Project Golf – [redacted]

22 November 2016

We have considered [redacted] had highlighted the look through to the underlying transaction as a possible [redacted] We have also considered the points raised in his subsequent email dated 20 November 2016 (18.10) to DG Economy and his comments at our meeting on 21 November 2016.

We understand that [redacted]

With this in mind, there are a number of key commercial terms to the transaction in respect of ScotGov acting as a guarantor of project debt and for ease of reference these are summarised below:

1) [redacted]

2) [redacted]

3) [redacted]

4) The guarantee fee has been calculated on a commercial basis and the exposure of the guarantor can be measured.

5) [redacted]

   - [redacted]

   - [redacted]

[redacted]

[redacted]

6) [redacted]

7) [redacted]

8) In calculating the fee we have considered the present value of future cash-flows and [redacted]

9) [redacted]

[redacted] however, in considering the security package, conditions and undertakings, the key elements which we understand are either agreed or are under negotiation which we would expect to be included in a commercial transaction include:

- Fixed and floating security over the hydro and smelter – the key asset being the hydro
- Parent company guarantees
- Undertaking from the parent to fund future losses of the smelter
- Clear events of default and a narrow cure period in line with other commercial transactions
- Comfort – whether via control or escrow- that the funds raised are used for the purpose intended
- Requirement for a robust detailed business plan to be provided
- Regular monitoring of trade performance
- Equity investment
- An appropriate legal structure for the transaction

[redacted]

[redacted] t is our view that SIMEC/Liberty could shorten the time in which a robust business plan is produced, say by 31 January 2017 [redacted]

[redacted] reflecting the points above and providing the protections expected in a commercial transaction, it is our view that the transaction elements are proposed on a commercial basis for the guarantee.

Transmittal points below should be read in conjunction with this note.

Basis on which comment is made:

In accordance with our proposal dated 4 October 2016, Letter of Appointment of the same date and email between [redacted] *and* [redacted] *dated 25 October 2016, we have undertaken due diligence on the proposal by SIMEC and Liberty on behalf of Scottish Government, which forms part of the transaction whereby the Group is bidding to purchase the Rio Tinto owned Hydroelectric Power Plant ("the power plant") and Aluminium Smelter ("the smelter") at Lochaber ("the transaction") as part of a Consortium bid for the entire Scottish assets owned by Rio Tinto.*

This Paper was prepared on your specific instructions solely to assist you in connection with due diligence on the proposed guarantee linked to the acquisition of the assets owned by Rio Tinto at Lochaber and should not be relied upon for any other purpose. Because others may use it for different purposes, this paper should not be quoted, referred to or shown to any other party (other than your professional advisers acting in that capacity in connection with assessing the transaction provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. Ernst & Young LLP assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to parties other than the Scottish Government. If other parties choose to rely in any other way on the contents of this Paper they do so entirely at their own risk.

[redacted]

[redacted]

[redacted]

Project Golf II

Final report

15 December 2016

Building a better
working world

Contents

Section 1

Key findings

Key findings

- Subject to agreed financing documentation including a final form PPA, PPA guarantee, final security documentation, parent company guarantees and conditions and undertakings committed to by SIMEC/Liberty being fulfilled, we can conclude, based upon work performed to date that there is:
  - An agreed financial model (v101 21 November 2016) and PPA terms;
  - A guarantee fee which works on a market basis;
  - The basis of a robust security and undertakings package;
  - Forecasts which indicate a viable future for the smelter (subject to the points below);
  - MEIP and State Aid compliance; and
  - A benefit cost ratio of the economic benefit of the proposed transaction and a demonstration of Value for Money.
- Further details of our key findings from our review are set out on the subsequent pages. At Appendix B, we have set out points for consideration which would provide additional comfort to ScotGov, together with our understanding of their inclusion in legal documentation.

Key findings

Consideration	Conclusions
Smelter viability	The forecasts received show the **smelter business to be viable over the 25 year period**. [redacted] [redacted] [redacted] In addition, a requirement for a detailed business plan to be completed and presented by 30 June 2017 has been included within the legal documentation. For the purposes of this paper, we have assumed that the project is viable, however, ScotGov will need to give consideration to what happens in the event that the detailed plan is not viable based on reasonable assumptions. We note that this would be an event of default under the GRA.
PPA Structure	The PPA is a fixed price 25 year PPA [redacted]
Guarantee	The Guarantee is granted in favour of SIMEC in respect of the obligations of Liberty to make payments in respect of energy used under the terms of the PPA. The Guarantee can be called upon on a quarterly basis in respect of amounts due and unpaid. [redacted] [redacted]

Key findings

Consideration	Conclusions
Market Economy Investor Principle (MEIP) and State Aid	We have considered whether the project demonstrates an adequate return on investment and whether in similar circumstances, a private [redacted] having regard to the foreseeability of obtaining a return would have invested in this project. Liberty/SIMEC are committed to providing equity of [redacted] IRR for both the hydro and smelter is commensurate with the nature of the assets and is in line with market expectations. Our analysis is detailed on pages 38-40. In terms of State Aid we have considered four tests: 1) Whether the borrower is a firm in difficulty 2) The extent that the guarantee can be properly measured 3) The guarantee does not cover more than 80% of the outstanding loan or financial obligation 4) Whether the price paid for the guarantee is market oriented We have had to make a number of assumptions in considering each of these areas. Based on our analysis, the overall transaction is based on commercial principles and a market-oriented fee will be charged by ScotGov for the guarantee.
Value for Money	We have considered three elements in respect of value for money: quantum (both in terms of level of debt support and associated pricing), economic output and the benefit cost ratio (BCR). [redacted] [redacted] Based on current information, we have assessed that the BCR will be greater than 1, that is, the forecast benefits are greater than the costs which could arise in the event of a default.

