



Lochaber Scottish Government Guarantee Guarantee Management Meeting Report [DRAFT]

11 October 2018

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Deloitte LLP (“Deloitte”), is acting for the Scottish Government (“SG”) on the terms set out in the engagement letter dated 25 July 2017 (the “Engagement Letter”) in connection with the hydro generation and aluminium smelter business at Lochaber (the “Project”), for which SG has provided a financial guarantee. Deloitte will not be responsible to anyone other than SG for providing advice in relation to the Project.

This draft quarterly report (the “Report”) is based on financial information provided by GFG Alliance for the financial period to 31 March 2018 and information discussed at the Lochaber Guarantee Management Meeting (“GMM”) on 13 September 2018. Our work is in a draft state and remains subject to our internal review procedures. Accordingly the draft document’s provisional contents, views and conclusions may alter dependent upon our further work and consideration of the issues involved. Such alterations and amendments might be material to the provisional contents, views and conclusions.

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Executive Summary

Financial performance

For the period to 31 March 2018, there is [REDACTED], and their respective budgets for the year. This has been driven by the fact that budgets were set towards the end of Q1 2018.

For a more comprehensive analysis of financial performance, the 2018 calendar year budget for HydroCo and SmelterCo (actualised to Q1 2018) were compared with the Financial Close Model at December 2016, as presented by Liberty. After adjusting for the profit share between HydroCo and SmelterCo [REDACTED], [REDACTED] applied in response to an increase in the spot price for Alumina. [REDACTED]

Separately, the forecast results for HydroCo and SmelterCo provided by Liberty and sourced from their Project Financial Close model, referred to as the "Model", [REDACTED]

Alloy wheels factory

The specification of the alloy wheels factory project has progressed since June 2018, when Liberty shared information on the initial machinery and equipment tender progress with SG and Deloitte. This initial information suggested that few of the major work packages for equipment, necessary to manufacture alloy wheels, had been progressed to a detailed procurement stage. The meetings held with Liberty and its principle advisers in July 2018, and the information presented at the most recent GMM on 13 September 2018, demonstrate that significant progress has been made in tendering for factory equipment, factory design and building specifications, and development of the project team. In addition, Liberty have advised they are making progress in commercial discussions with UK car manufacturers to secure potential Original Equipment Manufacturer status "OEMs" for the Lochaber site. These discussions have been aided by the purchase of the alloy wheels factory in Chateauroux, through which Liberty has now purchased the skills and expertise to operate an alloy wheels factory and strengthened its position with UK car manufacturers.

Despite this progress, [REDACTED] and currently estimates the project cost will be [REDACTED]

In addition, Liberty has suggested that progress has also been limited due to the "optimisation" period that Liberty initiated in June 2018, without any formal agreement from SG. The purpose of this period is to review the optimal scale of the factory from a commercial perspective, and to decide whether the factory should be built to deliver a [REDACTED]. This ongoing period, now forecast to complete in Q1 2019, is delaying the finalisation of equipment tenders, factory design and progress with meeting planning conditions.

Key actions following the most recent GMM are:

- Liberty to advise what the conclusion of this "optimisation period" will look like;
- SG and Liberty to agree a process to assess and review the business plan being developed as part of the optimisation period, including understanding any impact that this might have on the Project or risks being taken by SG; and
- Liberty to confirm the financing available for the potentially larger investment required and the expected profitability of the new wheels factory.

Each of these will be reported upon at future GMMs, in line with timescales provided in Section 2 of this report.

Overall, the completion of the factory build is now envisaged to be Q1 2021, with full production to commence in 2023.

Financing structure

SG has requested information on the Project's financing arrangements. Analysis conducted by Deloitte, from information publicly available on Bloomberg, has indicated that [REDACTED], declared by Liberty and Simec, may have been raised with the support of SG guarantee. SG has confirmed to Liberty and Simec that understanding the financing structure of the Project remains a key requirement of SG. [REDACTED]

[REDACTED], however, Jay Hambro, the Chief Investment Officer of GFG Alliance, has now agreed to discuss this issue in person with representatives from Deloitte and SG.

Government Reimbursement Agreement ("GRA")

There have been no breaches of the GRA by Liberty to date. [REDACTED]

Actions from the most recent GMM on 13 September 2018 are listed in section 2 of this report and are currently in progress.

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1 Financial Performance

1.1 Summary

[REDACTED]
[REDACTED]
[REDACTED] from HydroCo to the SmelterCo, the [REDACTED]
[REDACTED]
[REDACTED] in response to an increase in the spot price for Alumina.

It should be noted that the results from the Liberty presented Model vary from the version of the Financial Close model which Deloitte received at the outset of this engagement. A one off reconciliation exercise will be performed by Liberty and Deloitte to identify any differences, which will be presented for review to SG.

1.2 Approach

GRA Requirement - 9.1.6: [REDACTED]
[REDACTED]

Status: Financial Statements for the period to 31 March 2018 were provided for the Obligors on 29 June 2018, within the 3 month window for provision of these accounts as per the GRA.

A comparison and review has been performed between the three month actual results to 31 March 2018 and the budget produced by Liberty for this same quarter for both HydroCo and SmelterCo. There appear to be no material differences. The reason for this, as explained by Liberty, is that budgets were produced during Liberty's budget process in March 2018, which coincides with the end of the SmelterCo financial year, at 31 March 2018. As a result, the budget for calendar year 2018 takes in to account actual results for the vast majority of the 3 months to 31 March 2018.

