

CABINET SECRETARY FOR THE RURAL ECONOMY AND CONNECTIVITY

MEETING WITH RIO TINTO ALCAN OFFICIALS 04 OCTOBER 2016, 15:00 – 17:00

Purpose	<p>This is a working meeting to provide an opportunity to learn more about RTA's processes and timelines within their Strategic Review as they progress towards selecting a preferred bidder for their Lochaber assets as well as learning more about how they will assess each bid and how SG can engage in this process.</p> <p>The latter part of the meeting would be concerned with the letter of intent and support issued by the Scottish Government to all short-listed bidders and how SG can assist RTA with national and local economic impacts of the short-listed bids.</p>
Who	<ul style="list-style-type: none">• Patrick Tobin, Vice President, Rio Tinto Alcan• Pierre Chenard, Senior Vice President, Rio Tinto Alcan
Agenda	<ol style="list-style-type: none">1. Welcome and introductions2. RTA's processes and timelines3. RTA's approach to assessing bids4. The Scottish Government letter of intent5. How SG can assist RTA in considering national and local economic impacts.
Where	5 th Floor, St Andrew's House Conference Room B
Attached documents	<ul style="list-style-type: none">• Annex A: Agenda and attendee• Annex B: Overview note (RTA's strategic review)• Annex C: Letter of intent (Mr Ewing to Liberty House)• Annex D: Letter of support to other short-listed bidders• Annex E: Minute of telephone call with SG officials and Patrick Tobin RTA 27 September 2016
Official support	REDACTED (REDACTED) REDACTED (REDACTED)

AGENDA

Mr Ewing will chair the meeting

1. Welcome and introductions
2. RTA's processes and timelines
 - *Opportunity for RTA to outline their processes and timelines.*
3. RTA's approach to assessing bids
 - *RTA to provide an overview of how they will assess each bid and SG involvement in this process.*
4. The Scottish Government's letter of intent
 - *SG to provide an update on how this progressing and timelines.*
5. How SG can assist RTA in considering national and local economic impacts
 - *For all parties to agree a process for SG assisting RTA with considering economic impacts of the short-listed bids for RTA's Lochaber assets.*

Attendees

Cabinet Secretary for Rural Economy and Connectivity
Patrick Tobin, Vice President, Rio Tinto Alcan
Pierre Chenard, Senior Vice President, Rio Tinto Alcan

Liz Ditchburn, Director-General Economy
Kate Higgins, Special Adviser
REDACTED, Energy Division
REDACTED, Energy Division
REDACTED, Energy Division
REDACTED, Procurement Shared Services,
REDACTED, Highlands and Islands Enterprise

RIO TINTO ALCAN LOCHABER STRATEGIC REVIEW

- Rio Tinto Aluminium's (RTA) re carrying out a strategic review of their UK assets at Lochaber. The four main assets are the **Lochaber aluminium smelter**, the **two hydro-electric power stations at Fort William and Kinlochleven** and **estate lands east of Fort William and across the Highlands** (45,740ha).
- REDACTED It has now been confirmed **REDACTED** have in their final bid indicated the potential for smelting to continue as part of their bid).
- The **smelter plant in Fort William is one of the largest employers in the area, with 152 FTE employees** and key local businesses dependent on these businesses.
- In the past weeks, LH approached the Scottish Government (SG) with their sister company SIMEC, about the possibility of either REDACTED or the provision of SG providing a guarantee for the purchase power generation between LH and SIMEC.
- REDACTED A **letter of intent from Fergus Ewing (Annex C)** was issued to LH in advance of the bid deadline stating SG's willingness to continue to assess these proposals to assist in the successful continued operation of the Lochaber smelter and wider industrial development in Lochaber.
- A similar offer of support (**Annex D**) was then shared to the other short-listed bidders via Rio Tinto Alcan.
- Officials are continuing to assess LH's proposals and are also meeting with the short-listed bidders and will continue to explore all options with LH and our advisors. SG will continue to engage with RTA and the remaining short-listed bidders.

Key points to make

- The Cabinet Secretary and officials will continue to work with RTA and the short listed bidders on their particular proposals whilst being respectful of commercial boundaries and the need to take an even-handed approach to all bidders. We are very conscious of the economic potential of certain bids and keen to be supportive within these parameters.
- The letters of intent and support (Annex B and C) from SG encapsulates our approach to further assessment o support proposals; we are grateful that RTA have allowed us to engage with the short-listed bidders who want to operate the smelter.
- SG officials and our external advisors are continuing to assess short-listed bidders proposals of support with a view to determining whether or not we can enter into such an arrangement. We will use due expedition to reach a conclusion as quickly as possible.
- We look forward to learning more about RTA's processes and timelines as well as your approaches to assessing bids and how SG can engage on this.

Background – Rio Tinto Strategic Review

- RTA is undertaking a strategic review of the company's assets in Scotland with a view to potential disposal.
- The deadline for firm bids from short-listed bidders was 9 September. RTA is hoping to conclude the strategic review this calendar year.

