

**STRICTLY CONFIDENTIAL**

Date: 20 November 2017

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

Sub: Request for first Annual Guarantee Fee review

Dear Mary,

Referencing your letter dated 26 October 2017 and following recent correspondence regarding fulfilment of certain conditions under our agreements, I wanted to give clarification on various points raised.

1. Equity commitment

As mentioned in the GRA meeting, we remain committed to honour our equity investment at Lochaber Hydro and Smelter. The calculation of [REDACTED] was based on the equity requirement throughout the life of the project.

Further to previous discussions, to give ScotGov more certainty regarding equity investment we agreed for a payment to be made from Hydro to Smelter for 4 years to ensure an EBITDA in the Smelter of c. [REDACTED].

Apart from the above payment commitment, since completing the acquisition we have made a number of equity investments into the site and project. These include:

Development expenditure on Lochaber Alloy Wheel Factory: c. [REDACTED]

- Total Capital projects on site: [REDACTED] year to date

We confirm that we remain committed to achieve the equity investment of [REDACTED] in the project.

2. Financing of the original transaction

Regarding the queries received, please see our responses below

- The final terms of any financing arranged by Greensill Capital, including details of any notes or loan instruments raised against the project. This would include the interest rate, principal amount of the notes and proceeds raised from any financing related to the Scottish Government's guarantee or any other part of the project;

As we have communicated before, the terms for our financing remains as follows

- [REDACTED]
- [REDACTED]
- [REDACTED] : [REDACTED]

- The investors that hold notes or similar backed by Scottish Government guarantee;

Note holders buying at the outset included a variety of investors such as pension funds, infrastructure investors, short term investors. Those institutions buying the loan note at the outset included: [REDACTED],

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[REDACTED], and a number of sovereign wealth funds. As the notes are freely tradeable we cannot advise who continues to hold them.

- The terms of the original Kinlochleven financing achieved without a Scottish Government guarantee;

In a competitive financing process involving c.10 banks and expanding over 5 months, GFG Alliance completed the financing for the deferred purchase payment part of the Kinlochleven Hydro Plant.

From the 10 banks we moved to a process to secure a project loan from a syndicate led [REDACTED]

GFG then worked [REDACTED]  
[REDACTED] The transaction is similar to the Lochaber one however the investors rely on the balance sheet of Liberty House Group, the grid connection and the project's track record.

- The sources and uses of funds at the point of acquisition, including the proceeds paid to Rio Tinto and the quantum of any surplus amount, and the amounts deployed to date or earmarked for investment in Lochaber;

The funding raised during the transaction was [REDACTED] out of which [REDACTED] was used to pay Rio Tinto and acquire Lochaber Smelter and Hydro project. The balancing amount net of fees, plus additional equity is kept in our reserve account for the investment plan.

- Details of any changes in funding or additional amounts raised since December 2016 arising from the projects at Fort William and Kinlochleven; and

There is no additional debt on the balance sheet.

ScotGov is aware of our continuing attempts to raise funds on the remainder of the power not captured under the Boots PPA. Sadly this has not come to fruition yet.

- Status of discussions with any third party or credit rating agency in relation to the project or its associated financing. Ongoing and no update to hand.

I hope that much 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  
Chief Investment Officer / GFG Alliance