

STRICTLY CONFIDENTIAL

Date: 29 April 2017

Cabinet Secretary for the Rural Economy and Connectivity
St Andrew's House
Regent Road
Edinburgh EH1 3DG



FAO: Fergus Ewing

Sub: Condition Precedents to Guarantee and Reimbursement Agreement, and the Guarantee Fee Letter dated 16th December 2016

Dear Sir,

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 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.

In the short time since the completion of the acquisition, the GFG Alliance has made substantial progress in showing our ability to execute quickly despite complex stakeholder maps:

- GFG Alliance and Scottish Government hosted the first meeting of the new 'Lochaber Delivery Group,' a special joint panel of local agencies set up to support the creation of the new auto plant through the provision of housing, training, infrastructure and services for workers;
- SIMEC invested in [REDACTED] bio-diesel power plants at Fort William, boosting renewable energy supply to the site and making it the UK's greenest metal-producing facility; and
- Developed the plan for the wheels factory such that we have submitted planning permission and started community consultation on the first phase.

Following recent correspondence regarding fulfilments of certain conditions under our agreements, I wanted to write to clarify our position.

Guarantee Fee

[REDACTED]

[REDACTED] The guarantee fee level as documented reflects EY's view on risk to the Scottish Government and was the subject of much debate regarding asset values, ability to export power and the covenant strength of the GFG Alliance guarantors. In the period since inception we have already invested in the Fort William asset portfolio, reviewed the asset valuations, had positive correspondence with SHETL re earlier than planned grid connections and significantly expanded the GFG Alliance. As a consequence of these developments we believe it is right for both parties to [REDACTED] [REDACTED] As a further request, we have discussed with your team the request to [REDACTED]

Perhaps we could discuss this proposal and then my team will prepare a fact pack on these developments to allow full review.

There were several other matters raised by your team, which I address below:

- 1) Model Audit: We had a constructive discussion with [REDACTED] and [REDACTED] and now have clarity on the required outputs from the model audit. We are instructing one of our audit partners and will finalise the audit report with a commitment to submit within 60 days of this letter.
- 2) Management accounts: In co-operation with your team we are designing a quarterly information pack to include financial information and operational metrics to allow monitoring. Included within this will be quarterly management accounts (Reference to the clause 9.1.6 of the to Guarantee and Reimbursement Agreement) and we confirm that we will submit the management reports for Q1 2017 by 30th June 2017 as scheduled.
- 3) Payments under the PPA: I am pleased to confirm that first quarterly payment due by SIMEC was paid on 16th April 2017. Going forward we are working with [REDACTED] to ensure the team receives suitable payment confirmation within 5 working days of making the payment.

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

Yours sincerely,

[REDACTED]

Sanjeev Gupta
Executive Chairman

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Sanjeev Gupta
Executive Chairman
Liberty House Group
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5 May 2017

Dear Sanjeev

GUARANTEE AND REIMBURSEMENT AGREEMENT

Thank you for your letter of 29 April to the Cabinet Secretary for the Rural Economy and Connectivity concerning the guarantee granted by Scottish Ministers. Your letter has been passed to me as the lead Director within the Scottish Government (SG) responsible for the Lochaber project.

Guarantee fee

The Guarantee was designed to support operations at the Lochaber smelter, safeguard employment and facilitate the industrial development plans of the GFG Alliance for the site, which include construction of a new alloy wheels plant and investment in the power generation assets. In exchange for the benefit of the Guarantee a fee is due to be paid annually to the Scottish Government.

The Guarantee Fee letter dated 16 December from Liz Ditchburn to Liberty Aluminium Lochaber Limited (LAL) defines very clearly the Fee amount and payment schedule. Accordingly, for the current year 2016/17, the amount due for payment on 16 December 2016 (the "effective date") was [REDACTED] and to date the Scottish Government has received [REDACTED] referenced in your letter.