Section 2

Overview

Overview of the transaction

[redacted]

Section 3

Smelter viability

[redacted]

[redacted]

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Section 4

ScotGov Intervention

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Section 5

Proposed PPA considerations

Comparison of the proposed PPA

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Section 6

Guarantee

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Section 7

MEIP

Market Economy Investor Principle and State Aid Guidance

Introduction

The purpose of this section is to review the transaction details and comment on the key matters relating to State Aid. This will include:

- Review of this transaction in relation to the Market Economy Investor Principle; and
- Consideration in relation to the provision of the guarantee with reference to State Aid SME guidance *Commission notice on the application of Articles 87 and 88 of the EC Treaty to State Aid in the form of guarantees*.

Market Economy Investor Principle:

- In this section we consider the proposal for a ScotGov guarantee with reference to the MEIP. Any support made by ScotGov must be MEIP compliant. The application of MEIP requires analysis of the financial and economic position of the project, taking account of the level of capital investment, the risk profile, the profitability and the future return on investment. It is not sufficient to merely demonstrate that a project generates enough income to cover its ongoing revenue costs.
- A viable project will need to demonstrate an adequate return on the full investment. At its most basic, the test for MEIP is whether in similar circumstances a private shareholder, having regard to the foreseeability of obtaining a return and leaving aside all social, regional-policy conceptual considerations would have subscribed the capital in question.
- We view the requirement of equity to be a commercial fundamental to the project as well as a way to demonstrate that private investors would provide the venture with capital from a MEIP perspective. At 21 November 2016, the agreed sources and use of funds and capital structure is as follows

[redacted]

Market Economy Investor Principle

- [redacted]
- [redacted]

[redacted]

Market Economy Investor Principle

- [redacted]
- [redacted]

[redacted]

State Aid Guidance – provision of guarantees

Introduction

- ScotGov has requested that we review the provision of the guarantee with reference to the State Aid SME guidance *Commission notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees*. Based on this guidance there are four tests to consider to satisfy the State Aid test.
- The guarantee will fall under the State Aid guidance “Commission notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees”. The four tests are:
  1. The borrower is not in financial difficulty.
  2. The extent of the guarantee can be properly measured when it is granted.
  3. The guarantee does not cover more than 80% of the outstanding loan or other financial obligation.
  4. A market-oriented price is paid for the guarantee.

  These are considered in turn below.

Condition 1: The borrower is not in financial difficulty

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

State Aid Guidance – provision of guarantees

[redacted]

- [redacted]
- [redacted]

- [redacted]
- [redacted]
- [redacted]

► In summary, this is not considered to be a firm in difficulty.

State Aid Guidance – provision of guarantees (cont.)

Condition 2: The extent of the guarantee can be properly measured when it is granted

- This condition requires the guarantee to be linked to a specific financial transaction, for a fixed maximum amount and limited in time. We consider this condition to be met as the proposed guarantee is based on a defined incomed stream set out in the PPA and for 25 years. Therefore the exposure can be calculated as the present value of the future cashflows. [redacted]

Condition 3: The guarantee does not cover more than 80% of the outstanding loan or other financial obligation

- This condition requires the guarantee to only relate to up to 80% of the financial obligation. This principle is important in the context that if a financial obligation is wholly covered by a State guarantee, the lender has less incentive to properly assess, secure and minimise the associated risks.

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]

State Aid Guidance – provision of guarantees (cont.)

- [redacted]

[redacted]

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[redacted]

- [redacted]
- [redacted]

State Aid Guidance – provision of guarantees (cont.)

[redacted]

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- [redacted]
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  - [redacted]
- [redacted]

[redacted]

- [redacted]

State Aid Guidance – provision of guarantees (cont.)

- [redacted]

[redacted]

- [redacted]

EY Summary

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Section 8

Value for money

Economic Output

[redacted]

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  - [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]

Economic Output (2)

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  - [redacted]
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- [redacted]

[redacted]

- [redacted]

Cost Benefit Analysis

- In order to assess the impact to the public sector, we need to assess the benefit cost ratio (BCR) of the transaction. The BCR will be calculated on the PPA guarantee. As this is a guarantee, the actual call on ScotGov under the guarantee is unknown, therefore we have run a number of scenarios to illustrate the potential impact to ScotGov. These scenarios are:
  - [redacted]
  - [redacted]
  - [redacted]
- In reality, there may be other scenarios which ScotGov may wish to consider. The following assumptions are made as part of this scenario:
  - Guarantee fee has been excluded from the analysis as based on the economic impacts.
  - The smelter continues to be operational.
  - There is no export available to the grid on the basis that the smelter continues to be operational.
  - The NPV of the benefits and associated costs are discounted using the real rate per Green Book guidance of 3.5%, adjusted for inflation where required.
- For the benefit to the public sector, we have assumed the re-worked economic benefits, as described on the previous slide, are prevalent throughout the 25 year period.

