

The Directors believe the following risks to be the most significant for potential Bondholders. However, they do not necessarily comprise all those associated with an investment in the Bond and are not intended to be presented in any order of priority they have been grouped in 3 categories.

1. Industry risks

- a. **Government legislation.** The government is currently pro solar, but this could change as the number of installations increases over the next 25 years, so it is possible that they may try and tax solar projects in the future. A backlash on renewable energy could make it harder for the CBS to pay interest and re-pay investors.
- b. **Mains Electricity prices to schools.** If mains electricity prices fell rather than rose over time as expected, schools might default on their contract with the CBS and refuse to pay the contracted price for solar electricity if higher than mains electricity. This risk is partly reduced by the schools' entitlement to a profit share that should counteract the higher contracted solar electricity price vs. lower mains prices.
- c. **Price paid for electricity sold to the grid.** The model assumes that we will continue to sell any spare electricity back to the grid at 3.5p a unit adjusted to inflation for the 25 years of each contract. We are currently being paid 8-10p a unit, so more than we are using in our model and this is creating some additional buffer, but these relatively high prices will probably come down over the next 5 years. Although expected income from export is generally less than 20% of the total income for new projects, if the price of electricity sold back to the grid dropped below 3.5p within 10 years, the CBS could struggle to pay back interest and even capital.
- d. **Interest rates:** Interest rates are currently high although expected to fall over the next few years, although 5.5% is above what investors can currently receive from similar duration bank deposits, there is a risk that interest rates could increase further, i.e. you would continue to receive 5.5% interest until the bond matures, but could have received higher interest if you had left the funds in a bank. Conversely if as expected, interest rates fall, you will benefit.

2. Project-specific risks

- a. **Mechanical failure:** Installations will be insured for damage, breakdown and loss of income in line with standard industry practice. However, there will be interruptions to the generation of electricity from the installations once built, caused by damage to or mechanic/electrical failure of equipment or roof maintenance work at the school. All roofs are surveyed by professional structural engineers, and systems are only installed on suitable roofs. None are installed on roofs using RAAC.
- b. **Solar PV performance:** The assumptions around energy generation levels each year are based on project capacity and yield calculations based on methodologies commonly used by the industry. However, long-term changes to weather patterns and/or equipment under performance may result in lower levels of electricity generation and therefore income. Generation so far for the portfolio of schools with at least one full year of data has been within 1% of target.
- c. **Schools default:** Over 80% of income to the CBS is from the sale of electricity to each school. Therefore, should a school default on the agreement or shut down, revenues for those schools could be up to 60 per cent lower as the electricity would be exported at about 5p instead. The impact of such a reduction on the entire portfolio of a single project failing in this way in the later years is very small, but if multiple schools defaulted in the early years, the CBS may not be able to meet its repayment schedules.
- d. **Schools consume less solar electricity than forecast:** Solar electricity “self-consumption” rates are calculated based on comparing new schools to historic data of more than 80 systems with over a year of data. The systems are then under sized to ensure sufficiently high self-consumption rates across the portfolio of schools and the forecasts are therefore expected to be within about 5 per cent of actuals. If many schools actually consume significantly less than forecast, the reduction in income to the CBS could result in the CBS not being able to meet its forecast repayment schedules if the shortfall is greater than the profit share. School closures as a result of COVID measures have resulted in schools consuming less solar electricity than forecast. That trend has continued, driven by high electricity prices, so we have adjusted the self-consumption calculations to be more conservative for new projects going forward and are looking at means to increase the price the CBS receives for exported electricity.

3. General investment risks

- a. **Capital Risk:** Investment in smaller, new and unquoted businesses is likely to involve a higher degree of risk than investment in larger, established companies and those traded on a stock exchange. Investing in Bonds is not the same as investing money in a bank account as your capital is at risk and you could lose up to, but no more than, your entire investment.
- b. **Repayment:** An investment in a Bond of this type is speculative and involves a degree of risk. The Solar for Schools Community Benefit Society's ability to repay the Bond on the repayment date, or at all, is dependent on the continued success of its business.
- c. **Security:** The Bonds are an unsecured investment and will rank behind secured or preferential creditors. In the event of the Solar for Schools Community Benefit Society's financial failure, the Bonds would have the status of an unsecured creditor and may not be capable of being repaid in full or at all should the proceeds from a sale of the Solar for Schools Community Benefit Society's assets fail to cover all unsecured liabilities.
- d. **Liquidity:** Although Bonds are transferable, they will not be traded on a recognised exchange and are therefore non-readily realisable.
- e. **Long-term commitment:** Applicants should consider investment in the Bonds as a long-term commitment until the repayment date as the original amount invested may not be available to them before the repayment date as there is no guarantee of repayment if a request is made to do so by the Bondholder.
- f. **Bond redemption:** Bondholders will have the contractual right to full redemption of their Bonds at the end of the initial term. The Solar for Schools Community Benefit Society's ability to repay the Bonds at this point is dependent on it being able to secure finance from third parties and/or future bond investors. The Directors are committed to managing Solar for Schools Community Benefit Society's business with a view to ensuring a range of options are available to enable it to repay the Bonds and the interest due on them. However, there is no guarantee that there will be sufficient finance available to repay all the bonds at this point. If the CBS can't raise more bonds or re-finance, then the CBS will re-pay bondholders gradually over the remaining lifetime of the projects. The directors will prioritise bond repayment by need and availability of funds.
- g. **The Bonds are not covered by the Financial Services Compensation Scheme (FSCS) or the Financial Ombudsman Service (FOS):** This means if the Solar for Schools Community Benefit Society Ltd does not fulfil the terms of the Bond Instrument there is no right to complain to FOS or to get compensation from FSCS.
- h. **Past performance is not necessarily a guide to future performance:** Events in the past, or experience derived from these, or indeed present facts, beliefs or circumstances, or assumptions derived from any of these, do not predetermine the future.
- i. **Financial projections:** Hopes, aims, targets, projections (including the financial projections in this Offer), plans or intentions contained in this document are no more than that and should not be construed as forecasts.