

**STRICTLY CONFIDENTIAL**

Date: 29 September 2017

Mary McAllan  
Director, Economic Development  
5 Atlantic Quay  
150 Broomielaw  
Glasgow  
G2 8LU

**Sub: Request for first Annual Guarantee Fee review**

Dear Mary,

Referring to the Guarantee and Reimbursement (GRA) and also the Guarantee Fee letter dated 16 December 2016 to Liberty Aluminium Lochaber Limited.

As always, we would like to thank you for the continued support given to our investment programme at Fort William. It has been an extremely productive engagement and has allowed us to materialise our investment in the area.

We understand how important the continued development of industrial activity in Lochaber is for your Government, and the employment and economic value which go with that, and we are committed to working closely with you to deliver what is a joint ambition.

Following recent correspondence regarding fulfilment of certain conditions under our agreements, I wanted to give you an update.

**Guarantee Fee**

A payment of [REDACTED] guarantee fee was made on 2<sup>nd</sup> May 2017 and a subsequent payment of [REDACTED] was made on the 16th June 2017. This completes our payment of guarantee fee obligation for 2017.

I have also just received confirmation from the Deloitte team that we are in full compliance with all the GRA requirements.

I would remind you that we wrote on 07<sup>th</sup> June 2017 to ask that the guarantee fee would be reviewed soonest and also that it could be [REDACTED] from now on.

**Guarantee Fee review**

You are aware that the calculation of the guarantee fee was based on an assumption that Scottish Government has a security over the assets which were worth [REDACTED].

I refer to the formula for annual review of the guarantee fee which calculates the guarantee fee based on taking a [REDACTED] interest fee over net exposure amount to Scottish Government, where net exposure is calculated as: [REDACTED]

You will note that in the management account the asset value for the SIMEC Lochaber Hydro Power is above [REDACTED] which is considerably more than the NPV of the Guarantee exposure.

We are awaiting the finalisation of an independent audit of this net asset value by Grant Thornton but this considerable increase leads one to believe the value of the guarantee is [REDACTED]



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It is also worth giving you a quick update on our progress:

- Update on grid connection
  - o We already have a 28MW connection agreement for Q4 2018, though we know it will be updated shortly to be Q4 2018 on a non-firm basis and Q4 2019 on a firm basis. This information comes from discussions with SSE-Transmission, to which ScotGov have been party. There won't be a cost impact because there is already a connection agreement for 28MW.
  - o We expect that the 28MW upgrade would be available in the same timescale as the 28MW, i.e. "firm" from Q4 2019 and potentially "non-firm" from Q4 2018.
  
- GFG Alliance investments at site
  - o GFG Alliance started its investment plan within 3 days of completing the transaction
  - o Securing planning and permit approvals for the investment in construction of the Alloy Wheels Factory
  - o An investment in 28MW of on-site bio-diesel generation has been completed, which will considerably reduce the imported MWh per year once operational and therefore materially improve the site's long term viability and production levels.
  
- Update on the Alloys Wheels Factory
  - o Wheel plant project team appointed. Recruitment of additional team members, comprising full time and external consultants ongoing.
  - o Project manager appointed, Civil and Engineering manager appointments to be made by end 2017
  - o Engineering work has been done on the process flow of the wheel plant and the identification of the required equipment. Specification documents being prepared for the tendering of supply contracts
  - o Discussions are underway with the Fort William Chamber of Commerce and HIE on the holding of a supplier's fair in Fort William
  - o Market study commenced, initial results available by end of October 2017 and then will be tested with external consultancy
  - o Ongoing discussions being held with UK OEM's
  - o Planning approvals ongoing and Groundbreaking ceremony expected shortly

As a provision in the Guarantee Fee letter, we request to have a first annual fee review meeting during October 2017. As discussed in our recent team meeting, we can prepare a fact pack for your review on receipt of an information request list and we would be delighted to demonstrate the progress GFG Alliance has made through investment in the Fort William region. I hope that many of this data has been the subject of recent review by Deloitte as part of the broader process so we are well equipped to proceed forthwith.

We look forward to catching up soon and would be happy to discuss the above information as suits you.

Yours Sincerely,



Jay Hambro  
CEO Mining and Energy / SIMEC  
Chief Investment Officer / GFG Alliance



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