



Community Investment Programme Heads of Terms

This document represents the Heads of Terms for the management of the Viking Energy Community Investment Fund ("the Fund") relating to Viking Wind Farm. It is intended to be used as a basis of agreement between Viking Energy Wind Farm LLP ("VEWF") and Shetland Community Benefit Fund Ltd ("SCBF") ("the Proposed Agreement"). This document only applies to the scheme approved by Scottish Ministers on 4th April 2012 (and the approved variation by Scottish Ministers dated 24 May 2019) and not to any extension to the scheme, or new development by VEWF or its partners. In the event of an extension/repowering to the forementioned scheme or a new development in Shetland by VEWF or its partners, VEWF undertakes to negotiate with SCBF, in the first instance, concerning any community benefit arrangements.

These Heads of Terms are intended to inform the drafting of legally binding obligations which will form the basis of the Proposed Agreement. The Proposed Agreement may contain further conditions as the parties (both parties acting reasonably) may require, including additional conditions on matters covered in this document.

Voluntary payment

1. Any Community Investment Fund will remain a voluntary payment. The Proposed Agreement regulating such payment will be signed by both VEWF and SCBF.

Value of fund

2. VEWF will make an annual payment to SCBF equal to £5,000 per annum for each MW of installed capacity within 28 days of first commercial export of electricity from the windfarm via the Shetland HVDC link ("Commissioning Date"), and on the anniversary of that date for the lifetime of the project (or 25 annual payments, whichever is shorter ("Community Benefit Fund Payments"). The value of the annual payment will be index linked annually based on the CPI (Consumer Price Index).
3. Should SSE's rate of community benefit (£5,000 per annum for each MW of installed capacity) increase prior to the commencement of the fund, the new payment terms will apply. The rate of community benefit will not reduce below £5,000 per annum for each MW of installed capacity.
4. In advance and in addition to the payment of the Community Benefit Fund Payments, VEWF and SCBF undertake to agree a separate legally binding agreement for additional Advanced Payments (hereinafter defined) payable from VEWF to SCBF during the construction phase of the scheme approved on 4th April 2012, and as amended on 24th May 2019 which construction phase will commence when major civil construction works are commenced by the main

contractor under the Construction Contract for the Windfarm and excluding any investigatory and preparatory works and will expire as at the Commissioning Date ("the Construction Phase"). This separate advanced payment agreement will be agreed and formally signed following the start of major civil construction works.

5. The Advanced payments will be made during the Construction Phase of the VEWf development approved on 4th April 2012 and as amended on 24th May 2019. These payments will be used for projects proposed by community councils (subject to approval by SCBF and, where appropriate, VEWf) and for SCBF administration costs. The advanced payments will be allocated per the arrangements in section 11 of these Heads of Terms. The advanced payments will also be subject to sections 17 to 22 of this agreement concerning the "Purpose and Use of the Fund".
6. During the Construction Phase, payments of £400,000 a year will be made to SCBF for distribution as detailed in this agreement. These payments will be known as the "Advanced Payments". There will be four annual Advanced Payments the first of which is to be paid within 28 days of the date that major civil construction works commence by the Main Contractor under the main construction contract for the Windfarm and excluding any preliminary investigatory works or enabling works, and annually thereafter. If the date of first commercial export of electricity from the windfarm via the Shetland HVDC link is delayed beyond four years after the start of main construction and, consequently, there is a delay to the start of the Community Benefit Fund Payments being paid, an additional annual payment of the £400,000 (CPI index linked from four years after the date of main construction will be made, and annually thereafter until the earlier of (a) date of the first commercial export of electricity from the windfarm via the Shetland HVDC link or (b) six years after the start of main construction of the wind farm]. In the event that such first commercial export of electricity is delayed six years after the commencement of major construction works SCBF and VEWf undertake to review and renegotiate any further payment arrangements. In any annual period where a £400K Advanced Payment is made, and in that same financial year VEWf commences Community Benefit Fund Payments, any Advanced Payment paid during this financial year will be offset against the first Community Benefit Fund Payment.
7. VEWf will make an early payment of £50,000 to SCBF to pay for financial, legal and initial administration costs ("Early Payment") within 30 days of Ofgem making a decision on the Shetland Transmission Project that is acceptable to VEWf and Financial Close taking place for the project known as "Viking". These payments will be offset against the first £400k Advanced Payment.