Results

- [redacted]

[redacted]

- [redacted]

EY summary

- [redacted]
- [redacted]

Appendix A

Transmittal letter

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Scottish Government
Atlantic Quay
150 Broomielaw
Glasgow
G2 8LU
FAO [redacted]

15 December 2016

Dear Sir/Madam

Financial Advisory Support for Scottish Government of proposal from SIMEC Group (SIMEC) and Liberty House Group (Liberty) (together "the Group") under Consultancy One Framework RM1502

In accordance with our proposal dated 4 October 2016, Letter of Appointment of the same date and email between [redacted] and [redacted] dated 25 October 2016, we have undertaken due diligence on the proposal by SIMEC and Liberty on behalf of Scottish Government, which forms part of the transaction whereby the Group is bidding to purchase the Rio Tinto owned Hydroelectric Power Plant ("the power plant") and Aluminium Smelter ("the smelter") at Lochaber ("the transaction") as part of a Consortium bid for the entire Scottish assets owned by Rio Tinto.

Purpose of our report and restrictions on its use

This report was prepared on your specific instructions solely to assist you in connection with due diligence on the proposed guarantee linked to the acquisition of the assets owned by Rio Tinto at Lochaber and should not be relied upon for any other purpose. Because others may use it for different purposes, this report should not be quoted, referred to or shown to any other party (other than your professional advisers acting in that capacity in connection with assessing the transaction provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. Ernst & Young LLP assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to parties other than the Scottish Government. If other parties choose to rely in any other way on the contents of this report they do so entirely at their own risk.

Scope of our work

In addition to the scope set out in our draft report dated 19 October 2016, and in accordance with the email between [redacted] nd [redacted] dated 25 October 2016, our work for the purposes of this review has encompassed the following:

[redacted]

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ey.com

We have not been asked to make a recommendation regarding the proposed support by Scottish Government, by provision of a guarantee, but have been asked for our comments for consideration in the decision making process.

We have not been asked to comment on the value of the hydro asset and the smelter and for the purposes of this report have assumed that the value is the bid price.

We have not been asked to consider pension matters in this phase of work.

We have not been asked to perform work on tax implications in this phase of work.

Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based solely on a review of accounts and other documents available on the Rio Tinto database.

Basis of our work

[redacted]

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[redacted]

LIMITATIONS ON THE SCOPE OF OUR WORK

Our work has been limited for the following reasons:

- [redacted]

Structure of the report

The report is divided into 8 sections. We stress that, whilst we have identified in the summary and conclusions key issues based on your instructions, there may nevertheless be other issues raised in the appendices and therefore the entire report should be read for a full understanding of our findings and advice.

We would welcome the opportunity to discuss the contents of this report with you and to provide you with such further information as you may require.

Yours faithfully

For and on behalf of Ernst & Young LLP

[redacted]

Appendix B

Points for consideration

Appendix B – Points for consideration

[redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]

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Appendix C

Abbreviations

Appendix C – Abbreviations

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Appendix C – Abbreviations (Cont.)

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[redacted]	[redacted]

Appendix D

Parent company guarantees

Gupta Family Group Alliance (GFG)

[redacted]

Overview of GFG

- The Liberty and SIMEC group companies are wholly owned by Parduman K Gupta (father) and Sanjeev K Gupta (son) under the principles and values of the GFG Alliance. Its main focus is to create a resilient supply chain - from liquid steel produced from recycled scrap and renewable energy, to rolled steel and highly engineered products manufactured locally on a global basis.

[redacted]

[redacted]

[redacted]

Guarantees from SIMEC Group Ltd and Liberty House Group Ltd [redacted]

[redacted]

[redacted]

[redacted]

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Guarantees from SIMEC Group Ltd and Liberty House Group Ltd [redacted]

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Appendix E

Economic Calculations

Economic Impact Assessment

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Phase 1a – Review of Economic Benefits Calculations

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Further Assumptions and Sensitivity Analysis

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Appendix F

Accounting for the guarantee

Appendix F – Accounting for the guarantee

Recording the Guarantee in the Scottish Government's financial statements

- This section comments on how ScotGov may determine the amount it should record in its Statement of Financial Position for the Guarantee. The section gives guidance on the underlying principles that ScotGov may adopt in measuring the Guarantee. Since ScotGov accounts under the interpretation of International Financial commenting Standards (IFRS) in the HM Treasury Financial commenting Manual for 2016-17 (FReM), this guidance follows that interpretation. The guidance is subject to the limitations at pages 73 and 74 and follows a request from ScotGov on or around 9 November 2016 and subsequent discussion with ScotGov. The comment does not apply any additional information beyond that which the rest of this Appendix F applies. In addition, if the actual legal agreements governing the Guarantee when the parties finally implement it differ to this information, the section's guidance may no longer be valid.

