



SE 24 SUSTAINABLE ENERGY

SUSTAINABLE ENERGY 24 LTD.

SHARE OFFER DOCUMENT

16TH JUNE 2017



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1. OUR SHARE OFFER AT A GLANCE

You are invited to invest in, and become a shareholder of, Sustainable Energy 24 Ltd (SE24), a co-operatively owned social enterprise that generates renewable electricity for the benefit of the local community in South-East London. We believe that communities, regardless of financial resources, should have access to, and benefit from, affordable low-carbon technologies.

This document should be read in conjunction with the Share Offer Application Form which tells you how to make an investment.

We are seeking to raise £215,000 to fund the installation of roof-top solar photovoltaic (PV) panels on roofs at:

- St. Christopher's Hospice, Sydenham, London SE26 6DZ (50 kW peak installation).
- Dulwich College, Dulwich, London SE21 7LD (100 KW peak installation).

To-date, we have pledges towards this target of £105,000 from SE24 core members and friends.

Taken together, the solar panels at these two sites will generate around 150 megawatt-hour (MWhs) of clean solar electricity and save approximately 63 metric tonnes of CO² emissions annually. Moreover, the sites will save around £75,000 in electricity costs over 20 years, enabling them to direct more funds to meeting the needs of their users and the communities they serve. By investing in this share offer you will also be helping us to generate revenue from the projects for a Community Fund, which will be used to help tackle fuel poverty in South London, providing much needed assistance to those who need to choose between heating and eating. We expect to contribute some £60,000 to this Community Fund over 20 years.

This will be SE24's second finance raise. Its first share offer last Summer raised sufficient finance to successfully complete solar PV projects at Herne Hill United Church and at Herne Hill Methodist Church Hall.

Be part of the community energy revolution:

- SE24 Directors will aim to pay 4% annual return on your investment.
- Help the hospice and school direct more of their funds towards serving their users and community.
- Help make an impact on reducing local carbon emissions.
- Establish a Community Fund.

Share offer open on: 16th June 2017.

Share offer closes on: 16^h July 2017

Minimum investment per member: £500.

Maximum investment per member: £20,000.

If over-subscribed, then small investors (i.e. those investing between £500 and £1000) will be given priority. Other investors' allocations will be scaled back proportionately.

Please note, as with all risk investments, these shares could lose some or all their value and they are not protected by the Government's Financial Services Compensation Scheme or the Financial Ombudsman Service. We are not a bank or a regulated investment product provider.

2. ABOUT SUSTAINABLE ENERGY 24

The Story so far

Sustainable Energy 24 Ltd (SE24) was formed in October 2014 by a group of Lambeth and Southwark residents. We share a three-fold vision:

- **Sustainable Energy:** SE24 to reduce our carbon footprint by encouraging and setting up local renewable energy projects, beginning with rooftop solar installations, on community buildings and businesses.
- **Social Enterprise:** SE24 to create jobs in the local area through developing, installing and maintaining solar energy equipment in partner properties.
- **Social Engagement:** SE24 to plough money back into the community particularly through action to educate on Climate Change issues and to help tackle fuel poverty.

Our first two solar projects at Herne Hill United Church and Herne Hill Methodist Church Hall, with installed capacity of 19 kWp, have generated 6 MWhs of clean electricity since first operations in November 2016.

Our mission and aims

Our mission is to enable communities to access the benefits of affordable low-carbon technologies, especially solar PV systems on community building, where there are economies of scale in installation and operation. We will collaborate with partners, such as churches and schools, to deliver projects that will not only repay investors but also provide additional revenue to fund projects to educate people about behaviour changes to reduce carbon emissions, increase energy efficiency and tackle fuel poverty.

Our aims are to:

- Generate renewable and affordable energy in SE London that will mitigate Climate Change effects and accelerate the transition to zero-carbon, decentralised electricity systems.
- Build a sustainable business model that has a core focus on social responsibility and affordable energy provision, which provides returns to investors.
- Give community organisations access to lower cost, renewable energy.
- Generate a Community Fund to invest in charitable projects related to Climate Change and tackling fuel poverty.

Over the next 2-3 years, SE24 intends to build a portfolio of solar PV projects totalling some 500 kWp capacity to enable it to build up the Community Fund and fulfil its aims. Further share offers will be launched to finance these projects.

Our legal structure

Sustainable Energy 24 Ltd is registered as a Community Benefit Society (CBS) under the Cooperative and Community Benefit Societies Act 2014 (Society number 7152). Our rules are based on Cooperatives UK model rules and are available from our website <http://www.se24.co.uk/share-offer/>. SE24 is a trading entity that aims to generate a financial surplus whilst undertaking work that benefits the community in line with our mission and aims.

The Financial Conduct Authority (FCA) is the regulator that ensures our organisation complies with this Act. The FCA has the power to cancel the registration of a Society if it does not comply with relevant legislation. The FCA is also responsible for regulating financial promotions but Community Benefit Societies (CBS) are exempt from most of these regulations and consequently this share offer is not regulated by these bodies. We are however required under regulations for CBSs to lay out the risks and opportunities made available through this investment and this is one of the key objectives of this document.

3. THE TEAM

The founder members of SE24 bring a range of professional experience and expertise:

Alan Jones – SE24 Chair and Technical Director. Alan worked for 33 years in the field of school building design, economics and asset management. He is a Chartered Surveyor and has lived in Herne Hill for 29 years. He strongly believes in the contribution renewable energy can make towards a more sustainable and just society for future generations.

Mark Hughes – Energy Market Expert, SE24 Treasurer and Technical Director. Mark spent 25 years leading various teams in Power and Utilities in Price Waterhouse Coopers. Until recently, was a member of the DECC Expert Group advising on the new support structure for large scale low carbon generation. He retired from PwC in June 2013 but still advises businesses in the power sector as an independent consultant on economic, financial and contractual matters. He was born in South London and has lived here for over 60 years. He is a Trustee of a local youth charity and Treasurer Governor of the local school which was the first beneficiary of the Whoosh charity cycle rides where he has been active from the start. The SE24 solar project allows him to combine his sector experience and technical skills with his local community focus with friends he has known for many years.

Harriet Lamb CBE – SE24 Vice-Chair and Director. Harriet is CEO of the charity International Alert. She brings experience of running not-for-profit organisations, fundraising and communication skills and a passion for how each of us can all contribute social change. Her work has been recognised by being awarded a CBE, Credit Suisse Businesswoman of the Year and Cosmopolitan Eco-Queen! Her belief in sustainable energy is driven by hearing first-hand from farmers in the developing world about the terrible negative impacts of climate change.

Jim Belben – SE24 Company Secretary and Director. Jim is a publisher by profession and a company director and has lived in South London for over 35 years. He is SE24's Company Secretary and leads on publicity and communication with partners and investors. He has a passion for local organisation and community action. He hopes to transfer that enthusiasm and those skills to this new challenge of reducing our carbon footprint. He has organised charity cycle rides and fundraising for the past 15 years and has seen the way that working together with others can make a difficult goal achievable and fun.

Eroll McDonald – Planning and Building Regulation Expert. Eroll has been a building surveyor for almost 30 years in the public and private sectors. In his previous local authority role, he covered construction works in the SE24 area. In his current role as technical director at MLM he has been involved in approval for the large solar panel community energy projects on the Loughborough and Brixton Hill Estates. He has always been interested in sustainable construction and was an energy assessor producing SAP reports on energy performance of dwellings.