Management of fund

8. The Fund will be held and managed by SCBF.
9. SCBF will establish an adequate process to receive and log applications, enact due diligence and consider each application's fit with the Fund's purposes which process shall be subject to

scrutiny and approval by VEFW prior to the Proposed Agreement being signed. The process will include but will not be limited to:

- a) To develop schemes and priorities for disbursing the Fund and how any scheme(s) will be promoted and administered (application materials etc.)
- b) Criteria for eligibility and any specific scheme purposes or priorities
- c) How potential projects will be assessed to determine best fit with criteria and priorities of the Fund
- d) How decisions will be made by SCBF in considering applications including, where appropriate, the involvement of VEFW
- e) Reporting / monitoring requirements for recipients of Fund money

Benefiting areas

10. The Fund is to benefit the residents of the Shetland Islands (known as 'the Area of Benefit').
11. The Fund will operate as a single fund benefiting residents across the Area of Benefit. In other words, there will be no fixed allocation for the use of funds in specific areas, except within the terms detailed in Section 12 and 13.
12. Priority will be given to applications for support from projects within a Local Community Council Area if the relevant SCBF budget is oversubscribed during any financial year. A 'Local Community Council Area' is defined as a community council area with at least one turbine within its boundary.
13. 10% of the annual payment will be allocated to Community Councils within the Area of Benefit for the purpose of grant-making in their respective communities. The Local Community Council Areas will receive five times the allocation of the other Community Councils, namely those Community Councils which have no turbine within their boundaries. Community Council area allocations will be managed centrally by SCBF and will be paid to eligible recipients following a formal request from the relevant Community Council, but subject to the arrangements for "Management of Fund" contained within sections 8 and 9 above or such other arrangements which may form part of any contract between VEFW and SCBF to follow hereon.
14. Subject always to the terms of sections 8 and 9, funding will be distributed in accordance with the needs or opportunities within the Area of Benefit at any time and to facilitate, where applicable, support for potential cross-boundary projects or services.
15. Projects or services located outside the Area of Benefit, or benefiting those other than residents of the Area of Benefit may also be supported from time-to-time provided that there is a clear benefit to residents of the Area of Benefit.

Payment

16. All administrative and other costs relating to the management of the Fund will be met by the Fund. Administration costs of SCBF must not exceed 10 per cent of any annual Community Benefit Fund Payment, index-linking to CPI from the date the agreement is signed. The initial or Advanced payments are excluded from this provision. VEWf will review this policy with SCBF every two years.

Purpose and use of Fund

17. SCBF will award grants or loans from the Fund to support the community or charitable activities of constituted, not-for-profit groups working to benefit residents within the Area of Benefit subject always to the exclusions detailed in condition 20 hereof. A constituted group is one that has a written constitution or governing document that has been signed as adopted by the group's members and which stipulates that the group will produce annual accounts.
18. SCBF may also award grants or loans, or make investments, from the fund to promote economic development activities within the Area of Benefit. Economic development grants, loans or investments can be made to constituted not-for-profit groups and/or businesses which produce annual accounts and submit these to SCBF. SCBF may also incorporate other limited companies, charitable trusts or other community organisations in furtherance of its policies.
19. Any grant or loan to, or investment in, a privately-owned business of £15,000 or greater will require the prior approval of VEWf. VEWf will endeavour to provide a decision within 28 days and requests cannot be unreasonably refused.
20. Grants, loans or investments may support a broad range of community activity and development but will not support:
 - 1 The advancement of religion or party politics. The only exception being grants or loans will be allowed to the Shetland Churches Council Trust for the maintenance and upkeep of local church buildings which primarily serve a community function;
 - 2 Activities that are generally understood to be the exclusive responsibility of the statutory authority;
 - 3 Projects benefiting primarily those residents outside the Area of Benefit, unless a specific case is made by SCBF and agreed by VEWf beforehand;
 - 4 Activities contrary to the interests of VEWf or its subsidiaries;
 - 5 Activities likely to bring VEWf or its subsidiaries into disrepute;
 - 6 Anti-renewable energy/wind farm activities;
 - 7 Retrospective funding (i.e. paying for costs incurred before a decision on an application to the Fund for support can be made).

21. VEFW intends the Fund to be disbursed through a loan, grant-making, or investment programme to constituted organisations or businesses working for the clear benefit to residents of the Area of Benefit.
22. A decision to set aside any of the funds available in any year can be made on the basis that there are insufficient suitable applications to make immediate use of the funds or if SCBF has longer-term priorities for the funds.

Reporting and publicity

23. SCBF will submit to VEFW an annual report detailing fund expenditure during the preceding 12 month period.
24. SCBF will ensure adequate promotion of the fund, the funder (ie VEFW) and any grants, loans or investments made.
25. SCBF will maintain all appropriate records concerning grants or loans applied for and awarded and any investments made by SCBF.

Changes to parties

26. Should ownership of VEFW be transferred to another entity, this Heads of Terms and subsequent agreement will also be transferred.
27. Should the legal structure of SCBF change prior to signing of the final agreement, this Head of Terms will transfer to the new entity, subject to VEFW approval.

28. These Heads of Terms are wholly dependent and conditional upon Ofgem making a decision on the Shetland Transmission Project that is on terms acceptable to VEFW of which VEFW shall be the sole judge and Financial Close for the project known as "Viking" taking place.

V2 7-10-19

Signed on behalf of Shetland Community Benefit Fund Ltd



Full Name: CHRISTOPHER BUNYAN

Position: CHAIR

Date: 22/7/20

Witnessed by:

Full Name: _____

Signed on behalf of Viking Energy Wind Farm LLP



Full Name: _____ Mike Seaton _____

Position: _____ Chairman of Managemet Board _____

Date: _____ 20/7/20 _____

Witnessed by:

Full Name: _____