ScotGov's accounting for the Guarantee

- Our discussions with ScotGov indicate that ScotGov has reached a view that it should record the Guarantee in its financial statements as a financial guarantee contract under International Accounting Standard 39: Financial Instruments: Presentation and Measurement (IAS 39). The FReM applies IAS 39 with no changes or adaptations for the public sector.
- IAS 39 defines a financial instrument as any contract that gives one entity a financial asset and another entity a financial liability. IAS 39 also defines financial guarantee contracts as arrangements requiring the guarantee's issuer to pay amounts due under a specific debt instrument when and to the extent that the instrument's borrower fails to pay any such sums. ScotGov considers that the Guarantee meets this definition because it obliges ScotGov to pay cash to SIMEC when there are any short falls in fixed payments under the PPA not met from other sources; since the PPA is in substance an unconditional obligation on Liberty to pay cash to SIMEC, ScotGov considers it to be equivalent to a specified debt instrument.

Measuring the Guarantee

- IAS 39 provides that unless ScotGov determines that the Guarantee is an insurance contract (which this report assumes that it has not done), it should measure the Guarantee at the time it first records it on balance sheet at its fair value. This value is the amount that ScotGov would need to pay to transfer the contract to a third party on an arms-length basis. IAS 39 Paragraph AG4 (a) states that if an entity issues a financial guarantee contract on an arms-length basis to an unrelated third party, the entity should presume that this value equals the amount (if any) that it receives from the third party as a premium for the guarantee, unless there is strong evidence that this amount is not a reliable estimate of the financial guarantee contract's fair value. This guidance assumes that the third party pays an amount equal to the benefit it receives from the financial guarantee contract; in the case of the Guarantee, this amount would therefore equal the present value of the guarantee premium. ScotGov will therefore need to assess whether the guarantee premium's present value is an accurate estimate of the benefit that SIMEC receives for the Guarantee, and obtain agreement from its external auditor on this matter.
- Once ScotGov has determined the Guarantee's opening value, IAS 39 Paragraph 47(c) requires it to record the Guarantee in future years at the greater of the following two amounts:
  - The value it would apply under International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets (IAS 37); or
  - The opening value less any amortisation that ScotGov records under International Accounting Standard 18: Revenue (IAS 18).
- The table overleaf considers these measurement methods further

Appendix F – Accounting for the guarantee

Measurement basis	Discussion

IAS 37 Basis	► The FReM applies IAS 37 with no changes or adaptations, other than stating that if an entity needs to discount any cash flows, it must apply the HM Treasury real terms discount rate of 3.5% per annum, or 5.57% per annum if inflation is 2% per annum (this inflation matches that for the PPA energy price).
	► Of the three items that IAS 37 considers, it only requires entities to measure values on their Statements of Financial Position for provisions; under IAS 37, the other two items (contingent assets and contingent liabilities do not have measurable values. We therefore consider IAS 37's guidance on how to measure provisions.
	► IAS 37 Paragraph 25 states in effect that uncertainty should not stop entities from estimating provisions because estimation is integral to preparing financial statements and does not make them unreliable. This paragraph also presumes that entities will be able to estimate a range of outcomes except in extremely rare cases and so will normally be able to estimate a provision's value reliably.
	► IAS 37 Paragraphs 36 – 41 consider how to measure a provision; the basic principle is that this amount is the best estimate of how much the entity expects to pay to settle the obligation; this amount being what the entity would pay rationally to transfer the obligation to a third party. This amount therefore must factor in possible obligations in future years and it is not enough solely to measure the likely obligation within one year. Hence the feature of the Guarantee that it requires potential cash flows to support each quarter's payments under the PPA does not remove the need for ScotGov to consider obligations in future years. This is because meeting a shortfall in a quarter's PPA payment in a single year does not settle the obligation under the Guarantee in full because it will continue to require ScotGov to meet similar shortfalls in future years.
	► IAS 37 Paragraph 39 also makes clear that if there are a large number of potential obligations, entities should apply an 'expected value' by weighing the respective likelihoods of the potential obligations arising. The Guarantee has a potentially large number of obligations equal to shortfalls in all of the quarterly PPA payments and each of which will have varying present values depending on how far in the future each payment falls due.
	► In this case therefore, ScotGov will need to form a view on how likely PPA shortfalls are to occur over the Guarantee's term, along with the extent to which the other security measures within the Guarantee (including amounts from selling power to the National Grid) will reduce any such shortfall. It will then need to determine the weighted outcome of these various items, and discount that outcome to the balance sheet date in question applying the relevant real terms discount rate. The resulting ledger entries will therefore generate two opposing effects:
	    ► Increasing the Guarantee's value as the discount unwinds over the Guarantee term – ScotGov will charge this increase to profit and loss as a finance cost; and
	    ► Reducing the Guarantee's value as the Guarantee term passes and thus reducing the number of potential future obligations – ScotGov would credit these reductions to profit and loss as a finance benefit.