A further review was performed comparing the annual calendar year budgets (updated for the majority of the three month actuals to 31 March 2018), to the annual financial results from the Model. It was not possible to compare the three month actual results to 31 March 2018 to the Model, as the Model is built upon annual assumptions and results, rather than quarterly. Pro-rating the Model annual forecasts to quarterly would have provided inaccurate quarterly forecasts due to the seasonality of the entities, in particular HydroCo.

Appendix 1 provides a detailed analysis over the financial results of HydroCo and SmelterCo, with commentary on each significant movement.

1.3 Financial analysis summary

Summary actual results to 31 March 2018 against Budget

	SIMEC Lochaber Hydro + Holdco		Lochaber Smelter	
	Quarter to March 2018		Quarter to March 2018	
	Actual Q1 £m	Budget £m	Actual Q1 £m	Budget £m
Income Statement				
Revenue				
Costs				
EBITDA				
Depreciation				
Operating Profit				
Interest				
Pofit before tax				
Balance sheet				
Fixed assets				
Working capital				
Other net assets or liabilities				
Net current assets				
Cash and Cash equivalents				
Total Assets less Current Liabilities				
Non Current Liabilities				
Tangible Net Assets				

Source: GFG Alliance

Summary annual budget against Model

	SIMEC Lochaber Hydro + Holdco		Lochaber Smelter	
	Year To December 2018		Year To December 2018	
	Budget £m	Model £m	Budget £m	Model £m
Income Statement				
Revenue				
Costs				
EBITDA				
Depreciation				
Operating Profit				
Interest				
Pofit before tax				
Balance sheet				
Fixed assets				
Working capital				
Other net assets or liabilities				
Net current assets				
Cash and Cash equivalents				
Total Assets less Current Liabilities				
Non Current Liabilities				

Source: GFG Alliance

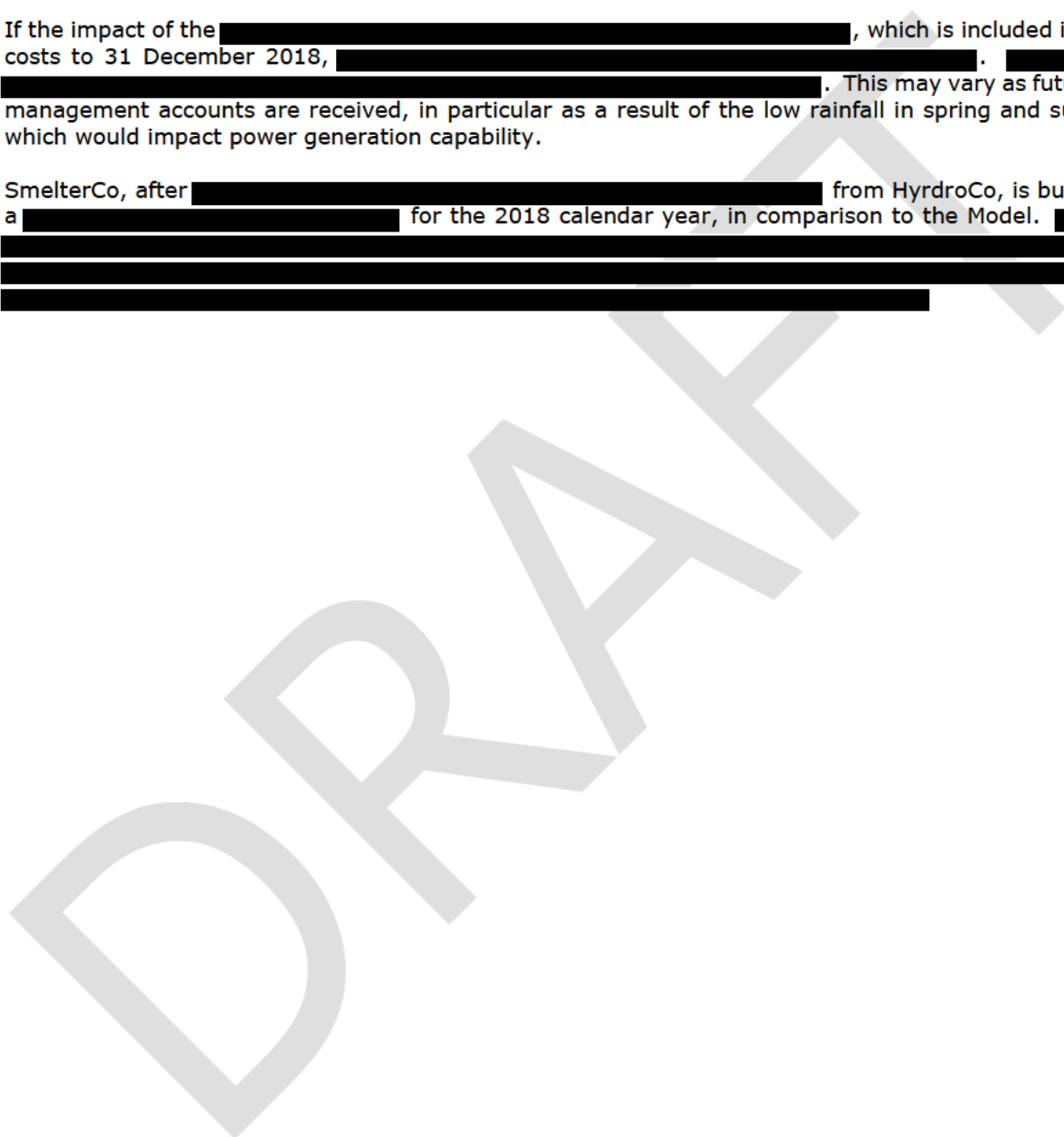
HydroCo and SmelterCo three month actual results to 31 March 2018 against budget.

