

Bluefield Solar Income Fund Limited

Interim Report and  
Unaudited Condensed Interim Financial  
Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

Company Registration Number: 56708



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## General Information

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### **Board of Directors** (all non-executive)

John Rennocks (Chairman)

Paul Le Page (Chairman of Audit Committee)

John Scott (Senior Independent Director)

Laurence McNairn

### **Investment Adviser**

Bluefield Partners LLP

53 Chandos Place

London, WC2N 4HS

### **Registered Office**

Heritage Hall

PO Box 225

Le Marchant Street

St. Peter Port

Guernsey, GY1 4HY

### **Administrator, Company Secretary and Designated Manager**

Heritage International Fund Managers Limited

Heritage Hall

PO Box 225

Le Marchant Street, St. Peter Port

Guernsey, GY1 4HY

### **Sponsor, Broker and Financial Adviser**

Numis Securities Limited

The London Stock Exchange Building

10 Paternoster Square

London, EC4M 7LT

### **Independent Auditor & Reporting Accountants**

KPMG Channel Islands Limited

Glategny Court, Glategny Esplanade

St. Peter Port

Guernsey GY1 1WR

### **Legal Advisers to the Company**

(as to English law)

Norton Rose Fulbright LLP

3 More London Riverside

London, SE1 2AQ

### **Registrar**

Capita Registrars (Guernsey) Limited

Mont Crevelt House

Bulwer Avenue, St Sampson

Guernsey, GY2 4LH

### **Legal Advisers to the Company**

(as to Guernsey law)

Carey Olsen

PO Box 98

Carey House

Les Banques

St Peter Port

Guernsey, GY1 4BZ

### **Receiving Agent and UK Transfer Agent**

Capita Registrars Limited

The Registry

34 Beckenham Road,

Beckenham

Kent, BR3 4TU

### **Principal Bankers**

Royal Bank of Scotland International Limited

Royal Bank Place

1 Glategny Esplanade

St Peter Port

Guernsey, GY1 4BQ

## Highlights

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- The Company delivered underlying earnings<sup>1</sup> of £11.7 million in the period. This enabled a fully covered first interim dividend of 3.25 pps to be paid in November 2016 in addition to fully covering debt service including both interest and principal repayment.
- NAV has increased to 105.07 pps (30 June 2016: 99.39 pps). The WACC used is unchanged from December 2015 and June 2016 at 6.6%.
- The equity cash flows upon which the NAV is calculated imply a return on equity over the 25 year life of the cash flows of 8.3%, with zero terminal value. This attractive return has been enhanced by the Company's success in securing long term, fully amortising debt at a blended cost of 2.1%, based on RPI as at 31st December 2016.
- In September 2016, the Company announced a long term financing agreement with Aviva Investors. The £187 million facility is fully amortising over 18 years and has two tranches: £121.5 million is fixed at a cost of 2.875% and £65.5 million has a cost of 0.70% + RPI.
- The Aviva Investors financing replaced the pre-existing RCF. The Company also agreed a further amended and restated £30 million RCF with RBS.
- An oversubscribed placement of new shares in October 2016, raised gross proceeds of £60.6 million.
- The Company completed 6 acquisitions amounting to 23.1MWp, taking the Company's total capacity to 424.3MWp.
- Portfolio energy generation outperformed by 4.6% ahead of budgeted expectations delivering 185.1GWh versus budget of 176.9GWh.
- The Company has now paid dividends of 21.75p since listing in July 2013.

1. Underlying Earnings is an Alternative Performance Measure employed by the Company to provide insight to the Shareholders by definitively linking the underlying financial performance of the operational projects to the dividends declared and paid by the Company. A reconciliation to 'Investment basis' accounting is provided within the Financial Analysis section on page 32.

## Highlights (continued)

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### Results Summary:

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	Six months ended 31 December 2016
Total operating income	<b>£40,903,823</b>
Total comprehensive income before tax	<b>£40,342,638</b>
Underlying earnings	<b>£11,646,980</b>
Earnings per share	<b>12.15p</b>
Underlying EPS <sup>2</sup>	<b>3.76p</b>
Total dividend for the year ending 30 June 2016	<b>7.25p</b>
First interim dividend for the year ending 30 June 2017 (paid 4 November 2016)	<b>3.25p</b>
NAV per share	<b>105.07p</b>
Total Return <sup>3</sup>	<b>12.0%</b>
Total Return to shareholders <sup>4</sup>	<b>12.7%</b>

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2. Underlying EPS is calculated using underlying earnings divided by the number of shares in issue at the time of payment of the first interim dividend in respect of financial year 2017.

3. Total Return is based on NAV per share movement and dividends paid in the period

4. Total Return to shareholders is based on share price movement and dividends paid in the period

# Corporate Summary

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## **Investment objective**

The investment objective of the Company is to provide shareholders with an attractive return, principally in the form of regular income distributions, by investing in a portfolio of UK - based solar energy infrastructure assets.

## **Structure**

The Company is a non-cellular company limited by shares incorporated in Guernsey under the Law on 29 May 2013. The Company's registration number is 56708, and is regulated by the GFSC as a registered closed-ended collective investment scheme. The Company's Ordinary Shares were admitted to the Premium Segment of the Official List and to trading on the Main Market of the LSE following its IPO on 12 July 2013. The issued share capital during the year comprises the Company's Ordinary Shares denominated in Sterling.

The Company has the ability to use long term and short term debt at the holding company level as well as having long term, non-recourse debt at the SPV level.

## **Investment Adviser**

The Investment Adviser to the Group during the period was Bluefield Partners LLP which is authorised and regulated by the UK FCA under the number 507508. In May 2015 BSL, a company with the same ownership as the Investment Adviser, commenced providing asset management services to the investment SPVs held by BSIFIL.

# Chairman's Statement

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## Introduction

I am pleased to announce another strong set of results with positive news across a broad set of measures. The long-term financing agreement with Aviva Investors, signed in September, gives the Company the strongest platform from which to deliver, over the long term, sector-leading underlying earnings and dividends. The Company now has the lowest reported cost of debt financing in the sector, the lowest investment adviser fee and the highest dividend. Last, but not least, the portfolio has delivered significant energy outperformance against expectations.

We paid a 3.25 pps first interim dividend as we have done for the same period in the two previous financial years. The NAV has risen to 105.07 pps reflecting adoption of new power forecasts, inflation expectations and our move to a blended power price forecast. There is potential for further growth in our NAV as the power price market and long term forecasts continue to improve.

My statement will focus on the five key areas that are creating or delivering a premium return for our shareholders: (i) the introduction of attractive long term financing; (ii) the continued strong underlying earnings and corresponding dividend; (iii) an increasing net asset value and attractive equity returns; (iv) an oversubscribed equity raise and accretive acquisitions; and (v) our value accretive asset management. The period has also seen the sector further mature such that it is becoming easier for investors and analysts to make more informed decisions about the absolute, and relative value, of the Company. We hope, as always, that the transparency of this document helps in this regard.

## Long Term Financing

In September 2016, we announced our LTF agreement with Aviva Investors. The all-in cost of the £121.5 million fixed price loan at 2.875% interest and the £65.5 million index linked element at 70bps plus RPI is highly attractive both in absolute terms and relative to other comparable financings in the sector. The financing will deliver significant bottom line savings for the benefit of shareholders. Away from these financial benefits are some equally important but less heralded elements.

The loans are for a tenor of 18 years and 3 months, fully amortising over 18 years. This means that, beyond the element driven by RPI, the Group does not have any interest rate risks or bullet repayments on the LTF for the full term. We think this is in the best interests of our shareholders as we are not deferring payment day which could create refinancing risk in the future.

The agreement of the LTF means that on the Group's base case projections, the long term debt service burden is nearly 3 times covered by earnings. This conservative position has been achieved because of relatively low levels of overall leverage (c.34% to GAV\*), combined with low interest rates. The Company's acquisition strategy has ensured that the right portfolio of operating assets is in place and has enabled the Group to achieve sensible conditions as part of the financing partnership with Aviva Investors that are supportive of our core strategies, particularly surrounding PPA strategy.

## Underlying Earnings and Dividends

The Company has, for the third year in succession, delivered earnings in the period of 3.0 pps. Just before the share placement in November 2016, the Company paid to the holders of existing shares the earnings of 3.0 pps for the period to date, together with 0.25 pps retained from the financial year 2015/16, resulting in a first interim dividend of 3.25 pps. Underlying earnings should see further support as the impact of higher priced power contracts feed into the portfolio.

The Company has matched or exceeded its cash generation or dividend objectives in each year since listing in 2013 and is, we believe, on track to do so again for the current financial year. This has enabled us to pay shareholders dividends for our first three financial years totalling 4.0 pps, 7.25 pps and 7.25 pps, respectively, and our first interim dividend for the current year was 3.25 pps. Our cash generation has also enabled us to fully cover all of our debt service requirements, both interest and the required capital amortisation.

\* Gross Asset Value calculated on the Investment Basis including debt held at SPV level.

## Chairman's Statement (continued)

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Our income stream is inevitably seasonal and for that reason our largest interim dividend will come at the end of the summer season. However we intend henceforth to seek to smooth the profile of dividends, while retaining our key objective of increasing the total payments for the year in question in line with RPI. In the last two years it has also been appropriate to distribute a larger first interim dividend representing all our achieved cash generation, just ahead of the placing of new shares, so that a level playing field is created between existing shareholders and those subscribing for new shares. Notwithstanding our wish to offer shareholders a smoother dividend profile, in the event of future placings and a consequent need to distribute accumulated earnings ahead of the issue of new shares we would expect to revert to the historic pattern of dividends.

### **Net Asset Value & Equity IRR**

The NAV has risen from 99.39 pps at 30 June 2016 to 105.07 pps at period end. This principally reflects the adoption of an assumed 2.75% RPI assumption and an increase in power forecast including the adoption of an equal blend of power curves from the two leading forecasters in the market. We have taken this step to reduce the timing risk associated with using a single curve in the more volatile market environment. We have also fallen into line with the sector on rising inflation expectations and have moved to a long term inflation assumption of 2.75% (formerly 2.5%).

Apart from this, all other assumptions are substantially unchanged. The Company's WACC discount rate remains at 6.6%. The uncertainties in the financial and economic climate from the Brexit decision, and an increasingly uncertain picture globally, have contributed to our decision to remain conservative in our approach to discount rates and other valuation parameters. This reflects our market expectations of WACC, rather than our own position, which following our refinancing is at a significantly lower level. Based upon the actual cost of debt achieved by the Group, the implied equity return (or 'equity discount rate') of the NAV is 8.3% at portfolio asset level netting to 7.1% after all group level costs.

WACC varies with market conditions and we shall actively monitor any changes by reference to those used by other infrastructure companies and also by the rates implied by willing buyer/willing seller transactions for solar assets in the UK solar market. We acknowledge that, at present, the WACC and implied equity returns we have used in our NAV evaluations may appear conservative compared with current market conditions, albeit in a volatile market post the Brexit decision, and as the supply of new solar projects nears the end of the Government's subsidy and support initiatives.

### **Fundraise and Acquisitions**

In October 2016, we completed a short, and oversubscribed, equity placement of £60.6 million. This was raised in order to fund the acquisitions of a series of primary assets identified by the Company's Investment Adviser. In addition to the operating portfolio of just over 400MWp, the Company added a further five plants (currently under construction) committing £22.8 million for an energy capacity of 22.6 MWp during the period. The Company's first rooftop plant, a 0.5MWp industrial array constructed in 2011 and accredited under the 2011/12 FiT scheme, was also acquired in the period for a commitment of £2.2 million.

This investment approach continues the strategy adopted by the Company since IPO of seeking to find and fund assets through construction. At the time of writing, there are just a few weeks left to commission solar plants under the existing subsidy regime for the UK primary market and from April 2017, further acquisitions are likely to come from the secondary market. We will wait to see how the market develops, however I believe we will be able to look back and be pleased that we were able to grasp the opportunity to build the portfolio to a significant size based upon a highly efficient, and value driven, primary acquisition model that has prevailed for the past three years.

Our business model has delivered a high yielding portfolio of assets which, we are confident, will stand the test of time and deliver strong and growing dividends for our shareholders. As the market moves to an exclusively secondary market we can already see that the price of assets reflects a lower expected yield than has been the case in past years. Therefore, we intend to retain our discipline in only investing further into assets that are accretive to our shareholders' returns. We do not have to search for dilutive acquisitions and, as our model is essentially a 'full pay out' model, we do not have retained funds that will need to be reinvested. However, if we do identify further attractive assets, we are confident that they can be financed, without return dilution, through further equity and debt issues, offering attractive returns and with low cost of debt.



# Chairman's Statement (continued)

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## Asset Management

There has been very strong operational outperformance over the period driven by a high-quality portfolio (illustrated by low levels of contractual claims in the period) and high levels of energy generation (4.6% ahead of expectations at 185.1GWh versus a target of 176.9GWh).

As the Company matures, asset management will become of increasing importance to us. It is an exciting area for shareholders and one where the value-enhancing activities being undertaken by BSL, the Bristol based technical asset manager, are just beginning. They are working on a number of strategies that carry no risk to the Company's generating potential but could, if the economic case is compelling enough, be valuable to the Company and accretive to future revenues.

## Accounting

An amendment to IFRS 10 – *Investment Entities: Applying the Consolidation Exemption (Amendments to IFRS 10, IFRS 12 and IAS 28)* as issued in December 2014 has been adopted by the Company for these financial statements following adoption of the amendment by the EU in September 2016. This requires the Company to prepare IFRS financial statements which do not consolidate any subsidiaries that are themselves investment entities.

In order to provide clarity to shareholders, we have prepared pro forma financial information on the same basis as the Company's 30 June 2016 financial statements, which has been designated the Investment Basis, to facilitate a comparison of financial performance with prior years. Further explanation is provided in the Financial Analysis section.

## Outlook

With current dividends of 7.25 pps the Company offers shareholders very good value. As more investors become familiar with the sector, and competition for a predominantly fixed base of solar PV assets increases, this should have a positive effect on the Company's NAV and share price.

We have an improving backdrop in terms of the power markets and the capital structure in place that works well in a lower inflationary environment and is highly attractive in times of a higher inflation market. It is almost impossible today to find a financial product in the UK offering the potential for index linked returns in excess of 7% that are largely independent of capital market behaviour.

We are also only beginning the enhancement of the asset management journey, where we expect, over time, to see continued incremental improvements to generation. BSL will continue to explore all avenues for potential revenue enhancement for the benefit of our shareholders.

One simple, but important, discipline for the Company is that, as the market moves to being a secondary market, assets will be selected for acquisition only if they are accretive to our earnings and dividend returns. We are conscious of the views of our shareholders and our aim is to deliver the best possible returns over the long term and this is more important to us than growth for growth's sake.

