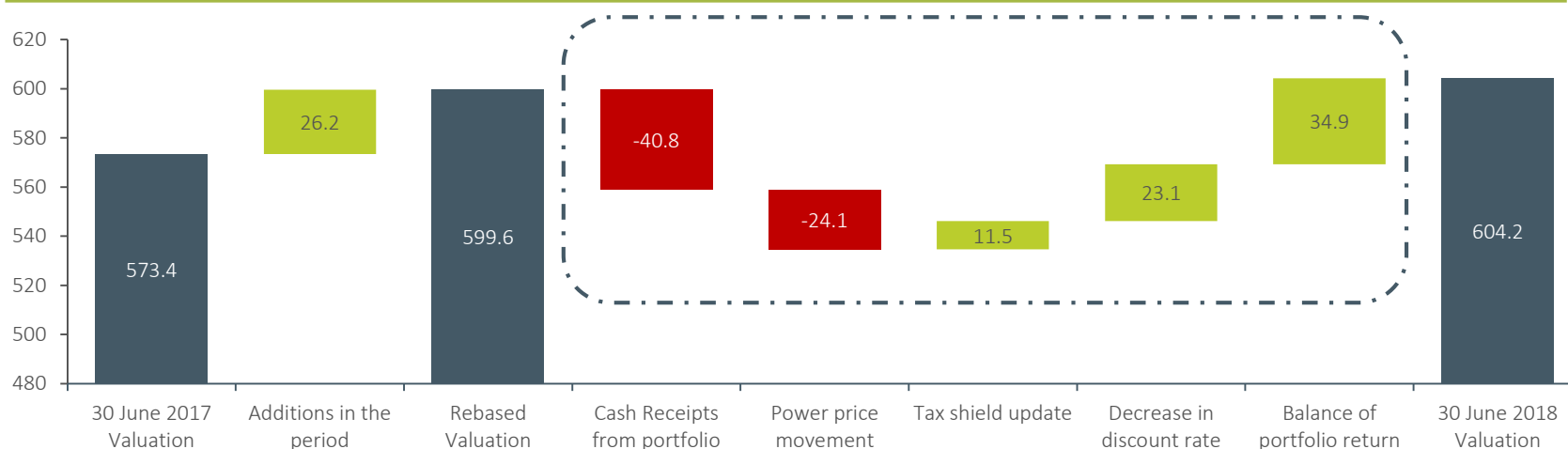
# NAV CONSISTENT WITH MARKET PRICE OF £1.29m/MW

