

SG – GFG Alliance: Negotiation

20 October 2016

Ernst & Young, G1, 5 George Square, Glasgow, G2 1DY

Participants:

SG

DG Economy: Liz Ditchburn, Richard Rollison, Kate Higgins, REDACTED

Scottish Futures Trust

REDACTED

RTA Project Team:

REDACTED, REDACTED, REDACTED, REDACTED

MacRoberts LLP:

REDACTED

Brodies LLP:

REDACTED

EY:

REDACTED REDACTED

Independent Consultants:

REDACTED

Liberty/GFG Alliance:

Jay Hambro, Sanjeev Gupta

REDACTED

Cab Sec set out objective of today – to reach a deal in principle between SG and GFG Alliance by 17:00

- Deal critical for Scotland and Fort William area – will provide opportunity for further development, saving of carbon emissions, generation of jobs, recycling of steel within Scotland rather than exporting overseas.
- SG wants to succeed and has invested significant resource and funds to suitable advise our position
- REDACTED Must be clear on value for money case for Scotland – a contracted, binding legal agreement for delivering what has been guaranteed. Not simply an understanding.
- Community purchase aspiration but not central to discussions today but clarity must be provided on the proposed – the more sympathetic package to the community the better.
- Electric Arc Furnace (downstreaming activity) is critical
- Must present robust, agreeable package

DG Economy – critical day given pressing timescales. Fundamentally a discussion between SG and Liberty

- **Mr S. Gupta:** GFG Alliance has been given 2 weeks deadline to sign sale agreement with RTA and would require a deal in principle with SG by then to sign with RTA.

Package/Structure of Deal

- EY set out structure and value of deal
- Discussed requirement for capital expenditure, pre-operational expenditure during leading up inevitable. Understand that Govt cannot guarantee losses – Liberty has sufficient cash flow to pay for power. Liberty is not loss making.
- **REDACTED (EY)** REDACTED Business plan required for wheel factory also.
- **REDACTED Mr S. Gupta (action)** we can develop this plan and can facilitate access to Grant Thornton – and a balance sheet will be provided, agree that this is a legitimate requirement.
- Liberty group has free cash flow which can meet any losses from downstream activity.
- REDACTED – EY requires a balance sheet to achieve this view.
- Contract required with UK entity.
- **Mr S. Gupta (action)** we will present UK Group figures and the global group's figures/ business model.
- **REDACTED EY** - Arc Furnace has not been included in any detailed document or model provided.
- REDACTED – REDACTED

Structure, Quantum and Duration of PPA

- **DG Economy** asked whether REDACTED REDACTED At present this is a fundamental risk.
- **Mr S. Gupta** REDACTED quantum is based on acceptable power price
- REDACTED – REDACTED REDACTED
- REDACTED Committee will request sight of PPA which is underwriting this revenue stream and it is problematic that this is not in existence.
- PPA Document must be produced urgently.
- REDACTED: we can move PPA to completion with 2 weeks.
- **DG Economy** extremely helpful if this draft PPA can be completed within one week.
- EY energy experts can examine PPA drafted.
- **REDACTED** – REDACTED
- **DG Economy** asked for explanation on proposed duration
- **Mr S. Gupta** discussed option of alternative PPA – a “ramped up” PPA according to **DG Economy**, thereby reducing SG immediate risk. Phase 1(a) (GT Report) – Aluminium Wheels Factory
REDACTED
REDACTED

Price

REDACTED

State Aid Issue

- REDACTED outlined the 4 prerequisites to satisfy state aid rule – issue of 80% threshold of funding limit to prevent classification of state aid.
- **DG Economy:** exceeding 80% - which can be done via notification to EU Commission, although the means leaving the ‘safe harbour’– must be an absolute last resort.
- REDACTED
- REDACTED UK (as the member state) required to notify the Commission – unachievable in next 2 weeks.
- **DG Economy:** preference to stay within safe harbour
- REDACTED REDACTED

Securities

- REDACTED(**action**) GFG to work with EY to reach suitable figure
- **REDACTED**Agreement in principle reached on security in favour of SG over Lochaber Hydro
- **DG Economy:** security package to be agreed in writing (preferably Friday 21/10/2016)

Land – 115,000 Acres

- Mr J. Hambro, if SG has security over Lochaber Hydro, why is security over land sought?
- REDACTEDMr J. Hambro, SIMEC will acquire the land. SIMEC will be a UK registered company shortly

REDACTED

Guarantee Fee

REDACTED (EY) if there has been movement on security, REDACTED

GFG Letter of Undertaking

- REDACTED outlined Cab Sec’s preference for binding agreement on GFG’s proposed undertakings
- Mr J. Hambro, cannot commit to this entirely – level of commitment remains to be seen.
- **Mr S. Gupta:** commitment possible on Phase 1