**John Rennocks**

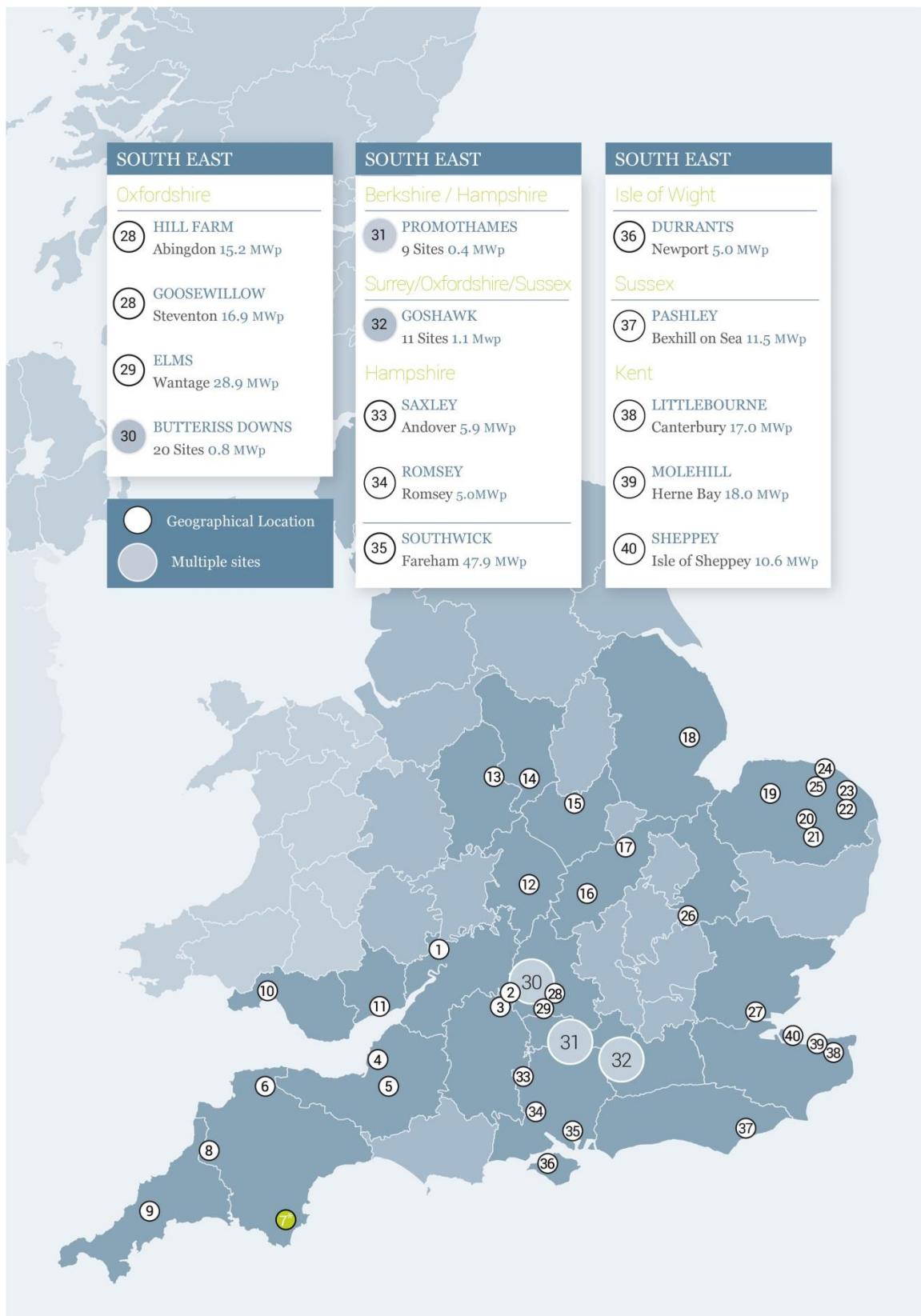
Chairman

22 February, 2017

## THE COMPANY'S INVESTMENT PORTFOLIO

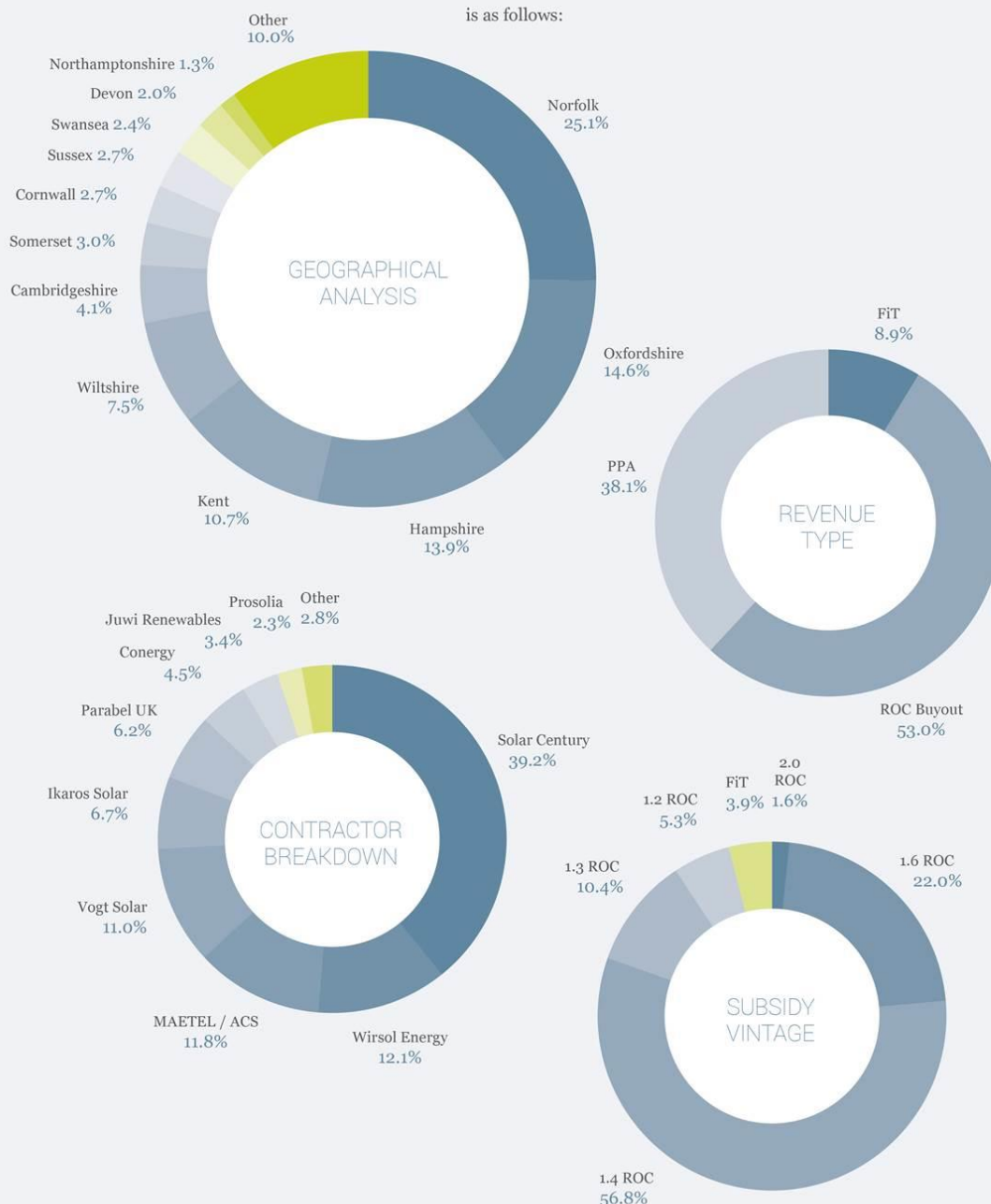
The Company has a geographically diverse group of assets containing a range of proven solar technology and infrastructure.

SOUTH WEST	WALES	EAST
<b>Gloucestershire</b> 1 GRANGE Newent 5.0MWp <b>Wiltshire</b> 2 PENTYLANDS Highworth 19.2 MWp 3 ROVES Sevenhampton 12.7 MWp <b>Somerset</b> 4 ASHLAWN Axbridge 6.6 MWp 5 REDLANDS Bridgwater 6.2 MWp <b>Devon</b> 6 CAPELANDS Barnstaple 8.4 MWp 7* OLD STONE Totnes 5.0 MWp *Aquired after Dec 2016 7* PLACE BARTON Totnes 5.0 MWp *Aquired after Dec 2016 <b>Cornwall</b> 8 NORTH BEER Launceston 6.9 MWp 9 TRETHOSA St Austell 4.8 MWp	<b>Swansea</b> 10 BETINGAU Swansea 10.0 MWp <b>Newport</b> 11 COURT FARM Llanmartin 5.0 MWp <b>MIDLANDS</b> <b>Warwickshire</b> 12 TOLLGATE Lemington Spa 4.3 MWp <b>Staffordshire</b> 13 WILLOWS Uttoxeter 5.0 MWp <b>Derbyshire</b> 14 BURNASTON Burnaston 4.1 MWp <b>Leicestershire</b> 15 GYPSUM Sileby 4.5 MWp <b>Northamptonshire</b> 16 KISLINGBURY Kislingbury 5.0 MWp 17 STAPLES Corby 0.5 MWp <b>Lincolnshire</b> 18 FOLLY LANE Boston 4.8 MWp	<b>Norfolk</b> 19 WEST RAYNHAM West Raynham 50.0 MWp 20 HARDINGHAM Wicklewood 14.9 MWp 20 HARDINGHAM X Wicklewood 5.2 MWp 21 ROOKERY Attleborough 5.0 MWp 22 SALHOUSE Norwich 5.0 MWp 23 FROGS LOKE North Walsham 5.0 MWp 23 BUNNS HILL North Walsham 5.0 MWp 24 HALL FARM East Beckham 11.4 MWp 25 OULTON Oulton 5.0 MWp <b>Cambridgeshire</b> 26 HOBACK Royston 17.5 MWp <b>Essex</b> 27 BARVILLS East Tilbury 3.1 MWp



## ANALYSIS OF THE COMPANY'S INVESTMENT PORTFOLIO

The Company's investment portfolio, analysed by geography, subsidy tariff, contractor and revenue as at 31 December 2016 is as follows:



# Report of the Investment Adviser

## 1. About Bluefield Partners LLP

Bluefield was established in 2009 and is an investment adviser to companies and funds investing in solar energy infrastructure. Our team has a proven record in the selection, acquisition and supervision of large scale energy and infrastructure assets in the UK and Europe. The team has been involved in over £1 billion of solar PV funds and/or transactions since 2008.

Bluefield was appointed Investment Adviser to the Company in June 2013. Based in its London office, Bluefield's partners are supported by a dedicated and highly experienced team of investment, legal and portfolio executives. As Investment Adviser, Bluefield takes responsibility, fully inclusive within its advisory fees, for selection, origination and execution of investment opportunities for the Company, having delivered 41 SPV investments to BSIF since flotation. Due to the strong expertise of the Investment Adviser, no additional transaction arrangement or origination service providers are employed by the Company and no investment transaction arrangement fees have been paid either to the Investment Adviser or any third parties.

Bluefield's Investment Committee has collective experience of over £15 billion of energy and infrastructure transactions.





## Report of the Investment Adviser (continued)

### 2. Portfolio Developments

#### *Portfolio Performance*

The Company's operating portfolio as at 31 December 2016 and the electricity generated in the half year is shown below:

<b>Plant</b>	<b>Total Investment Commitment</b>	<b>MWp</b>	<b>Generation FY16/17 (MWh)</b>
Hardingham (2 sites)	22.75	20.1	8,963
Goosewillow	19.01	16.9	7,846
North Beer	9.35	6.9	3,105
Hill Farm	17.30	15.2	6,741
Hall Farm	13.37	11.4	5,645
Saxley	7.00	5.9	2,775
Betingau	11.21	10.0	3,882
Sheppey	12.00	10.6	5,403
Pentylands	21.40	19.2	8,250
Durrants	6.45	5.0	2,253
Goshawk (11 sites)	2.01	1.1	526
Hoback	19.00	17.5	8,115
Capelands	8.62	8.4	3,781
Redlands	6.37	6.2	3,006
Ashlawn	7.60	6.6	3,123
Roves	14.00	12.7	5,744
Elms	32.75	28.9	13,495
West Raynham	55.87	50.0	22,755
Salhouse	5.61	5.0	2,249
Trethosa	5.78	4.8	2,116
Butteriss (20 sites)	2.26	0.8	334
Promothames (9 sites)	1.29	0.4	173
Southwick	61.04	47.9	22,544
Littlebourne	21.97	17.0	8,321
Molehill	23.10	18.0	8,414
Pashley	15.39	11.5	5,987
Bunns Hill	5.34	5.0	2,249
Folly Lane	5.28	4.8	2,211
Frogs Loke	5.61	5.0	2,264
Tollgate	4.63	4.3	1,934
Rookery	5.15	5.0	2,192
Romsey	5.82	5.0	2,405
Oulton	5.27	5.0	2,222
Grange	5.40	5.0	2,318
Burnaston	14.38	4.1	1,724
<b>Total</b>	<b>479.4</b>	<b>401.2</b>	<b>185,065</b>

## Report of the Investment Adviser (continued)

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As at 31 December 2016, the Company had an operational portfolio of 74 PV plants (including multiple sites referred to above), with a total capacity of 401.7 MWp. This includes an acquisition of a 0.5 MWp rooftop plant acquired on 28 December 2016 that is not included in the table above. In addition to the operating portfolio the Company also had a further 5 plants under construction; committing £22.8 million for an energy capacity of 22.6 MWp.

Located across England and Wales, the investments are geographically diverse, have been constructed by 11 experienced solar contractors and contain a diverse range of proven solar technologies and infrastructure.

In the 12-month period to 31 December 2016, the portfolio has continued to display strong operational performance with the performance ratio (the ratio at which a plant converts irradiation to electricity output) being above expectations by 1.8% net of grid outages in line with the performance in the 12 months to June 2016. This strong operational outperformance has combined with 3.7% above forecast irradiation in the 6 month period to 31 December, to deliver generation in the financial period that was overall 4.6% ahead of expectations (185.1GWh versus 176.9GWh).

The majority of the project portfolio companies remain protected by performance warranties provided by the EPC contractor (in addition to equipment warranties) backed by retentions or warranty bank bonds, applicable from each asset's provisional acceptance date. These warranties provide contractual entitlement to recovery of damages as a result of operational under-performance against the contractual performance warranty and as a result of defects.

Whilst there were no material outages in the period – planned or unplanned – that impacted the performance of the portfolio there were a number of instances where the Company exercised the strength of its contractual protections in relation to services provided by contractors which resulted in performance liquidated damages of £0.9m being earned.

The robust operational performance of the portfolio and the effective recovery of damages due from contractual protections highlight the success of our proactive approach to portfolio management and our effective engagement with the Company's asset manager, BSL, who through daily monitoring of the plants and constant contractor engagement have over the course of the period to 31 December 2016 spent in excess of 3,200 hours analysing plant performance, 42 days assessing performance calculations at critical contractual milestones (Performance acceptance testing, 1st / 2nd year performance tests), and 13 weeks visiting and inspecting the condition of the equipment and maintenance of the sites.

In addition to the operational outperformance and recovery of liquidated damages mentioned above, BSL have also achieved successes in the reduction of the duration of grid curtailments on project Trethosa through active engagement with DNOs.

### *Acquisitions in period*

During the 6 month period to 31 December 2016, the Company completed a further £25 million of acquisitions, with a combined energy capacity of 23.1 MWp, using proceeds from the £60 million equity raise in October 2016. The acquisitions covered 5 construction assets, all under the 1.2 ROC banding (2 contracted with Solarcentury for a total of 10.0 MWp and three with Parabel for a total of 12.6 MWp) as well as the Company's first rooftop plant, a 0.5 MWp industrial array, constructed in 2011 and accredited under the 2011/12 FiT scheme. The rooftop plant was partly owned by members of the Investment Adviser and is a related party transaction in respect of BSIFIL as disclosed in Note 15.

With the regulatory support for the UK primary solar investment market coming to an end due to the RO Scheme for new build solar projects terminating at the end of March 2017, the Company has been able to use its strong contractor relationships to continue to focus predominantly on implementing its proven investment strategy of purchasing construction assets with attractive rates of return.

## Report of the Investment Adviser (continued)

The acquisitions will result in an increase in scale of the Company's portfolio from 401.2 MWp at 31 December 2016 to 424.3MWp once operational.

Following the period end, the Company has subsequently closed the acquisition of a further two construction projects, for an invested cost of £11.2m and total of 10.0MWp, under a contract with Solarcentury.

The Investment Advisor is currently negotiating transactions for the deployment of the remaining balance of the October placement proceeds £20.3m in accordance with its deployment plan.