REDACTED

Scottish Government Engagement

- SG and HIE have been engaging with RTA and with strategic partners to ensure the best outcome for the Fort William and Lochaber area and RTA's employees at the Lochaber operation.
- Mr Ewing has led on the RTA strategic review with a view to try to secure the best economic result for the local area and Scotland. Since the announcement of their strategic review, he has met frequently with representatives of RTA.
- In addition, he has convened a working group of SG officials along with SE and HIE to consider the various facets of the strategic review. Officials from Energy, Economic Development, SG Procurement, State Aid, REDACTED

REDACTED

LETTER OF INTENT FROM MR EWING

9 September 2016

Dear Sanjeev

RIO TINTO ALUMINIUM – POTENTIAL SALE OF LOCHABER HYDRO ELECTRIC POWER STATION / ALUMINIUM SMELTER

I refer to the above sale process and confirm that, as follows, the Scottish Government is willing to provide support to assist in the maintenance and creation of employment in the Fort William and Lochaber areas and in support of the Scottish Government's commitment to Scotland's industrial and commercial infrastructure and to renewable energy provision in the context of sustainable economic growth.

In that regard, the Scottish Government is prepared to provide support to any purchaser of the above assets who makes the necessary commitment to the local community in relation to employment, industry, commerce and renewables.

Appropriate safeguards

Any support which the Scottish Government is able to provide to GFG, and other potential acquirers of the Businesses, will require to be made in accordance with Scottish, UK and EU rules and on a Market Economy Investor Principle basis.

Further, any support will require to be on terms which are satisfactory in all respects to the Scottish Government including value for money, affordability issues and compatibility with its obligation to the Scottish Parliament for the use of public money.

Your proposals

We have discussed with you the ambitions of the GFG Alliance group of companies ("GFG") to acquire the Lochaber Hydro Station and smelter complex (the "Businesses") from Rio Tinto Aluminium ("Rio"), and GFG's intention to both continue and develop further operations at Lochaber via establishing a new industrial complex at the site. We are also pleased to see your potential partnership REDACTED with regard to this transaction and the Kinlochleven Hydro Station.

As you know from our discussions, the Scottish Government is committed to continuing and developing industrial activity at Lochaber and has expressed interest in working with GFG, and other potential acquirers of the Businesses to help facilitate this.

My officials and I, together with external advisors, have discussed with GFG your first proposed structure consisting of the following two transactions:

REDACTED We have discussed with you summary terms for this proposal and the legal framework and potential constraints to us entering into such arrangements. In particular in those discussions you have undertaken to de-risk at your expense any such arrangement designed to support the aluminium smelter at Lochaber.

Your second alternative proposal, that, rather than REDACTED there would be a Scottish Government guarantee of Liberty House's obligations to purchase power from the SIMEC generation asset at Lochaber, is also being considered by us.

We offer you this firm letter of intent to continue to assess these proposals, and any development of them, with a view to determining whether or not we can enter into such an arrangement. We will use due expedition to reach a conclusion as quickly as possible.

Our willingness to consider your proposals is based on our desire to assist in the successful continued operation of the Lochaber smelter and wider industrial development at Lochaber. We will also continue to evaluate possible alternative approaches which would allow GFG to undertake the proposed investment programme.

Should GFG be selected by Rio Tinto Aluminium as a preferred bidder for the Businesses, or otherwise continue your evaluation of the Businesses, we would seek, in conjunction with you and your financing providers, to develop a suitable proposal.

Conclusion

The continued operation of the Lochaber smelter plus enhanced development of industrial activity at Lochaber, and the preservation and creation of employment and economic value that this entails, are high priorities for the Scottish Government. The sole purpose of the provision of this letter is to obtain our industrial development objectives. The Government's strong commitment to assist in the maintenance and creation of employment in the Fort William and Lochaber areas is being made known in similar terms to other relevant potential acquirers of the Businesses through Rio Tinto Aluminium.

Fergus Ewing

LETTER OF SUPPORT FROM MR EWING

RIO TINTO ALUMINIUM – POTENTIAL SALE OF LOCHABER HYDRO ELECTRIC POWER STATION / ALUMINIUM SMELTER

I refer to the above sale process and confirm that, as follows, the Scottish Government is willing to provide support to assist in the maintenance and creation of employment in the Fort William and Lochaber areas and in support of the Scottish Government's commitment to Scotland's industrial and commercial infrastructure and to renewable energy provision in the context of sustainable economic growth.

In that regard, the Scottish Government is prepared to provide support to any purchaser of the above assets who makes the necessary commitment to the local community in relation to employment, industry, commerce and renewables.

Appropriate safeguards

Any support which the Scottish Government is able to provide to [company name] and other potential acquirers of the Businesses, will require to be made in accordance with Scottish, UK and EU rules and on a Market Economy Investor Principle basis. Further, any support will require to be on terms which are satisfactory in all respects to the Scottish Government including value for money, affordability issues and compatibility with its obligation to the Scottish Parliament for the use of public money.