There are no significant differences between the actual results to 31 March 2018 and budget, due to the timing of the budget exercise for both HydroCo and SmelterCo.

HydroCo and SmelterCo full year budget to 31 December 2018 against the Model.

The full year comparison between budget to 31 December 2018 – with updated actual results to Q1 2018 - and the Model, show:

- If the impact of the [REDACTED], which is included in the budget costs to 31 December 2018, [REDACTED]. [REDACTED]. This may vary as future quarterly management accounts are received, in particular as a result of the low rainfall in spring and summer 2018 which would impact power generation capability.
- SmelterCo, after [REDACTED] from HyrdroCo, is budget to have a [REDACTED] for the 2018 calendar year, in comparison to the Model. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]



2 GMM Actions

From the 25 actions agreed with Liberty at the GMM on the 11 May 2018 GMM, all actions have been completed, with the exception of the following:

- Reconciliation of the Model to the Financial Close Model at December 2016 held by Deloitte;
- Liberty to provide evidence of the [REDACTED]; and
- [REDACTED]

The above actions were discussed at the GMM held on the 13 September 2018 and are carried forward. The full list of actions from the most recent GMM, including the carried forward actions above, are detailed below, with a timeline for completion and owners of the actions. These actions are currently being progressed and ongoing updates are being provided to SG.

	Action	Date required	Owner
1.	SG (Dermot Rhatigan) to contact Jay Hambro to arrange a meeting on Lochaber / [REDACTED] financing in the [REDACTED] [REDACTED]	Meeting arrangements to be confirmed by 28/9	SG
2.	Timeline for optimisation period: when decision will be made, approved and documentation can be updated.	28/9	Liberty
3.	Define a list of materials needed for Deloitte and SG to review and approve an updated project / financing plan after the optimisation period has ended. In addition, provide timeline on SG's internal processes for approval.	19/10	Deloitte
4.	Organise a monthly catch up with Liberty (Brian King, [REDACTED] and [REDACTED]) and Deloitte, option for SG to join.	Meetings scheduled by 21/9	Deloitte
5.	[REDACTED] to confirm the Financial Close model to be used going forward and reconcile and approve [REDACTED] with SG.	[REDACTED] to confirm by 21/9, Deloitte to review for following GMM	Liberty and Deloitte
6.	Liberty to provide financial information to 30 June 2018.	28/9	Liberty
7.	Liberty report for the next GMM to include detail on alumina supply and the impact of sanctions. In addition, a current and forecast analysis on the rainfall for the HydroCo reservoir(s) and expected plan/timeline for full aluminium production capacity to be reached by the SmelterCo.	28/9	Liberty
8.	Date for the next GMM – October 2018. Date proposed to be 25 October 2018, 11am to 1pm.	Date to be proposed by 21/9	Deloitte
9.	Liberty to advise on the change in group structure of Lochaber Aluminium Limited, as per point 5 of the GMM agenda on 13 September 2018. An updated group structure to be provided.	28/9	Liberty
10.	Valuation call between Liberty and Deloitte for w/c 17 September 2018.	21/9	Deloitte
11.	Confirm use of [REDACTED] for the HydroCo.	28/9	Liberty
12.	SG to confirm procedure for consideration of [REDACTED] with regards to Jahama Highland Estates	28/9	SG
13.	Copy of technical accreditation from JLR to Alloy Wheels Plant in Chateaux Roux (not specifically asked for in the GMM on 13 September 2018, but will be useful for SG and Deloitte to review and confirm).	28/9	Liberty
14.	Confirmation of the acquisition of the Dunkirk smelter.	As complete	Liberty

3 Alloy wheels factory

Planning permission was granted for the Alloy Wheels on 31 January 2018 and Liberty has kept SG up to date on the progress being made through quarterly GMM meetings, interim updates, and site visits.

Since the last GMM on 11 May 2018, there have been a number of key developments in relation to the proposed alloy wheels Factory:

1. SG received documentation in relation to the construction and tender process for the Alloy Wheels Factory on 13 and 14 June 2018;
2. In July 2018, Deloitte and SG held meetings with Liberty [REDACTED] - [REDACTED] [REDACTED] - (together the "Advisors") in relation to the status of the project;
3. Liberty provided a progress update of the alloy wheels factory in the most recent GMM on 13 September 2018.
4. Liberty has [REDACTED] [REDACTED] Specifically, to review a preferred factory capacity of 2 million or 4 million wheels per annum. From the most recent GMM, Liberty stated the [REDACTED];
5. SG has suggested to Liberty they may appoint its own technical consultants to conduct a technical appraisal of the factory development, with a view to identifying factory progress and assisting Liberty in identifying and managing programme risks; and
6. Liberty continues to acquire businesses globally. In particular, Liberty has completed the acquisition of an alloy wheels factory in Chateauroux, France; providing Liberty with wheel manufacture capability and existing wheel supply contracts with key manufacturers such as [REDACTED] and [REDACTED].

Each of these is discussed in turn.

3.1 Tender documentation received on 13 and 14 June 2018

One of the actions from the previous GMM held on 11 May 2018, was for Liberty to provide supporting documentation to evidence progress in relation to the build of the alloy wheels factory. Brian King provided the requested documentation, a review of which identified the following:

- In total, 20 work packages were identified to have a fully operation factory: 19 for factory equipment and machinery, and one for the factory build.
- Of the 20 work packages: 1 package - the paint shop - was at stage 2 tender and 3 other work packages were at stage 1 tender. The remaining work packages had not reached tender stage.
- No specific information was received in regards to the factory build and it was assumed this was still in a design phase.