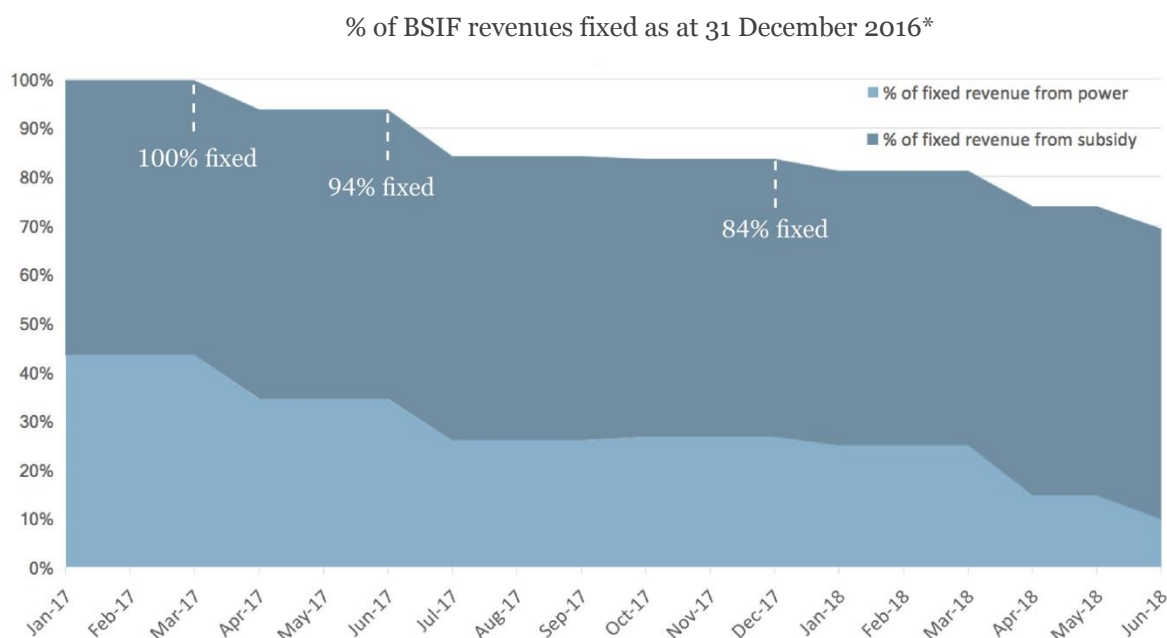
### PPA Strategy

Over the period the Company maintained its strategy to fix the price of power sale contracts for individual assets, not covered by long term contracts, for periods between 12 and 36 months.

For the c.75% of plant capacity that is not tied to long term contracts, the Company has also continued to implement the approach of fixing power prices for 25% of the portfolio each quarter, in order to mitigate the Company's exposure to seasonal fluctuations and short term events which have the potential to increase volatility in the price of electricity in the UK. The fixing period seeks to maximise potential revenues for the Company, whilst spreading exposure to short term seasonal power movements across the portfolio.

Prices can be fixed up to 3 months in advance of the commencement of the fixing period and PPA counterparties are selected on a competitive basis but with a clear focus on achieving diversification of counterparty risk.

The combination of the PPA renewal strategy applied during the period, and c.95 MWp of plants (c.25% of the portfolio) benefitting from 15 year PPAs with attractive fixed power prices until Q1 2018, means the Company is materially insulated from power price fluctuations over the next 12 months. Meanwhile the fact that 75% of the portfolio is contracted only on short term (12-36 month PPAs has meant that the Company has been able to benefit from the rising power price trend in recent months).



\*Assuming that the current RO terms are retained in PPA renewals

The graph above shows that the Company has a price confidence level of c.94% to June 2017 and c.84% to December 2017, respectively, over its revenue streams.

## Report of the Investment Adviser (continued)

Following the successful closing of the Company's long term facility in September 2016, the Company has retained the flexibility to continue to procure short term PPA contracts between 12 and 24 months for the proportion of the portfolio not currently contracted under 15 year PPAs. The Company also remains able to maximise potential economies of scale by taking advantage of opportunities only available to owners who can commit significant tranches of capacity.

Retaining this flexibility means that the Company has the opportunity to regularly tender out a large portion of its power to ensure it always achieves the most competitive pricing and avoids the greater discounts applied by offtakers when they are entering long term contracts.

### *Revenues and Power Price*

The portfolio's revenue streams in the period show that the sale of electricity accounts for 38% of the Company's income. Regulated revenues from the sale of FiTs, and ROCs accounted for 62%.

The average power price achieved through the quarterly fixing across the portfolio, accounting for seasonality weighting, was £43.7 per MWh (2015: £48.63 per MWh) This blended contracted price was 9.3% ahead of the day ahead market base load power prices over the equivalent period.

In June 2016, the Board appointed Cornwall Energy, a leading independent market intelligence adviser, to review existing PPA contracts and power sale strategies to provide feedback and insight. The findings of the review were positive in respect of both ROC capture rates and prices achieved for the sale of power.

During the period there has been increasing volatility of both peak load (average £45.31/MWh) and base load pricing (average £40.06/MWh). Over the past 12 months the Company's average fixed power price was £43.7/MWh average fixed power price, trending upward at the end of the period as power prices have increased. The recent high volatility of day ahead power prices is reflective of the diminishing reserve capacity in the UK electricity market and a series of issues with supply. Meanwhile, power prices have seen an upward structural shift following the depreciation of Sterling in the wake of the Brexit referendum result and growing concern regarding the future reserve capacity. While the Company's PPA strategy does not take day ahead power risk and therefore does not respond to this daily volatility, its approach of fixing power on a rolling quarterly basis has enabled it to lock in pricing advantage as the power market has trended upwards.

The impact of power prices on NAV is set out below in the valuations section.

### **Analysis of underlying earnings**

The total generation and revenue earned in the 6-month period by the Company's portfolio, split by subsidy regime, is outlined below.

Subsidy Regime	Generation (MWh)	PPA Revenue (£m)	Regulated Revenue (£m)*
FiT	7,126	0.3	1.8
2.0 ROCs	3,105	0.1	0.3
1.6 ROCs	41,782	1.8	2.9
1.4 ROCs	113,008	5.0	6.7
1.3 ROCs	20,044	0.7	1.1
<b>Total</b>	<b>185,065</b>	<b>7.9</b>	<b>12.8</b>

*\*ROC Recycle Revenue has been assumed to be zero in the period for accounting purposes.*

The Company includes ROC recycle assumptions within its long term forecasts and applies a market based approach on recognition. In the 6-month period to 31 December 2016 it has not recognised any potential benefit for the 6 months of ROC recycle for the period April 2016 - March 2017. Only when the recycle fund has been determined, in October 2017, will the Company recognise revenue due, if any.

## Report of the Investment Adviser (continued)

### Analysis of underlying earnings (continued)

The following table demonstrates that the underlying earnings generated were sufficient to both fully cover debt service including both interest and principal repayment while fully covering the first interim dividend of 3.25 pps for financial year 2016/17 and the above target full year dividends for financial year 2015/16 and financial year 2014/15 of 7.25 pps.

#### *Underlying Portfolio Earnings*

	Half year period to 31 Dec 16 (£m)	Half year period to 31 Dec 15 (£m)	Full year to 30 Jun 16 (£m)	Full year to 30 Jun 15 (£m)
Portfolio Revenue	20.7	12.7	35.6	22.7
Liquidated damages	0.9	0.4	0.9	0.8
<b>Portfolio Income</b>	<b>21.6</b>	<b>13.1</b>	<b>36.5</b>	<b>23.5</b>
Portfolio Costs	-5.0	-2.5	-7.1	-0.9
Project Level debt Service (inc repayments)	-0.7	-0.7	-1.4	-1.4
<b>Total Portfolio Income Earned</b>	<b>15.9</b>	<b>9.9</b>	<b>28.0</b>	<b>21.2</b>
Group Operating Costs*	-1.9	-2.1	-3.9	-3.1
Group Debt Costs	-2.3**	-0.6	-3.2	-0.8
<b>Underlying Earnings</b>	<b>11.7</b>	<b>7.2</b>	<b>20.9</b>	<b>17.3</b>
Group Debt Repayments	-2.4	0.0	0.0	0.0
<b>Funds available for distribution</b>	<b>9.3</b>	<b>7.2</b>	<b>20.9</b>	<b>17.3</b>
Bought forward funds	0.8	1.3	1.3	0.0
<b>Total funds available for distribution -1</b>	<b>10.1</b>	<b>8.5</b>	<b>22.2</b>	<b>17.3</b>
<b>Actual Distribution -2</b>	<b>10.1</b>	<b>9.0</b>	<b>21.4</b>	<b>16.0</b>
<b>Funds carried forward (1-2)</b>	<b>N/A</b>	<b>N/A</b>	<b>0.8</b>	<b>1.3</b>

\*Excludes transaction costs

\*\*Excludes one off release of loan arrangement fees related to the Company's amended and restated RCF.



## Report of the Investment Adviser (continued)

### Analysis of underlying earnings (continued)

The table below highlights the underlying Earnings per Share in relation to the underlying earnings above.

	Half year period to 31 Dec 16 (£m)	Half year period to 31 Dec 15 (£m)	Full year to 30 Jun 16 (£m)	Full year to 30 Jun 15 (£m)
Target Distribution	9.3	8.3	20.9	15.3
<b>Total funds available for distribution (inc reserves)</b>	<b>10.1</b>	<b>8.5</b>	<b>22.3</b>	<b>17.3</b>
Average Number of shares in year*	309,631,765	278,417,224	295,282,786	224,583,921
<b>Total funds available for distribution (pps) - 1</b>	<b>3.25</b>	<b>3.06</b>	<b>7.55</b>	<b>7.71</b>
Total Dividend Declared & Paid (pps) - 2	3.25	3.25	7.25	7.25
Reserves carried forward (pps)- 1-2	N/A	N/A	0.3	0.46

\*Average number of shares is calculated based on shares in issue at the time each dividend was declared.

A reconciliation of Total Portfolio Income to Investment basis accounting is provided in the financial analysis section of the accounts page 32.

## Report of the Investment Adviser (continued)

### 3. NAV and Valuation of the Portfolio

The Investment Adviser is responsible for advising the Directors in determining the Directors' Valuation and, when required, carrying out the fair market valuation of the Company's investments.

Valuations are carried out on a six monthly basis as at 31 December and 30 June each year and the Company has committed to procure a review of valuations by an independent expert not less than once every three years, most recently by EY for the year ending 30 June 2015.

As the portfolio comprises only non-market traded investments, the Investment Adviser has adopted valuation guidelines based upon the IPEV Valuation Guidelines as adopted by Invest Europe (formerly known as the European Venture Capital Association), application of which is considered consistent with the requirements of compliance with IAS 39 and IFRS 13.

Following consultation with the Investment Adviser, the Directors' Valuation adopted for the portfolio as at 31 December 2016 was £531.1 million, compared to £483.7 million as at 30 June 2016 and £324.2 million as at 31 December 2015.

A breakdown of the two key components of the Directors' Valuations over the last three consecutive 6-month periods is shown below:

<b>Valuation Component (£m)</b>	<b>Dec 16</b>	<b>Jun 16</b>	<b>Dec 15</b>
Portfolio DCF value	496.9	465.8	308.5
Projects at cost (amount invested)	25.0	0.0	10.2
Project Net Current Assets	9.2	17.9	5.5
<b>Directors' Valuation</b>	<b>531.1</b>	<b>483.7</b>	<b>324.2</b>

These items are outlined below in the portfolio valuation movement section.

#### Changes to Directors' Valuation methodology

During the financial period there have been a number of key developments which have impacted the Investment Adviser's recommendation to the Directors' Valuation:

- (i) The Company has closed long term (18 years and 3 months tenor from September 2016) fully amortising (over 18 years) leverage for the portfolio with Aviva Investors at a fixed rate of 2.875% on the £121.5m fixed rate component and 0.7% plus RPI on the £65.5m RPI indexed element;
- (ii) Following the 'Brexit' referendum, sterling depreciation, among other factors, has resulted in an increase in inflationary pressures in the UK and expectation of higher inflationary pressures in the future;
- (iii) UK electricity market capacity constraints, combined with higher costs of imported energy resulting from sterling devaluation, have resulted in short term increases in power prices, as well as independent forecasters projecting higher prices as a longer term trend. Recent volatility has resulted in a divergence between independent forecasts and movement in forecasts period on period; and
- (iv) The UK primary solar investment market will soon close to new business with the availability of the RO Scheme for new build solar projects terminating from the end of March 2017. This has coincided with an increase in secondary market activity. Most notably US NASDAQ listed solar yieldco, Terraform Power (TERP) announced in January 2017 the successful sale of its 365MWp UK solar portfolio to EFG Hermes for an announced c.£470m enterprise value (equivalent to £1.29m/MWp) while Primrose announced in December 2016 it had concluded secondary solar asset sales of 78MWp (to Greencoat) and 80MWp (to Equitix).

Each of these factors has been considered when determining the Directors' Valuation.

# Report of the Investment Adviser (continued)

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## Discounting Methodology and Discount Rate

The Directors' Valuation is based upon the discounting of the net unlevered, project cash flows of each investment held by the Company irrespective of whether the investment has project leverage or not. The discount rate applied on the project cash flows is therefore the WACC. This approach of discounting the unlevered cash flows with a WACC has been applied, and is consistent with the approach taken in every previous Directors' Valuation, and is intended to avoid asset valuations being distorted by different debt sizing or amortisation profiles. Having discounted the unlevered project cash flows, to establish a 'willing buyer – willing seller' enterprise valuation or 'GAV' the project level debt (if any) is deducted to establish the 'equity value'. It is notable that of the 41 SPVs held by the Company, only one (Project Durrants) has asset level debt (being £13.6 million at the financial period end).

Consistent with June 2016 and December 2015, the Directors' Valuation applies a WACC discount rate of 6.6%.

This discount rate does not incorporate any tax shield from leverage (which is instead adjusted within the forecast portfolio cash flow based upon the actual amortisation profile and interest rates applicable to the contracted debt facilities).

The WACC compares to solar sector peer group disclosed WACC rates of 6.1-6.2%. While we recognise an early trend toward falling cost of capital for UK solar assets, most recently typified by the 365MWp TERP UK solar portfolio sale for a value of £1.29m/MWp for a largely 1.4ROC portfolio, in an environment of increased volatility of exchange rates, inflation and risk free rates, we wished to establish longer term trends before adopting further changes to our discount rate.

The Directors' Valuation can equally be described in terms of the application of an equity discount rate to the portfolio equity cash flows (after deduction of the actual debt service costs associated with the contracted LTF). This equity discount rate, implied by the Directors' Valuation, is 8.3% on a portfolio which has long term leverage of 34%, based on the Company's GAV as at 31 December 2016 of £587m\* as at the valuation date and implies that the future cash flows of the Company, based upon the conservative assumption of a zero terminal value after 25 years, are expected to deliver an 8.3% gross annualised return on today's NAV.

This attractive return level is indicative of the strong return characteristics of the solar sector.

In addition it highlights the strong expected equity cash flow performance of the Company relative to peer group which results from the highly attractively priced long term debt.

As a result of the Company having the lowest on-going investment cost basis in the sector of 1.14% the resulting net expected return to Shareholders implied by the NAV is c.7.1%

This attractive net return expectation is underpinned by relatively predictable cash flows which are majority regulatory fixed and linked to RPI. The balance of revenues is driven by power prices and therefore subject to market sensitivity which is explored further in the sensitivity section.

The equity discount rate of 8.3% is considered to be conservative given the combination of low leverage and the absence of asset level leverage (with the exception of the £13.6 million in Project Durrants).

As set out in the section below on debt financing, during the financial period the Company has secured the lowest cost long term debt among the peer group resulting in materially lower debt service costs over the lifetime. Using the peer group approach to valuation would therefore result in a significant premium to the Company's NAV which has not been reflected in the Company's methodology.

\* Gross Asset Value calculated on the Investment Basis including debt held at SPV level.

# Report of the Investment Adviser (continued)

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## Discounting Methodology and Discount Rate (continued)

The DCF has been applied on an asset portfolio with an average assumed operational life from commissioning of 25 years. The Directors have elected not to adopt longer assumed cash flow life even for assets with extended lease or planning permission at this early stage in the life of the portfolio.

Following an increase in inflationary expectations in the UK, the Directors have elected to adopt an increase to forecast RPI from 2.5% to 2.75%. This brings the Company's valuation methodology into line with the peer group and has been applied consistently across both revenues and costs.

## Power Price

The Directors' Valuations have consistently been based on the forecast power curve from one leading independent power price forecaster. This approach was considered to be the purist way to apply future power prices within its valuations to prevent valuation movement distortion (positive or negative) that could arise if a blended or adjusted approach to forecast curves was applied. All valuations since the Company's IPO in July 2013 have been based upon a power curve from a single leading independent forecaster. During the period since IPO significant movements have occurred in power prices and a divergence between the views taken by different forecasters and increased levels of volatility in their forecast power prices over time. The timing of the publication of forecasts has also diverged in the past year which increases both the timing risk and sampling risk associated with using a single forecast source.

Forecaster	December 2016
	Portfolio DCF Value (£m)
Leading independent power forecaster 1*	486.9
Equal blend of leading independent power forecasts	496.9
Leading independent power forecaster 2	506.8

\* Forecaster used in all previous BSIF valuations

As highlighted by the table, the selection of power forecast has a significant impact on valuation. The Company's 2014/15 and 2015/16 valuation approach, by utilising the power forecaster which is currently applying a more conservative power curve over the period of the discounted cash flow, built in a significant conservatism versus peers utilising the alternative forecaster or blended forecasts.