Angus Hanton – Community Entrepreneur. Angus is a Herne Hill based entrepreneur with a storage business and a forestry enterprise. He has also invested significantly in solar power in Germany and in the UK. The solar panels on his house produce more electricity than the family use, and he aims progressively to eliminate his carbon footprint.

Colin Crooks – Social Enterprise Guru. Colin has a successful track record in establishing and running social enterprises. He is Chief Executive & founder of Tree Shepherd, which promotes and supports enterprise in the UK's most marginalised communities. He is the author of "How to Make a Million Jobs – A Charter for Social Enterprise". Previously, he set up & ran GreenWorks, which employed marginalised groups, including homeless people & ex-offenders, and was the first business to recycle office furniture on an industrial scale.

Dr. Paul Chambers – Climate Change Professional. Paul works for the Department for Business, Energy and Industrial Strategy and for three years was seconded to the British Embassy in Jakarta as Senior Energy and Climate Change Advisor, working on clean energy programmes in Indonesia. He has worked for over 15 years on energy and climate policy. In addition to his knowledge of UK government policies on energy, he brings to SE24 his knowledge of the global implications of carbon emissions and the need to reduce them using renewable energy and energy conservation.

Margy Newens – Community Activist Margy spent 20 years trading agricultural commodities for multinational corporations before deciding to move into the non-profit sector. She now works on developing corporate partnerships for Pump Aid, a small international development NGO which sets up and supports small businesses in Malawi to provide sustainable solutions to exceptionally poor access to safe water and sanitation. She has lived in South London for 22 years. She comments: 'The planet needs to produce the same amount of food in the next 40 years as we have in the past 8,000 years, whilst the available area of productive land is fast diminishing due to pollution and climate change. That should be enough to scare anyone into action!'

James Mudie – Biologist James is a recent Biology graduate volunteering with SE24 as he builds a career in alternative energy. He has met with current and potential future partners and has working on our online content, admin and communication. He comments: 'I see this as great opportunity to take a role in an exciting and growing organisation working in an area that I am passionate about. SE24 provides an opportunity for me not only to learn about sustainable energy, but also to be part of a community. Quite apart from the obvious benefits of this scheme for the environment, partners and investors, I think that the act of putting solar panels on buildings shared by the community sends a message that people do care and that change is possible.'

4. THE PROJECT

The sites

You are invited to invest in the purchase, installation and operation of solar panels that will be installed at the following two sites:

St Christopher's Hospice, Sydenham, London SE26

We intend to install solar PV systems with a peak capacity of 50kW on two roofs at St Christopher's Hospice in Sydenham. The two systems will each combine 30kW of solar panel capacity with a 50 kW peak generation capacity to reflect the sizing/optimal design constraints of the inverters, which transform the DC generation into AC for on-site consumption or export.

This year the hospice is celebrating 50 years of providing care and support to dying people and those around them. With 48 beds over 4 wards, the Sydenham hospice offers an extensive range of caring services, from medical care by general practitioners and clinical nurse specialists, to social, spiritual and bereavement care. As well as this, St Christopher's is a place for learning, offering educational and vocational courses at its sites, equipping the next generation of carers with the skills they need. As the hospice only receives a third of its running costs from the NHS, most of these services are funded through donations to the hospice.

Dulwich College, Dulwich, London SE21

Dulwich College is our biggest project yet with the greatest capacity to generate solar energy. We plan to install 4 solar PV systems, each with a solar panel capacity of 30kW. Two systems with a combined peak generation capacity of 50kW, to reflect the sizing/optimal design constraints of the inverters, are planned to be deployed on the roofs of each of the Swimming Pool and Lord George Hall Buildings.

Dulwich College is an independent school for boys in the heart of Dulwich, founded in 1619. Committed to genuine scholarship, the College has a tradition of preparing its boys for the most competitive of universities and the ever-evolving world of work. Through academic, sporting and cultural education the College aims to provide holistic education, which fosters a sense of social responsibility and personal development.

Supply and installation

The supply and installation of the solar PV systems will be carried out by GHG Energy (see: www.ghgenergy.co.uk) who were selected for our first installation program based on a previous rigorous competitive tender (which resulted in their selection as installer for our 2 existing projects) in which each installer was scored against weighted criteria of: cost, quality of panels and inverter specification, contribution to the local economy and organisational values. The company has extensive experience of installation in the 25-50kWp sector, undertaking 3-4 projects of this size per month. They are a London-based Micro Generation Certification Scheme-registered company that complies with the Renewable Energy Consumer Code. Our Technical Directors are working closely with GHG Energy to ensure that we receive the best possible equipment and that all installations are optimally specified.

Partnership Working

SE24 has received invaluable support in developing this project from a neighbouring community energy group called South East London Community Energy (SELCE) based in Greenwich. Given the close geographical proximity and the fact that SELCE had an established track record in developing renewable energy schemes, it seemed sensible for SE24 and SELCE to explore the potential for partnership working to achieve scale efficiencies and to learn from their experience. This culminated in the agreement to jointly commission GHG Energy as the solar PV installer for both organisations. In all other respects the two will remain as separate organisations - to raise their own funding and deliver their own unique community ambitions and objectives though staying in touch and being open to learn best practice from each other.

5. WHY INVEST?

Partners have more funds to provide services

Our partners will benefit from reduced electricity costs.

For St Christopher's Hospice in Sydenham, which does sterling service to promote and provide skilled and compassionate palliative care of the highest quality, we hope to deliver more than £20,000 in electricity savings over the 20 years, money which can be released to provide support for patients and families affected by terminal illness and help the institution meet its environmental objectives.

For Dulwich College, the estimated £50,000 in electricity savings over the 20 years will be spent in areas that improve the educational opportunities and provide curriculum benefits. For example, an energy monitor that provides information about the quantity of electricity generated by each solar panel will be installed and on public display. This will provide an exciting tool for hands-on education about renewable electricity and Climate Change. The information from the monitors can also feed into maths, science, geography and PSHE lessons. Dulwich College is committed to developing this curriculum resource which can be shared with the local educational community.

Project generates funds for those at risk of fuel poverty in SE London

From these two projects over the 20 years of the contract we expect in our Base Case projections (see Table 4 in Annex A) to accumulate some £60,000 for the Community Fund. Starting in Year 3, we expect to distribute this money to projects/activities designed to:

- promote more renewable energy investments;
- provide advice and education on energy efficiency and carbon reduction strategies that will have beneficial impacts on Climate Change and the environment;
- make tangible improvements to the situation of those living in fuel poverty in SE London.

We have made a start on this through our engagements with a range of community building owners and our involvement with the Dulwich and West Norwood Climate Change Coalition, which was jointly established by SE24 and other local community groups that focus on Climate Change issues. In due course this will involve working to help households who cannot afford to keep their homes warm in winter. Next year we will be framing our specific plans in more detail and inviting project sponsors with these objectives to approach us for financial support.

Avoiding Green House Gas Emissions

The need to tackle climate change and the transition to a low-carbon energy system is one of the principal challenges facing our generation - and the next. Every unit of electricity that is generated renewably displaces electricity from fossil fuels. Generating electricity renewably results in a reduction in greenhouse gas emissions associated with use of fossil fuels.