Your Proposals

We have discussed with you the ambitions of [company name] to acquire the Lochaber Hydro Station and smelter complex (the "Businesses") from Rio Tinto Aluminium ("Rio"), and [company name's] intention to both continue and develop further operations at Lochaber via establishing a new industrial complex at the site.

As you know from our discussions, the Scottish Government is committed to continuing and developing industrial activity at Lochaber and has expressed interest in working with [company name], and other potential acquirers of the Businesses to help facilitate this.

My officials and I, together with external advisors, have discussed a proposed structure consisting of the following two transactions:

REDACTED

A second alternative proposal, that, rather REDACTED there would be a Scottish Government guarantee of [company name's] obligations to purchase power from the [company name] generation asset at Lochaber, is also being considered by us.

We offer you this firm letter of intent to continue to assess these proposals, and any development of them, with a view to determining whether or not we can enter into such an arrangement. We will use due expedition to reach a conclusion as quickly as possible.

Our willingness to consider both proposals is based on our desire to assist in the successful continued operation of the Lochaber smelter and wider industrial development at Lochaber. We will also continue to evaluate possible alternative approaches which would allow **[company name]** to undertake the proposed investment programme.

Should **[company name]** be selected by Rio Tinto Aluminium as a preferred bidder for the Businesses, or otherwise continue your evaluation of the Businesses, we would seek, in conjunction with you and your financing providers, to develop a suitable proposal

Conclusion

The continued operation of the Lochaber smelter plus enhanced development of industrial activity at Lochaber, and the preservation and creation of employment and economic value that this entails, are high priorities for the Scottish Government.

The sole purpose of the provision of this letter is to obtain our industrial development objectives. The Government's strong commitment to assist in the maintenance and creation of employment in the Fort William and Lochaber areas is being made known in similar terms to other relevant potential acquirers of the Businesses through Rio Tinto Aluminium.

Fergus Ewing

ANNEX E

**CALL WITH PATRICK TOBIN (VICE PRESIDENT, BUSINESS DEVELOPMENT,
27 SEPTEMBER 2016**

**Participants: SG – Liz Ditchburn, Charlotte Wright and REDACTED; RTA –
Patrick Tobin**

Bids and assessment process

- Patrick said RTA had received REDACTED
- RTA had a lot of work still to do to process the bids – they are working through them line-by-line and last week's meetings with bidders had lasted many hours
- Comparison between bids is not straightforward given the variety of assets on offer (power, smelter and estate lands) – and at this stage there is no clear favourite to succeed
- But, given the strength of the bids, RTA is confident that an acceptable solution can be reached should RTA decide to divest
- We asked about the terms of REDACTED REDACTED

SG's letter of intent (guarantee)

- REDACTED?
- This will be an issue to explore when Patrick and another RTA colleague visits Scotland next week (provisionally 5 October)
- Patrick said viable bids could not be 'conditional' beyond mid-October – so if an SG guarantee is to play a part in any bid beyond that point it will need to be firm at the time the recommendation on exclusivity is taken by the RTA Board

Timeline and SG' involvement in assessing bids

- Ministers are keen to take up RTA's offer to comment on bids and provide views on the best outcome for Scotland as we see it
- Patrick confirmed the offer stands saying RTA would welcome our perspective on the local and national economic picture and linkages, and indicated he could be in Scotland next week (5 October) to discuss our initial input with officials / Ministers
- This initial SG's input would precede RTA's Board decision on a preferred bidder
- RTA expects to be in 'exclusive' dialogue with one bidder from mid-October
- The preferred bidder recommendation is due to be taken by the Rio Tinto main Board in London around mid-October – thereafter, Patrick said further discussions would take with the Scottish Government

ELLCT / Community land bid

- Patrick said RTA had questioned all bidders on their intentions in relation to the local community and estate lands – he said this was a key concern for RTA and they understood SG's community land policy and aspirations
- RTA had encouraged all bidders to engage with John Hutchison but they would not impose community involvement on bidders

REDACTED

RTA's involvement post-sale

- REDACTED RTA want the new owners of the smelter to succeed and it is their routine policy to offer this kind of support following divestment of such assets

Actions:

1. Agree with RTA and Ministers meeting details for next week (Patrick suggested meetings on 5 October in Edinburgh) – REDACTED
2. Ask Patrick Tobin to contact all bidders to outline SG's involvement in RTA's bid assessment process and to encourage them to engage with government in the next week before RTA's visit to Scotland – REDACTED to request from Patrick
3. REDACTED Engage with bidders over the next week REDACTED – on their business plans in preparation of an SG/HIE assessment of their economic potential and links with Ministers' national and local objectives (e.g. industrial strategy, environmental goals and community land) – Mary McAllan and Charlotte Wright
4. Advance the commercial risk analysis as quickly as possible in light of RTA's expected Board deadline for consideration of bids – Gordon Wales
5. Contact and offer further support to the ELLCT in order to enhance the quality of their business plan and ensure they are ready to engage effectively with the preferred bidder – HIE and Keith Connal / REDACTED (SG)