In order to avoid sensitivity to the timing or opinion taken by a single forecaster, and as a direct result of these market developments, the Directors have elected to adjust their forecast approach by adopting an equal blend of the forecasts of the two leading independent forecasters. Applying this approach is expected to smooth sensitivity of valuation to forecast timing (the Company's original forecaster released its latest forecast in October 2016 with updates coming only after the period end, while the newly added forecaster produced its latest forecast in December 2016). Similarly, by taking a equal blended approach it is intended that the Company will avoid divergence in valuation approach due to different opinions of the forecasters. The blended forecast used within the latest Directors' Valuation is based on forecasts released in October 2016 (forecaster 1) and in December 2016 (forecaster 2) and implies an annualised growth in real power prices over the 25 year forecast of 1.9%

The DCF for each project applies the contractually fixed power price applicable to each solar PV asset until the end of the fixed period and, thereafter, the blended independent forecast price. As in previous valuation cycles the short term pricing within the energy price forecast used was compared by the Investment Adviser to PPA prices achievable in the market for its solar assets and considered to accurately reflect the market without discount or premium.

# Report of the Investment Adviser (continued)

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## Impact of Long Term Debt

During the financial period, BSIFIL took on £187m of long term debt from Aviva Investors Ltd. This debt has been contractually fixed for a tenor of 18 years and 3 months (from September 2017), fully amortising over 18 years. Notwithstanding the lower than expected cost of debt (at fixed rate of 2.875% on £121.5m and 0.7% indexed on £65.5m), as set out on page 21, the Directors have elected to maintain the WACC at 6.6%, which has resulted in an increase in the implied equity discount rate during the period. As such, the only impact of the incorporation of long term debt to the portfolio on the Directors' Valuation has been the tax shield from debt. Consistent with previous periods the valuation assumes that there is zero tax shield from shareholder debt and only external debt results in any tax shield. Due to the lower than expected cost of debt the tax shield has reduced with a small resulting reduction in Directors' Valuation of £0.4m. The average interest tax shield from debt equates to 8% over the life, being 15% in 2017 and falling thereafter with amortisation of the debt.

As such the extent of shielding is significantly below the maximum permissible level indicated under the BEPS (base erosion profit shifting) consultation and leaves potential room for upside through additional qualifying interest shielding.

## Other Cash flow Assumptions

Consistent with the valuation approach taken in previous periods, the Directors' Valuation does not amend long term plant performance forecasts based upon short term performance while the plants remain within the warranty period and subject to outstanding contractual testing obligations. No material changes have been made regarding regulatory revenue or cost assumptions. During the period business rates have been amended and updated business rates have been applied for the forecast period. This update to business rates has resulted in a £2.8m increase to the Directors' Valuation.

## NAV movement

The Company issued shares to the value of £60.6 million (gross) in the period and paid total dividends of £19.4 million, being 3.0 pps in total for the third and fourth interim dividends in respect of the period ending 30 June 2016 (when combined with the earlier interim dividends, these provided a total dividend in the 2015/16 financial year of 7.25 pps). 3.25 pps was paid in November 2016 as a first interim dividend in relation to the current financial period.

Adjusting the 30 June 2016 NAV of £307.8 million for the net contribution of shares raised in the period (£59.8 million) and the dividends paid in the period (£19.4 million), the uplift in the NAV of the Company during the year was £40.5 million, or 13.1%.

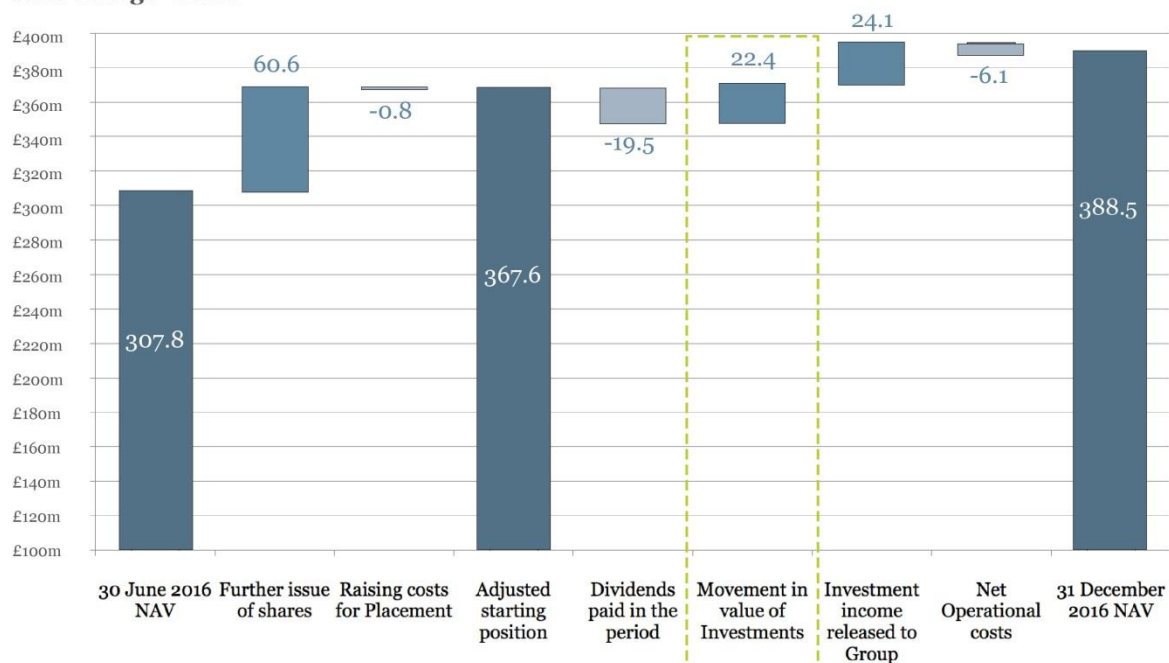
A breakdown in the movement of the NAV (£ million) of the Company over the period and how this interacts with the movement in the valuation of the portfolio is illustrated in the charts below.



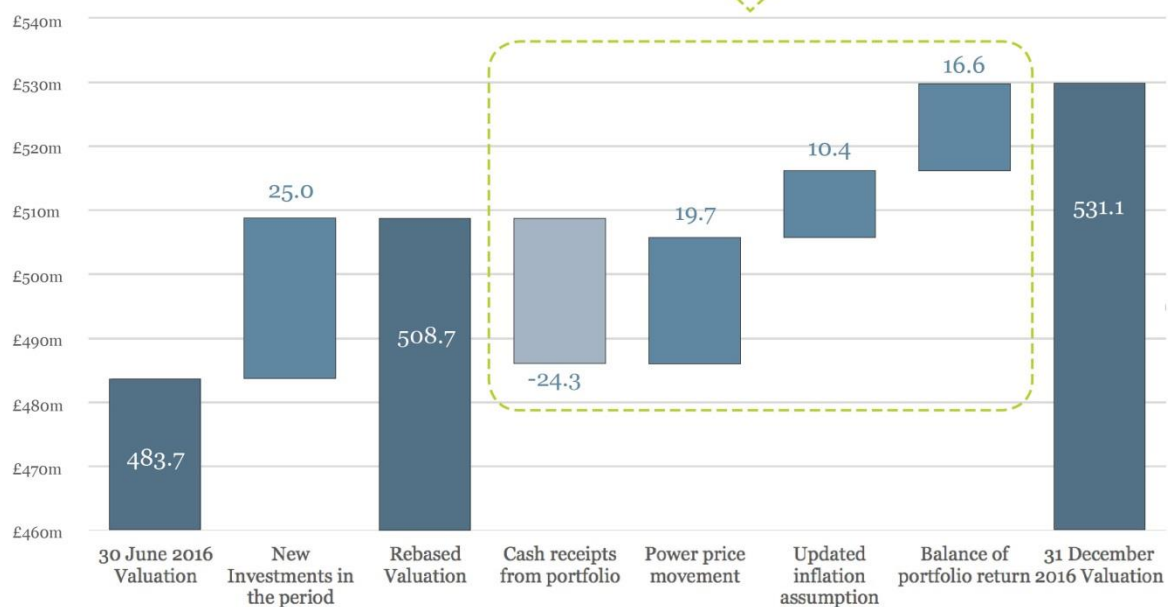
# Report of the Investment Adviser (continued)

## NAV movement (continued)

NAV Bridge Chart



Valuation Bridge Chart



# Report of the Investment Adviser (continued)

## NAV movement (continued)

### Directors' Valuation movement

	(£million)	As % of re-based valuation
<b>30 June 2016 Valuation</b>	<b>483.7</b>	
<b>New Investments</b>	25.2	
<b>Re-based Valuation</b>	<b>508.9</b>	
<b>Cash receipts from portfolio</b>	-24.3	-4.7%
<b>Power Price Movement</b>	19.7	3.9%
<b>Increase in inflation (2.5% to 2.75%)</b>	10.4	2.0%
<b>Balance of portfolio return</b>	16.4	3.2%
<b>31 December 2016 Valuation</b>	<b>531.1</b>	<b>4.4%</b>

Each movement between the re-based valuation and the 31 December 2016 valuation is considered in turn below:

#### *Cash receipts from the Portfolio*

This movement reflects the cash payments made from the underlying project companies up to BSIFIL and the Company to enable the companies to settle operating costs and distribution commitments as they fall due within the period.

#### *Power Price Movement*

The impact of power price movement on the Directors' Valuation is a combination of two factors.

The first is the general rise in long term forecast expectations for power prices compared to recent historic periods (an effective uplift of 4% between the forecasts in June 2016 vs December 2016) and the second is the Company's decision to adopt an equal blended approach using forecast curves of two leading independent forecasters.

The Company's two independent forecasters released updated forecasts in October and December 2016 and these have been applied to the Directors' Valuation. The impact of adopting an equal blend of two independent forecasters as well as the latest long term power price estimates, against power price expectations applied in the 30 June 2016 valuation, is an uplift of £19.7 million.

The discounted cash flow for each project applies the contractually fixed power price applicable to each solar PV asset until the end of the fixed period, and thereafter the equal blend of two independent forecasters' prices.

#### *Increase in RPI inflation – 2.5% to 2.75%*

During the period long term RPI inflation expectations have risen and as a result the Directors have felt it appropriate to amend the base case assumption to 2.75%, up from 2.5%.

The impact of the shift from the 30 June 2016 inflation assumption of 2.5% to 2.75% for 31 December 2016 is an uplift to the portfolio valuation of £10.4 million.

#### *Balance of Portfolio Return*

The balance of portfolio return is comprised of the contribution from the unwinding of the discount rate, minor changes to the long term level of asset management costs as well as the inclusion of the latest estimates for business rates.

# Report of the Investment Adviser (continued)

## NAV movement (continued)

### Other Assumptions

Consistent with previous Directors' Valuations, the valuation assumes a terminal value of zero for all projects within the portfolio 25 years after their commencement of operation.

There have been no material changes to assumptions regarding the future performance or cost optimisation of the portfolio when compared to the Directors' 30 June 2016 Valuation.

On the basis of these key assumptions the Directors believe there remains further potential for NAV enhancement based upon long term proof of plant performance and through the potential for future extension of asset life.

The assumptions set out in this section will remain subject to review by the Investment Adviser and the Directors and may give rise to a revision of valuation approach in future reports.

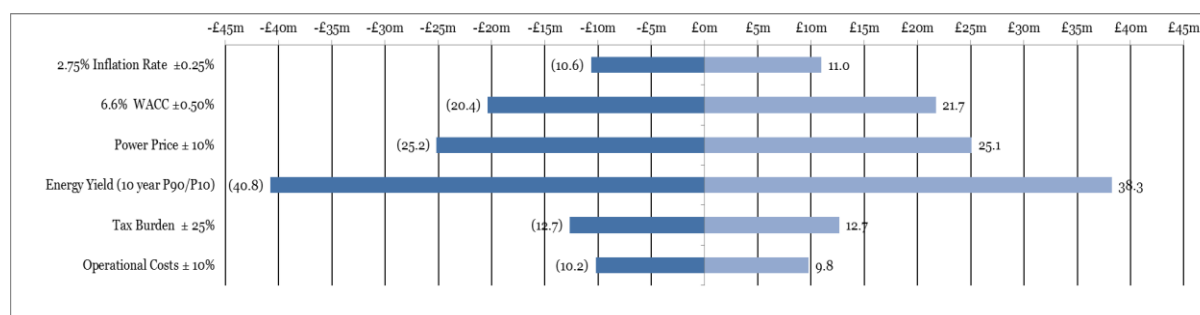
### Reconciliation of Directors' Valuation to Balance sheet

Category	Balance at Period / Year End	
	31 December 2016 (£m)	30 June 2016 (£m)
Directors' Valuation	531.1	483.7
BSIFIL Working Capital	17.4	2.4
BSIFIL 3 <sup>rd</sup> Party Debt	(184.9)	(180.4)
<b>Financial Assets at Fair Value per Balance sheet</b>	<b>363.6</b>	<b>305.7</b>

Following the adoption of IFRS 10 and the Company's move to presenting its results on a de-consolidated basis, rather than consolidating its immediate subsidiary BSIFIL, the above table serves to aid the reader in reconciling the Directors' Valuation, for the current and re-stated period, to the relevant line on the current and re-stated Balance Sheet.

### Directors' Valuation sensitivities

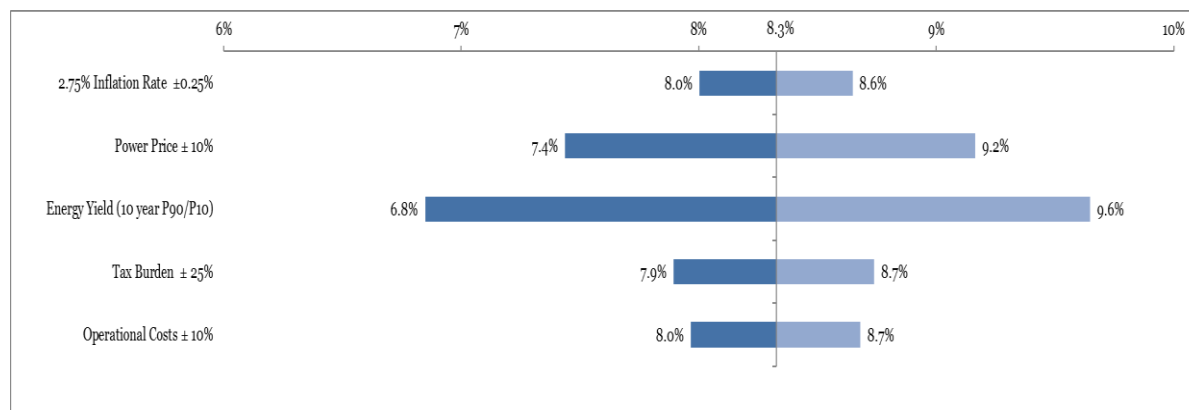
Valuation sensitivities are set out in tabular form in Note 8 of the financial statements. The following diagram reviews the sensitivity of the closing valuation to the key assumptions underlying the discounted cash flow valuation.



Furthermore, the chart below, which is based on the NAV as at 31 December 2016 of £388.5m, sets out the expected 25 year return (with a zero terminal value) of the Company's cash flows and indicates the robust nature of solar cash flows, which results from the high proportion of regulated, RPI indexed, revenues.

# Report of the Investment Adviser (continued)

## NAV movement (continued)



Equity return upside may be achieved based on higher than base case power prices or tax shield, while the real returns remain robust in all inflation scenarios due to the carefully designed debt package with indexed and fixed rate components and RPI indexed revenues.

Apart from the energy yield, for which the portfolio has delivered consistent operational outperformance year on year the greatest return sensitivity is to power prices which, following a three year downturn, have seen forecasts revised upward over the last twelve months as the market adjusts to; the implications of the Brexit vote; shortage of reserve capacity; and high expected cost of replacement generation sources post coal.

Notwithstanding sensitivity to power prices, even in the downside scenario the Company's returns continue to offer a significant premium to gilt rates.

## 4. Financing

In September 2016 the Company completed the financial close of a £187 million LTF and a £30 million short term RCF. The facilities fully refinance the short term £200 million amended and restated facility agreement with RBS and Investec.

### *Aviva Investors Long Term Facility*

The LTF is provided by Aviva Investors in two tranches. The first is a £121.5 million fixed-rate long term facility and the second is a £65.5 million index-linked long term facility.

