

BRIEFING FOR DEPUTY FIRST MINISTER AND CABINET SECRETARY FOR EDUCATION AND SKILLS

GFG Alliance Dinner – Isle of Eriska Hotel, Benderloch, Oban PA37 1SD

Key Message	<ul style="list-style-type: none"> • The sale of Rio Tinto's assets to the GFG Alliance is great news for the community and especially, for the 150+ people working at the Fort William smelter. • This deal safeguards the existing jobs and has the potential to create hundreds more through planned investment. • The guarantee is designed to underpin long-term certainty for the smelter around the cost of its energy and provides a stable platform for future viability and expansion. • This action signals our clear commitment to Scotland's industrial infrastructure, to a highly skilled workforce and to stronger sustainable economic growth. • Now a new exciting chapter of industrial development is set to begin for Lochaber.
Who	The Deputy First Minister and Cabinet Secretary for Education and Skills and The Cabinet Secretary for Rural Economy and Connectivity have been invited to a dinner to mark the official handover of the Lochaber Aluminium Smelter and Power Stations to the GFG Alliance and show the Scottish Government's continued support for the company and the industry in Scotland.
What	Dinner to mark the official handover of the Lochaber Aluminium Smelter and Power Stations to the GFG Alliance.
Where	Isle of Eriska Hotel, Benderloch, Oban PA37 1SD
When	Sunday 18 December 2016 19:30 – Pre-drinks from 19:00 Business Attire
Comms	No comms required
Supporting Official	Dermot Rhatigan RTA/LH Project Team Leader 07805 742130
Attached documents	ANNEX A ATTENDEES ANNEX B BIOGRAPHIES ANNEX C LIBERTY HOUSE ANNEX D BACKGROUND

ATTENDEES

GFG Alliance

Sanjeev Gupta GFG Alliance – Executive Chairman
Nicola Gupta –Sanjeev Gupta’s wife

Jay Hambro – GFG Alliance - Chief Investment Officer and Strategic Boar Member
and CEO SIMEC
Alex Hambro – Jay Hambro’s wife

Douglas Dawson – GFG Alliance – Strategic board member and CEO, Liberty
Industries Group

Alok Agarwal – GFG Alliance Central Services Chief Operating Officer
Anjali Agarwal – Alok Agarwal’s wife

Ravi Trehan – GFG Alliance – Strategic board member

Paul Francis – GFG Alliance – Strategic board member and CEO, Liberty
Commodities Group

Derek O'Reilly – GFG Alliance - UK Industries CFO

Gianpiero Repole – GFG Alliance – Business Development UK

Mel Wilde – Liberty House – Business Development Director

Dhimant Trevedi – CEO of Bank of Baroda

Rio Tinto Alcan

Brian King – Rio Tinto Alcan

Scottish Government

Mr Swinney Deputy First Minister and Cabinet Secretary for Education and Skills

Mr Ewing The Cabinet Secretary for Rural Economy and Connectivity

Dermot Rhatigan RTA/LH Project Lead

BIOGRAPHIES**Mr Sanjeev Gupta, Executive Chairman**

Mr Gupta comes from a very successful industrial and business family and has applied his background and experience to grow the trading business globally. He traded various commodities in Asia, Middle East, Europe and Africa, establishing and developing the Liberty brand and its global network. Since 2000, Mr Gupta's focus has been on growing the trade in steel, metals and raw materials while developing the industrial asset base of the Group. Mr Gupta graduated from Cambridge in 1995 and was awarded his Masters from Trinity College Cambridge.

Mr Jay Hambro, Chief Investment Officer

After graduating in business management, Mr Hambro began his career in resource finance with NM Rothschild & Sons, before moving to the investment bank of HSBC. He then joined what is now the Petropavlovsk plc group before spearheading the development of their industrial commodity divisions as CEO of Aricom plc (FTSE listed) and more recently as Chairman of IRC Limited (HKEx listed). Mr Hambro joined GFG Alliance in January 2016 with a remit of growing the worldwide interest of SIMEC as well as leading the development of the Group's property and financial arm.

LIBERTY HOUSE GROUP

Liberty House Group is a steel products company founded in the UK in 1992 by Sanjeev Gupta while studying at Cambridge University. The company is part of the Gupta Family Group Alliance which also runs SIMEC (Shipping, Industrials, Mining, Energy & Commodities) and GFG Investments. Originally based on selling chemical products to Nigeria, Liberty consolidated its focus into metals and steel trading in 2005. The group comprises of Liberty Commodities (delivering innovative trade and supply chain solutions, including finance options) and Liberty Industries Group (integrated steel manufacturer and distributor). Liberty House Group operates in over 30 countries and employs approx. 3,000 people globally, with a current estimated turnover of \$4.3bn / £3.25bn.