Over 20 years, SE24's project will result in a carbon emission reductions at St Christopher's and Dulwich College of some 336 and 804 metric tonnes respectively.

Financial benefits for you

Based upon our financial forecasts, the directors of SE24 aim to provide a 4% interest rate to members with full capital repayment by Year 20, when this project will finish.

Our shares attract Business Property Relief, meaning currently they may be exempt from Inheritance Tax, provided the shares have been held for at least two years. See <https://www.gov.uk/business-relief-inheritance-tax> for further guidance.

Please see the terms and conditions section below for conditions under which shares can be withdrawn or nominated to someone else in the event of your death and the risks associated with the offer.

6. COMMUNITY SUPPORT FOR THE PROJECT

We have actively sought to collaborate with local residents. In July 2014, SE24 used a market stall at Herne Hill Market to explain how solar PV works and carried out a survey of people seeking their views on sustainable energy. Later in the month SE24 was officially launched at the Salvation Army College. This was attended by 40 residents with Helen Hayes MP as SE24's keynote speaker. Those attending both events were enthusiastic about our proposals and keen to see the community benefit from solar electricity. They also felt that this should be coupled with an equal focus on energy justice issues and work to address fuel poverty. It is for this reason that fuel poverty alleviation work holds equal prominence within our statements on renewable generation and demand reduction.

7. PROJECT FINANCES

SE24 Financial History

SE24 was registered as a Community Benefit Society (CBS) in July 2015. In the first year of its operation, SE24 approached many community building owners in the local area (London postcodes SE24 and SE21 and beyond) seeking suitable roofs where we could install solar panels. The costs of setting up and registering SE24 as a CBS, the site technical assessments, surveys and legal fees connected with these sites were largely supported by £20,000 in grant money from the Urban Community Energy Fund. This together with over 6,000 hours of volunteering time have enabled us to cover most development costs and greatly reduced overall project costs and therefore the amount of funding we need to raise through the two share offers.

In Autumn 2016 Government cut support for small-scale renewable projects such as solar PV projects, including a big reduction – about 2/3^{rds} – in the FiT rate for pre-registered projects not operational by end-September 2016. Whilst we lost several potential roof-owning partners in the face of this uncertainty, we pressed ahead with three projects where we pre-registered for the prior, more generous, FiT rates and issued a Share Offer to fund the costs of further project development and installation. By the end of July 2016, we had raised £80,000.

While progressing the three projects, the client of our largest site (of 50kWp capacity) discovered that some due diligence on their part had not been completed, which meant the project could not be completed in time to commission an installation before the end-September deadline, which meant we lost the opportunity to capture the higher pre-registered FiT rate and had to cease that project.

Nevertheless, SE24 took the decision to press ahead with the two smaller projects at Herne Hill United Church (10kWp) and Herne Hill Methodist Church Hall (9kWp). This represented challenging economics if this was to be our sole income-earning assets. But the Directors were convinced that there would be opportunities for further project developments and that the intellectual property and administration mechanics capability that had been invested in and developed would provide a platform for further developments which would provide both lower incremental project development and lower per site and per kW operating costs.

This intellectual property and administration mechanics include:

- establishing SE24 as a CBS and registering with the Financial Conduct Authority;
- legal documentation, including Heads of Terms and final leases taking account of Land Registry requirements;
- competitively procuring GHG Energy as the installation and maintenance partner;
- insurance arrangements for both the facilities themselves and public liability;
- monitoring and warranty arrangements for rectification of any faults should they arise;
- administration capability around dealing with HMRC on VAT and Corporation Tax (CT), taking meter reads and organising billing.

Further details on SE24's historic financial performance are available in the Accounts, including the Directors' Report, for the year ending 31st December 2017, at: <http://www.se24.co.uk/share-offer/>.

Moving Forward

From the £80,000 offered by investors in response to the original SE24 Share Offer, SE24 returned £9,530 to the founder investors and £29,170 to non-founder investors. As we could not deliver on our 4% return projections if we were limited to the two small church projects without new projects, SE24 used the remaining funds - £41,300 - to complete the two church installations and contribute to further project development from which we are now bringing forward the two new projects for investors to consider. This diversification will pool risk as between existing and new investors. SE24 will also have cash in the bank of some £5,000 and operating assets expected to generate over £3,000 annually.

Within the confines of the new much lower FiT regime, economically feasible projects must be large enough (typically 30-50kW) to offer economies of scale in installation and operation and there must be high levels of own/on-site consumption. The two new projects have these attributes.

The planned programme, leases and triggers for cash drawdown.

We are currently discussing with St Christopher's and Dulwich College the detailed Construction Phase Plans for making connections to the sites' AC power systems and IT systems (which will enable constant remote monitoring of the on-site performance of the solar PV systems) ahead of the installation of the PV systems themselves (the panels and the inverters). The planned programme of installations is as follows:

- St Christopher's Hospice: July 2017
- Dulwich College: Aug 2017

Leases with accompanying Power Purchase Agreements are being prepared by our lawyers and are necessary to give SE24 the legal rights to access the roof spaces and to install and operate the solar panels over the 20 years of the project. The leases specify the terms and conditions of our relationship with the freeholders of the sites and will be signed prior to installation.

But we can't however trigger the completion of the installations until the leases are agreed. Three leases are required: one for the St Christopher's buildings, and one each for Dulwich College's Lord George building and Swimming Pool Buildings (the latter will be in the form of a sub-lease as the building is already leased by Dulwich College from Dulwich Estate). Signing these lease agreements are conditions precedent (CPs) for the cash drawdown following the closure of the share offer.

SE24 Directors' commitment to provide a 4% rate of return is limited to the cash drawn down from shareholder commitments to fund projects that proceed. In the event of a delay in completing any of the leases, the draw-downs will be staggered until leases are completed and relevant conditions (CPs) are met. However, whether part of an early or later draw-down commitment, all members in a successful draw-down round will receive the same £ per £1000 pay-out at the same dates as all the investors on the relevant commitment dates. If CPs aren't met and projects don't go ahead then investor monies will be returned. SE24 pay-out obligations will only apply to investor monies drawn down and applied to completed installations.

We do intend to complete installations within the Summer months as indicated above, but in the event of any delays, later installation completion dates may be adopted. It is not expected that later dates will be beyond the end of the year.

Another potential issue is that we don't raise all the funding within the Share Offer period. Whilst we are not expecting this, in the event of that happening we will prioritise St Christopher's and Lord George sites and possibly delay the work at the Swimming Pool Building until the funding has been secured through a further finance raise.

Development and capital cost assumptions

Table 1. Development and Installation Costs

This table sets out the project development and installation costs, including VAT @ 20%. A 5% contingency has been added to bring our capital raise target to £215,000.

	St Christopher's	Dulwich College	Total
	£	£	£
Project development costs:	8,628	11,736	20,364
Installation costs:	60,000	123,203	183,203
	68,628	134,939	203,567
5% Contingency:	3,431	6,747	10,178
	72,059	141,686	213,745
Rounded for share offer:			£215,000

SE24 Financial Projections

Financial modelling and sensitivity analysis has been undertaken to assess the financial viability of the project over the 20-year lifetime of the project and is shown for all four sites in Table 4 in Annex A.