## Underpinned by lower discount rate and conservative interest shield uplift

NAV Movement in Period (£m)<sup>1</sup>



Portfolio Valuation Movement in Period (£m)<sup>1</sup>



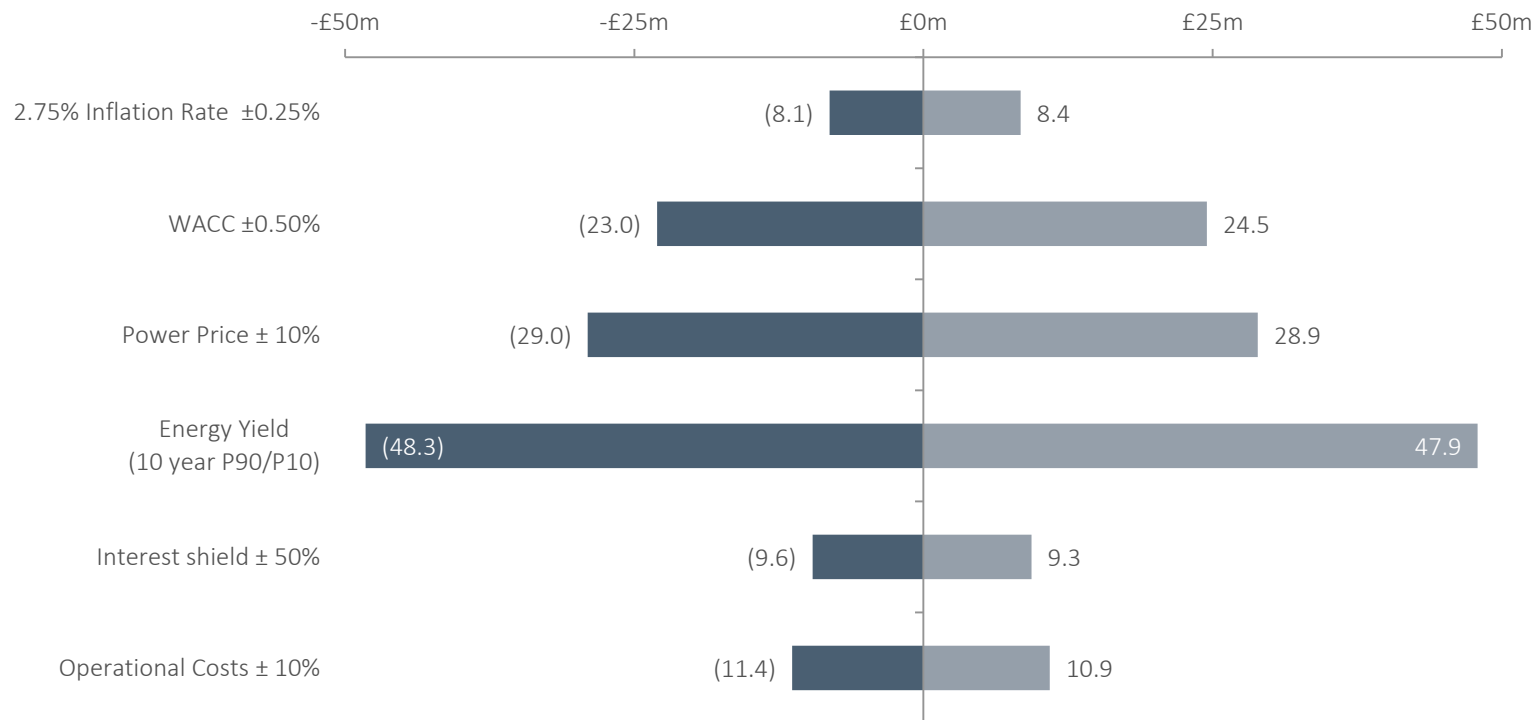
# SENSITIVITY ANALYSIS

## BSIF valuation remains robust against fluctuations of key parameters

### Commentary<sup>1</sup>

- With the introduction of BEPS (Base Erosion and Profit Shifting) the Company has now included additional interest shielding in relation to c.£80m of intercompany Eurobond loans.
- Total interest shielding within the Company's valuation is now equivalent to c.17.7% of EBITDA.

### Directors' Valuation<sup>1</sup>: **£604.2m**



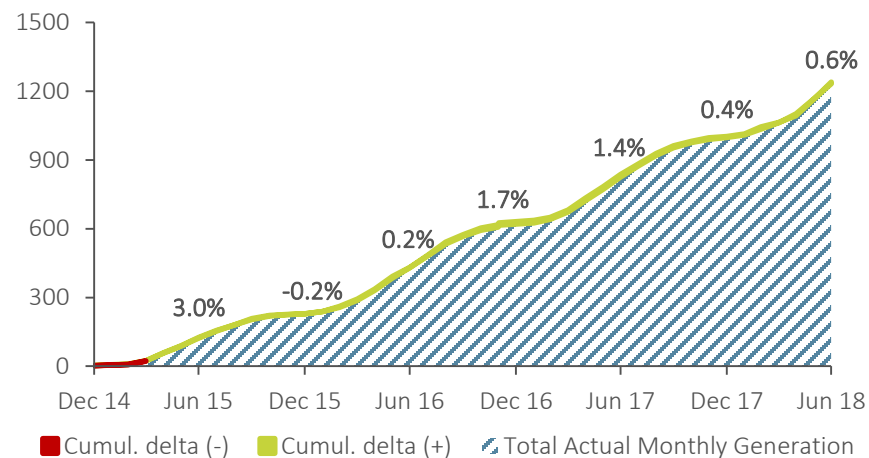
# OPERATIONAL PERFORMANCE

## Bluefield Services drives tangible increase in profitability

### Commentary

- The company has progressed from a focus on growth in the asset base to a focus on increased operational performance, aiming to maximize income per MWp.
- The Investment Adviser has enhanced its focus on initiatives that seek to enhance and create additional value for the portfolio, through the optimisation of both operations and revenues.
- Bluefield's technical arm Bluefield Services has delivered an outstanding performance<sup>2</sup>:
  - 5,400 hours analysing plant performance.
  - 300 hours assessing performance calculations for milestone payments.
  - 1,750 hours onsite inspecting the portfolio.