Strategic Objectives

Liberty's strategic vision focuses on its "Green Steel" agenda. It has three broad objectives to ensure the UK steel market:

- **Produced in the UK from UK materials** - almost 80% of steel products imported and almost 100% of iron ore and coal imported. Green steel aims to move the industry to 100% manufactured in the UK from scrap steel using only local energy sources.
- **Manufactured from Green Power** - UK imports 60% of energy-generation fuel. Green steel uses low cost, local energy sources (biomass conversions, tidal lagoon power) to create large scale solutions for energy usage.
- **Adding value to the UK economy** - creating UK based engineering jobs, growing UK innovation & technology and placing UK steel back into the centre of UK manufacturing.

BACKGROUND

The Lochaber aluminium complex is the UK's last remaining aluminium smelter (the bulk of the UK's aluminium demand is met by imports) and the operation is a key component of Scotland's industrial capability and a major source of employment in the West Highlands. Although relatively small by global standards the smelter has benefitted from recent investment and its carbon emissions are significantly lower than the global average.

In September its owners Rio Tinto decided to sell its Lochaber business and entered into exclusive commercial negotiations with a preferred bidder (the GFG Alliance) these negotiations have now successfully concluded. The sale comprises of three elements – the aluminium smelter at Fort William, two hydro power stations (Fort William and Kinlochleven) and extensive estate lands (c.115,000).

While the business as a whole is profitable RTA had considered options to dispose of the assets separately. The Government's focus was to avoid the fragmentation of the Lochaber complex, to secure the long-term viability of the aluminium smelter and to realise further industrial and employment opportunities on site. Total employment of the combined Rio Tinto operation is significant, supporting 306 jobs in Scotland – the majority of whom receive wages higher-than-average for the region (averaging £33,000 per FTE, compared with the Highlands and Islands average of £23,253 for all jobs and £29,627 for all full time jobs).

If RTA had not secured a buyer for its entire Lochaber operation as a going concern, the Government understood the present owner would have operated the smelter for a further 5 to 7 years – taking stranded power from the hydro until sufficient capacity was in place to export power from Fort William to the national grid.

Basis of Government Support

The Scottish Government recognised that the smelter presented a more challenging commercial prospect than the hydro power stations alone. This had to be factored into capital raising considerations for any purchaser with plans to own and develop the Lochaber complex in its entirety as a going concern

To enhance options that preserved the integrity of the current configuration – and reinforce the essential link between the smelter and hydro at Fort William – the Government signalled in September a willingness to support any purchaser who would make the necessary commitment to the local community in relation to employment, industry and sustainable development. The offer included the potential to guarantee the power purchase obligations of the aluminium smelter.

The Government's offer was made known on an even-handed basis to all short-listed bidders and communicated with the full knowledge and support of the vendor RTA.

Rationale for intervention

The Government's readiness to consider options for support springs from its commitment to Scotland's industrial and commercial infrastructure and its ambitions for sustainable economic growth as outlined in the Government Economic Strategy,

the Manufacturing Action Plan and Labour Market Strategy. Ministers' strong preference was for the Lochaber complex to remain intact and to continue in operation for the long-term with further industrial and economic development activity stimulated on site.

Scotland's industrial sector boosts national productivity, sustains high-skilled and well-paid employment and produces positive local and national economic spill-over effects and supply chain linkages. The continued operation of the smelter and further downstream investment on-site would provide a critical manufacturing anchor in Lochaber, with opportunities for further related development in the local and national economy.

Intervention in this case was also consistent with the Government's low-carbon economy ambitions, for example: (i) the aluminium produced at Fort William is derived from renewable energy; (ii) the aluminium produced can be used in downstream manufacturing where it often displaces other metals with higher carbon intensities, this is particularly so in the automotive sector; and (iii) aluminium is a nationally strategic metal and a form of stored energy as the metal can be constantly recycled (using only 5% of the power required to smelt it). The Fort William smelter produces amongst the greenest aluminium in the world – emitting up to five times less CO₂ than that produced by coal-fired stations, which forms the majority of the world's aluminium supply.

Guarantee

The guarantee agreed with the GFG Alliance involves the Government standing behind the power purchase obligations of the aluminium smelter at Fort William in the event that the smelter's expected new owner, Liberty House Group, could not pay for the power the smelter is contracted to take from the Fort William hydro power station

The purpose of the power purchase agreement and guarantee is:

- a) to ensure long-term predictable energy costs for the smelter (via a 25-year contract for renewable power);
 - b) to provide revenue certainty to the hydro asset owner;
 - c) to reduce the risk of stranded power arising from early closure of the smelter;
- and
- d) to underpin a strong funding package to help retain the integrity of the Lochaber complex

The Finance and Constitution Committee approved the Government's offer of support in the form of a guarantee of the smelter's power purchases on the 22 November 2016.