Appendix F – Accounting for the guarantee

Measurement basis	Discussion
IAS 18 Basis	► The FReM applies IAS 18 with no changes or adaptations. However beyond the statement in IAS 39, IAS 18 contains little or no specific guidance on financial guarantee contracts. We therefore suggest that IAS 18 provisions concerning long term service contracts are relevant. These are in IAS 18 Paragraphs 28 – 28 and in sum provide that entities recognise revenue in proportion to the extent to which the entity has provided the service. This “percentage of completion” approach suggests in turn that ScotGov provides the Guarantee in return for the guarantee premium on a straight line basis over the Guarantee term. This in turn leads us to suggest that ScotGov should match the cost to the revenue and so amortise the opening value on a straight line basis over the Guarantee term.

[redacted]

- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]

Comment Limitations – financial accounting review and comments

- ► Our comment on ScotGov’s accounting for the Guarantee falls under the limitations summarised below.
- ► This comment is advisory in nature; it is not an assurance comment or opinion, nor is it an audit, review, or other form of assurance, as the Auditing Practices Board identifies those terms. It therefore does not express any form of assurance on accounting matters, financial statements, or other financial information or internal controls.
- ► The comment does not provide a formal or second opinion on the application of accounting principles as defined in Section 230 of the ICAEW Code of Ethics for Professional Accountants. It does not provide any opinion as to whether DFID’s accounting policies comply with IFRS as implemented in the FReM. It does not constitute any legal opinion or legal advice.

Appendix F – Accounting for the guarantee

- We direct the comment solely towards addressing the matters stated within it. The issues raised or observations made cannot be considered exhaustive and that there is some risk that had ScotGov asked us to undertake a more extensive exercise, we might have identified other issues or make other observations that would be relevant . The comment's applicability will necessarily depend on the particular circumstances in which ScotGov implements it (of which we might not be aware) and should therefore be viewed accordingly.
- If ScotGov requires a formal written opinion representing the view of Ernst & Young LLP on a specific matter or if ScotGov has already received an opinion from its independent auditor on a specific matter and are asking us for a second opinion on the same specific matter, our firm's policy and professional ethical guidelines require us to consult ScotGov's independent auditor and obtain its acknowledgement of our engagement. If ScotGov denies us permission to consult its independent auditor or we do not get this acknowledgement, we would not be able to accept that specific engagement.
- Our work has excluded procedures to detect fraud or illegal acts, and to identify, address or correct any errors or defects in ScotGov's computer systems, other devices or components thereof ("Systems"), whether or not due to imprecise or ambiguous entry, storage, interpretation or processing or commenting of data. We will not be responsible for any defect or problem arising out of or related to data processing in any Systems.
- While we may provide observations and comments with respect to internal control matters, our observations and comments provide no assurance with respect to the effectiveness of internal controls or compliance with applicable laws and regulations.
- The comment is issued on the basis that the information applied herein is not final and hence if the financial support mechanism's commercial and financial terms subsequently change materially to those envisaged in the information referenced in the comment, any suggested accounting treatment in the comment may not be valid and may require updating.
- The comment is issued on the basis that it reflects IFRS as implemented in the FReM at the date of its issue. We have no obligation with respect to updating the comment for any changes in IFRS or other accounting standards and principles implemented in the FReM subsequent to the date of this comment's issue.
- Notwithstanding any advice or guidance in the comment, ScotGov is responsible for determining the appropriate accounting treatment in any particular case by reference to relevant laws, standards and regulations and ultimately this would be subject to agreement with its independent auditor. ScotGov is responsible for obtaining the concurrence of its independent auditor on the appropriateness of the accounting policies ScotGov selects and the related financial statement disclosures.
- ScotGov alone is responsible for establishing and maintaining adequate internal control over financial commenting and the Services do not replace its responsibility for establishing the effectiveness of internal controls. In addition, ScotGov may not rely on us to draw to its attention matters that may be relevant as to whether or not its system of internal control is effective.
- ScotGov will not, and will not permit others to, quote or refer to the comment, any portion, summary or abstract thereof, or to us or any other EY Firm, in any document filed or distributed in connection with (i) a purchase or sale of securities to which relevant securities laws apply ("Securities Laws"), or (ii) periodic commenting obligations under Securities Laws. ScotGov will not contend that any provision of any Securities Laws could invalidate any provision of this Agreement.
- ScotGov may provide the comment, subject to our consent, to its external auditor, solely to allow it to perform its duties as external auditor, and provided that ScotGov informs its external auditor that it does not acquire any rights against EY and EY does not assume any duties or obligations to ScotGov's external auditor or otherwise, as a result of such access.