While this modelling and analysis has been subject to due diligence reviews by independent external experts, if these assumptions prove to be incorrect over time then returns to both the Community fund and investors may be affected. In such instances priority will be given to investor returns.

In respect to the 2 new projects at St Christopher's and Dulwich College, the sources for and assumptions behind these projections are as follows.

Revenue. These are the product of assumptions on generation output and the revenue streams that are associated with that quantity. Generation output assumptions are based on (but slightly less than) those provided by our installer, GHG Energy for each site given the quantity of installed capacity (in kWp) and the number of kWhs per year that those sites can achieve given ambient weather conditions.

There are three revenue streams, all indexed to RPI, assuming inflation at 2.0% per year. Firstly, revenues for generation starting at 4.29p/kWh. Secondly, revenues for on-site consumption starting at 8p/kWh payable to us by our roof-owning partners under the Power Purchase Agreements contained in the leases. Thirdly, revenues from exported energy with the export prices starting at 5.03/kWh. The total revenue streams trend forward based on assumptions about the annual degradation in panel performance, which is assumed to decline at slightly more than 0.75% per year to match performance warranties provided by manufacturers.

Annual Operating Costs. These are shown in Table 2 below and include: £620 for insurance based on contracts to be finalized with Nature Save (for the systems themselves) and with Zurich for public liability insurance; £2,030 for annual predicted maintenance (derived from the contracted amounts for maintenance across the four sites agreed with installer GHG Energy); £2,560 to cover SE24's Community Benefit Society Costs (admin, communication and postage etc., public liability insurance and legal and accounting fees). Together these sum to £5,210 per year and

are expected to trend forward in line with RPI as before. Apart from the maintenance costs, which are site specific, all the costs are divided proportionately between sites according to installed capacity as shown in the following table. Annual Gross Margins are Revenues less Operating Costs.

Table 2. Analysis of Annual Operating Costs

Site	Dulwich College	St Christopher's	Two Churches	Total
Insurance	375	183	62	620
GHG Energy Maintenance	1,100	550	380	2,030
FCA fees	36	18	6	60
Project management and administration	1,200	600	200	2,000
Accountancy fees	300	150	50	500
Total	3,011	1,501	698	5,210

Some of the assumptions on which these items are based are as follows:

- **Insurance.** To minimise risk to our members we are acquiring comprehensive insurance policies to cover damage to the installations and loss of income during such damage instances. This will also cover mechanical and electrical failures of the equipment once out of the initial manufacturer's warranty period. We also have public liability insurance.
- **Maintenance.** Costs for solar photovoltaic equipment are generally low and there are multiple providers who cover the London area. Initially we have contracted with installer GHG Energy to provide maintenance services for the first 5 years. Thereafter we may seek competitive tenders.
- **Project management and administration.** This will include preparing accounts, managing the ongoing contracts, administering payments to suppliers and shareholders, etc. The cost assumptions are based upon figures supplied by other similar organisations and our own assessments and experience of the ongoing needs of the business.
- **Panel degradation per year.** The rate at which the panels become less productive. We use the maximum figure of panel degradation allowed for by the manufacturers before they are in breach of warranty – 0.75% per annum.
- **Inverter replacement.** We anticipate that the inverters, required to turn the DC energy from the panels into AC energy, which can enter the grid, will on average need replacing in Year 10-12, and have allowed in our projections for replacement at that time. Our inverters will be under warranty for 5 years.
- **Retail price index.** We assume that RPI will average 2.0% over the next 20 years. We believe that this is a reasonable assumption for the long-term average based on historic figures and the Bank of England's target of 2%. We observe that RPI is now at some 2.9% and if inflation were to remain at this higher level SE24's finances are positively affected as all our revenue streams are RPI indexed.
- **Capital Depreciation.** Taken on a flat line basis over 20 years (i.e. at 5% per year of the initial capital costs). In the financial model, capital costs include 20% VAT.

Payments to Investors

After meeting our operating costs our next consideration is paying a combination of dividends to shareholders and repaying the capital invested. We have chosen to be cautious at the start and will pay investors only from Year 2 to

year 20 (19 payments) – see Table 3 below. The repayment rate of £79.19 per year every year for 19 years from the end of Year 2 per £1000 invested has been calculated on an annuity basis to deliver a projected 4% annual return. Payments in the first payment year (Year 2) comprise 54% interest and 46% repayment of capital. The first payments to investors will be made in September 2018 for the two church projects and in September 2019 for St Christopher’s and Dulwich College. Projected payments in the last payment year comprise 8% interest with 92% repayment of capital.

Table 3. Basis of payment to investors

Year	Annual payment per £1000 invested	Interest paid	Capital repaid
	£	£	£
2	79.19	43.05	36.14
3	79.19	41.6	37.58
4	79.19	40.09	39.09
5	79.19	38.54	40.65
6	79.19	36.91	42.27
7	79.19	35.22	43.97
8	79.19	33.46	45.72
9	79.19	31.63	47.55
10	79.19	29.73	49.46
11	79.19	27.75	51.44
12	79.19	25.69	53.49
13	79.19	23.55	55.64
14	79.19	21.33	57.86
15	79.19	19.01	60.18
16	79.19	16.6	62.58
17	79.19	14.1	65.08
18	79.19	11.5	67.69
19	79.19	8.79	70.4
20	79.19	5.97	73.21
			1,000.00

Reserves

On this basis, Table 4 in Annex A shows reserves become relatively large quickly and remain healthy over the 20/21-year projections period. These levels of reserves and the positive cash flows in every following year provide a strong cover for our shareholder repayments and a fund of money to meet equipment breakdown and replace inverters which typically last for over 10 years but could fail earlier. The equipment warranties and insurances that we will carry cannot cover all contingencies. Inverter warranties are only for 5 years but panel warranties are for 25 years.

SE24 will fund activities that meet our Community Fund objectives from our accumulated reserves. The projected accumulated reserves shown climb steadily until the inverter replacements (shown in Year 11/12) and in our prudent Base Case reach over £60,000 Year 20/21. In practice, we would distribute from reserves to our Community Fund over the course of the 20 years, while capital outlays for replacing equipment such as inverters are unlikely to all

arise in one year. In considering distributions to investors and payments into the Community Benefit Fund, SE24 will be aware of the need to replace equipment and the associated impact on available cash flow to service investor payments.

8. SHARE OFFER TERMS AND CONDITIONS

Membership

Membership is open to individuals who are over 16 years of age, corporate bodies and voluntary organisations.

Shareholdings

The minimum shareholding is £500 and the maximum is £20,000.

Offer timetable

The offer period is: 16th June – 16th July 2017

Share Withdrawal

The shares in a Community Benefit Society are not transferable, which means that they cannot be bought and sold except through the society and the value of the shares cannot increase beyond their nominal £1 value and will fall as capital is returned as part of investor payments during the 20 years. Whilst the expected project life is 20 years, shares may be withdrawn at an earlier stage at the discretion of the board of directors. Share withdrawal is suspended for the first three years of the project to build up reserves and to enable future project development - meaning that no shares will be withdrawable for these two projects until at least September 2019. After this time, any members who wish to withdraw their shares, either in part or in full, can apply to the board of directors. The board will then consider applications to meet the repayment considering the funds available and our ability to raise new funds. The board will consider withdrawal applications once every twelve months and if applications to withdraw shares exceed the available funds, repayments will be offered on a pro-rata basis.

