

**Chief Executive – Ann Black
Financial Controller – Jeff Goddard**

All Trustees

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If calling please ask for
Mary Anderson
Direct Dial: 01595 744992

Our Ref: TA1/1
Your Ref:

Date: 26 April 2012

Dear Sir/Madam

You are invited to the following:

**Special Shetland Charitable Trust
St Catherine's Suite, Shetland Hotel, Lerwick
Monday 30 April at 10.00 a.m.**

Apologies for absence should be notified to Mary Anderson on 01595 744992

Yours faithfully

(signed) Dr Ann Black
Chief Executive

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest

Appendix B of the following item contains CONFIDENTIAL information

For Decision

1. Viking Energy – Investment Budget Post Consent. Report enclosed

REPORT

To: Shetland Charitable Trust

Date 30 April 2012

From: Financial Controller

Report: CT1204024

Viking Energy – Investment Budget Post Consent

1. Introduction

- 1.1 This report considers the next steps in the Viking Energy project. The project is looking at the possibilities of harnessing Shetland's world class wind resource.
- 1.2 Trustees have invested £3.42 million to date in the project, this being 90% of Shetland's investment of £3.8 million. The other £380,000, 10% of Shetland's Investment, has been made by Viking Wind Limited, which is owned by the same families that own the Burradale Wind Farm. Shetland owns 50% of the overall Viking Energy project, with the other 50% being owned by a subsidiary company of SSE plc.
- 1.3 The Scottish Government granted consent for the Viking Energy Wind Farm (103 turbines) on 4 April 2012. Quayle Munro have estimated that the Shetland investment of £3.8 million is now worth around £65 million. The next milestone in the project is to be ready to sign the various contracts needed to enable the windfarm to be built. It is estimated that a further investment from Shetland of £7 million will be required to reach that milestone. Quayle Munro estimate that the Shetland share of the windfarm might be worth up to £157 million at that point. I will be recommending that Trustees agree a further investment budget of 90% of £7 million, i.e. £6.3 million, to take the project forward.
- 1.4 Spend against investment budget is not charitable. When Trustees make an investment they expect to get the capital back (over time) and make a suitable return. Any investment by a charity needs the approval of HMRC as a "qualifying" investment. HMRC have formally accepted that the Trust's investment to date of £3.42 million in the project approval stage of the Viking Energy project is a qualifying investment. Quayle Munro's valuation of that investment as being worth something in the region of 17 times the original sum will help in discussions with HMRC should Trustees be minded to agree my recommendation to invest up to £6.3 million in taking the project to the next milestone.

2. Background

2.1 Trustees have received various updates on the project since the Trust took it on in 2007. Appendix A is a diary of these updates.

3. Project Structure

3.1 Trustees have agreed to a change in the Shetland partner, to be Viking Energy Shetland LLP to protect the Trust's favourable tax position as a charity owning a share of a potentially profitable project. Trustees have also agreed that the central joint venture vehicle should change from Viking Energy a general partnership to Viking Energy LLP. An LLP is more attractive to potential providers of bank finance as it has the ability to grant a floating charge over the assets of the windfarm.

4. Quayle Munro Valuation

4.1 Quayle Munro is a specialist corporate financial advisory business based in Edinburgh and London. It has advised upon over 130 major transactions in the last five years with a total value in excess of £8 billion. Amongst recent relevant experience is a high profile valuation and transaction advice involving the Baillie Windfarm project in Caithness which was acquired by Statkraft (UK) from private developers.

4.2 A valuation of the Shetland share of the Viking Energy project, post consent, has been undertaken by Quayle Munro, who presented to a Trustee Seminar on 26 March 2012. That work assigns a value range of £350,000 to £850,000 per MW to the Shetland half of Viking Energy. This means that it is estimated that Shetland Charitable Trust's current investment of £3.42 million should now be worth upwards of £58 million (i.e. 90% of £65 million)

4.3 Quayle Munro have indicated that at the next key milestone, readiness for contractual close, the Shetland share of Viking Energy might be valued at up to £157 million. The project team estimate that it will take around 18 months to two years to reach the next milestone with the Shetland share of the project budget required being £7 million, with 90% of that figure coming from this Trust, £6.3 million. A breakdown of this figure is contained in the confidential Appendix B.

5. Project Development

5.1 Trustees have duties to current and future beneficiaries, and also to the subsidiary companies that the Trust owns and invest in. With the granting of consent the Trust Group now owns a valuable asset. Trustees are faced with the decision as to whether to seek to sell now and capture the increase in value indicated by Quayle Munro's work or to continue to develop that asset by investing further as recommended in this report.