Appendix G

Model extracts: 26-11-21 [redacted] Financial Model V101

Appendix G – Model extract

[redacted]

Appendix G – Model extract

[redacted]

Appendix G – Model extract

[redacted]

Appendix G – Model extract

[redacted]

[redacted]

Appendix H

SIMEC Group – Business Overview

Project Golf II

SIMEC Group – Business overview

15 December 2016

Building a better
working world

Contents

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London SE1 2AF

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Fax: +44 20 7951 1345
ey.com

Scottish Government
Atlantic Quay
150 Broomielaw
Glasgow
G2 8LU
FAO [redacted]

15 December 2016

Dear Sir/Madam

Financial Advisory Support for Scottish Government of proposal from SIMEC Group (SIMEC) and Liberty House Group (Liberty) (together "the Group") under Consultancy One Framework RM1502

In accordance with our proposal dated 4 October 2016, Letter of Appointment of the same date and email between [redacted] and [redacted] dated 25 October 2016, we have undertaken due diligence on the proposal by SIMEC and Liberty on behalf of Scottish Government, which forms part of the transaction whereby the Group is bidding to purchase the Rio Tinto owned Hydroelectric Power Plant ("the power plant") and Aluminium Smelter ("the smelter") at Lochaber ("the transaction") as part of a Consortium bid for the entire Scottish assets owned by Rio Tinto.

Purpose of our report and restrictions on its use

This report was prepared on your specific instructions solely to assist you in connection with due diligence on the proposed guarantee linked to the acquisition of the assets owned by Rio Tinto at Lochaber and should not be relied upon for any other purpose. Because others may use it for different purposes, this report should not be quoted, referred to or shown to any other party (other than your professional advisers acting in that capacity in connection with assessing the transaction provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. Ernst & Young LLP assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to parties other than the Scottish Government. If other parties choose to rely in any other way on the contents of this report they do so entirely at their own risk.

Scope of our work

This paper has been requested in addition to our draft reports dated 19 October 2016, 6 November 2016 and 1 December 2016, and in accordance with the email between [redacted] and [redacted] dated 29 November 2016.

Our work for the purposes of this paper has encompassed the following matters:

[redacted]

This paper should be read in conjunction with the Project Golf II final report dated 15 December 2016.

Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based solely on a review of accounts and other documents available through public records and analytical procedures applied to data provided to us.

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London SE1 2AF

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ey.com

Basis of our work

The financial information contained in this report has been based on the audited financial accounts of Hong Kong-based company SIMEC Group Limited for the year ended 30 November 2015, along with forecasts, management accounts and other relevant information provided by management. [redacted]

No letter of representation has been sought from management to confirm the factual accuracy of the contents of the report and our key findings and, accordingly, the report is issued on a draft basis only.

LIMITATIONS ON THE SCOPE OF OUR WORK

Our work has been limited for the following reasons:

- Limited detailed financial information available through public records due to residency of companies e.g. in Singapore and Hong Kong
- Limited detailed supporting assumptions in relation to forecasts

.

Structure of this report

The report is divided into 4 sections. The first section comprises our summary and conclusions; the second and subsequent sections comprise management, business and financial overviews, and appendices. We stress that, whilst we have identified in the summary and conclusions key issues based on your instructions, there may nevertheless be other issues raised in the appendices and therefore the entire report should be read for a full understanding of our findings and advice.

We shall be pleased to discuss the contents of this report with you and to provide you with such further information as you may require.

Yours faithfully

For and on behalf of Ernst & Young LLP

[redacted]

Executive Summary

Background

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted].

[redacted]

[redacted]

[redacted]

Gupta Family Group Alliance (GFG)

[redacted]

[redacted]

[redacted]

[redacted]

SIMEC Business Overview

[redacted]

SIMEC Industry (Industry)

[redacted]

SIMEC Group Limited– Financial Overview (Consolidated)

[redacted]

[redacted]

[redacted]

SIMEC Group Limited– Financial Overview (Consolidated)

SIMEC

[redacted]

SIMEC Commodities – Commodity Price Analysis

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted] 19

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

SIMEC Commodities – Commodity Price Analysis

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

- [redacted]
- [redacted]
- [redacted]
  - [redacted]
- [redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

Appendix 1 - Sources

Source List:

1. SIMEC Group Limited audited financial statements 2014, 2015, management accounts to 31 May 2016 and SIMEC Group forecast at 2 September 2016
2. ICC - Companies House
3. Capital IQ
4. GIS
5. LinkedIn
6. Factiva

Note: as listed above, despite being limited to publicly available information, we have utilised a number of sources to inform our report. This has included a comprehensive search of press articles, EY knowledge repositories, directors and company documentation from Companies House, and alternative media resources such as LinkedIn. We have also obtained financial information through direct purchase from the Singaporean registrar, and have contacted various personnel within EY (including but not limited to EY Singapore) to obtain further background information on SIMEC and its executive team.