### Cumulative generation vs. forecast (GWh)<sup>1</sup>



### Monitoring station at Bluefield Services HQ in Bristol



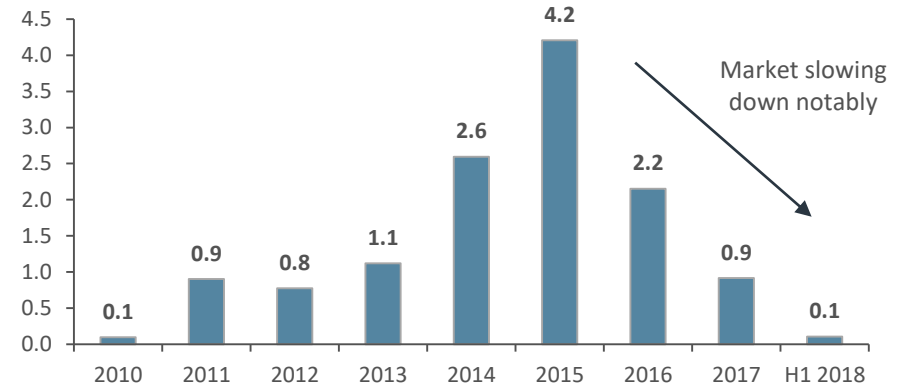
# UK SOLAR MARKET OVERVIEW

## Primary market activity continues to fade; pricing increases

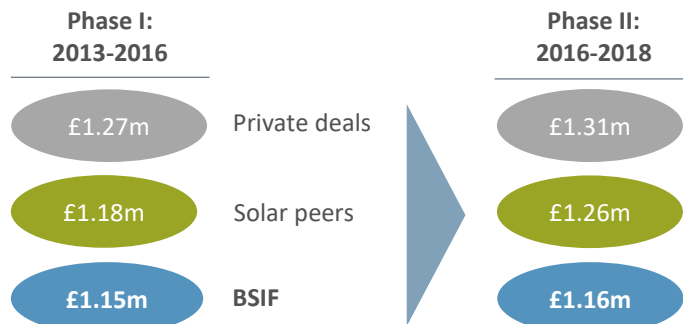
### Commentary

- The slowdown in the UK solar market continued in 2018, reaching the **lowest levels of primary activity** seen since before 2010.
- **Market prices have leapt from 2016 onwards** to a higher cluster, paralleling the market slowdown (bottom right chart).

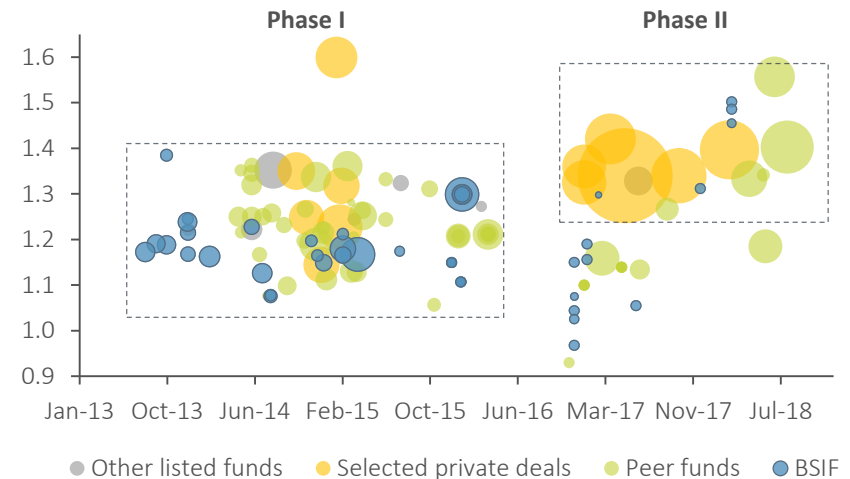
UK solar market capacity additions (GW)<sup>1</sup>