From the derived conclusions, it was agreed that Deloitte would meet representatives of the internal Liberty project team ("Project Team") and their Advisors to further review the progress of the alloy wheels factory project.

3.2 Alloy wheels factory meetings in July 2018

On 11 and 19 July 2018, SG and Deloitte conducted meetings with the Project Team and their Advisors.

The purpose of these meetings was to understand the work planned and progressed on the alloy wheels factory, with a particular focus on:

1. The implications of Liberty's consideration of factory capacity;
2. The timeframe for a new planning application, should Liberty conclude that they intend to progress a 4 million capacity factory as opposed to 2 million, for which they currently have conditional planning permission for; and
3. The implications of the latter points for the timing of capital expenditure and the start of factory production. Note: under the terms of the [REDACTED]

Summary of key insights from the meetings

The Advisers, along with the Project Team - led by Liberty's [REDACTED] - have demonstrably made significant progress in specifying the plant requirements and understanding its complexity. They have demonstrated a strong operational understanding of plant requirements, technical nuances and the interaction of operational variables. [REDACTED] has also clearly specified how the Project Team needs to grow and has 6 project roles specified and vacant, which he is pushing to fill. [REDACTED]

From the meetings, progress of the Project has specifically been made in relation to the following:

- The tender process for the 20 packages of work identified, with 5 work packages now at stage 2 tender;
- Specifying the Project Team roles and requirements;
- The building design, which is now at Stage 3 of 8; and
- Understanding the requirements for the equipment and factory specification, and the interaction and dependencies between different procurement packages.

It was discussed that the key challenges for the build of alloy wheels factory are:

- The complexity of the procurement process, in particular specifying requirements and identifying further interdependencies between the procurement packages. At the time of the meetings, 5 main work packages were about to finish a stage 2 tender. A subsequent final stage is required to determine the preferred supplier and finalise the specifications which meet the revised operational demands. [REDACTED] has advised the remaining 15 work packages, excluding the factory build, are smaller and less bespoke and onerous to tender for. As a result, the tender process for these work packages should not take a significant amount of time, but are dependent on the outcome of the 5 main work packages.
- The complexity of the build process: in part its dependency on the procurement specification and site manifestations, in particular peat depths.
- Filling of the Project Team roles, to result in a full team in place capable of delivering such a Project.

The challenges have resulted in a [REDACTED] at the time of these meetings. This has subsequently [REDACTED] at the GMM held on 13 September 2018. In addition, the start of factory construction had been delayed by 1 year to Q3 2019 and not envisaged to be complete until Q1 2021; with the factory then undergoing product development and becoming fully operational in 2023. The original timeline for completion of a fully operational factory was Q3 2019.

3.3 Progress of alloy wheels factory presented at GMM on 13 September 2018

Summary

Overall, Liberty have stated that they continue to make progress in the tendering process and planning conditions of the site, albeit to the delayed factory completion timeline of Q1 2021. In addition, Liberty has also stated that progress has been made with prospective OEMs, however, evidence is still required to confirm this. Moreover, Liberty have now said that 2023 will be the year that commercial production at the factory will commence. SG and Deloitte have identified the need to understand why production is forecast to begin 2 years after factory completion, particularly, when Liberty has suggested that skills and expertise can be easily transferred from their recently purchased alloy wheels factory in Chateauroux, France, detailed in sub section 3.6. In discussions following the GMM, Liberty has suggested that this 2 year delay is the result of the factory completing mid-lifecycle of car models for their targeted car manufacturers, therefore car manufacturers would not be going out to tender for wheels for the new models until 2023.

Lastly, Liberty is now considering manufacturing aluminium based extrusion car parts at the factory. This may cause further delays to factory completion.

Detailed Update

At the most recent GMM Liberty's Brian King presented an alloy wheels factory update. The main areas addressed are detailed below.

Tender Process:

Stage 2 for the 5 main work packages is now complete, with a short list of suppliers identified. Please refer to Appendix 2 for the preferred supplier shortlist and key tender aspects for each of the 5 main work packages. The stage 2 tender was completed on a full technical specification for the machinery based on a 2 million capacity wheels factory. The next step is to identify the preferred supplier and progress to the contract stage of the tender process, if the capacity of the factory remains at 2 million units.

Planning conditions:

██████████ are continuing to work on the planning conditions that can be completed at this stage. The remaining planning conditions, along with any potential new conditions if the decision to scale up the factory is made, will need to be met on the completion of the "optimisation" period – please refer to the sub-section 3.4.

Factory Process:

From Liberty's updated tender documentation and further technical specification presented by Brian King, the Project Team has progressed the planning and production specification for the alloy wheels factory. We have now seen detailed floor plans of the factory including machinery layouts of the 5 main work packages and 3D graphical layouts of specific production processes; which identifies any obscurities and bottlenecks in production.

OEM talks:

At the meetings held in July, Deloitte and SG were given limited insight in to discussions with potential customers and any OEMs. At the GMM held on 13 September 2018, Dr Douglas Dawson, Chief Executive Officer of Liberty Industries Group, provided further detail on this area, although no documented evidence was presented. Liberty are in discussions with several car manufacturers and are in advanced discussions with ██████████ and ██████████ both of which have issued "Requests for Quotation". In addition, ██████████ has presented a technical accreditation to Liberty's recently purchased alloy wheels factory in Chateauroux France, which allows the factory to be a supplier to ██████████ in the future. Deloitte have requested a copy of the ██████████ accreditation from Liberty as evidence, which forms part of our GMM action list in section 2 above. Liberty has suggested the production process for ██████████ can be transferred to the alloy wheels factory at Lochaber, and stated that a further ██████████ technical accreditation for the Lochaber site should be easily attainable.