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Ernst & Young LLP

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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Appendix I

Liberty Group – Business Overview

Project Golf II

Liberty Group – Business overview

15 December 2016

EY

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Contents

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Scottish Government
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Glasgow
G2 8LU
FAO [redacted]

15 December 2016

Dear Sir/Madam

Financial Advisory Support for Scottish Government of proposal from SIMEC Group (SIMEC) and Liberty House Group (Liberty) (together "the Group") under Consultancy One Framework RM1502

In accordance with our proposal dated 4 October 2016, Letter of Appointment of the same date and email between [redacted] and [redacted] dated 25 October 2016, we have undertaken due diligence on the proposal by SIMEC and Liberty on behalf of Scottish Government, which forms part of the transaction whereby the Group is bidding to purchase the Rio Tinto owned Hydroelectric Power Plant ("the power plant") and Aluminium Smelter ("the smelter") at Lochaber ("the transaction") as part of a Consortium bid for the entire Scottish assets owned by Rio Tinto.

Purpose of our report and restrictions on its use

This report was prepared on your specific instructions solely to assist you in connection with due diligence on the proposed guarantee linked to the acquisition of the assets owned by Rio Tinto at Lochaber and should not be relied upon for any other purpose. Because others may use it for different purposes, this report should not be quoted, referred to or shown to any other party (other than your professional advisers acting in that capacity in connection with assessing the transaction provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. Ernst & Young LLP assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to parties other than the Scottish Government. If other parties choose to rely in any other way on the contents of this report they do so entirely at their own risk.

Scope of our work

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

Building a better working world

Ernst & Young LLP
1 More London Place
London SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

Basis of our work

[redacted]

LIMITATIONS ON THE SCOPE OF OUR WORK

Our work has been limited for the following reasons:

- Limited detailed financial information available through public records due to residency of companies e.g. in Singapore
- No supporting information relating to the security charges listed for LHG

.

Structure of this report

The report is divided into 4 sections. The first section comprises our summary and conclusions; the second and subsequent sections comprise management, business and financial overviews, and appendices. We stress that, whilst we have identified in the summary and conclusions key issues based on your instructions, there may nevertheless be other issues raised in the appendices and therefore the entire report should be read for a full understanding of our findings and advice.

We shall be pleased to discuss the contents of this report with you and to provide you with such further information as you may require.

Yours faithfully

For and on behalf of Ernst & Young LLP

[redacted]

Executive Summary

[redacted]

- [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Liberty Executive Management

[redacted]

Liberty House Group Pte Limited - business overview

[redacted]

[redacted]

- [redacted]

- [redacted] industrial foot print in the UK, would [redacted]
- [redacted]
- [redacted]
- [redacted]

[redacted]

Liberty House Group Pte Limited – financial overview (consolidated)

[redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

Appendix 1 - Sources

[redacted]

Note: as listed above, we have utilised a number of sources to inform our report. This has included a comprehensive search of press articles, EY knowledge repositories, directors and company documentation from Companies House, and alternative media resources such as LinkedIn. We have also obtained financial information through direct purchase from the Singaporean registrar, and have contacted various personnel within EY (including but not limited to EY Singapore) to obtain further background information on Liberty and its executive team.

Appendix 2 - Sanjeev Gupta Directorships

[redacted]

[redacted]

[redacted]

[redacted]

Appendix 2 - Sanjeev Gupta Directorships

[redacted]

[redacted]

[redacted]

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Ernst & Young LLP

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STRICTLY CONFIDENTIAL

Fergus Ewing
Cabinet Secretary for the Rural Economy and Connectivity

22nd November 2016

Dear Fergus,

Commitment of the GFG Alliance to Lochaber

[redacted]

[redacted]

[redacted]

[redacted]

Government guarantee

- To provide assurance that a government guarantee strikes the right balance of benefits against risks, the companies in the GFG Alliance will offer a comprehensive security package over the Lochaber assets and a range of other risk mitigants, conditions and guarantees to protect the Government's long-term interests.
- The proposed guarantees shall be subject to Scots law and to the jurisdiction of Scottish courts.
- [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

[redacted]

[redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted]

[redacted] [redacted]

[redacted] [redacted]

[redacted]

[redacted]

Yours sincerely,

[redacted]

Sanjeev Gupta
Executive Chairman,
Liberty House Group Pte Ltd

cc. The First Minister of Scotland

From: [Redacted] **On Behalf Of** Strategic Industrial Projects
Sent: 16 January 2018 17:21
To: Cabinet Secretary for the Rural Economy and Connectivity <CabSecREC@gov.scot>
Cc: McAllan M (Mary) <Mary.McAllan@gov.scot>; Rollison R (Richard) <Richard.Rollison@gov.scot>; DG Economy <DGEconomy@gov.scot>; [Redacted] <[Redacted]@gov.scot>; [Redacted] <[Redacted] @gov.scot>; [Redacted] <[Redacted] @gov.scot>; Higgins K (Kate) <Kate.Higgins@gov.scot>; [Redacted] <[Redacted]@gov.scot>; Chief Financial Officer <cfo@gov.scot>; DG Scottish Exchequer Mailbox <DGScottishExchequer@gov.scot>
Subject: RE: OFFICIAL-SENSITIVE: COMMERCIAL - Expected Liberty acquisition

PS/Cab Sec

I now add some additional detail to the second part of my note below concerning Moody's rating of the debt security backed by SG's Lochaber guarantee. This is for information only; it may be of particular interest to Finance colleagues.