UK solar market price transition (£m/MW)<sup>2</sup>



UK solar market price clustering (£m/MW)<sup>2,3</sup>



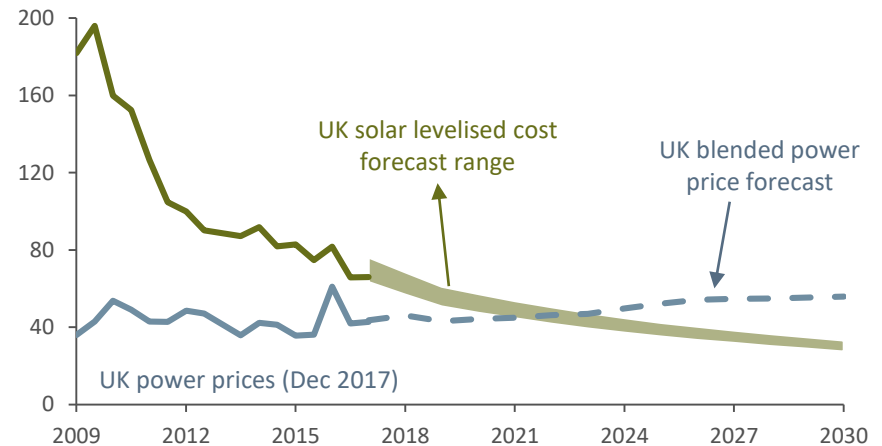
# UNSUBSIDISED RENEWABLE ENERGY IN THE UK

## Improving solar economics offers prospects for unsubsidised PV projects

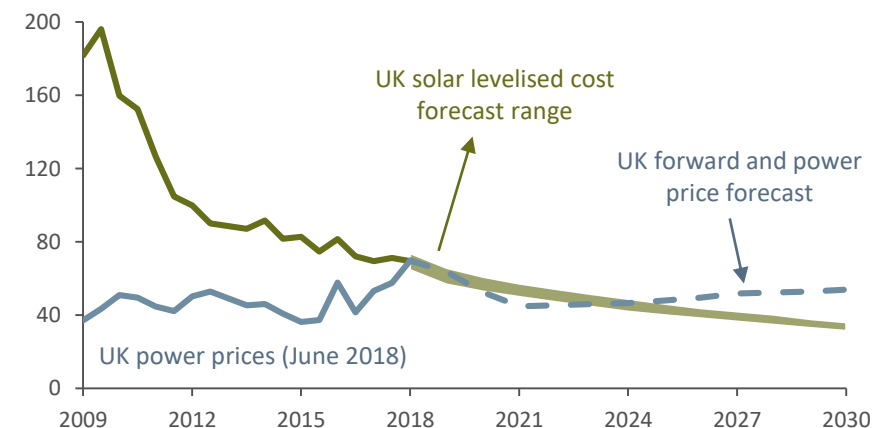
### Levelised cost of electricity (LCOE)

- The cost of producing electricity from solar PV has dropped from close to £200/MWh to around £60/MWh in 2017.
- In September 2018, the European Commission terminated the restriction on the sale of solar panels from China.
- Wholesale power prices have increased in 2018 beyond December 2017 expectations.