Payment of Interest

Provision is made in the Rules for payment of interest on shares at rates sufficient to attract the required capital. The rate of 4% is our target but the actual dividends in any year will be determined by members each year at the annual general meeting. As of our first AGM in December 2016, it was agreed to pay interest on an annual basis, with the first payments as stated above. The directors anticipate that the project will return a projected 4% to investor-members and will give priority to achieving that objective. For more detail on this please see the description in Annex A.

Nomination option

In the event of the death of a member, the repaid value of the shares will normally be added to the estate for probate purposes. You may (if you wish) elect to nominate a recipient for the value of the shares (but only up to

£5,000) and thus (under current legislation) remove up to 5,000 shares from your estate for probate purposes (i.e. the shares may pass to the nominee outside the Will of the deceased). SE24 will maintain a register of nominees.

Your application

You cannot withdraw your application for shares after we receive your application form. Any amounts to be invested are payable in full on application. The directors do not have to accept your application for shares. They may decide not to issue shares to you or may allocate you fewer shares than you applied for. They do not have to give any reasons for their decision. Your application will be considered for approval at the first convenient board of directors meeting after the closing date of the offer. Neither SE24 nor any of its directors can provide investment advice, tax advice or recommendations to investors.

Your payment

SE24 will acknowledge receipt of your cheque or your bank transfer and application and may cash your cheque as soon as it is received. SE24 will hold your money on trust for you until the directors consider your application, which will be after the offer closes. The directors will return your money to you (within 28 days of the board of directors meeting at which they consider your application) if they decide not to issue shares to you. If they decide to issue fewer shares to you than you applied for, they will return the balance to you (within 28 days of that board of directors' meeting). If project developments are delayed but appear likely to proceed in a reasonable time SE24 Directors may hold on to some money for completing project commissioning and operation. But the end-date for this arrangement is Easter 2018.

If we raise more than we are ultimately able to spend on the solar PV systems then we will return the capital to investors.

Asset lock

The assets of SE24 are protected by an asset lock that ensures that the assets of the society are used to support the aims of the society in perpetuity. This prevents disposal of assets to the sole purpose of private gain of any shareholder.

Membership rules and rights

Anyone over the age of 16 may become a member of a society if they meet the membership criteria and are accepted by the board.

All members agree to participate in and take an active interest in the operation and development of the society and its business. All members will be invited to attend Annual General Meetings. Members have a duty to respect the confidential nature of the business decisions of the society and to follow the procedures contained in the rules which are on our website at <http://www.se24.co.uk/share-offer/>.

All societies are based on the principle of one-member-one-vote regardless of the size of investment.

Voting

All members will be invited to an Annual General Meeting (AGM) at which our annual report and accounts are considered, auditors are appointed, directors are elected, and decisions are taken on the use of profits and any resolutions to change the rules of the society. All the decisions are based on the principle of one-member-one-vote. It is important that members attend the general meetings as the rules set a quorum for decisions to be valid. (See rules at: <http://www.se24.co.uk/share-offer/> for further details)

Board eligibility

The good governance of a society depends on having an active board of directors, elected by the members, to oversee the affairs of the society. At our latest AGM, we have already appointed Alan Jones as Chairman, Harriet Lamb as Vice-Chair, Mark Hughes as Treasurer and Jim Belben as secretary. These appointments will be reviewed at the next SE24 AGM.

Investment at risk

SE24 is a society for the benefit of the community and we are allowed by law to issue withdrawable shares to the membership; however, we are not directly regulated by a statutory body. As with all risk investments, withdrawable shares could lose some or all their value and (as explained above) they are not protected by the Government's Financial Services Compensation Scheme or the Financial Ombudsman Service.

9. RISKS

All investments and commercial activities carry risk. By buying shares, members should weigh up financial risk and reward as they would with any other investment opportunity. The board of directors considers that the following risks are the most material:

Failure to install by September 30th 2017. After the September 30th, the FiT and export tariff paid to us by our FiT provider will fall to a lower rate as it does each quarter. If installation is not completed by this date and registered with the MCS scheme, a reduced FiT rate may render the project financially unviable. Our installers, GHG Energy, are confident however that each installation can be completed and operational by this date provided the legal titles and associated lease arrangements are also in place.

Weather variation – Solar PV relies upon the sun to generate electricity. Whilst the level of solar irradiance is largely predictable, an extended period of very low solar irradiance would reduce SE24's income.

Failure or breakdown of panels – Solar PV is typically a low maintenance technology; however, if panels do breakdown this may reduce SE24's income. Our panels will be covered by a 25-year warranty, and insurance will be in place to cover most potential losses should this occur.

Failure or breakdown of the invertors – Invertors are typically more prone to breakdown than the panels themselves. If this were to occur it could reduce SE24's income. Our invertors will be covered by a 5-year warranty, and insurance will be in place to cover most potential losses should this occur.

Theft and damage – The installations may become damaged through vandalism, or accidental damage, or may be stolen. Our insurance will cover replacement or repair of the panels, and will cover most potential losses should this occur.

Changes to regulatory regime – If the FIT is retrospectively altered or scrapped, or any additional charges, taxes or levies are applied, this may and probably will reduce SE24's income. The FIT is guaranteed at a fixed level for 20 years under primary legislation. The FIT arrangements currently include a deeming process whereby systems below 30kw are assumed to export 50% of generation. Payments for 50% export from the FIT supplier have been built into the financial projections. It is unlikely there will be retrospective changes to both the FIT and accompanying deemed 50% export arrangements as such changes would undermine the financial integrity and operational stability of the great bulk of existing domestic and commercial renewable PV installations across the UK. Even if this were to happen SE24 could still cover investor payments but it would be at a significant loss to our Community Fund. Under these circumstances, we would anticipate approaching our site partners to evaluate a rise in the site tariffs.

Insolvency of partners – This is a risk if one of our partners became insolvent and could not pay their on-site consumption tariff. We draw comfort from the fact that Dulwich College (the largest partner and the key new financial platform for the SE24 business) has been on-site since 1619 and St Christopher's is celebrating 50 years of hospice care this year. Similarly, the two church institutions are long-standing and provide for many users in addition to the churches themselves. Herne Hill, Dulwich and Sydenham are thriving communities with a need for the facilities and services that all four sites offer.

Economic conditions - Whilst analysis has been conducted of "stressed" scenarios, changes to the level of economic assumptions including but not limited to inflation, insurance costs and operation and maintenance costs could have a material effect on the level of return to both the Community Benefit Fund and investors.

RPI Assumptions The financial performance of each of the SE24 projects is sensitive to changes in RPI. If the current 2.9% RPI inflation rate were maintained for the full 20 years our investor cover ratio on the base case scenario would increase to 1.29 from 1.23, providing a £20,000 increase in the accumulated reserves available to the community fund. Conversely if inflation fell to 1% per year for the entire 20 years our investor cover ratio on the base case scenario would decrease to 1.17 and our accumulated reserves and cash available to our Community Benefit Fund would fall by £20,000.