Loan	Amount	Tenor	No Refinancing Risk	Cost	Average Loan Life at drawdown	Interest rate exposure during 18-year tenor
Fixed	£121.5 million	18 years and 3 months	Fully amortising over 18 years sculpted to cash flows	All in cost of 287.5bps	10.6	Zero
Index-Linked	£65.5 million	18 years and 3 months	Fully amortising over 18 years sculpted to cash flows	RPI plus 70bps	11.3	Linked to RPI

## Report of the Investment Adviser (continued)

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Both tranches are fully amortising over 18 years providing natural alignment with the average remaining life of the Company's regulated revenues, eliminating any possible refinancing risk as well as insulating the Company's equity cash flows from significant principal repayments in the final years of the facility when the contribution of revenue from power is increased.

The LTF is held by the Company's wholly-owned subsidiary, BSIFIL and is the result of a deliberate structuring approach to maximise both transparency and portfolio management flexibility, whilst also delivering the lowest cost of capital available (as at 31 December 2016, the average debt cost of the facilities was 2.1%).

Thanks to the prudent leverage (34% of GAV as of end of the period) on the Company's base case projections the average 'debt service cover ratio' (DSCR) is currently close to 3 times with the lowest point of coverage over the entire tenor projected to be in excess of 2.5x.

### *RBS Revolving Credit Facility*

The new RCF is provided by RBS to BSIFIL and has a three-year term on a constant margin of 2.0% over LIBOR.

Both the new RCF and the LTF are secured upon a selection of the Company's investment portfolio and offer the ability to substitute reference assets.

### *Project level debt*

In addition to the LTF and the three year RCF, the Company also has a small project finance loan of £13.6m secured against project Durrants (a 5MWp FiT plant located on the Isle of Wight). This facility was provided by Bayern Landesbank and is fully amortising with a final maturity of 2029. The facility was not refinanced due to onerous break costs associated with the early loan prepayment.

## **5. Market Developments**

### *Capacity, Tariff and Market Segmentation*

- Total UK solar capacity as of 31 December 2016 stood at 11.5 GWp.
- Approximately 160MWp was commissioned between June 2016 and December 2016, representing a 1.4% rise in UK solar capacity over the 6 month period.
- 48% of total installed solar capacity comes from large scale installations greater than 5 MWp, with 52% coming from installations with capacity of 5 MWp or less.
- The Company continues to uphold its strong position within the UK solar market owning the largest solar portfolio, by capacity (424MWp), amongst UK listed funds at the end of December 2016.

Solar PV deployment data released by the BEIS for the month ending December 2016, shows that overall UK solar PV capacity stood at 11.5 GWp across 900,881 installations. Installed capacity and total number of installations increased by 1.4% (160MWp) and 2% (20,609) respectively over the 6 month period from June 2016 to December 2016.

Capacity accredited under the RO Scheme stood at 6.4GWp representing 56% of total solar capacity. Capacity accredited under the Feed in Tariff stood at 4.2GWp representing 37% of total solar capacity.



# Report of the Investment Adviser (continued)

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## 6. Regulatory Environment

### *Closure of Renewables Obligation*

Following an initial consultation with industry stakeholders, BEIS, which as of July 2016 replaced DECC, released a response confirming the changes set out below:

- The RO Scheme, as proposed on 22 July 2015, closed for ground-mounted solar PV projects having a capacity of 5MWp or less from 1 April 2016.
- A grace period arrangement is in place for developers who have made a significant financial commitment on or before 22 July 2015 and those that experience grid delay beyond their control. Projects that meet at least one of the grace period criteria (as set out below) will be protected from the early closure of the RO Scheme and given until 31 March 2017 to accredit.

With projects larger than 5 MWp excluded from the RO Scheme a year earlier, no further accreditation is possible for new solar PV projects, irrespective of capacity, from 1 April 2016, unless they qualify for grace period, in which case they have until 31 March 2017 to accredit.

Due to the closure of the RO Scheme, the market has witnessed a decline in solar deployment levels. Between June 2016 and December 2016, PV capacity increased by 2% (160MWp) which compares to a 16% (1.4GWp) increase observed between June 2015 and December 2015. Supported by strong market fundamentals, such as the uptick in power curve forecasts and falling costs of debt, from 1 April 2017 onwards the Company anticipates UK solar market activity to be driven by a robust secondary market. Research from a leading market provider suggests that as much as 1GWp of solar capacity may come available in the next 12-18 months providing opportunities for portfolio growth and optimisation strategies.

### *UK European Union membership referendum ("Brexit")*

The electorate of the UK voted to leave the EU at a referendum on 23 June 2016. The Investment Adviser believes in the medium to longer term this will not result in any material impact on the UK solar market, nor on the Company. Rather than the EU shaping energy policy, the opposite has been historically true. For instance, the EU directive on unbundling the electricity sector originated from the UK. Although the result frees the UK government from its EU-set renewable obligations, the UK is still bound by national and international renewable obligations, including the 2008 Climate Change Act. As such, we believe that a low carbon and renewable energy agenda will remain a key part of UK policy.

## 7. Environmental, Social and Governance

As a solar energy infrastructure investor, the Investment Adviser is conscious of the Company's environmental and social impact. The production of renewable energy equates to a significant amount of CO<sub>2</sub> emissions saved, representing a sustainable and ethical investment. However, the Investment Adviser also considers its impact on the biodiversity and the local community surrounding its assets.

### *Environmental Impact*

Approximately 25 acres of land are required for every 5MWp of installation, enough to power 1,515 homes based on average annual consumption figures for a house of 3,300 kWh of electricity (source DECC, Ofgem). For every 5MWp installed, this is a saving of 2,150 tonnes of CO<sub>2</sub>. Based on these figures the portfolio capacity of 424.3MWp as at 31 December 2016 will power the equivalent of 128,564 homes for a year and save 182,451 tonnes of CO<sub>2</sub>.

## Report of the Investment Adviser (continued)

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### *Biodiversity*

During the current financial year to 30 June 2017 the Investment Adviser plans to identify a strategy to develop biodiversity across all locations of the portfolio. For many assets this is already in action due to contractual obligations to support the natural habitat of the asset sites. This can include planting wild flowers naturally found in the area to ensuring there is a presence of bird boxes across the site.

The Investment Adviser intends to implement this approach across all its sites, which requires an evaluation of each site. In evaluating the sites, the Investment Adviser expects to establish a standard of biodiversity across the portfolio, whilst still considering the individual natural ecosystems at each asset site.

The Investment Adviser has also been approached by a UK listed global real estate services provider, in collaboration with one of the UK's leading universities, to take part in a research project which aims to determine and quantify the link between solar park pollinators/biodiversity and the benefits to agriculture and food production on the surrounding land through novel DNA sequencing of collected bee pollen.

A Proof of Concept study was carried out in June 2016 at three sites within the portfolio. The first two sites have benefited from a wild flower meadow seed mix whilst the third represented a solar park with a standard grass mix. The project is proposed to be carried out during the 2017 pollination season which runs from April to June. The core sites are likely to be the same sites, plus one other non-wild flower meadow site. It is envisaged that the results of this work will be published in a reputable journal. It is hoped that this work will help wild flower meadows to become the de-facto standard for new solar schemes and retroactively applied to existing schemes.

### *Sheep Grazing*

Many sites within the portfolio support sheep grazing, illustrating that solar farms can support profitable farming and are also a cost-effective way of managing grassland in solar farms while increasing its conservation value.

### *Community Benefits*

The Investment Adviser supports community benefit schemes across its portfolio, assisting in the support and development of the local communities surrounding the asset sites.

The portfolio assets make donations of £63,000 per annum to community benefit schemes for local councils and parishes to use for charitable, educational, environmental, amenity or other appropriate purposes within the areas of the community.

**Bluefield Partners LLP**

22 February 2017

# Financial Analysis

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## Accounting

The Company applies IFRS 10, 11 and 12 as well as Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27. A further amendment to IFRS 10 – *Investment Entities: Applying the Consolidation Exemption (Amendments to IFRS 10, IFRS 12 and IAS 28)* as issued in December 2014 has been adopted by the Company for these financial statements following adoption of the amendment by the EU in September 2016. This requires the Company to prepare IFRS financial statements which do not consolidate any subsidiaries that are themselves investment entities.

This has resulted in a change from the June 2016 Consolidated Financial Statements in which the Company consolidated the results of BSIFIL (the Company's direct subsidiary) however under the current IFRS basis the Fund Subsidiary can no longer be consolidated.

The Company and BSIFIL together form the Group.

The adoption of the latest IFRS 10 Amendments has not changed the NAV per share or earnings per share compared to the previous approach used for the 30 June 2016 Consolidated Financial Statements.

The Directors have concluded that in order to report the most relevant financial performance and position to stakeholders on transition to preparing its financial statements on a non-consolidated basis, the Company will prepare pro forma summary financial information on the basis that the Company consolidates the results of BSIFIL. This basis is designated the Investment Basis and presents the financial information in the same manner as previously reflected in the 30 June 2016 Consolidated Financial Statements.

A reconciliation between the summary financial information prepared on the Investment Basis is shown below and the results of the Company included in the Financial Statements on pages 43 to 46 under IFRS can be found in the Pro Forma Statements on pages 36 to 38.

## Financial Analysis (continued)

### Underlying Earnings reconciliation

A reconciliation of Total Portfolio Income Earned, as presented on page 18 within the Investment Adviser's report, and Total Investment Income Earned, as defined under the 'Investment basis' methodology is shown below.

	Half year period to 31 Dec 16 (£m)	Half year period to 31 Dec 15 (£m)	Full year to 30 Jun 16 (£m)	Full year to 30 Jun 16 (£m)
Income from Investments	1.6	2.1	3.6	2.1
Receipts from Financial assets held at fair value through Profit and Loss	22.6	18.1	23.7	8.9
Movement in Undistributed Portfolio income*	-8.3	-8.9	0.7	10.2
<b>Total Investment income earned</b>	<b>15.9</b>	<b>11.3**</b>	<b>28.0</b>	<b>21.2</b>
<b>Total Portfolio Income Earned</b>	<b>15.9</b>	<b>9.9</b>	<b>28.0</b>	<b>21.2</b>

\*Movement in Undistributed portfolio income reflects period end earnings retained within the SPVs less opening period earnings retained within the SPVs. It is expected, on the basis of a stable portfolio that is earning and distributing evenly over a 12 month period that movements in undistributed earnings between reporting periods will start to show strong correlation (as evidenced by movements in the periods to December 2016 and December 2015).

\*\*The difference in the half year period 15/16 between Total Investment Income earned and Total Portfolio Income Earned is due to cash paid up from investments in the period exceeding the income earned in the same period.

This reflected the mismatch in timing between cash and earnings during the portfolio build out phase but importantly, as for future periods, across each full year investment income earned and portfolio income earned are fully matched.

## Financial Analysis (continued)

### Investment Basis financial statements

#### Investment Basis Summary Statement of Comprehensive Income

	Six months ended 31 December 2016			Six months ended 31 December 2015		
	Investment basis	Adjustments	IFRS basis	Investment basis	Adjustments	IFRS basis
	£	£	£	£	£	£
Total income	46,305,805	(5,401,982)	40,903,823	16,737,070	(2,873,921)	13,863,149
Expenses	(1,989,190)	1,428,005	(561,185)	(2,948,972)	2,277,002	(671,970)
Finance costs	(3,973,977)	3,973,977	-	(596,919)	596,919	-
Earnings	<u>40,342,638</u>	<u>-</u>	<u>40,342,638</u>	<u>13,191,179</u>	<u>-</u>	<u>13,191,179</u>
Earnings per share	12.15	-	12.15	4.66	-	4.66

On an investment basis total income mainly reflects monies passed from SPVs to the holding company, BSIFIL, of £22.5m (2015: £18.1m) and the change in fair value of financial assets of £22.2m (2015: (£3.5m)).

A reconciliation between the Investment Basis Income Statement and the Unaudited Income Statement of the Company can be found on page 36.

## Financial Analysis (continued)

### Investment Basis Cost Analysis

	Six months ended 31 December 2016 £	Six months ended 31 December 2015 £
Investment advisory base fee	1,413,633	1,217,751
Investment advisory variable fee	-	208,813
Legal and professional fees	68,455	92,571
Administration expenses	118,720	142,760
Directors' remuneration	85,213	85,447
Audit fees	59,216	41,425
Transaction costs	(155,324)	818,811
Other expenses	399,277	341,394
Total expenses	1,989,190	2,948,972
Loan interest and arrangement fees	3,973,977	596,919
Total finance costs	3,973,977	596,919
Total expenses and finance costs	<b>5,963,167</b>	<b>3,545,891</b>

The majority of the additional costs in 2016 arise from loan interest £2.7m (2015: £0.3m), reflecting higher loan balances in 2016, and the one off release of loan arrangement fees connected to the costs of the Company's previous RCF of £1.3m (2015: £0.3m). Negative transaction costs in the period to 31 December 2016 reflect the release of amounts accrued at 30 June 2016.

On an IFRS basis, expenses are £561,185 (2015: £671,970) which excludes those costs incurred by BSIFIL.

### Investment Basis Ongoing Charges

	Six months ended 31 December 2016 £	Six months ended 31 December 2015 £
Fees to Investment Adviser	1,413,633	1,217,751
Legal and professional fees	68,455	92,571
Administration fees	118,720	142,760
Directors' remuneration	85,213	85,447
Audit fees	59,216	41,425
Other ongoing expenses	175,184	341,394
Total ongoing expenses	<b>1,920,421</b>	<b>1,921,348</b>
Average NAV	338,195,201	298,436,776
Ongoing Charges (annualised)	1.14%	1.29%

The ongoing charges ratio is calculated in accordance with the AIC recommended methodology, which excludes non-recurring costs and uses the average NAV in its calculation.

## Financial Analysis (continued)

### Investment Basis Summary Cash Flow

	Six months ended 31 December 2016		Six months ended 31 December 2015	
	£	£	£	£
Net cash on Investment Basis at start of period		2,774,930		13,273,472
Cash from investments	22,551,290		18,127,426	
Operating and finance costs	(6,658,042)		433,821	
Net cash inflow before acquisitions/financing		<b>15,893,248</b>		<b>18,561,247</b>
Cost of new investments		(25,226,090)		(35,925,777)
Share capital raised net of costs		59,805,710		30,781,553
Loans drawn-down		18,704,000		24,700,000
Loans repaid		(14,489,666)		(32,100,000)
Dividends paid		(19,351,986)		(17,401,078)
Net cash on Investment Basis at end of period		<b>38,110,146</b>		<b>1,889,417</b>

A reconciliation between the Investment Basis Statement of Cash Flow and the Unaudited Statement of Cash Flow of the Company can be found on page 38.

### Pro-forma Financial Statement Reconciliations

Reconciliations between the Company's IFRS financial statements and the Group's Investment Basis financial statements are shown below.

The IFRS financial statements comprise balances of the Company only and all subsidiaries are measured at fair value through profit or loss. In the Investment Basis financial statements BSIFIL, the Company's single direct subsidiary through which investments are purchased, is consolidated on a line-by-line basis. As described in Note 2.c. to the financial statements the IFRS basis reflects a change in accounting policy arising from the adoption of the IFRS 10 amendments which precludes the consolidation of BSIFIL.

Reconciliations between originally reported figures and re-stated comparative figures in the unaudited Statement of Financial Position, Statement of Comprehensive Income and Statement of Cash Flows can be found in Note 2.c.