UK solar LCOE vs power prices – Dec 2017 (£/MWh)<sup>1,2</sup>



UK solar LCOE vs power prices – H1 2018 (£/MWh)<sup>1,2</sup>



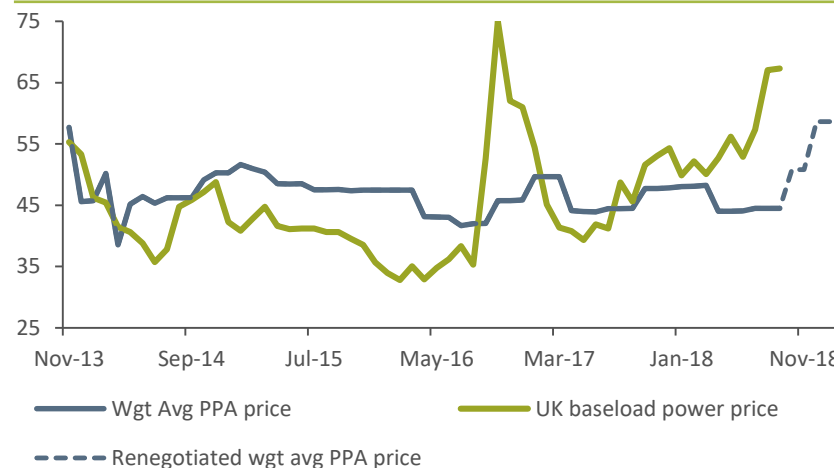
# HIGHER POWER PRICES TO BOOST TOP LINE REVENUE

## BSIF's PPA strategy captures recent increases in power prices

### Taking advantage of higher power prices

- BSIF's latest weighted average PPA price has increased significantly to new post-IPO highs, lifting the portfolio's PPA price range accordingly.
- PPA price range has increased from a mid range of £48/MWh between Q4 2013 and Q2 2018 to a mid range of £57/MWh from end of Q2 2018 onwards.
- These higher prices are only beginning to feed into the Company's revenues.

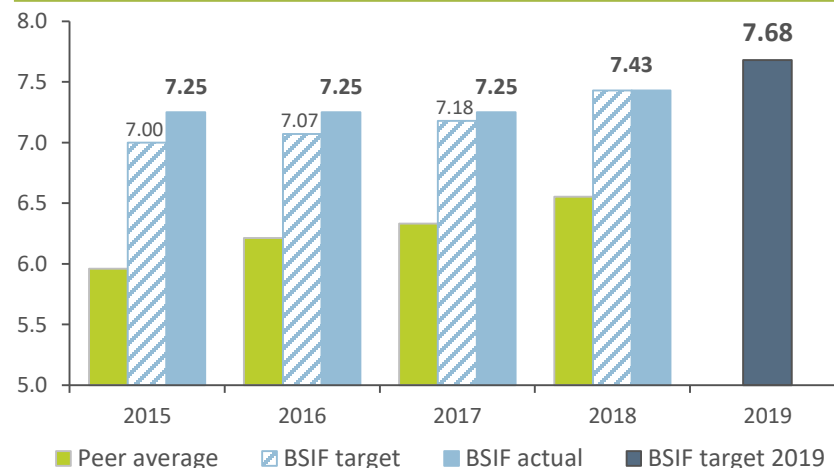
Average PPA price and UK power price (£/MWh)<sup>1</sup>



### Dividends to continue increasing with inflation

- The higher top line revenue will be supportive of our full payout dividend policy increasing with inflation<sup>2</sup>.
- BSIF continues to be the **highest paying dividend company in the sector** and is committed to increase the dividend target for the year ending June 2019 to **7.68 pence per share**.

Historic dividend: BSIF vs peers (pps)<sup>1</sup>



# CONCLUSION

## Message from the Chairman

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*This year has marked another very good year for Bluefield Solar. We have delivered our target dividend of 7.43 pence per share (pps), a 0.18pps increase on the two previous annual distribution totals and in line with our key objective to raise dividends by RPI from a base of 7.00pps in our first full year of operations.*

*Our NAV total return for the year to June 2018 was 9.25% with shareholder total returns surpassing this at 11.7%. In the five years since IPO, total returns for shareholders on a NAV and share price basis have both exceeded 50%, a commendable return for a defensive income product in a very low interest rate environment.*

*Maintaining this robust performance, we continue to optimise our revenue streams from the existing portfolio through strong operational management from Bluefield Services.*

*We have remained disciplined with regard to our acquisition activity due to the present high transaction values evident in the secondary market for solar assets. We look forward to the probability that in the not too distant future that we should be able to invest in new solar projects which deliver satisfactory returns without support from government subsidy.*

*We have also focused on amortising our Aviva long term financing, a prudent strategy which will support our longer term income distributions. In keeping with this we have confirmed our dividend target for the financial year ending June 2019 of 7.68 pence per share, again in line with the RPI change for July 2018, and after the planned debt amortisation in the year.*

**John Rennocks, Chairman, 26 September, 2018**

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