

STRICTLY PRIVATE & CONFIDENTIAL

13<sup>th</sup> November 2016

Liz Ditchburn  
Director General Economy

Dear Liz

**Re: Project Boots & Guarantee of PPA Obligations from Scottish Ministers**

In reply to your letter of 11 November, as requested I am setting out our response to the points you raised regarding the guarantee topics, the status of the [REDACTED] and a number of other points.

**Guarantee**

We have appreciated the constructive approach and co-operation that the Scottish Government and your advisors have shown to the GFG Alliance in finalising a mutually acceptable guarantee structure.

In answer to your specific points:

<p>I. Liberty House / SIMEC agree and accept that the Government's guarantee relates to [REDACTED] [REDACTED] for reasons of State Aid compliance;</p>	<ul style="list-style-type: none"><li>• Confirmed.</li></ul>
<p>II. [REDACTED]</p>	<ul style="list-style-type: none"><li>• We confirm the calculation method and approach.</li><li>• We believe we can provide supporting data to demonstrate [REDACTED]</li></ul>

	<ul style="list-style-type: none"> <li>• [REDACTED]</li> </ul>
<p>III. Liberty House agree to [REDACTED] of the Fort William smelter in the event that forecasts are incorrect;</p>	<ul style="list-style-type: none"> <li>• Confirmed</li> </ul>
<p>IV. [REDACTED]</p>	<ul style="list-style-type: none"> <li>• Confirmed</li> <li>• Documentation from GFG Alliance’s Strategic Board approval to be provided in due course</li> </ul>
<p>V. all securities will be in place at the time of delivery of the guarantee by the Scottish Ministers (in the case of AAUK, with effect from the moment that the acquisition of AAUK is concluded);</p>	<ul style="list-style-type: none"> <li>• Confirmed</li> <li>• [REDACTED]</li> <li>• [REDACTED]</li> </ul>
<p>VI. [REDACTED]</p>	<ul style="list-style-type: none"> <li>• Confirmed</li> <li>• [REDACTED]</li> </ul>

	<ul style="list-style-type: none"> <li>• [REDACTED]</li> <li>• Again the [REDACTED]</li> </ul>
<p>VII. parent companies' and other group companies' guarantees in favour of Scottish Ministers</p> <p>[REDACTED]</p>	<ul style="list-style-type: none"> <li>• As has always been the case, we can confirm we offer a [REDACTED]</li> <li>• When we met most recently we agreed that the total guarantee would be divided per a recommendation to come from EY. To enable this we have provided [REDACTED]</li> <li>• [REDACTED]</li> <li>• [REDACTED]</li> </ul>
<p>VIII. Scottish Ministers and their advisers will be provided with a complete copy of all due diligence reports prepared by or on behalf of Liberty / SIMEC by your solicitors / accountants / investment advisers or other advisers.</p>	<ul style="list-style-type: none"> <li>• Confirmed</li> <li>• We are happy to provide these, subject to agreement of the standard hold harmless / non reliance documents which seem to be required by our advisers</li> </ul>

In addition to the points included in your letter, we note a number of recommendations of your advisors (EY draft report, 6 November) which, if they are still points of concern to Scottish Government, we would welcome the opportunity to discuss with you. We are keen to reach an agreed position on each of these points to minimise uncertainty for all parties ahead of the review by the Committee if possible.

[REDACTED]

[REDACTED]

Due to direct renegotiation from Rio Tinto, it is now apparent that there are significant challenges to delivering the transaction in the form as set out in our bid and so we are actively considering an alternative approach that would involve [REDACTED]

[REDACTED] This alternative approach is now looking increasingly likely to be necessary in order to deliver the transaction. [REDACTED]

[REDACTED]

Although [REDACTED] preference is to resolve these challenges and make the acquisition as originally envisaged, given the difficulties in doing so, the below tries to answer your specific questions in relation to the alternative approach.

- The likely change in structure has arisen [REDACTED] and other transaction matters. The rationale for the potential change is as follows:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

■ [REDACTED]

- [REDACTED]

■ [REDACTED]

- [REDACTED]
  - [REDACTED]
  - [REDACTED]
  - The security package being offered to the Scottish Government would also be largely unaffected
  - There are no material liabilities associated with KLL
  - The principal liabilities of the target company group as a whole are: environmental provisions as outlined in our expert's report provided to you [REDACTED] capital expenditures, as included in our forecasts; and pensions. [REDACTED]
- [REDACTED]. Please note however that the inclusion of KLL makes no difference to these liabilities, [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

As you know, the GFG Alliance, Liberty and SIMEC groups are focused on securing this transaction to create a compelling industrial vision for Lochaber. The Scottish Government's support is an essential part of delivering that. [REDACTED]

[REDACTED] I and the rest of our team will make

ourselves available to answer any follow up questions and resolve these matters with you at your earliest convenience.

Yours sincerely,

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