Overall, Liberty remains confident in the available market for wheels of up to or even beyond 4m pa. SG should consider the commercial risks arising from market demand as it reviews the updated business plan following the "factory optimisation" planning, explained further in sub section 3.4 below. The overall volume of UK vehicle production and vehicle replacement cycles will also remain significant factors in the overall demand for wheels which will affect the ability of Liberty to secure orders from OEMs. This remains a key commercial risk to the long term success of the factory once it is fully built and operational.

Extrusion Product:

Liberty has now mentioned the possibility of manufacturing aluminium extrusion car parts, in addition to the manufacturing of alloy wheels at the Lochaber site. This is now a possibility due to the demand from car manufacturers for lighter, aluminium based car parts. If Liberty were to take this forward, we would assume additional planning and design specification for the factory build will be needed, as well as further procurements for equipment to produce the extrusion car parts. Ultimately, this is likely to cause further delay to the completion of the factory build and a reason to possibly extend the current "optimisation" period, explained in sub section 3.4.

Factory completion and production timeline:

The timeline for the completion of a fully operational factory remains the same of Q1 2021. Liberty has also stated that production for customers will not commence until 2023, due to completion of factory processes and product testing. In addition, Liberty suggests 2023 is an optimum year to begin trading due to the anticipated lifecycle of car models from targeted car manufacturers.

3.4 Liberty request for an "optimisation" period

SG was notified in June 2018 of Liberty's intention to have an "optimisation" period on the build of the alloy wheels factory. SG did not give express approval for an "optimisation" period, nor have they confirmed the exact duration or intention from Liberty. Based on further discussion with Liberty, Deloitte and SG understand that the main outcome of this "optimisation" phase will be the strategic decision of whether to build a 2 million or a 4 million capacity alloy wheels factory. Brian King and Nigel Gilpin of Liberty stated that whilst it was not clear who would make the final decision of the future capacity of the factory, it is likely to sit with Jay Hambro, the Chief Investment Officer of GFG Alliance and his team.

Ultimately the decision will have to be made based on the following variables:

- The project return of a 2 million versus a 4 million wheels factory, from a projected significant increase to capex costs;
- Whether Liberty can secure enough orders to reach capacity. According to Liberty, the UK currently demands c.6million wheels and Liberty are hoping to secure up to 4 million, or over 66% market share, if an expanded factory is chosen; and
- [REDACTED]

From SG and Deloitte's perspective, the desired outcome of the "optimisation" period is to have a clear decision of what factory capacity to progress with and clear answers on all of the aforementioned variables. One GMM action raised, per section 2 of this report, is the timeline to meet this desired outcome.

The "optimisation" phase was initially scheduled to last for a 5 month period and due to end in November 2018. However, from the most recent GMM on 13 September 2018, Liberty stated the "optimisation" period will now extend to Q1 2019, to allow further analysis and review of the final decision on the proposed capacity of the alloy wheels factory. During the "optimisation" phase, work on procurement package specification and planning conditions is being progressed and this was evident at the meetings SG and Deloitte attended at Lochaber on 11 July 2018, and the most recent GMM on 13 September 2018. Please refer to the above sub sections of 3.2 and 3.3.

Out with this, other work such as the factory build cannot be progressed until the capacity of the factory is finalised and all site investigations and planning conditions have been met. Liberty has made the decision not to progress any site investigations which may be impacted by the decision to build a larger factory, to avoid duplicating costs.

As a consequence of the "optimisation" period, the overall timeline for a fully operational factory, regardless of capacity size, has been delayed from Q3 2019 to Q1 2021. The key risk of the "optimisation" period is it will extend beyond Q1 2019, with no clear decisions being made and further delays will materialise to jeopardise the now extended timeline of the factory build in Q1 2021. This key risk was been amplified at the most recent GMM, where Liberty indicated that they are considering the viability of building extrusion car parts, as well as alloy wheels, in the factory. Further, the outcome of the optimisation period is stated to be a decision on the best commercial option for Liberty, however, it does not include any work to understand how "deliverable" this commercial option is, particularly in relation to securing any additional funding requirements.

Once the "optimisation" period has concluded and a decision made, SG will require Liberty to provide an updated business plan for review and approval. The scope and approach of the updated business plan is still to be determined, but will require a clear understanding of the outcome of the "optimisation" period and a detailed plan of the next stages for the Project and how the factory will be commercially viable in the future.

3.5 Technical appraisal of the Lochaber project

It has been requested, with the agreement of Liberty, that SG appoint Aecom to perform a project technical appraisal to the progress of the alloy wheels factory at Lochaber. It is envisaged the key outcomes of their appraisal will be as follows:

- A review of the current progress of the project and how this reconciles to the current project timeline;
- Project resource - what resource is needed to meet the requirements to complete the project; and
- A technical appraisal on all key deliverables required under the current project and if a fully operational alloy wheels factory can be met by the stated timeline.

The technical appraisal will add further clarification on the likelihood that Liberty will meet their now extended timeline to complete the build of an alloy wheels factory by Q1 2021; and identify any further risks to the project completion, further to those already been identified.