## Financial Analysis (continued)

### Pro Forma Statement of Comprehensive Income

For the six months ended 31 December 2016

	Investment basis £	Adjustments £	IFRS basis £
<b>Income</b>			
Income from investments	1,601,137	(1,355,547)	245,590
Interest income from cash and cash equivalents	11,882	(2,954)	8,928
	<b>1,613,019</b>	<b>(1,358,501)</b>	<b>254,518</b>
Net gains on financial assets held at fair value through profit or loss	44,692,786	(4,043,481)	40,649,305
<b>Operating income</b>	<b>46,305,805</b>	<b>(5,401,982)</b>	<b>40,903,823</b>
<b>Expenses</b>			
Administrative expenses	2,144,514	(1,583,329)	561,185
Transaction costs	(155,324)	155,324	-
<b>Operating expenses</b>	<b>1,989,190</b>	<b>(1,428,005)</b>	<b>561,185</b>
<b>Operating profit</b>	<b>44,316,615</b>	<b>(3,973,977)</b>	<b>40,342,638</b>
Finance costs	3,973,977	(3,973,977)	-
<b>Total comprehensive income for the period</b>	<b>40,342,638</b>	<b>-</b>	<b>40,342,638</b>
<b>Attributable to:</b>			
Owners of the Company	<b>40,342,638</b>	<b>-</b>	<b>40,342,638</b>
<b>Earnings per share:</b>			
Basic and diluted (pence)	<b>12.15</b>	<b>-</b>	<b>12.15</b>



## Financial Analysis (continued)

### Pro-forma Statement of Financial Position

As at 31 December 2016

	Investment basis £	Adjustments £	IFRS basis £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets held at fair value through profit or loss	531,097,929	(167,470,140)	363,627,789
Trade and other receivables	3,772,219	(3,772,219)	-
<b>Total non-current assets</b>	<b>534,870,148</b>	<b>(171,242,359)</b>	<b>363,627,789</b>
<b>Current assets</b>			
Trade and other receivables	1,458,350	(1,154,770)	303,580
Cash and cash equivalents	38,110,146	(13,206,290)	24,903,856
<b>Total current assets</b>	<b>39,568,496</b>	<b>(14,361,060)</b>	<b>25,207,436</b>
<b>TOTAL ASSETS</b>	<b>574,438,644</b>	<b>(185,603,419)</b>	<b>388,835,225</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest bearing borrowings	177,769,780	(177,769,780)	-
<b>Total non-current liabilities</b>	<b>177,769,780</b>	<b>(177,769,780)</b>	<b>-</b>
<b>Current liabilities</b>			
Interest bearing borrowings	7,157,040	(7,157,040)	-
Other payables and accrued expenses	962,924	(676,599)	286,325
<b>Total current liabilities</b>	<b>8,119,964</b>	<b>(7,833,639)</b>	<b>286,325</b>
<b>TOTAL LIABILITIES</b>	<b>185,889,744</b>	<b>(185,603,419)</b>	<b>286,325</b>
<b>NET ASSETS</b>	<b>388,548,900</b>	<b>-</b>	<b>388,548,900</b>
<b>EQUITY</b>			
Share capital	367,958,002	-	367,958,002
Retained earnings	20,590,898	-	20,590,898
<b>TOTAL EQUITY</b>	<b>388,548,900</b>	<b>-</b>	<b>388,548,900</b>
<b>Number of Ordinary Shares in issue at period end</b>	<b>369,811,281</b>	<b>-</b>	<b>369,811,281</b>
<b>Net Asset Value per Ordinary Share (pence)</b>	<b>105.07</b>	<b>-</b>	<b>105.07</b>

## Financial Analysis (continued)

### Pro-forma Statement of Cash Flows

For the six months ended 31 December 2016

	Investment basis £	Adjustments £	IFRS basis £
<b>Cash flows from operating activities</b>			
Total comprehensive income for the period	40,342,638	-	40,342,638
Adjustments:			
(Increase) / Decrease in trade and other receivables	(1,534,668)	1,772,477	237,809
(Decrease) in other payables and accrued expenses	(1,105,712)	1,100,005	(5,707)
Finance expense on loan facility	2,647,640	(2,647,640)	-
Interest bearing loan indexation	332,486	(332,486)	-
Net gains on financial assets held as fair value through profit or loss	(44,692,786)	4,043,481	(40,649,305)
<b>Net cash used in operating activities</b>	<b>(4,010,402)</b>	<b>3,935,837</b>	<b>(74,565)</b>
<b>Cash flows from investing activities</b>			
Purchase of financial assets held at fair value through profit or loss	(25,226,090)	(10,920,910)	(36,147,000)
Receipts from SPV investments held at fair value through profit or loss / Receipts from holding company	22,551,290	(3,660,274)	18,891,016
<b>Net cash used in investing activities</b>	<b>(2,674,800)</b>	<b>(14,581,184)</b>	<b>(17,255,984)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of Ordinary Shares	60,600,000	-	60,600,000
Issue costs paid	(794,290)	-	(794,290)
Dividends paid	(19,351,986)	-	(19,351,986)
Drawdown on revolving loan facility	18,704,000	(18,704,000)	-
Repayment of revolving loan facility - Capital	(14,489,666)	14,489,666	-
Repayment of revolving loan facility - Interest	(2,647,640)	2,647,640	-
<b>Net cash generated from financing activities</b>	<b>42,020,418</b>	<b>(1,566,694)</b>	<b>40,453,724</b>
Net (decrease)/ increase in cash and cash equivalents	35,335,216	(12,212,041)	23,123,175
Cash and cash equivalents at the start of the period	2,774,930	(994,249)	1,780,681
<b>Cash and cash equivalents at the end of the period</b>	<b>38,110,146</b>	<b>(13,206,290)</b>	<b>24,903,856</b>

## Statement of Principal Risks and Uncertainties for the Remaining Six Months of the year to 30 June 2017

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As described in the Company's annual financial statements as at 30 June 2016, the Company's principal risks and uncertainties include the following:

- Portfolio Operational risk;
- Financing risk;
- Valuation error;
- Changes to taxation regime;
- Unfavourable weather conditions;
- Unfavourable Electricity Market Conditions; and
- Political risk.

The Directors believe that the Financing risk has now been fully mitigated by the conclusion of the LTF agreement with Aviva Investors.

The Directors have additionally identified Portfolio Construction as a risk for the remaining 6 months to 30 June 2017 as the Company has £34 million of capital allocated to constructing solar plants which qualify for the 1.2 ROC grace period which expires on 31 March 2017. Delays in the completion of the solar sites possibly due to manpower, connection timings or missing components could impact the Company's income flow and its ability to pay dividends. The Board mitigates the risk of not being able to pay by ensuring that all purchase/deal agreements include a "water tight" clause to ensure compensation fees are due if the solar sites are unfinished by a specific date or if the grid is not connected by a certain date following completion. The risk is further mitigated by oversight by BSL during the construction phase.

Further information in relation to these principal risks and uncertainties may be found on pages 26 to 28 of the Company's annual financial statements as at 30 June 2016.

These inherent risks associated with investments in the solar energy sector could result in a material adverse effect on the Company's performance and value of Ordinary Shares.

Risks are mitigated and managed by the Directors through continual review, policy setting and regular reviews of the Company's risk matrix by the Audit Committee to ensure that procedures are in place with the intention of minimising the impact of the above mentioned risks. The Directors carried out a formal review of the risk matrix at the Audit Committee meeting held on 20 February 2017. The Directors rely on periodic reports provided by the Investment Adviser and Administrator regarding risks that the Company faces. When required, experts will be employed to gather information, including tax advisers, legal advisers, and environmental advisers.

## Directors' Statement of Responsibilities

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The Directors are responsible for preparing the Interim Report and Unaudited Condensed Interim Financial Statements in accordance with applicable regulations. The Directors confirm that to the best of their knowledge:

- the Unaudited Condensed Interim Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union; and
- the Chairman's Statement, Report of the Investment Adviser and Statement of Principal Risks and Uncertainties for the Remaining Six Months of the year to 30 June 2017 include a fair review of the information required by:
  - a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Unaudited Condensed Interim Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

**Paul Le Page**  
Director  
22 February 2017

# Independent Review Report to Bluefield Solar Income Fund Limited

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## Introduction

We have been engaged by Bluefield Solar Income Fund Limited (the “Company”) to review the condensed set of financial statements in the interim financial report for the six months ended 31 December 2016 which comprises the unaudited condensed statement of financial position, unaudited condensed statement of comprehensive income, unaudited condensed statement of changes in equity, unaudited condensed statement of cash flows and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”). The condensed set of financial statements included in this interim financial report have been prepared in accordance with IAS 34 Interim Financial Reporting, adopted by the EU.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Independent Review Report to Bluefield Solar Income Fund Limited (continued)

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## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 December 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Neale D. Jehan  
For and on behalf of KPMG Channel Islands Limited  
*Chartered Accountants*  
Gategny Court, Gategny Esplanade  
St. Peter Port,  
Guernsey, GY1 1WR  
22 February 2017

# Unaudited Condensed Statement of Financial Position

As at 31 December 2016

		31 December 2016	30 June 2016
		Unaudited	Audited
	Note	£	(Restated*)
			£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets held at fair value through profit or loss	8	363,627,789	305,722,500
<b>Total non-current assets</b>		<b>363,627,789</b>	<b>305,722,500</b>
<b>Current assets</b>			
Trade and other receivables	9	303,580	541,389
Cash and cash equivalents	10	24,903,856	1,780,681
<b>Total current assets</b>		<b>25,207,436</b>	<b>2,322,070</b>
<b>TOTAL ASSETS</b>		<b>388,835,225</b>	<b>308,044,570</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accrued expenses	11	286,325	292,032
<b>Total current liabilities</b>		<b>286,325</b>	<b>292,032</b>
<b>TOTAL LIABILITIES</b>		<b>286,325</b>	<b>292,032</b>
<b>NET ASSETS</b>		<b>388,548,900</b>	<b>307,752,538</b>
<b>EQUITY</b>			
Share capital		367,958,002	307,985,091
Other reserves		-	167,201
Retained earnings		20,590,898	(399,754)
<b>TOTAL EQUITY</b>	13	<b>388,548,900</b>	<b>307,752,538</b>
<b>Number of Ordinary Shares in issue at period/year end</b>	13	<b>369,811,281</b>	<b>309,631,765</b>
<b>Net Asset Value per Ordinary Share (pence)</b>	7	<b>105.07</b>	<b>99.39</b>

\* Comparative information, including applicable Notes, has been restated. See Note 2.c. for details.

These unaudited condensed interim financial statements were approved and authorised for issue by a committee of the Board of Directors on 22 February 2017 and signed on their behalf by:

Paul Le Page  
**Director**  
 22 February 2017

Laurence McNairn  
**Director**

The accompanying notes form an integral part of these unaudited condensed interim financial statements.

# Unaudited Condensed Statement of Comprehensive Income

For the six months ended 31 December 2016

		Six months ended 31 December 2016	Six months ended 31 December 2015 Unaudited (Restated*)
	Note	Unaudited £	£
<b>Income</b>			
Income from investments	4	245,590	250,000
Interest income from cash and cash equivalents		8,928	3,906
		<b>254,518</b>	<b>253,906</b>
Net gains on financial assets held at fair value through profit or loss	8	40,649,305	13,609,243
<b>Operating income</b>		<b>40,903,823</b>	<b>13,863,149</b>
<b>Expenses</b>			
Administrative expenses	5	561,185	671,970
<b>Operating expenses</b>		<b>561,185</b>	<b>671,970</b>
<b>Total comprehensive income for the period</b>		<b>40,342,638</b>	<b>13,191,179</b>
<b>Attributable to:</b>			
Owners of the Company		<b>40,342,638</b>	<b>13,191,179</b>
<b>Earnings per share:</b>			
Basic and diluted (pence)	12	<b>12.15</b>	<b>4.66</b>

\* Comparative information, including applicable Notes, has been restated. See Note 2.c. for details.

All items within the above statement have been derived from continuing activities.

The accompanying notes form an integral part of these unaudited condensed interim financial statements.



# Unaudited Condensed Statement of Changes in Equity

For the six months ended 31 December 2016

	Note	Number of Ordinary Shares	Share capital £	Other reserves £	Retained earnings £	Total equity £
<b>Shareholders' equity at 1 July 2016</b>		<b>309,631,765</b>	<b>307,985,091</b>	<b>167,201</b>	<b>(399,754)</b>	<b>307,752,538</b>
Shares issued during the period:						
60,000,000 Ordinary Shares issued via placing	13	60,000,000	60,600,000	-	-	60,600,000
Ordinary Shares to be issued in settlement of variable fee	13	179,516	167,201	(167,201)	-	-
Share issue costs	13	-	(794,290)	-	-	(794,290)
Dividends paid	13,14	-	-	-	(19,351,986)	(19,351,986)
Total comprehensive income for the period		-	-	-	40,342,638	40,342,638
<b>Shareholders' equity at 31 December 2016</b>		<b>369,811,281</b>	<b>367,958,002</b>	<b>-</b>	<b>20,590,898</b>	<b>388,548,900</b>

For the six months ended 31 December 2015

		Number of Ordinary Shares	Share capital £	Other reserves £	Retained earnings £	Total equity £
<b>Shareholders' equity at 1 July 2015</b>		<b>278,417,224</b>	<b>276,959,370</b>	<b>-</b>	<b>11,431,497</b>	<b>288,390,867</b>
Shares issued during the period:						
30,098,639 Ordinary Shares issued via placing		30,098,639	30,700,612	-	-	30,700,612
901,361 Ordinary Shares issued via placing		901,361	919,388	-	-	919,388
Ordinary Shares to be issued in settlement of variable fee		-	-	208,813	-	208,813
Share issue costs		-	(838,447)	-	-	(838,447)
Dividends paid		-	-	-	(17,401,078)	(17,401,078)
Total comprehensive income for the period		-	-	-	13,191,179	13,191,179
<b>Shareholders' equity at 31 December 2015</b>		<b>309,417,224</b>	<b>307,740,923</b>	<b>208,813</b>	<b>7,221,598</b>	<b>315,171,334</b>

The accompanying notes form an integral part of these unaudited condensed interim financial statements.

# Unaudited Condensed Statement of Cash Flows

For the six months ended 31 December 2016

		Six months ended 31 December 2016	Six months ended 31 December 2015
		Unaudited £	Unaudited (Restated*) £
Note			
<b>Cash flows from operating activities</b>			
	Total comprehensive income for the period	40,342,638	13,191,179
	Adjustments:		
	Decrease/(increase) in trade and other receivables	237,809	(269,878)
	Increase in other payables and accrued expenses	(5,707)	105,216
	Net gains on financial assets held at fair value through profit or loss	(40,649,305)	(13,609,243)
8	Movement in other reserves relating to Investment Adviser variable fee shares	-	208,813
13			
	<b>Net cash used in operating activities</b>	<b>(74,565)</b>	<b>(373,913)</b>
<b>Cash flows from investing activities</b>			
	Purchase of financial assets held at fair value through profit or loss	(36,147,000)	(32,182,712)
8			
8	Receipts from unconsolidated subsidiary	18,891,016	19,501,936
	<b>Net cash used in investing activities</b>	<b>(17,255,984)</b>	<b>(12,680,776)</b>
<b>Cash flow from financing activities</b>			
	Proceeds from issue of Ordinary Shares	60,600,000	31,620,000
13			
13	Issue costs paid	(794,290)	(838,447)
13,14	Dividends paid	(19,351,986)	(17,401,078)
	<b>Net cash generated from financing activities</b>	<b>40,453,724</b>	<b>13,380,475</b>
	Net increase in cash and cash equivalents	23,123,175	325,786
	Cash and cash equivalents at the start of the period	1,780,681	609,454
	<b>Cash and cash equivalents at the end of the period</b>	<b>24,903,856</b>	<b>935,240</b>
10			

\* Comparative information, including applicable Notes, has been restated. See Note 2.c. for details.

The accompanying notes form an integral part of these unaudited condensed interim financial statements.

# Notes to the Unaudited Condensed Interim Financial Statements

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*For the six months ended 31 December 2016*

## **1. General information**

The Company is a non-cellular company limited by shares and was incorporated in Guernsey under the Law on 29 May 2013 with registered number 56708 as a closed-ended investment company. It is regulated by the Guernsey Financial Services Commission.

The investment objective of the Company is to provide shareholders with an attractive return, principally in the form of dividends, by investing via SPVs in a portfolio of large scale UK based solar energy infrastructure assets.

The Company has appointed Bluefield Partners LLP as its Investment Adviser.

## **2. Accounting policies**

### **a) Basis of preparation**

The financial statements, included in this interim report, have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the EU and the DTR. These financial statements comprise only the results of the Company as all of its subsidiaries are measured at fair value following the amendment of IFRS 10 as explained below in Note 2.c). Apart from this change in accounting policy the accounts have been prepared on a basis that is consistent with accounting policies applied in the preparation of the Company's annual financial statements for 30 June 2016.

These financial statements have been prepared under the historical cost convention with the exception of financial assets held at fair value through profit or loss and in accordance with the provisions of the DTR.

These financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended 30 June 2016, which were prepared under full IFRS requirements as adopted by the EU and which were prepared on a consolidated basis under IFRS as adopted by the EU.

### **Functional and presentation currency**

These financial statements are presented in Sterling, which is the functional currency of the Company as well as the presentation currency. The Company's funding, investments and transactions are all denominated in Sterling.