Our lawyers MacRoberts have advised Liberty via Brodies that [REDACTED] of the Guarantee & Reimbursement Agreement (GRA). We note your comments about there being some [REDACTED]

[REDACTED]

Guarantee review

Your letter requests early dialogue concerning a Guarantee Fee review and [REDACTED]
[REDACTED] In terms of the Agreement there is an absolute entitlement to an annual review of the Guarantee Fee and Liberty is entitled to request an additional review of the Fee outwith the annual review. There is no provision in the Agreement for [REDACTED]
[REDACTED]

The Government will be willing to enter discussions on a Guarantee Fee review and [REDACTED]
[REDACTED] and after receipt of the necessary sources of information that include the balance sheet assets of LAL and SIMEC Lochaber Hydropower Limited as set out in their reported and independently audited accounts. We note your comments about recent investment in power generation at Fort William and the timescales for the enhanced grid connection; these are factors which could have an important bearing on mitigation of risks falling to SG and we commit to working with you to understand their significance. [REDACTED]
[REDACTED]

Review of obligations

The GRA also outlines a series of obligations incumbent on Liberty and your letter references three of these obligations. We note your expected dates of delivery and we will contact your team to schedule a regular pattern of quarterly review meetings – the first of these is likely to take place in July once we have an opportunity to study the information provided.

We do appreciate the great strides being taken to realise GFG's industrial vision for Lochaber and to deliver against ambitious investment plans but this work must proceed in tandem with meeting all obligations under the GRA on time.

Yours sincerely

[REDACTED]
Mary McAllan
Director of Economic Development

[REDACTED]

From: Jay Hambro <jay.hambro@simec.com>
Sent: 07 June 2017 17:48
To: McAllan M (Mary)
Cc: [REDACTED]
Subject: Guarantee fee

Follow Up Flag: Follow up
Flag Status: Flagged

Dear Mary,

Following our call on this subject today, we have further discussed the matter internally and would like to clarify the GFG Alliance position on the subject:

- 1) We are disappointed that ScotGov cannot accept our various proposals for [REDACTED]. However we understand that the contractual obligations are forcing both parties to resolve this in a different fashion;
- 2) We are aware of the complications this problem is causing for all parties. Whilst we consider a more equitable solution could be achieved with compromises, we understand in this situation the process would sadly not allow this. Consequently and as a continued gesture of goodwill we agree to pay the balance guarantee fee of [REDACTED] for 2016-2017 on or before 16th June 2017, being the half year anniversary of the transaction;
- 3) We accept your offer that the guarantee fee level review process between Scottish Government and GFG Alliance begins [REDACTED]. The review process is allowed for within the current documentation and will evaluate evidence from the GFG Alliance of:

[REDACTED]

We would like to agree a strict timeline for this process to ensure it is completed well in advance of the next fee payment date. Perhaps we could schedule a kick-off session before the working party group on July 4th.

- 4) Further to the above, we propose that that any guarantee fees paid for the current period by the GFG Alliance will be held by Scottish Government until the review process has been completed with a view that when evidence suggests the derisking has occurred during the current period, they are either refunded or used as an offset for future fee payments.

[REDACTED] The continuity and the growth of the positive relationship between us is of paramount importance to the GFG Alliance. We had hoped that we would be able to negotiate a suitable compromise as would be normal in a relationship between two commercial counterparties and had worked to this goal. I realise that this scenario is more complicated and we must work within these boundaries. [REDACTED]

We hope that the above meets your requirements and we look forward to discuss with you further.

With best regards,

Jay

Jay Hambro
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Jay Hambro
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(sent by email)

26 October 2017

Dear Jay

Thank you for your letter of 29 September regarding the first annual review of the fee level of the Lochaber guarantee and progress with delivery of the wheels plant.

As we discussed this week in Fort William, we are hopeful that the [REDACTED] and that future processes will match expectations on both sides. This will clearly make regular guarantee management more straightforward as we aim to move to a basis where [REDACTED]. Prompt and thorough financial reporting compliance will also help make the case that the project is progressing on track and prepare the ground well for the guarantee fee review.

We note your helpful references to recent developments on site and the preparation of evidence relevant to the fee review, principally the independent valuation work of Grant Thornton, grid connection progress, the installation of bio-diesel generation capacity and the development of the wheels plant. The work of [REDACTED] in valuing the Lochaber business assets will be important; alongside that we would be grateful for information on any [REDACTED] relating to the [REDACTED] MW and [REDACTED] MW enhanced grid connections.

As you know we have a process to follow in relation to the fee review and have benchmarks for the fee level, which must at all times be consistent with the market economy investor principle (MEIP) in the context of state aid. We stand ready to commence the review once we receive the necessary sources of information including balance sheet information for the Lochaber businesses as set out in their audited accounts (see guarantee fee letter of 16 December attached by covering email for background). [REDACTED] have indicated that it would be beneficial for the accounting statements to be as current as possible and I would therefore request that management accounts information is provided to the end of September 2017.