- 5.2 The project remains one which is expected to be very attractive financially which is the Trust's original reason for investment. Trustees have also indicated that if the Viking Energy windfarm is built, the Shetland community should participate in the environmental management aspects, and this is a further reason for the Trust to continue to be involved. I will recommend that Trustees agree to invest to take the project through to the next milestone. Decisions on whether to finally commit to invest further to be party to signing of contracts for turbines, civil engineering, project finance and many more will need to be made at that point.
- 5.3 Selling out now would potentially take away most of the "Shetland" influence on the project. The "Shetland" participants on the Viking Energy Project Team argue that "Shetland's" investment has ensured that the project will be managed with "Shetland's" needs in mind. Selling out now would also mean that the Trust will not gain from the further financial upside in taking the project to the next milestone, as suggested in Quayle Munro's work.
- 5.4 A decision from Trustees as to whether to further invest or sell is required at this point. The project will continue activity meantime and will require further finance. If Trustees do not make a decision, that finance will be provided by the other participants in the project and so the Trust's share (and value achieved) will be diluted.

6. Financial Implications

- 6.1 Before achieving consent, any investment by the Trust could be considered as fairly speculative. HMRC (and Trustees) accepted that this was a reasonable investment for the Trust to make, taking into account the risks involved and the size of the investment (£3.42 million) relative to the Trust's overall portfolio (c. £220 million).
- 6.2 Having achieved consent, the past investment in this project by the Trust of £3.42 million can now be judged as a successful one. Quayle Munro estimate that each £1 investment is now worth something like £17.
- 6.3 Trustees are being asked to invest a further £6.3 million to take the project to the next milestone. Clearly, the level of risk has gone down significantly, as it is now a consented project and an asset with value. This further investment will take the total investment up to around £10 million, just under 5% of the Trust's portfolio. The Trust has other investments of this order of size: £7 million in the new offices at the North Ness (through SLAP); £8 million in the re-development of Scatsta Airport (through SLAP); £20 million in commercial property funds (the Trust itself, managed by Schroders); and £23 million in the land at Sullom Voe Oil Terminal (the trust itself). Overall, assuming that Quayle Munro's estimates of value are in the right "ball park", further investment in Viking Energy is financially attractive.

7. Recommendations

- 7.1 I recommend that Trustees note the financial success of their investment to date in Viking Energy, and agree to invest up to a further £6.3 million to take the project through to the next milestone.

Reference: JPG/em/IS4
Date: 26 April 2012

Report Number CT1204024

Appendix A

Date	What	Subject	Who
26/03/2012	Seminar	Valuation	Quayle Munro
12/03/2012	Update by email	General	Ann Black, Chief Executive
21/02/2012	Report	Underlying Structures	Financial Controller
19/01/2012	Update by email	General	Ann Black, General Manager
26/09/2011	Update by email	General	Ann Black, General Manager
06/07/2011	Report	Investment Budget	Financial Controller
24/03/2011	Presentation	Project Finance	Richard Simon-Lewis Lloyds Banking Group
24/03/2011	Progress Report	General	Financial Controller Aaron Priest
04/10/2010	Briefing Note	Project Finance	Financial Controller
29/09/2010	Presentation Q&A Session	Addendum launched	David Thomson Aaron Priest
24/06/2010	Update Report & Drawdown Report	Finance & Administration	Financial Controller
21/06/2010	Project Update & Q&A Session	General	Aaron Priest
11/02/2010	Presentation	Finance	Richard Simon-Lewis Lloyds Banking Group
03/11/2009	Presentation and Update report	Construction experience	Morrison Construction And Ecological QS
17/09/2009	Presentation	Project Finance SSE Experience	Philip Soden, SSE
01/09/2009	Reception	General	Ian Marchant, SSE
06/08/2009	Seminar	General	Aaron Priest

Appendix A

02/07/2009	Seminar	General	Aaron Priest
18/03/2009	Drawdown report	Finance	Financial Controller
08/12/2008	Presentation	Ecology/Peat	David Thomson
	Presentation	Economics	Stephen Kerr, Avayl
13/11/2008	Verbal Update	General	Financial Controller Aaron Priest
24/10/2008	Investment report	General	Financial Controller
11/09/2008	Presentation	General	David Thomson
	Presentation	SSE position	Simon Heyes, SSE
17/09/2007	Report	Up to £3m investment decision	Financial Controller
23/08/2007	Workshop	Finance	Brandon Rennet, SSE