Whilst the board of directors has endeavoured to minimise the above risks, potential investors should be aware of the potential impact of these risks on the ability of SE24 to provide a 4% return and repay invested share capital. If you are uncertain whether investing in SE24 is right for you, you should consult an Independent Financial Advisor.

10. THE FUTURE FOR SE24

The FiT constitutes a significant portion of the revenue stream for our community financed solar PV projects. In 2016, the FiT rates were reduced dramatically, but larger scale projects such as the two we are undertaking at Dulwich College and St Christopher's are still economically viable. However, the rates continue to fall quarterly and may result at some point in the future in more solar projects to be economically unviable. We remain optimistic that future changes in the subsidy system and the evolving price of solar technology will allow SE24 to continue to develop further solar PV projects or other types of renewable energy project.

Our aim over the next 2-3 years is to build a portfolio of solar PV projects, in the range 30-120kWp, up to a total generation capacity of around 500 kWp. We feel this level of generation will yield sufficient surplus revenue to fulfil our community fund objectives while meeting our investors' financial expectations.

In addition, there are other alternative business models that we intend to explore. These include:

- Installing Renewable Heat installations.
- Low-energy lighting projects for schools and other community buildings.
- Collective purchasing on energy efficiency measures for local residents.

Over the next few years we will be framing our specific plans in more detail and inviting project sponsors in these areas to approach us for financial support. SE24 have worked hard to create a community investment opportunity that balances risk and reward and that also meets our ambitious social aims. We will continue to do so, albeit using different technologies or business models. Please keep in touch via our website for information about future share offer opportunities. SE24 will continue to strive towards a future where everyone has access to clean energy at an affordable price.

11. COMMUNICATION, ADVISORS AND ENDORSEMENTS

All communications will be by email. The registered address of SE24 is: 8 Poplar Walk, Herne Hill, London SE24 0BU. Telephone 07717 781 191.

Advisers

SE24 legal advisers are: Shakespeare Martineau, Waterfront House, Waterfront Plaza, 35 Station Street, Nottingham, NG2 3DQ

SE24 Accounting and Tax advisers are: Shruti Soni, Shruti Soni Limited, Chislehurst Business Centre, 1 Bromley Lane, Chislehurst BR7 6LH.

ANNEX A : FINANCIAL MODELLING

Our model summarised in Table 4 below gathers data from individual models of financial projections for all 4 sites, combining them into a single model of projected financial performance over their respective 20-year life times (see larger version at: <http://www.se24.co.uk/share-offer/>).

Table 4: Financial projections

*September 2016 - August 2017	Year 1 2016	Year 2 2017	Year 3 2018	Year 4 2019	Year 5 2020	Year 6 2021	Year 7 2022	Year 8 2023	Year 9 2024	Year 10 2025	Year 11 2026	Year 12 2027	Year 13 2028	Year 14 2029	Year 15 2030	Year 16 2031	Year 17 2032	Year 18 2033	Year 19 2034	Year 20 2035	Year 21 2036		
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£		
Dulwich College Revenue		15,125	15,309	15,495	15,683	15,874	16,067	16,262	16,459	16,659	16,861	17,066	17,274	17,483	17,696	17,911	18,128	18,348	18,571	18,797	19,025		
St Christopher's Revenue		6,137	6,211	6,287	6,363	6,440	6,518	6,598	6,678	6,759	6,841	6,924	7,008	7,093	7,179	7,267	7,355	7,444	7,535	7,626	7,719		
Herne Hill Churches Revenue		3,025	3,061	3,098	3,134	3,172	3,209	3,247	3,286	3,325	3,365	3,405	3,445	3,486	3,527	3,569	3,612	3,655	3,698	3,742	3,786		
Combined Revenue		3,025	24,323	24,618	24,916	25,218	25,523	25,832	26,145	26,462	26,783	27,107	27,435	27,768	28,104	28,444	28,789	29,138	29,491	29,848	30,209	26,744	
Dulwich College Operating Costs			3,011	3,071	3,133	3,196	3,259	3,325	3,391	3,459	3,528	3,599	3,671	3,744	3,819	3,895	3,973	4,053	4,134	4,216	4,301	4,387	
St Christopher's Operating Costs			1,501	1,531	1,562	1,593	1,625	1,657	1,690	1,724	1,759	1,794	1,830	1,866	1,904	1,942	1,981	2,020	2,061	2,102	2,144	2,187	
Herne Hill Churches Operating Costs		698	712	726	741	756	771	786	802	818	834	851	868	885	903	921	939	958	977	997	1,017		
Combined Operating Costs		698	5,224	5,329	5,435	5,544	5,655	5,768	5,883	6,001	6,121	6,244	6,368	6,496	6,626	6,758	6,893	7,031	7,172	7,315	7,462	6,574	
Gross Margin		2,327	19,099	19,289	19,481	19,674	19,868	20,064	20,262	20,461	20,661	20,863	21,067	21,272	21,478	21,686	21,896	22,106	22,319	22,533	22,748	20,170	
Dulwich College Dividend			0	5,407	5,407	5,204	4,979	4,744	4,509	4,268	4,007	3,740	3,467	3,178	2,878	2,566	2,239	1,904	1,553	1,186	807	411	
St Christopher's Dividend			0	2,750	2,750	2,647	2,532	2,413	2,293	2,170	2,038	1,902	1,763	1,616	1,463	1,305	1,138	968	790	603	410	209	
Herne Hill Churches Dividend		0	538	551	521	491	459	429	398	368	337	306	276	245	209	179	149	119	91	60	29		
Combined Dividend		0	538	8,708	8,677	8,341	7,971	7,586	7,201	6,806	6,382	5,948	5,506	5,039	4,550	4,049	3,526	2,992	2,433	1,849	1,246	621	
Dulwich College Depreciation			6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	6,747	
St Christopher's Depreciation			3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	3,431	
Herne Hill Churches Depreciation		2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	2,065	
Combined Depreciation		2,065	12,243	12,243	12,243	12,243	12,243	12,243	12,243	12,243	12,243	12,243	12,243	12,243	10,176								
Taxable Income		262	6,318	-1,662	-1,440	-910	-346	235	818	1,412	2,036	2,672	3,317	3,990	4,685	5,394	6,126	6,871	7,642	8,440	9,259	9,371	
Tax @ 20%		0	0	0	0	0	47	164	282	407	534	663	798	937	1,079	1,225	1,374	1,528	1,688	1,852	1,874	14,454	
Net Margin		2,327	19,099	19,289	19,481	19,674	19,868	20,017	20,098	20,179	20,254	20,329	20,403	20,474	20,541	20,607	20,670	20,732	20,790	20,844	20,896	18,296	
Dulwich College Investor Payment			0	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	10,685	
St Christopher's Investor Payment			0	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	5,434	
Herne Hill Churches Investor Payment		0	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	3,270	
Combined Investor Payment		0	3,270	19,390	19,390	19,390	19,390	19,390	19,390	19,390	19,390	19,390	19,390	19,390	19,390	16,119							
Cash Profit		2,327	15,829	-101	91	284	479	628	709	789	864	939	1,014	1,084	1,151	1,218	1,281	1,342	1,400	1,455	1,506	2,176	
Dulwich College Inverter replacement			0	0	0	0	0	0	0	0	0	0	0	13,494	0	0	0	0	0	0	0	0	
St Christopher's Inverter replacement			0	0	0	0	0	0	0	0	0	0	0	6,863	0	0	0	0	0	0	0	0	
Herne Hill Churches Inverter replacement		0	0	0	0	0	0	0	0	0	0	0	3,100	0	0	0	0	0	0	0	0	0	
Combined Inverter Replacement Cost		0	0	0	3,100	20,357	0	23,457															
Changes to Reserves		2,327	15,829	-101	91	284	479	628	709	789	864	939	-2,086	-19,273	1,151	1,218	1,281	1,342	1,400	1,455	1,506	2,176	
Reserves		2,327	18,156	18,055	18,146	18,430	18,909	19,536	20,245	21,034	21,898	22,837	20,751	1,478	2,630	3,848	5,128	6,471	7,871	9,326	10,832	13,008	
VAT rebate		0	0	33,926	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Reserves + VAT (Scenario 2)		2,327	18,156	51,982	52,073	52,357	52,835	53,463	54,171	54,960	55,825	56,764	54,677	35,405	36,556	37,774	39,055	40,397	41,797	43,252	44,758	46,935	
Reserves + VAT + No Tax Paid (Scenario 1)		2,327	18,156	51,982	52,073	52,357	52,835	53,510	54,382	55,453	56,725	58,198	56,775	38,301	40,389	42,686	45,192	47,908	50,837	53,980	57,338	61,388	
Reserves + VAT + No Tax Paid + Reduced Performance (Scenario 3)		2,255	16,624	48,970	47,563	46,330	45,272	44,390	43,686	43,161	42,817	42,653	39,573	19,419	19,807	20,382	21,144	22,095	23,236	24,568	26,092	28,297	
Reserves + VAT + No Tax Paid + Increased Operating Costs (Scenario 4)		2,251	17,567	50,869	50,427	50,167	50,092	50,201	50,498	50,983	51,656	52,521	50,477	31,370	32,814	34,453	36,289	38,324	40,558	42,992	45,629	48,978	
Investor Payment Ratio (Scenario 2)			5.84	2.74	1.00	1.01	1.02	1.03	1.04	1.04	1.04	1.05	0.89	0.01	1.06	1.06	1.07	1.07	1.07	1.08	1.08	1.14	1.13
Investor Payment Ratio (Scenario 1)			5.84	2.74	1.00	1.01	1.02	1.03	1.04	1.06	1.07	1.08	0.93	0.05	1.11	1.12	1.13	1.14	1.15	1.16	1.17	1.25	1.23
Investor Payment Ratio (Scenario 3)			5.50	2.68	0.93	0.94	0.95	0.95	0.96	0.97	0.98	0.99	0.84	-0.04	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.14	1.14
Investor Payment Ratio (Scenario 4)			5.80	2.72	0.98	0.99	1.00	1.01	1.02	1.03	1.03	1.04	0.89	0.01	1.07	1.08	1.10	1.11	1.12	1.13	1.14	1.21	1.20
Scenario 1 Reserves - combined investor payments for following 2 yrs		-20,333	-20,624	13,202	13,293	13,577	14,055	14,730	15,602	16,673	17,945	19,419	17,996	-479	1,610	3,906	6,412	9,129	12,057	18,471	41,218	61,388	