The full scope and timing of Aecom's services will be established by SG, and notified to Liberty in due course.

3.6 Wider Liberty activities

In May 2018 Liberty purchased an alloy wheels factory in Chateauroux, France. Currently the factory has OEM contracts in place with car manufacturers ██████ and ██████ and produces 1 million alloy wheel units; half of the factory capacity. Significantly for the Lochaber alloy wheels factory, the experience and expertise to operate an alloy wheels factory and manufacture alloy wheel units has now been acquired in the Liberty group and can now be shared with the Lochaber site.

In addition, Liberty has stated that UK car manufacturers and prospective OEMs are now taking the Lochaber alloy wheels factory project more seriously now, due to this purchase of skills and expertise to produce alloy wheels, something which Liberty were previously lacking. Liberty has explained that this will create real manufacturing synergies between the Chateauroux and Lochaber alloy wheels factories.

The main risk to the Lochaber alloy wheels factory is the current and future capacity of the Chateauroux plant, which is currently operating under capacity. Liberty may wish to fill the capacity of the Chateauroux plant first, before progressing with Lochaber factory. Liberty has denied that this will be the case, stating the Lochaber factory will have a separate UK customer base to the Chateauroux factory and be the sole Liberty supplier to UK car manufacturers.

In addition to the Chateauroux alloy wheels factory, Liberty is currently finalising the completion of the purchase of an aluminium smelter in Dunkerque, France. This will increase Liberty's production of smelted aluminium in Europe and will supply the Chateauroux factory and potentially provide additional supply to the Lochaber alloy wheels factory, if needed. Liberty has advised the completion of this smelter transaction is imminent.

3.7 Next Steps

In conjunction with the action list from the most recent GMM, detailed in section 2, to monitor the progression of the alloy wheels factory Deloitte will perform the following next steps:

- Review the "optimisation" period timeline, an outstanding action from the most recent GMM, and liaise with Liberty to assess whether the key milestones and deliverables meet the expectations of SG. In particular, we will make reference to the updated business plan, which is expected to be a key milestone from the "optimisation" period and suggest what items will need to be included for review by Deloitte and SG.
- Through our monthly catch up calls with Brian King, discuss the progress of the alloy wheels factory, in particular the "optimisation" period. Review if any further delays are envisaged to the "optimisation" period and the overall alloy wheels factory build – with specific reference to the possibility of manufacturing extrusion car parts at the factory.
- Address the [REDACTED] for the alloy wheels factory and assess what [REDACTED] [REDACTED] to complete the build of the alloy wheels plant. The [REDACTED] should be addressed as part of the "optimisation" period.
- From the above progress updates, review the overall timeline for the construction of the alloy wheels plant and address if any further delays to the completion of the factory are plausible.

4 Financing of the Lochaber project

SG and Deloitte are currently in discussion with Jay Hambro, Chief Investment Officer of GFG Alliance, to [REDACTED]. Jay, on behalf of GFG Alliance, has been asked to clarify the following points:

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

At the time of writing, Jay, on behalf of GFG Alliance, [REDACTED]

Based on the timeline of events and Deloitte's further investigation in to [REDACTED], using publicly information available on Bloomberg, the evidence suggests that:

- December 2016 – SG provided a guarantee for the PPA revenue stream which allowed funds to be raised through an invoice discounting facility. The amount raised through the invoice discounting facility was [REDACTED]
- December 2016 – Liberty paid [REDACTED] for the Rio Tinto assets at Fort William – namely the Lochaber Hydro electric plant, the smelter, and encompassing land.
- Two bond issues by [REDACTED] in January 2018, that were affiliated with the Lagoon Park Prospectus. The two bond issues raised [REDACTED] respectively, resulting in an overall amount raised of [REDACTED].

Confirmation will need to be received from GFG Alliance on the above timeline of events and [REDACTED]

As Jay did not attend the most recent GMM on 13 September 2018, [REDACTED] An action has been taken forward from the GMM to set up a meeting with Jay, SG and Deloitte to discuss and provide clarity on the above points. Jay has agreed to a meeting and a date is due to be set before the next GMM in October.

5 Grid connection

Currently the grid connection at the Lochaber site is a [REDACTED] connection and an import connection of [REDACTED] Firm meaning a constant and reliable connection and non-firm meaning it is not reliable and can be switched off by the National Grid.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] where the electricity demand of the SmelterCo cannot be fully met by HydroCo and to supply the upcoming alloy wheels factory.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Furthermore, the improved import connection will provide a more reliable electricity connection for SmelterCo to [REDACTED] and provide additional power to the site for the upcoming alloy wheels factory.

The cost to establish this grid connection is [REDACTED] and [REDACTED] from installation.

From the information we have received, it is still to be confirmed the final timeline of the grid connection upgrade and the final costs.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]



6 GRA

To date, we have not identified any breaches of the GRA undertakings, detailed in the table below.