### **Seasonal and cyclical variations**

Although the bulk of the Company's generation occurs during the summer months when the days are longer, the Company's results do not vary significantly during reporting periods as a result of seasonal activity.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

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*For the six months ended 31 December 2016*

## **2. Accounting policies (continued)**

### **b) Going concern**

The Directors in their consideration of going concern, have reviewed comprehensive cash flow forecasts prepared by the Investment Adviser, future projects in the pipeline and the performances of the current solar plants in operation and, at the time of approving these financial statements, have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months and do not consider there to be any threat to the going concern status of the Company. The Directors have concluded that it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

### **c) Accounting for subsidiaries**

The Company has applied the December 2014 amendments to IFRS 10 for the first time.

The Company makes its investments in the SPVs through its single, direct subsidiary, BSIFIL, in which it is the sole shareholder.

At inception of the Company the Board assessed the function of BSIFIL and maintained that it provided investment related services because such services are an extension of the operations of the Company. For all reporting periods up to and including 30 June 2016 the Company therefore consolidated the results of BSIFIL and represented BSIFIL's investments in its SPVs as financial assets held at fair value through profit or loss on the consolidated statement of financial position.

On 18 December 2014, the IASB issued further amendments to IFRS 10 (the Consolidation Exception Amendments) which clarified the scope of the exceptions to mandatory non-consolidation. In light of these amendments the Board has considered the investment entity status of BSIFIL and has concluded that it is, like the Company, an investment entity. As such the Company is now no longer permitted to consolidate BSIFIL in the preparation of its financial statements. All subsidiaries are now recognised at fair value through profit and loss from the period commencing 1 July 2016.

This change does not affect the total net assets but does introduce presentational changes to the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows and to many notes to the accounts.

Under the transitional provisions of IFRS 10 this change in accounting policy is required to be accounted for retrospectively and the relevant comparative figures have been re-stated. Information on the quantitative impact on this change in accounting policy is shown below.

The impact on reserves as at 31 December 2016 is nil.

The following tables illustrate the quantitative impact to the amendment on the re-stated comparative balances shown in the primary statements in these financial statements.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 2. Accounting policies (continued)

### c) Accounting for subsidiaries (continued)

#### Statement of Financial Position

	As reported at 30 June 2016 £	Adjustments £	Restated at 30 June 2016 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets held at fair value through profit or loss	483,730,343	(178,007,843)	305,722,500
Trade and other receivables	1,137,255	(1,137,255)	-
<b>Total non-current assets</b>	<b>484,867,598</b>	<b>(179,145,098)</b>	<b>305,722,500</b>
<b>Current assets</b>			
Trade and other receivables	2,558,646	(2,017,257)	541,389
Cash and cash equivalents	2,774,930	(994,249)	1,780,681
<b>Total current assets</b>	<b>5,333,576</b>	<b>(3,011,506)</b>	<b>2,322,070</b>
<b>TOTAL ASSETS</b>	<b>490,201,174</b>	<b>(182,156,604)</b>	<b>308,044,570</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest bearing borrowings	130,380,000	(130,380,000)	-
<b>Total non-current liabilities</b>	<b>130,380,000</b>	<b>(130,380,000)</b>	<b>-</b>
<b>Current liabilities</b>			
Interest bearing borrowings	50,000,000	(50,000,000)	-
Other payables and accrued expenses	2,068,636	(1,776,604)	292,032
<b>Total current liabilities</b>	<b>52,068,636</b>	<b>(51,776,604)</b>	<b>292,032</b>
<b>TOTAL LIABILITIES</b>	<b>182,448,636</b>	<b>(182,156,604)</b>	<b>292,032</b>
<b>NET ASSETS</b>	<b>307,752,538</b>	<b>-</b>	<b>307,752,538</b>
<b>EQUITY</b>			
Share capital	307,985,091	-	307,985,091
Other reserves	167,201	-	167,201
Retained earnings	(399,754)	-	(399,754)
<b>TOTAL EQUITY</b>	<b>307,752,538</b>	<b>-</b>	<b>307,752,538</b>
<b>Number of Ordinary Shares in issue at year end</b>	<b>309,631,765</b>		<b>309,631,765</b>
<b>Net Asset Value per Ordinary Share (pence)</b>	<b>99.39</b>		<b>99.39</b>

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 2. Accounting policies (continued)

### c) Accounting for subsidiaries (continued)

Statement of Comprehensive Income	As reported Six months ended 31 December 2015 £	Adjustments £	Restated Six months ended 31 December 2015 £
<b>Income</b>			
Income from investments	2,098,950	(1,848,950)	250,000
Interest income from cash and cash equivalents	5,496	(1,590)	3,906
	<b>2,104,446</b>	<b>(1,850,540)</b>	<b>253,906</b>
Net gains on financial assets held at fair value through profit or loss	14,632,624	(1,023,381)	13,609,243
<b>Operating income</b>	<b>16,737,070</b>	<b>(2,873,921)</b>	<b>13,863,149</b>
<b>Expenses</b>			
Administrative expenses	2,130,161	(1,458,191)	671,970
Transaction costs	818,811	(818,811)	-
<b>Operating expenses</b>	<b>2,948,972</b>	<b>(2,277,002)</b>	<b>671,970</b>
<b>Operating profit</b>	<b>13,788,098</b>	<b>(596,919)</b>	<b>13,191,179</b>
Finance costs	596,919	(596,919)	-
<b>Total comprehensive income before tax</b>	<b>13,191,179</b>	-	<b>13,191,179</b>
Taxation	-	-	-
<b>Total comprehensive income for the period</b>	<b>13,191,179</b>	-	<b>13,191,179</b>
<b>Attributable to:</b>			
Owners of the Company	<b>13,191,179</b>	-	<b>13,191,179</b>
<b>Earnings per share:</b>			
Basic and diluted (pence)	<b>4.66</b>		<b>4.66</b>

The removal of BSIFIL's costs, including overheads, management fees and acquisition costs, from the income statement is offset by the reduction in operating income. There is no change to profit or earnings per share as a result of the amended standard.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 2. Accounting policies (continued)

### c) Accounting for subsidiaries (continued)

#### Statement of Cash Flows

	As reported Six months ended 31 December 2015 Unaudited £	Adjustments £	Restated Six months ended 31 December 2015 Unaudited £
<b>Cash flows from operating activities</b>			
Total comprehensive income for the period	13,191,179	-	13,191,179
Adjustments:			
Decrease/(Increase) in trade and other receivables	1,091,528	(1,361,406)	(269,878)
Increase in other payables and accrued expenses	574,925	(469,709)	105,216
Net gains on financial assets held as fair value through profit or loss	(14,632,624)	1,023,381	(13,609,243)
Finance expense on revolving loan facility	348,122	(348,122)	-
Movement in other reserves relating to Investment Adviser shares	208,813	-	208,813
<b>Net cash generated in/(used in) operating activities</b>	<b>781,943</b>	<b>(1,155,856)</b>	<b>(373,913)</b>
<b>Cash flows from investing activities</b>			
Purchase of financial assets held at fair value through profit or loss	(35,925,777)	3,743,065	(32,182,712)
Receipts from financial assets held at fair value through profit or loss	18,127,426	1,374,510	19,501,936
<b>Net cash used in investing activities</b>	<b>(17,798,351)</b>	<b>5,117,575</b>	<b>(12,680,776)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of Ordinary Shares	31,620,000	-	31,620,000
Issue costs paid	(838,447)	-	(838,447)
Dividends paid	(17,401,078)	-	(17,401,078)
Drawdown on revolving loan facility	24,700,000	(24,700,000)	-
Repayment of revolving loan facility - Capital	(32,100,000)	32,100,000	-
Repayment of revolving loan facility - Interest	(348,122)	348,122	-
<b>Net cash generated from financing activities</b>	<b>5,632,353</b>	<b>7,748,122</b>	<b>13,380,475</b>
Net (decrease)/ increase in cash and cash equivalents	(11,384,055)	11,709,840	325,786
Cash and cash equivalents at the start of the period	13,273,472	(12,664,018)	609,454
<b>Cash and cash equivalents at the end of the period</b>	<b>1,889,417</b>	<b>(954,178)</b>	<b>935,240</b>

In the restated Statement of Cash Flows the cash balance reported is only that for the Company. The loan balance movements, and all other BSIFIL cash movements, are no longer reflected.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

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*For the six months ended 31 December 2016*

## **d) Segmental reporting**

IFRS 8 'Operating Segments' requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the total return on the Company's NAV, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in these financial statements.

For management purposes, the Company is engaged in a single segment of business, being investment in UK solar energy infrastructure assets via SPVs, and in one geographical area, the UK.

## **e) Acquisitions settled through share consideration**

Where an acquisition of an investment asset by BSIFIL is settled by consideration of shares in the Company, the number of shares issued is determined using the fair value of each share at the time of the acquisition.

## **f) Fair value of subsidiary**

The Company holds all of the shares in the subsidiary, BSIFIL, which is a holding vehicle used to hold the Company's investments. The Directors believe it is appropriate to value this entity based on the fair value of its portfolio of SPV investment assets held plus its other assets and liabilities. The SPV investment assets held by the subsidiary are valued semi-annually as described in Note 8 on a discounted cash flow basis.

## **3. Critical accounting judgements, estimates and assumptions in applying the Company's accounting policies**

The preparation of these financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The area involving a high degree of judgement or complexity or area where assumptions and estimates are significant to the financial statements has been identified as the valuation of the portfolio of investments held by BSIFIL (see Note 8).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

As disclosed in Note 8 (Financial assets held at fair value through profit or loss) and in the Report of the Investment Adviser, in arriving at their valuation of BSIFIL's portfolio of operational assets the Directors have elected to change their power price forecast approach by adopting an equal blend of the forecast of the two leading independent forecasters where previously a single forecast had been used. The effect of this change on the valuation at 31 December 2016 is to increase the Directors' Valuation by £8.9 million. It is not possible to estimate the impact of this change in future periods.



# Notes to the Unaudited Condensed Interim Financial Statements (continued)

*For the six months ended 31 December 2016*

## 4. Income from investments

	Six months ended 31 December 2016	Six months ended 31 December 2015 (Restated)
	£	£
Monitoring fee in relation to loans supplied	245,590	250,000
	<b>245,590</b>	<b>250,000</b>

The Company provides monitoring and loan administration services to BSIFIL for which an annual fee is charged, payable in arrears.

## 5. Administrative expenses

	Six months ended 31 December 2016	Six months ended 31 December 2015 (Restated)
	£	£
Investment advisory base fee (see Note 15)	131,395	7,558
Investment advisory variable fee (see Note 15)	-	208,813
Legal and professional fees	53,455	91,471
Administration fees (see Note 15)	118,720	125,944
Directors' remuneration (see Note 15)	80,213	85,447
Audit fees	50,466	29,425
Non-audit fees	15,000	12,500
Broker fees	26,392	25,027
Regulatory Fees	18,724	19,145
Registrar fees	16,471	18,998
Insurance	4,021	9,580
Listing fees	5,820	5,803
Other expenses	40,508	32,259
	<b>561,185</b>	<b>671,970</b>

## 6. Taxation

The Company has obtained exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 for which it pays an annual fee of £1,200 (included within regulatory fees). The income from the Company's investments is not subject to any further tax in Guernsey although the subsidiary and underlying SPVs, as UK based entities, are subject to the current prevailing UK corporation tax rate. The standard rate of UK corporation tax is 20%. This is due to decrease to 19% in 2017 and to 18% by 2020.

## 7. Net Asset Value per Ordinary Share

The calculation of NAV per Ordinary Share is arrived at by dividing the total net assets of the Company as at the unaudited condensed statement of financial position date by the number of Ordinary Shares of the Company at that date.

For the calculation of NAV per Ordinary Share as at 31 December 2015 the shares earned by the Investment Adviser but not yet issued at that date of 214,541, were included in the total number of shares meaning the Net Assets are divided by 309,631,765 shares to arrive at the NAV per share.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 8. Financial assets held at fair value through profit or loss

	31 December 2016 Total £	30 June 2016 Total (Restated) £
Opening balance (Level 3)	305,722,500	287,387,879
Additions	36,147,000	32,182,712
Change in fair value	21,758,289	(13,848,091)
<b>Closing balance (Level 3)</b>	<b>363,627,789</b>	<b>305,722,500</b>

Investments at fair value through profit or loss comprise the fair value of the investment portfolio, which is valued semi-annually by the Directors, and the fair value of BSIFIL, the Company's single, direct subsidiary being its cash, working capital and debt balances. A reconciliation of the investment portfolio value to financial assets at fair value through profit and loss shown on the Statement of Financial Position is shown below.

	31 December 2016 Total £	30 June 2016 Total (Restated) £
Investment portfolio, Directors' Valuation	531,097,929	483,730,343
BSIFIL		
Cash	13,206,290	994,249
Working capital	4,250,390	1,377,908
Debt	(184,926,820)	(180,380,000)
	(167,470,140)	(178,007,843)
<b>Financial assets at fair value through profit or loss</b>	<b>363,627,789</b>	<b>305,722,500</b>

## Analysis of net gains on financial assets held at fair value through profit or loss (per unaudited condensed statement of comprehensive income)

	Six months ended 31 December 2016 £	Six months ended 31 December 2015 (Restated) £
Unrealised change in fair value of financial assets held at fair value through profit or loss	21,758,289	(5,892,693)
Cash receipts from unconsolidated subsidiary	18,891,016	19,501,936
<b>Net gains on financial assets held at fair value through profit and loss</b>	<b>40,649,305</b>	<b>13,609,243</b>

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

*For the six months ended 31 December 2016*

## **8. Financial assets held at fair value through profit or loss (continued)**

### **Fair value measurements**

Financial assets and financial liabilities are classified in their entirety into only one of the following three levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

The determination of what constitutes ‘observable’ requires significant judgement by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The only financial instruments carried at fair value are the investments held by the Company, through BSIFIL, which are fair valued at each reporting date. The Company’s investments have been classified within Level 3 as BSIFIL’s investments are not traded and contain unobservable inputs.

### **Transfers during the period**

There have been no transfers between levels during the six months ended 31 December 2016. Due to the nature of the investments, these will be classified as Level 3.

### **Directors’ Valuation methodology and process**

The same valuation methodology and process for operational solar plants is followed in these financial statements as was applied in the preparation of the Company’s financial statements for the year ended 30 June 2016. Solar plants under construction and not yet operational are valued at cost and exclude acquisition costs which are expensed in the period in which they are incurred.

The Directors have based the fair value of the investments in the SPVs held by BSIFIL on information received from the Investment Adviser. It is only the SPV’s of BSIFIL that the Directors fair value (see Note 2.f)). Fair value of operational SPVs is calculated on a leveraged, discounted cash flow basis in accordance with the IPEV Valuation Guidelines. The Investment Adviser produces fair value calculations on a semi-annual basis as at 30 June and 31 December each year. However, in every third year the Directors will have an external valuation performed by an experienced independent third party. Such an external valuation was undertaken by EY for the year ended 30 June 2015 and considered by the Directors in determining the portfolio fair value at that date.

The Directors review and consider the recommendations of the Investment Adviser and/or an independent valuer to form an opinion of the fair value of the investments adopted by the Company. The discounted cash flow technique was applied in appraising each SPV’s solar project when the underlying solar plants are fully operational. This method identifies the inputs that have the most significant impact on the carrying value of the investments which include the discount rate, electricity price forecasts, the amount of electricity the solar assets are expected to produce and inflation rate on related costs.

The Directors have satisfied themselves as to the Company’s valuation policy, valuation methodology, discount rates and key assumptions applied.

The key inputs to the valuation are: the equity discount rate, interest rate, gearing level, length of debt, power price forecasts, inflation rate, irradiation forecasts and taxation. Original discount rates applied when the solar assets were first purchased could change due to factors such as a material change in long term inflation expectations or risk-free rates or a change in risk perception of solar assets or the regulation supporting solar assets. As a result, the discount rates are subjective and an alternative assumption may result in a different rate.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

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*For the six months ended 31 December 2016*

## **8. Financial assets held at fair value through profit or loss (continued)**

### **Directors' Valuation methodology and process (continued)**

Judgement is used by the Directors in arriving at the appropriate WACC used by the Company.

The Directors have elected to change their power price forecast approach by adopting a equal blend of the forecasts of the two leading independent forecasters. This approach is expected to smooth sensitivity of valuation to forecast timing or opinion taken by a single forecast.