You requested a guarantee fee review meeting during October. In order to allow sufficient time to prepare and review the information pack, I propose instead that the meeting takes place in the week commencing 27 November. Please let me know your availability for that week and my office will help to schedule the review discussion.

To assist our preparations, in the annex to this letter we have highlighted two issues about which we seek further information: [REDACTED]. We would be grateful if GFG could provide the information sought.

Lastly, you have informed us of GFG's ambitions to develop further industrial initiatives in Scotland, both in Lochaber and Lanarkshire. These proposals are very welcome and the Scottish Government remains receptive to further discussions with GFG to explore and facilitate the full range of possibilities. I would suggest we hold these discussions separate to the monitoring and management of the existing financial commitments.

Yours sincerely,



Mary McAllan
Director of Economic Development
Scottish Government

ANNEX – OTHER ISSUES

1. [REDACTED]

One issue that remains to be clarified following the first guarantee management meeting is the issue of [REDACTED]

Clause [REDACTED] of the GRA requires the “Obligors” to provide the [REDACTED]. We would be grateful for confirmation of the basis and timing of this intended [REDACTED].

We note from our discussions that there is a payment of circa [REDACTED] per annum to be made by HydroCo to SmelterCo. We are not clear about the basis of this payment, which is treated as income in the accounts, nor whether Liberty considered this to be the [REDACTED]. Please confirm (a) the basis on which the [REDACTED] will be fulfilled and (b) that this commitment will be achieved in line with the timing set out in the financial model for the project at financial close.

2. [REDACTED]

On an associated issue, one that we touched upon in our discussions in Fort William this week, we would like to have greater clarity on [REDACTED].

In particular we would like to understand:

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

This information will assist the Scottish Government in its understanding of the [REDACTED]

From: [REDACTED]
Sent: 01 December 2017 12:21
To: Jay Hambro; [REDACTED] (UK - Edinburgh); [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED] (UK - Edinburgh); [REDACTED]; DEREK OREILLY (derek.oreilly@libertyhouseuk.com) (derek.oreilly@libertyhouseuk.com); McAllan M (Mary); [REDACTED]; [REDACTED]
Subject: GFG Lochaber Guarantee Discussion - 23 November, note and actions
Categories: Lochaber

Thank you for attending the **GFG Lochaber Guarantee Discussion on 23 November in Edinburgh.**

The note of the meeting and actions we took are shown below. If the GFG side have comments on these please let me know.

Regards, [REDACTED]

Actions from GMM on 23 November 2017

1. Simec Hydropower to provide details of [REDACTED]
[REDACTED]
2. Liberty to provide documentation of [REDACTED]
3. [REDACTED] to provide valuation to SG on Lochaber security value (**done 27/11/17 and being considered by SG**)
4. Liberty to provide update on planning process and progress with the proposed Alloy Wheels Plant (eg planning approval, construction contracts, possible partnerships, customer feedback, etc) at the next GMM in Q1 2017
5. In relation to the management accounts Derek O'Reilly / [REDACTED] to provide:
 - a. A summary of changes between management accounts "Model" values and those contained in the financial model at financial close at December 2016
 - b. Reconciliation of interest charges vs model and financing structure
 - c. Description of "Fee from Hydro to Smelter" and supporting extracts from appropriate agreements
 - d. Confirmation of whether cash shown as being held by Simec Lochaber is in its name or is held by another group company
 - e. Consideration of presentation of PPA and guarantee fee in SmelterCo's accounts
 - f. Other items as discussed at the working group session on 22/11/17
6. An updated financial model (covering the whole guarantee period) to be provided Q1 / Q2 2018 - eg once planning permission obtained, grid connection established and construction contracts for the Alloy Wheels factory let

7. Jay Hambro to provide details of the [REDACTED]
[REDACTED]
8. Liberty to confirm basis of [REDACTED] to be provided as required under clause [REDACTED] of the GRA
9. SG to consider whether it could agree for the Guarantee Fee [REDACTED]
[REDACTED] Liberty to arrange for the required payment of the Guarantee Fee on 16/12/17
10. SG to consider wider implications of Guarantee Fee pricing review and to revert to Simec / Liberty with a date for a follow up meeting
11. SG / Liberty consider steps necessary if they were to agree not to review the level of the Guarantee Fee following its anniversary on 16/12/17 but to prepare for a guarantee fee review in 2018
12. SG / [REDACTED] to respond to Liberty / Simec re [REDACTED] – following payment of December 2017 guarantee fee