For the financial projections shown in Table 4 we modelled 4 different

in the fourth scenario, we show the impact of increased operating costs associated with equipment failures not covered by warranty.

Thus, in detail, the scenarios shown are as follows;

1. **Base:** Electricity generation as standard, full VAT rebate and nil CT paid.
2. **Corporation Tax (CT) Payable:** Electricity generation as standard, full VAT rebate and CT paid at 20% from year 7.
3. **Reduced Performance** Electricity generation as standard, full VAT rebate, nil CT paid and panel performance (kWh/kWp) reduced by 10%.
4. **Increased Operating Costs:** Electricity generation as standard, full VAT rebate, no CT paid and cost of yearly GHG Energy preventative maintenance increased by 20%. At normal levels of maintenance charge, GHG Energy's maintenance constitutes 38% of operating costs. A 20% increase of maintenance fees represents an increase to operating costs of 8%.

The terms used, the basis of calculations and the modelling scenarios shown in Table 4 are shown below in Table 5.

Table 5: Terms used, basis of calculations and modelling scenarios.

Term	Explanation
Combined Revenue	The sum of income from Feed in Tariffs (both generation and export) and the tariff paid to us by our roof-owning partners for the energy that they consume on site. The tariff rates are fixed for 20 years and index linked. Export and generation tariff rates are guaranteed by the Feed in Tariff provider for 20 years. Similarly, the tariff paid by the roof-owning partner is formalised in a Power Purchase Agreement within the lease. The revenue achieved is a function of the performance of the PV arrays. This is subject to weather as well as performance. The estimates of performance used in our modelling are lower than those predicted by GHG Energy, giving a conservative estimate of revenue. In addition to this, on-site consumption estimates lower than those provided by GHG were used for modelling.
Operating Costs	The fees paid annually for insurance (public liability, property damage and business interruption), preventative maintenance by GHG Energy, Financial Conduct Authority fees, admin and accountant's fees. All the above costs bar maintenance were divided among the sites according to their installed generation capacity. Operating costs are index linked.
Gross margin	Revenue minus Combined Operating Costs.
Dividends/Interest	Payments made to investors over and above the return of invested capital based on a 4% interest rate.
Depreciation	Calculated as 5% of invested capital per year in each year over 20 years (the depreciation period).
Taxable income	The income subject to CT calculated as Gross Margin less Combined Dividend Payments and Depreciation. The current rate of CT is 19%. The model uses 20% in the calculations, among other things reflecting that the rate of CT is liable to change within the lease period.
Investor Payment	Payments to members that aim to derive a 4% return on investment, payable annually starting at the end of the second year and finishing at the end of the 20 th year (19 payments in all) at a payment rate of £79.185 per £1000 invested.
Cash Profit	Free cash flow calculated as Gross Margin minus CT @ 20% and Combined Investor Payment.

Inverter Replacement Costs	Cost of replacing the inverters, which convert the direct current (DC) output from the panels to alternative current (AC) in order that the electricity can be fed into the grid. The cost of replacement is estimated at 10% of the total capital expenditure at each site, based on a breakdown of installer fees from previous projects.
Changes to Reserves	Cash Profit less Combined Inverter Replacement costs.
Reserves	Accumulated funds at the end of each year. These figures do not include the expected VAT rebate. They also assume that we do pay CT at 20% despite our expectation that we will be shielded from the tax for many years. At the end of the 20-year lease period of the 4 sites (21 years total) we are projected to have over £13,000 in reserves after paying 4% return to investors.
VAT Rebate	The expected sum of returned VAT each year. The full rebate is shown to be refunded in 2018 but may be refunded earlier in late 2017.
Scenarios 1-4	Four modelling scenarios to test the effect on end-lease reserves of different tax, panel performance and operating cost assumptions: <ol style="list-style-type: none"> 1 (Base). Reserves + VAT rebate + No CT Paid = £61,388. 2 Reserves + VAT rebate + CT Paid = £46,935. 3 Reserves + VAT rebate + No CT Paid + Reduced Panel Performance = £28,297. 4 Reserves + VAT rebate + No CT Paid + Increased Operating Costs = £48,978.
Investor Repayment Ratio	The total of each of the above reserves divided by Combined Investor Payments

Assumptions

Where possible the assumptions or estimations made in our models are evidence-based. We have been cautious in our modelling, using under-estimations of performance. For example, the estimates of loss of panel efficiency year by year were the highest rate of efficiency loss allowed according to the panel warranties. Similarly, we under-estimated the yearly yield (MWh/yr.) at each site by using figures of Specific Annual Yield (or MWh/MWp) below those provided by our contracted installer.