During the financial period, BSIFIL took on £187m of long term debt from Aviva Investors Ltd. Notwithstanding the lower than expected cost of debt (at fixed rate of 2.875% on £121.5m and 0.7% indexed on £65.5m), the Directors have elected to maintain the WACC at 6.6%, which has resulted in an increase in the implied equity discount rate during the period.

Related revenue (for associated FiT and ROC benefits) and costs (for the construction and maintenance of the solar assets) may not stay constant in real terms over the life of the solar assets, due to inflation rates. The Company assumes an inflation rate of 2.75% (30 June 2016: 2.5%).

Long term irradiation forecasts based on a number of long term irradiation databases utilising both ground and satellite based measurements have been provided by a leading PV technical adviser in the UK market. The Investment Adviser has relied on this data and, where applicable, the performance ratio warranted by the contractors. Base energy yield assumptions are P50 (50% probability of exceedence) (30 June 2016: P50).

Each investment is subject to full UK corporate taxation at the prevailing rate with the tax shield being limited to the applicable capital allowances from the Company's SPV investments.

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 8. Financial assets held at fair value through profit or loss (continued)

### Sensitivity analysis

The table below analyses the sensitivity of the fair value of the Directors' Valuation to an individual input, while all other variables remain constant.

The Directors consider the changes in inputs to be within a reasonable expected range based on their understanding of market transactions. This is not intended to imply that the likelihood of change or that possible changes in value would be restricted to this range.

Input	Change in input	Change in fair value of the Directors' Valuation £	Change in NAV per share (pence)
WACC (6.6%)	+0.5%	(20,400,000)	(5.25)
	-0.5%	21,700,000	5.46
Power prices (blended curve parallel shift)	+10%	25,100,000	6.46
	-10%	(25,200,000)	(6.49)
Inflation rate (2.75%)	+ 0.25%	11,000,000	2.83
	- 0.25%	(10,600,000)	(2.73)
Energy yield (P50)	10 year P90	(40,800,000)	(10.50)
	10 year P10	38,300,000	9.86
Taxation (20%)	+5%	(12,700,000)	(3.27)
	-5%	12,700,000	3.27
Operational costs	+10%	(10,200,000)	(2.63)
	-10%	9,800,000	2.52

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 9. Trade and other receivables

	31 December 2016	30 June 2016 (Restated)
	£	£
<b>Current assets</b>		
Income from investments (see Note 4)	259,767	514,177
Interest receivable	2,264	109
Other receivables	5,000	10,000
Prepayments	36,549	17,103
	<b>303,580</b>	<b>541,389</b>

There are no other material past due or impaired receivable balances outstanding at the period end.

The Directors consider that the carrying amount of all receivables approximates to their fair value.

## 10. Cash and cash equivalents

Cash and cash equivalents comprises cash held by the Company and short term bank deposits held with maturities of up to three months. The carrying amounts of these assets approximate their fair value.

## 11. Other payables and accrued expenses

	31 December 2016	30 June 2016 (Restated)
	£	£
<b>Current liabilities</b>		
Investment advisory fees	69,071	61,169
Administration fees	66,379	63,130
Audit fees	45,000	84,000
Other payables	105,875	83,733
	<b>286,325</b>	<b>292,032</b>

The Company has financial risk management policies in place to ensure that all payables are paid within the agreed credit period. The Directors consider that the carrying amount of all payables approximates to their fair value.

## 12. Earnings per share

	Six months ended 31 December 2016	Six months ended 31 December 2015
Profit attributable to shareholders of the Company	£40,342,638	£13,191,179
Weighted average number of Ordinary Shares in issue	331,958,238	283,205,535
<b>Basic and diluted earnings from continuing operations and profit for the period (pence)</b>	<b>12.15</b>	<b>4.66</b>

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

For the six months ended 31 December 2016

## 13. Share capital and Other reserves

The authorised share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value which, upon issue, the Directors may designate into such classes and denominated in such currencies as they may determine.

Share capital	Six months ended 31 December 2016 Number of Ordinary Shares	Year ended 30 June 2016 Number of Ordinary Shares
<b>Opening balance</b>	<b>309,631,765</b>	<b>278,417,224</b>
Shares issued for cash	60,000,000	31,000,000
Shares issued in respect of IA Variable fee	179,516	214,541
<b>Closing balance</b>	<b>369,811,281</b>	<b>309,631,765</b>

Shareholders equity	Six months ended 31 December 2016 £	Year ended 30 June 2016 £
<b>Opening balance</b>	<b>307,752,538</b>	<b>288,390,867</b>
Shares issued for cash	60,600,000	31,620,000
Shares issued in settlement of variable fee	-	208,813
Shares to be issued in settlement of variable fee	-	167,201
Share issue costs	(794,290)	(803,092)
Dividends paid	(19,351,986)	(20,497,395)
Retained earnings	40,342,638	8,666,144
<b>Closing balance</b>	<b>388,548,900</b>	<b>307,752,538</b>

Dividends declared and paid in the period are disclosed in Note 14.

### Shares issued during the period

On 24 October 2016, the Company issued 60,000,000 new Ordinary Shares following a placing. These shares were issued at a price of £1.01 per Ordinary Share, raising gross proceeds of £60,600,000.

On 29 November 2016, the Company issued 179,516 new Ordinary Shares in settlement of the Investment Adviser's variable fee in respect of the year ended 30 June 2016.

### Rights attaching to shares

The Company has a single class of Ordinary Shares which are entitled to dividends declared by the Company. At any General Meeting of the Company each ordinary shareholder is entitled to have one vote for each share held. The Ordinary Shares also have the right to receive all income attributable to those shares and participate in dividends made and such income shall be divided pari passu among the holders of Ordinary Shares in proportion to the number of Ordinary Shares held by them.

### Retained reserves

Retained reserves comprise of retained earnings as detailed in the statement of changes in equity.

### Other reserves

As at 30 June 2016, the variable element of the Investment Adviser's fee (£167,201) to be settled as equity, earned in respect of year ended 30 June 2016, was outstanding and was reflected in Other reserves. On 23 November 2016 the Directors approved the issue of 179,516 Ordinary Shares (based on 30 June 2016 NAV per Share adjusted for dividends).

# Notes to the Unaudited Condensed Interim Financial Statements (continued)

*For the six months ended 31 December 2016*

## 14. Dividends

On 11 August 2016, the Directors declared a third interim dividend of £4,644,476, in respect of year ending 30 June 2016, equating to 1.50 pence per Ordinary Share (third interim dividend in respect of the year ending 30 June 2015: 1.50 pence), which was paid on 9 September 2016 to shareholders on the register on 19 August 2016.

On 4 October 2016, the Directors declared a fourth interim dividend of £4,644,476, in respect of year ending 30 June 2016, equating to 1.50 pence per Ordinary Share (fourth interim dividend in respect of the year ending 30 June 2015: 1.50 pence), which was paid on 4 November 2016 to shareholders on the register on 14 October 2016.

On 6 October 2016, the Directors declared a first interim dividend of £10,063,034, in respect of year ending 30 June 2017, equating to 3.25 pence per Ordinary Share (first interim dividend in respect of the year ending 30 June 2016: 3.25 pence), which was paid on 4 November 2016 to shareholders on the register as at 14 October 2016.

## 15. Related Party Transactions and Directors' Remuneration

In the opinion of the Directors, the Company has no immediate or ultimate controlling party.

Laurence McNairn, Director of the Company, is also a Director of the Company's Administrator, Heritage International Fund Managers Limited. Total administration fees incurred during the period amounted to £118,720 (31 December 2015: £125,944), of which £66,379 (30 June 2016: £63,130) was outstanding at the period end.

The total Directors' fees expense for the period amounted to £80,213 (31 December 2015: £85,447). Laurence McNairn received a Director's fee of £19,104 (31 December 2015: £16,636). The fees for 2015 include £5,000 paid by the Company in respect of BSIFIL which was repaid in 2016.

For the period to 31 December 2016, remuneration paid to each Director is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
John Rennocks	27,664	30,247
Paul Le Page	19,355	19,408
Laurence McNairn	16,590	16,636
John Scott	16,604	19,156
	<b>80,213</b>	<b>85,447</b>

As at 31 December 2016, the number of Ordinary Shares held by each Director is as follows:

	<b>31 December 2016</b>	<b>30 June 2016</b>
John Rennocks	446,713	356,713
Paul Le Page	70,000	70,000
Laurence McNairn	441,764	441,764
John Scott	276,176	276,176
	<b>1,234,653</b>	<b>1,114,653</b>

On 9 January 2017 John Scott acquired an additional 91,330 Ordinary Shares through his Self-Investment Personal Pension.



# Notes to the Unaudited Condensed Interim Financial Statements (continued)

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*For the six months ended 31 December 2016*

## **15. Related Party Transactions and Directors' Remuneration (continued)**

John Scott and John Rennocks are Directors of BSIFIL. Mike Rand and James Armstrong, who are partners of the Investment Adviser, are also Directors of BSIFIL.

The Company and BSIFIL's investment advisory fees for the period amounted to £1,413,633 (31 December 2015: £1,426,564) of which £304,293 (30 June 2016: £201,601) was outstanding at the period end and is to be settled in cash. The payment of the investment advisory fee is split between the Company (10%) and the Company's immediate subsidiary, BSIFIL, (90%). The variable element of investment advisory fees of £167,201 earned in respect of the year ended 30 June 2016 was settled through the issuance of shares on 29 November 2016 (see Note 13).

The Company's shareholder loan monitoring fee income for the period amounted to £245,590 (31 December 2015: £828,973) of which £259,767 was outstanding at the period end (30 June 2016: £514,178).

On 28 December 2016, BSIFIL completed the acquisition of Bluefield Solar EIS Limited. As a member of the Investment Adviser is also a Director of BSIFIL and owned B shares in Bluefield EIS Solar Limited, they are considered a related party of BSIFIL, and the transaction a related party transaction, under IAS 24 'Related Party Disclosures'. The member of the Investment Adviser received £663 cash consideration for their ordinary shares. As a holder of B shares, they were also entitled to a carried interest in the sale of the Ordinary shares. Their share of this amounted to £38,450. A Fair and Reasonable Opinion was sought and received from Numis Securities Limited before signing of the transaction.

## **16. Risk Management Policies and Procedures**

As at 31 December 2016 there has been no change to Financial Instruments risk to those described in the financial statements of 30 June 2016.

## **17. Subsequent events**

Post period end, on 20 and 23 January 2017 terms were agreed with Solarcentury as EPC contractor to build two 5MWp solar plants located in Devon. Both plants are expected to become operational before 31 March 2017 and to qualify under the 1.2 ROC regime.

## Glossary of Defined Terms (continued)

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**AGM** means the Annual General Meeting

**AIC** means the Association of Investment Companies

**AIC Code** means the Association of Investment Companies Code of Corporate Governance

**AIC Guide** means the Association of Investment Companies Corporate Governance Guide for Investment Companies

**AIF** means Alternative Investment Fund

**AIFM** means Alternative Investment Fund Manager

**AIFMD** means the Alternative Investment Fund Management Directive

**Amendments** means the Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27

**Articles** means the Memorandum and Articles of Incorporation registered 29 May 2013 as amended

**Auditor** means KPMG Channel Islands Limited (see KPMG)

**Aviva Investors** means Aviva Investors Limited

**BEIS** means the Department for Business, Energy & Industrial Strategy

**Brexit** means departure of the UK from the EU

**Bluefield** means Bluefield Partners LLP

**BSL** means Bluefield Asset Management Services Limited

**Board** means the Directors of the Company

**BSIF** means Bluefield Solar Income Fund Limited

**BSIFIL** means Bluefield SIF Investments Limited being the only direct subsidiary of the Company

**Business days** means every official working day of the week, generally Monday to Friday excluding public holidays

**CAGR** means compound annual growth rate

**Calculation Time** means the Calculation Time as set out in the Articles of Incorporation

**CfD** means Contract for Difference

**Company** means Bluefield Solar Income Fund Limited (see BSIF)

**Companies Law** means the Companies (Guernsey) Law 2008, as amended (see Law)

**Consolidation Exception Amendments** means the 18 December 2014 further amendments to IFRS 10 Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

**Consultation** means the Department of Energy & Climate Change consultation into changes to financial support for large scale solar delivered in quarter 4, 2014

**C Shares** means Ordinary Shares approved for issue at no par value in the Company

## Glossary of Defined Terms (continued)

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**CSR** means Corporate Social Responsibility

**DCF** means Discounted Cash Flow

**DECC** means the Department of Energy and Climate Change

**DNO** means Distribution Network Operator

**DSCR** means Long Term Debt Service Cover Ratio calculated as net operating income as a multiple of debt obligations due within one year

**DTR** means the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority

**EGM** means Extraordinary General Meeting

**EPC** means Engineering, Procurement & Construction

**EU** means the European Union

**EY** means Ernst & Young LLP

**FATCA** means the Foreign Account Tax Compliance Act

**Financial Statements** means the unaudited condensed interim financial statements

**FiT** means Feed-in Tariff

**GAV** means Gross Asset Value on Investment Basis including debt held at SPV level

**GFSC** means the Guernsey Financial Services Commission

**Group** means Bluefield Solar Income Fund Limited and Bluefield SIF Investments Limited

**Guernsey Code** means the Guernsey Financial Services Commission Finance Sector Code of Corporate Governance

**GWh** means Gigawatt hour

**GWp** means Gigawatt peak

**IAS** means International Accounting Standard

**IASB** means the International Accounting Standards Board

**IFRS** means International Financial Reporting Standards as adopted by the EU

**Investec** means Investec Bank Plc

**Investment Adviser** means Bluefield Partners LLP

**IPEV Valuation Guidelines** means the International Private Equity and Venture Capital Valuation Guidelines

**IPO** means initial public offering

**IVSC** means the International Valuation Standards Council

**KPI** means Key Performance Indicators

## Glossary of Defined Terms (continued)

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**KPMG** means KPMG Channel Islands Limited (see Auditor)

**KWh** means Kilowatt hour

**KWp** means Kilowatt peak

**Law** means Companies (Guernsey) Law, 2008 as amended (see Companies Law)

**LD** means liquidated damages

**LEC** means Levy Exemption Certificate, the certificates awarded to renewable energy projects in relation to their clean energy production which were typically monetised under PPA contracts to offset levies due under the Climate Change Levy to energy suppliers.

**LIBOR** means London Interbank Offered Rate

**Listing Rules** means the set of FCA rules which must be followed by all companies listed in the UK

**Lloyds** means Lloyds Bank Group PLC

**Lloyds International** means Lloyds Bank International Limited

**LSE** means London Stock Exchange PLC

**LTF agreement** means Long Term Financing agreement with Aviva Investors

**Main Market** means the main securities market of the London Stock Exchange

**MWh** means Megawatt hour

**MWp** means Megawatt peak

**NAV** means Net Asset Value as defined in the prospectus

**NMPI** means Non-mainstream Pooled Investments and Special Purpose Vehicles and the rules around their financial promotion

**NPPR** means the AIFMD National Private Placement Regime

**Official List** means the Premium Segment of the UK Listing Authority's Official List

**Ordinary Shares** means the issued ordinary share capital of the Company, of which there is only one class

**Placement** means the placement of new shares in October 2016

**PPA** means Power Purchase Agreements

**pps** means pence per share

**Primrose Portfolio** means a portfolio four operational solar PV assets purchased from Primrose Solar Management Limited

**PV** means Photovoltaic

**RBS** means The Royal Bank of Scotland plc

**RBSI** means Royal Bank of Scotland International plc

## Glossary of Defined Terms (continued)

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**RCF** means Revolving Credit Facility

**RO Scheme** means the Renewable Obligation Scheme which is the financial mechanism by which the UK Government incentivises the deployment of large-scale renewable electricity generation by placing a mandatory requirement on licensed UK electricity suppliers to source a specified and annually increasing proportion of electricity they supply to customers from eligible renewable sources or pay a penalty

**ROC** means Renewable Obligation Certificates

**RPI** means the Retail Price Index

**SPA** means Share Purchase Agreement

**SPV** means a Special Purpose Vehicle which hold the Company's investment portfolio of underlying operating assets

**Sterling** means the Great British pound currency

**Strategy** means the Department of Energy & Climate Change Solar PV Strategy: Part 2

**UK** means the United Kingdom of Great Britain and Northern Ireland

**UK Code** means the United Kingdom Corporate Governance Code

**UK FCA** means the UK Financial Conduct Authority

**WACC** means Weighted Average Cost of Capital