Whilst there are no current breaches we envisage, [REDACTED]

[REDACTED]
[REDACTED] The current forecast of a 2 million capacity alloy wheels factory is projected to cost [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Clause	Wording	Comment	Current status
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

9.1.2	planning consent for the Alloy Wheels Plant shall be applied for by 30 June 2017	Planning application submitted to the Highland Council 4 November 2017. Planning permission granted on [30 January 2018]. LHG working through planning conditions. Any enlarged factory may require new planning application to be made.	Condition now met.
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[REDACTED]

Clause	Wording	Comment	Current status
[Redacted content]			

Appendix 1

Financial results detailed review

Income statement actual quarter results to 31 March 2018 versus budget

Income Statement	HydroCo + Holdco		SmelterCo		Comments
	Quarter to March 2018		Quarter to March 2018		
	Actual Q1 £m	Budget £m	Actual Q1 £m	Budget £m	
KPI's					
Electricity Generation (GWh)					
Cold Slab Metal Sales (Kt)					
Cold Remelt Metal Sales (Kt)					
Cold Slab Metal Price (£/t)					
Cold Remelt Metal Price (£/t)					
Alumina Spread (£/t)					
Material Margin (£/t)					
Revenue					
PPA revenue - PPA1					
Other revenue					
Non-fixed PPA					
Cold Slab Metal Sales					Increases in LME index prices contributed to the
Cold Remelt Metal Sales					
Metal Freight					
Total Revenue					
Costs					
Property Taxes					
O&M					
Material -Alumina					
Material - Other					
Energy (PPA)					
Energy (Other)					
Wages & Salaries					
Other COS					
SG&A					
Profit Share Hydro to Smelter					
Guarantee fee					
Total Costs					
EBITDA					
Depreciation & Amortisation					
Operating Profit					
Financial Costs & Income					
Interest expense					
Profit Before Tax					
Tax					
Profit After Tax					

Source: GFG Alliance

Balance sheet actual quarter results to 31 March 2018 versus budget

Balance Sheet	HydroCo and holdco		SmelterCo		Comments
	Quarter to March 2018		Quarter to March 2018		
	Actual Q1	Budget	Actual Q1	Budget	
	£m	£m	£m	£m	
Fixed Assets					
Goodwill and Other Intangibles					
Tangible Fixed Assets					
Tangible Fixed Assets Revaluation					
Wheels Factory Capex					
Investments					
Working Capital					
Inventories					Combined
Trade and other receivables					
Current Liabilities					
Total Working Capital					
Pension surplus					
Amounts due for sale of smelter*					
Liberty Wheels Capex Loan					
Intercompany - Amounts due (to) / from Group					
Net Current Assets					
Cash and Cash equivalents					
Total Assets less Current Liabilities					
Non Current Liabilities - Deferred Revenue					discussed at last GMM.
Tangible Net Assets					

Source: GFG Alliance

HydroCo and HoldCo 2018 Budgeted Financial Performance to date versus Model

<u>Income Statement</u>	HydroCo and holdco		Comments
	Year To December 2018		
	Budget £m	Model £m	
KPI's			
Electricity Generation (GWh)			Model [REDACTED]
Cold Slab Metal Sales (Kt)			[REDACTED]
Cold Remelt Metal Sales (Kt)			[REDACTED]
Cold Slab Metal Price (£/t)			[REDACTED]
Cold Remelt Metal Price (£/t)			[REDACTED]
Alumina Spread (£/t)			[REDACTED]
Material Margin (£/t)			[REDACTED]
Revenue			
PPA revenue - PPA1			[REDACTED] in line with GWh generation [REDACTED]
Other revenue			[REDACTED]
Non-fixed PPA			[REDACTED]
Cold Slab Metal Sales			[REDACTED]
Cold Remelt Metal Sales			[REDACTED]
Metal Freight			[REDACTED]
Total Revenue			
Costs			
Property Taxes			[REDACTED]
O&M			[REDACTED]
Material -Alumina			[REDACTED]
Material - Other Energy (PPA)			[REDACTED]
Energy (Other)			[REDACTED]
Wages & Salaries			[REDACTED]
Other COS			[REDACTED]
SG&A			[REDACTED]
Profit Share Hydro to Smelter			Budget [REDACTED]
Guarantee fee			[REDACTED]
Total Costs			
EBITDA			
Depreciation & Amortisation			CAPEX [REDACTED]
Operating Profit			
Financial Costs & Income			
Interest expense			[REDACTED]
Profit Before Tax			
Tax			[REDACTED]
Profit After Tax			

Source: GFG Alliance

	HydroCo and holdco		Comments
	Year To December 2018		
Balance Sheet	Budget	Model	
	£m	£m	
Fixed Assets			
Goodwill and Other Intangibles			
Tangible Fixed Assets			
Tangible Fixed Assets Revaluation			in
Wheels Factory Capex			FY17 and FY18 respectively,
Investments			
Working Capital			
Inventories			
Trade and other receivables			Budgeted trade receivable days is 30, whereas model assumes 90 days,
Current Liabilities			
Total Working Capital			
Pension surplus			Model shows
Amounts due for sale of smelter*			
Liberty Wheels Capex Loan			
Intercompany - Amounts due (to) / from Group			Source needs to be identified.
Net Current Assets			
Cash and Cash equivalents			
Total Assets less Current Liabilities			
Non Current Liabilities - Deferred Revenue			
Tangible Net Assets			

Source: GFG Alliance

SmelterCo 2018 Budgeted Financial Performance versus Model

Income Statement	SmelterCo		Comments
	Year To December 2018		
	Budget £m	Model £m	
KPI's			
Electricity Generation (GWh)			
Cold Slab Metal Sales (Kt)			
Cold Remelt Metal Sales (Kt)			
Cold Slab Metal Price (£/t)			Spot price for alumina price going up due to predicted sanctions
Cold Remelt Metal Price (£/t)			- LME price goes up
Alumina Spread (£/t)			
Material Margin (£/t)			
Revenue			
PPA revenue - PPA1			
Other revenue			
Non-fixed PPA			
Cold Slab Metal Sales			both production and price, therefore
Cold Remelt Metal Sales			
Metal Freight			
Total Revenue			
Costs			
Property Taxes			
O&M			
Material -Alumina			Due to alumina price
Material - Other			
Energy (PPA)			Anode price have
Energy (Other)			
Wages & Salaries			Model - number of heads under the PPA
Other COS			
SG&A			
Profit Share Hydro to Smelter			
Guarantee fee			
Total Costs			
EBITDA			
Depreciation & Amortisation			
Operating Profit			
Financial Costs & Income			
Interest expense			
Profit Before Tax			
Tax			
Profit After Tax			