Modelling Scenario Results

The models' findings are summarised using the End-Lease Reserves and the Weighted Mean of the Investor Payment Ratios in Table 6 below. In all the scenarios modelled the Weighted Mean of the Investor Payment Ratios remained above one. This indicates that under the 3 eventualities illustrated through the sensitivity tests reported above, sufficient revenue will be generated to allow a 4% return on investment and the creation of a community fund. Significant reserves would still be accrued under the "CT Payable" and "Increased Operating Costs" scenarios. The 7.5% reduction in performance across all sites modelled in the "Reduced Performance" scenario generated roughly half the reserves of the "Base" scenario.

Table 6. Figures summarising financial performance over the 20-year lease period for all sites combined under each of the 4 modelled scenarios.

Scenario	End-Lease Reserves	Weighted Mean Investor Payment Ratio
1. Base	£61,388	1.23
2. CT Payable	£46,935	1.13
3. Reduced Performance	£28,297	1.20
4. Increased Operating Costs	£48,978	1.14

How secure is the projected 4% rate of return?

The probability of achieving the 4% return built into the investor payment stream (at the rate of £79.185 per year per £1000 invested for each year from year 2 to year 20) is principally a function of:

- Whether, having investors' money to pay for project development and installation costs, we get what we pay for in terms of performance capability and delivery.
- Whether we have appropriately modelled the outturn operating net cash flows from which investors will be paid for the 20 years ahead and the reliability of the modelling assumptions, and
- What practical steps SE24 is able and will adopt to secure protection to the payments to investors if events turn out to be different from those adopted for the modelling.

On the capital costs and performance associated with new installations, SE24 has a fixed price turnkey contract with our adopted contractor, GHG Energy, which specifies the cost and performance of the solar PV plant in terms of its kW capacity (ability to generate) and contains warranties on that performance for the life of the equipment (20 years for the panels). GHG Energy has provided estimates of the output performance of the installed capacity in terms of kWh per kW installed (yield) considering specific locations. GHG Energy is an MSC-certified installer and has incentives as such to design the configuration of the PV systems to optimise performance. We have a further maintenance contract with GHG Energy under which preventative maintenance and reactive maintenance is provided. In our financial modelling, we have installation and project development cost contingencies and have adopted lower output performance estimates than advised by to provide some cushion in the event of higher costs and lower performance. We will only draw down on investor funds to meet the costs of the facilities that are incurred. Adopting fixed price turnkey contracting with performance warranties and then adopting prudent assumptions on output (kWhs) is industry best practice and the first risk mitigant built into the cash flow modelling.

There are three key drivers of the operating net cash flows (Net Margins): Revenues, Costs and Corporation Tax (CT):

Firstly, revenues are a function of the volume of kWhs produced by the PV Solar systems on each of the facilities, the prices attached to those kWhs and the reliability of the payee to continue to pay those revenues. The prices attached to the outputs (for generation, for export and for on-site consumption) are all fixed for 20 years and indexed to RPI. The price attached to generation is the generation feed in tariff (FiT) which, for facilities commencing operation in the quarter ending September 2017, is 4.29/kWh. The Export FiT price is 5.03p/kWh. These two prices and associated revenues are paid by the relevant registered FiT Supplier for each site at rates which are published by Ofgem, the industry regulator, and payment is guaranteed by Government. This assumes continuation of the FIT

regime and its detailed application to our projects. In the risk section above we address the implications of retrospective changes to this regime, which we consider unlikely.

The prices for on-site consumption for Dulwich College and for St Christopher's Hospice is 8p/kWh and payable by the site occupier. Whilst we have no guarantee that the sites will remain occupied by the current occupiers, we have strong confidence that the relevant institutions will be in existence for many years and probably much more than the 20 years' projection for the income stream.

Additionally, we have/will have a lease with each of the site owners which provide additional security to SE24 should the buildings exchange hands or become unserviceable. In the former case, the building owners are required to seek transfers of payment responsibilities to the new occupier. In the latter case, such as if buildings become redundant, compensation payments will be required from the building owner/occupier to repay investors.

Secondly, bar an estimated £2,000 annual administration cost, our operating costs are predominantly fixed in contracts with 3rd parties. With GHG Energy for maintenance; with Zurich for public liability insurance; with Nature Save for insurance against fire damage and theft and income protection in such circumstances; and with Soni Shruti Accountants for professional help in drawing up our accounts and submitting Corporation Tax returns. We build these contract charges into our operating cost assumptions.

We are confident that we will have little or no CT to pay because capital allowances exist for the full net cost of the installed plant and equipment. This tax shelter, in addition to annual depreciation charges, will probably mean no tax liabilities. If we include VAT rebates and assume no tax is payable the investor payment ratio is 1.23. Even if we do become liable for CT and capital allowances are withdrawn by future governments, total investor payments over the period to deliver the 4% return are still covered by a ratio of 1.13.

Thirdly, SE24 will adopt a cautious approach to how we both manage our assets and protect investor payments. On the asset management front we will adopt active monitoring of kWh output especially over the late Spring, Summer and early Autumn months when output should be at its highest. If we observe significant performance failure we will intervene and get GHG Energy to assess the cause of the performance failure and remedy such failures. Despite our annual preventative maintenance contract with GHG it is probable that there will be performance failures associated with defects that were not observable and remedied in the annual inspections and that some of these may not be covered by equipment warranties.

To further protect investor returns we will regularly up-date our financial projections to evaluate overall financial performance. If these projections show some adverse movements against projections, we will aim to restore margins by "managing" our administration operating costs and limit our spending on Community Fund projects to achieve reserves at least at levels sufficient to cover two years' forward-investor payments. At the foot of the financial projections in the table above we show the arithmetic calculation in each year for our Base Case scenario of the level of reserves in that year less the calculated level of investor payments for each of the following two years. This indicates the level of cash in hand to meet these investor payments. As shown this is very positive except right at the start (when reserves have been built up only from the small two churches projects) and around the time when the inverters are replaced. In real time, were this calculation to show a negative or get very low, SE24 directors would consult with members and take guidance on whether restorative action as described above is appropriate or whether funding for specific community benefits should be given priority, and perhaps leave room for lower returns to investors.

Despite these risk-mitigating factors, prudent practices and consultation with members, SE24 might face circumstances when there are some uninsured catastrophes or a combination of events which put expected investor payments at significant risk. A further risk mitigant should be the additional projects we plan to develop over the next few years, as the expanded portfolio will further reduce the impact of risks on specific sites through diversity and in the form of further economies of scale in development and operation.

ANNEX B: SE24 ACCOUNTS TO 31ST DECEMBER 2016 AND CORPORATION TAX RETURNS

See details, see SE24 website at: <http://www.se24.co.uk/share-offer/>.