The email attached is from Moody's and it shows the rating and rationale for that rating. The Lochaber note is entitled 'Lagoon Park Capital SA' and it is valued at £294,687,404.

This is now a public rating (since 22 December) and it is possible Moody's published info (plus Greensill's media http://www.greensill.com/media-news/moodys-assigns-aa2-rating-notes-issued-lagoon-park-capital-sa) will attract attention.

Moody's rating mentions the guarantee of Scottish Ministers and reports the rating as "stable" and notes that the rating could change in the event of constitutional change. For example, it says:

> "Moody's considers that the Guarantee generally displays characteristics of a strong guarantee agreement. In particular, i) the Scottish Ministers irrevocably and unconditionally guarantees payment, ii) payments made under the Guarantee are expected to ensure full and timely payment to noteholders prior to the expiry of the ten day grace period in the Notes, iii) the Scottish Ministers may not assign or transfer the Guarantee, iv) the Guarantee term extends beyond the final maturity under the Notes, v) the Scottish Ministers have waived defences and vi) the Scots Law legal opinion opines that the obligations of the Scottish Ministers under the Guarantee constitute the legal, valid, binding and enforceable obligations of the Scottish Ministers."
>
> "WHAT COULD CHANGE THE RATING UP/DOWN
>
> The rating is fundamentally linked to that of the UK Government. Any change in the rating of the UK Government would be expected to translate into a rating change on the Notes.
>
> **A rating downgrade may also follow 1) a change in the relationship between the Scottish Government and the Crown, resulting, for example, from Scottish independence** or 2) evidence that the arrangements that transfer the benefit of the IPUs and Guarantee to noteholders might not be effective."

Regards, [Redacted]

ATTACHMENT 4 OCT 2016
From: [Redacted]
Sent: 04 October 2016 19:10
To: Cabinet Secretary for the Rural Economy and Connectivity <CabSecREC@gov.scot>; Higgins K (Kate) <Kate.Higgins@gov.scot>; [Redacted] <[Redacted] @gov.scot>
Subject: RE: Urgent: Letter to the Finance Committee

[Redacted]

We spoke about this. Hope this helps.

[Redacted]

<u>Background to Mr Ewing's letter to Convener of the Finance Committee</u>

Mr Ewing is leading work on SG's engagement with Rio Tinto, the current owners of the Lochaber aluminium complex who wish to sell their UK businesses. SG has offered a letter of intent to support any bidder for the assets who will protect the 150 or so current jobs at the Fort William smelter and bring about further on site manufacturing of aluminium products. Liberty House – the company that last week reopened the Dalzell steel plate mill – has requested that SG offer a guarantee to underpin their bid to buy the smelter and create upwards of 300 new jobs at Fort William.

In order that Ministers can form an informed view of Liberty's proposals, officials have commissioned external consultancy services from Ernst & Young to explore a possible guarantee for Liberty to underpin the long-term operation of the smelter and encourage new investment. Mr Mackay approved this consultancy work on Friday. Finance officials have advised that before any guarantee that creates a contingent liability can be offered by Ministers, the express prior approval of the Finance Committee is necessary (as mentioned in [Redacted]'s submission to Mr Mackay at Annex B).

The sellers RTA are driving the timescales here (SG has no control of that) and they have impressed on SG that any offer of a guarantee by Ministers must be progressed as quickly as possible, otherwise they will seek to conclude a sale with other parties who have a weaker focus on the smelter. In order to avoid any delay, Mr Ewing was keen to alert the Finance Committee to the potential for engagement post-recess. That engagement may not happen – and no decisions on potential financial commitment can be made until the due diligence is complete and discussions among Ministers have taken place – however the Cab Sec wanted to signal the potential for a Committee meeting now.

Mr Ewing met with senior managers in Rio Tinto today and wanted the letter to have issued by the time of the meeting as a signal of the Govt's desire to act at pace.

SCANCE Contribution

Scottish Government is exploring how best to secure its strategic economic objectives in relation to the Lochaber aluminium complex, including through the potential offer of a government guarantee.

Rio Tinto Aluminium (RTA) owns the last aluminium smelter in the UK and has sought bids for its purchase as part of a package of assets that includes two hydro power stations and substantial estate lands (c. 115,000 acres) with potential for community ownership. To our knowledge, only one bid (the one from Liberty House) includes plans to keep the smelter open long-term and develop additional downstream metals processing activity on site. The First Minister has spoken with the Chief Executive of RTA to explain the Government's preference for a purchase that secures existing employment and enhances future economic development on site.

Under the direction of the Cabinet Secretary for the Rural Economy officials are working to explore support options for the Liberty House proposals, and have offered equivalent support to any other bidder whose plans fit well with the Government's strategic objectives. This work may culminate in the offer of a government guarantee to assist the smelter operation and Ernst & Young have been engaged to provide expert external advice on that matter within the next fortnight.

Key personnel from RTA will be in Scotland tomorrow and will meet with the Cabinet Secretary to discuss the Government's objectives and RTA's process.

Speaking Note

[Redacted]