Source: GFG Alliance

Balance Sheet	SmelterCo		Comments
	Year To December 2018		
	Budget	Model	
	£m	£m	
Fixed Assets			
Goodwill and Other Intangibles			Forecast [REDACTED] in model but this has been
Tangible Fixed Assets			[REDACTED] for FY18
Tangible Fixed Assets Revaluation			
Wheels Factory Capex			
Investments			
Working Capital			
Inventories			[REDACTED] on cost of alumina
Trade and other receivables			[REDACTED] of alumina and other raw materials. [REDACTED]
Current Liabilities			[REDACTED]
Total Working Capital			
Pension surplus			
Amounts due for sale of smelter*			
Liberty Wheels Capex Loan			
Intercompany - Amounts due (to) / from Group			
Net Current Assets			
Cash and Cash equivalents			
Total Assets less Current Liabilities			
Non Current Liabilities - Deferred Revenue			
Tangible Net Assets			

Source: GFG Alliance

Appendix 2

Stage 2 tender results of the 5 main work packages of the Lochaber alloy wheels factory.

1. Melting Area

Country of Origin	
Concept	
Receiving Furnace	
Holding Furnace	
Re-melt Furnace	
Chips Processing	
Chips Technology	
Cost	

Source: GFG Alliance

2. Casting Area

Country of Origin	
Casting Machines – Phase 1	
Casting Machines – Phase 2	
Air cooling circuits	
Water cooling circuits	
De-Sprueing Method	
Costs	

Source: GFG Alliance

3. Heat Treatment

Country of Origin	
Furnace Configuration	
Solutioning/ Annealing	
Ageing	
Dimensions	
Output Capacity	
Costs for phase 1&2	

Source: GFG Alliance

4. Machining

Country of Origin	
Phase 1	
Phase 2	
Cycle time - 19" wheel	
Diamond Cut cells (phase 1&2)	
DC Cycle time – 19" wheel	
Machining Cells	
Diamond Cut Cells	

Source: GFG Alliance

5. Paint shop

Country of Origin	
Capacity wheel/hr	
Pre-Treatment stages	
Powder booths	
Base Coat/Clear coat options	
Acrylic Powder/KSL finish	
Layout Size	
Paint Application Costs	
Paint line costs	

Source: GFG Alliance

Appendix 3

Risk Analysis

The key risks to the Lochaber alloy wheels factory project and the Lochaber site are analysed below.

Alloy wheels factory

Risk	Alloy wheels factory #1 – “Optimisation” period.
Description	[REDACTED]
Impact	[REDACTED]
Update	From the GMM that took place on 13 September 2018, [REDACTED]

Risk	Alloy wheels factory #2 – Funding of the alloy wheels factory project.
Description	[REDACTED]
Impact	[REDACTED] In addition, Liberty may [REDACTED] [REDACTED] Furthermore, Liberty may decide the [REDACTED] [REDACTED]
Update	To date, Liberty have not explained how they are to address the budget overspend of [REDACTED]. Liberty recognise it will be a constraint and will need to address the issue before the end of the “optimisation” period. In addition, Liberty will need to address the funding gap and how it will be filled in their updated business plan, due at the end of the “optimisation period”. [REDACTED] [REDACTED] In relation to the Lochaber site, Liberty have recently requested SG to consider their [REDACTED] [REDACTED] [REDACTED] On 21 September 2018, [REDACTED] [REDACTED]

Risk	[REDACTED]
Description	[REDACTED]
Impact	[REDACTED]
Update	<p>Deloitte have been in correspondence with Liberty, in particular Jay Hambro, to request [REDACTED] documentation, including the [REDACTED]. Jay has sent numerous pieces of [REDACTED].</p> <p>SG and Deloitte are to propose a separate meeting with Jay Hambro and Deloitte to provide clarity on the [REDACTED].</p>

SmelterCo

Risk	SmelterCo #1 – Alumina supply.
Description	Sanctions on alumina supply. The US issued sanctions against Russia and now the supply of alumina is constrained. [REDACTED]
Impact	[REDACTED]
Update	At the most recent GMM, Liberty are aware of this risk and are currently in [REDACTED]. Liberty are [REDACTED] to mitigate the [REDACTED].

Risk	SmelterCo #2 – SmelterCo condition.
Description	Risk that the smelter business continues as [REDACTED]
Impact	If the SmelterCo was to [REDACTED]. In addition, [REDACTED] of an alloy wheels plant at the Lochaber site.
Update	From the financial results presented at the most recent GMM, as expected the SmelterCo is a [REDACTED]. The [REDACTED].

HydroCo

Risk	HydroCo #1 – Power generation.
Description	To produce power, [REDACTED]
Impact	[REDACTED]
Update	At the most recent GMM, Liberty explained the above risk has materialised in Q2 2018, due to the dry spring and summer experienced in the area. [REDACTED]

Risk	HydroCo #2 – Power sales.
Description	[REDACTED] SG guarantee is for [REDACTED] of the value of electricity sold under SG guaranteed PPA.
Impact	[REDACTED]
Update	[REDACTED]



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